SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

OCTOBER 31, 2021 AND 2020

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sernova Corp.

Opinion

We have audited the accompanying consolidated financial statements of Sernova Corp. (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2021 and 2020 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Stephen Hawkshaw.

Davidson & Company LLP

Vancouver, Canada — Chartered Professional Accountants

February 14, 2022

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

	Note	**2021**	2020
ASSETS			
Current assets			
Cash		**$ 27,874,198**	$ 3,949,412
Amounts receivable	4	**448,947**	506,767
Prepaid expenses		**4,200**	149,104
		28,327,345	4,605,283
Non-current assets			
Deposits		**211,548**	-
Property and equipment, net	5	**176,325**	203,423
Intangible assets, net	6	**716,785**	916,818
Right-of-use asset	7	**388,341**	-
		1,492,999	1,120,241
		$ 29,820,344	$ 5,725,524
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	**$ 1,358,496**	$ 878,075
Lease liabilities	7	**117,375**	-
		1,475,871	878,075
Non-current liabilities			
Lease liabilities	7	**275,979**	-
Convertible debentures	9	**-**	702,612
		275,979	702,612
		1,751,850	1,580,687
SHAREHOLDERS' EQUITY			
Common shares	10	**74,010,694**	44,640,757
Warrants	10	**3,693,248**	1,549,759
Contributed surplus	10	**5,113,503**	5,737,733
Deficit		**(54,748,951)**	(47,783,412)
		28,068,494	4,144,837
		$ 29,820,344	$ 5,725,524

Commitments and Contingencies (Note 14)
Events After the Reporting Period (Note 20)

Approved and authorized by the Board of Directors on February 14, 2022:

''Frank Holler'' Director ***''James Parsons''*** Director

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	**2021**	2020
EXPENSES			
Research and development	12	**$ 4,637,989**	$ 2,758,633
General and administrative	12	**2,298,518**	2,501,131
		6,936,507	5,259,764
OTHER EXPENSE (INCOME)			
Interest income		**(70,552)**	(38,853)
Finance costs	9	**58,368**	86,278
Foreign exchange loss		**41,216**	14,119
		29,032	61,544
LOSS AND COMPREHENSIVE LOSS		**$ 6,965,539**	$ 5,321,308
Weighted average number of common shares outstanding – basic and diluted		245,522,770	197,287,231
Basic and diluted loss per common share	16	$ 0.03	$ 0.03

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)

	2021	2020
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	**$ (6,965,539)**	$ (5,321,308)
Adjustments for items not affecting cash:		
Amortization and depreciation	**267,204**	225,230
Share-based compensation (Note 10)	**218,395**	683,010
Grants and contributions recognized (Note 14)	**(724,182)**	(442,844)
Research collaboration advances recognized as cost recoveries (Note 14)	**(191,549)**	-
Interest income accrued on short-term investments	**-**	6,999
Accretion and accrued interest expense (Note 9)	**24,203**	40,573
Interest on lease liabilities (Note 7)	**10,169**	6,392
Changes in non-cash working capital balances:		
Amounts receivable	**(89,797)**	12,364
Prepaid expenses	**144,904**	628,756
Accounts payable and accrued liabilities	**462,448**	221,629
	(6,843,744)	(3,939,199)
INVESTING ACTIVITIES		
Short-term investments, net	**-**	2,000,000
Deposits	**(211,548)**	-
Acquisition of property and equipment	**(17,229)**	(5,466)
Acquisition of intangible assets (Note 19)	**-**	(1,000,165)
	(228,777)	994,369
FINANCING ACTIVITIES		
Proceeds from prospectus offering of units, net (Note 10)	**21,126,104**	
Proceeds from private placement of units, net (Note 10)	-	3,542,975
Proceeds from exercise of warrants (Note 10)	**7,830,480**	-
Proceeds from convertible debentures, net of issue costs (Note 9)	**-**	969,104
Other financing costs	**(11,807)**	-
Proceeds from exercise of stock options (Note 10)	**947,292**	21,000
Grant contribution receipts (Note 14)	**871,799**	658,755
Research collaboration advances (Note 14)	**261,439**	-
Lease liabilities payments (Note 7)	**(28,000)**	(94,730)
	30,997,307	5,097,104
CHANGE IN CASH DURING THE YEAR	**23,924,786**	2,152,274
CASH, BEGINNING OF YEAR	**3,949,412**	1,797,138
CASH, END OF YEAR	**$ 27,874,198**	$ 3,949,412

Cash Flows Supplementary Information (Note 13)

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED OCTOBER 31, 2021 AND 2020
(Expressed in Canadian Dollars)

	Common Shares (Note 10)		**Warrants** (Notes 9 and 10)	**Contributed Surplus** (Notes 9 and 10)	**Deficit**	**Total**
Balance, October 31, 2020	208,263,447	$ 44,640,757	$ 1,549,759	$ 5,737,733	$ (47,783,412)	$ 4,144,837
Loss and comprehensive loss for the year	–	–	–	–	(6,965,539)	(6,965,539)
Transactions with owners of the Company, recognized directly in equity:						
Prospectus offering of units, net of issuance costs	19,205,000	18,314,260	2,350,924	–	–	20,665,184
Units issued for corporate finance fee in conjunction with prospectus offering of units	384,100	460,920	–	–	–	460,920
Exercise of warrants	24,902,366	8,037,915	(207,435)	–	–	7,830,480
Exercise of stock options	4,239,365	1,652,600	–	(705,308)	–	947,292
Shares issued upon conversion of convertible debentures	4,000,000	864,132	–	(137,317)	–	726,815
Shares issued for payment of convertible debentures interest	138,980	40,110	–	–	–	40,110
Share-based compensation	–	–	–	218,395	–	218,395
Balance, October 31, 2021	**261,133,258**	**$ 74,010,694**	**$ 3,693,248**	**$ 5,113,503**	**$ (54,748,951)**	**$ 28,068,494**
Balance, October 31, 2019	195,945,114	$ 41,305,138	$ 1,106,278	$ 4,932,406	$ (42,462,104)	$ 4,881,718
Loss and comprehensive loss for the year	–	–	–	–	(5,321,308)	(5,321,308)
Transactions with owners of the Company, recognized directly in equity:						
Private placement of units, net of issuance costs	12,218,333	3,299,619	273,733	–	–	3,573,352
Equity component of convertible debentures issued, net of allocated costs	–	–	169,748	137,317	–	307,065
Exercise of stock options	100,000	36,000	–	(15,000)		21,000
Share-based compensation	–	–	–	683,010	–	683,010
Balance, October 31, 2020	208,263,447	$ 44,640,757	$ 1,549,759	$ 5,737,733	$ (47,783,412)	$ 4,144,837

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Sernova Corp. (the "Company") is a clinical-stage regenerative medicine therapeutics company focused on developing and commercializing regenerative medicine therapeutics including its proprietary Cell Pouch™ and associated technologies including therapeutic cells and local cellular immune protection. The Cell Pouch is a scalable, implantable, medical device, designed to create a vascularized tissue environment for the transplantation and engraftment of therapeutic cells, which then release proteins and / or hormones for the long-term treatment of multiple serious, chronic diseases such as diabetes, hemophilia and thyroid disease.

Sernova Corp. 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's shares are listed on the TSX Venture Exchange (the "Exchange") under the symbol SVA, on the OTCQB Venture Market under the symbol SEOVF and on the Frankfurt and Xetra Exchanges under the symbol PSH.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("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 February 14, 2022, 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, or at amortized cost.

(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.

(d) Use of significant estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the application of accounting policies, the reported amounts of assets and liabilities, expenses and related disclosures of contingent assets and liabilities, as well as the Company's ability to continue as a going concern. These estimates and judgements take into account historical and forward-looking factors that the Company believes are reasonable, including but not limited to the potential impacts arising from COVID-19 and public and private sector policies and initiatives aimed at reducing its transmission. Actual results could differ materially from these estimates and judgements. The Company reviews its estimates and underlying judgements on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

2. BASIS OF PRESENTATION (cont'd …)

(d) Use of significant estimates and judgements (cont'd …)

Management has applied significant estimates and judgements to the following:

Going concern
These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred losses and negative cashflow since inception. A comprehensive loss of $6,965,539 was incurred during the year ended October 31, 2021, and the Company has an accumulated deficit of $54,748,951. As at October 31, 2021, the Company had working capital of $26,851,474.

Until the Company's biotechnology therapeutic products are approved and available for sale and profitable operations are developed, the Company's liquidity requirements will be dependent on its ability to continue to obtain adequate financing. Failure to do so could have a material adverse effect on the Company's financial condition and financial performance. During the year ended October 31, 2021, the Company completed a $23 million financing, which is anticipated to fund its operating plan for a period of at least twelve months. Future financing will depend on many factors, including, but not limited to, market conditions which are not within the Company's control, and ultimately the market acceptance of its products. No assurance can be given that any such additional financing will be available or that, if available, it can be obtained on terms favourable to the Company. See Note 17 – Capital Risk Management and Note 18 – Financial Instruments and Risk Management.

Estimated useful life of long-lived assets
Judgement is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets
Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. Management evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Convertible instruments
Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debenture in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Upon conversion, the carrying value of the equity portion is transferred to common shares.

2. BASIS OF PRESENTATION (cont'd …)

(d) **Use of significant estimates and judgements (cont'd …)**

Convertible instruments (cont'd …)
The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability component is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Discount rates
The discount rate used for any impairment analysis and to calculate the fair value of lease liabilities and convertible debentures is based on management's best estimate of an appropriate industry peer group weighted average cost of capital and the Company's risk levels. Changes in the general economic environment could result in significant changes to estimates.

Valuation of share-based payments, compensation and warrants
The Company measures the cost of equity-settled transactions 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. The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model ("Black-Scholes Model"), as well as other pricing models, such as the Geske option pricing model ("Geske Model") for equity instruments involving compound options. An estimate requires determining the most appropriate data inputs for the relevant valuation model, including the expected option life, share price volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance, as applicable. Changes in these subjective data input assumptions can materially affect the fair value estimate for share-based payments compensation and warrants.

COVID-19
Given the ongoing and dynamic nature of the circumstances surrounding the COVID-19 pandemic, it is difficult to predict how significant the impact of COVID-19 and variants, including any responses to it, will be on the global economy and the business of the Company or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information that may emerge about COVID-19 or variants and additional actions that may be taken to contain it. Such developments could have a material adverse effect on the Company's business, including current or future clinical trials, research collaborations and corporate partnering activities; financial condition; results of operations and cash flow; and exposure to credit risk. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) **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.

(b) **Cash and cash equivalents**

Cash and cash equivalents include cash and any short-term money market investments that are readily convertible to cash with original terms of three months or less. Cash equivalents totalled $nil at October 31, 2021 (2020 - $nil).

(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**.**

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
Manufacturing equipment	20% declining balance

(d) **Intangible assets**

The Company's capitalized intangible assets comprise acquired patent licenses. Intangible assets with finite lives are recorded at cost on initial recognition. Following initial recognition, intangible assets with finite lives are carried at cost less any accumulated amortization and impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The Company does not hold any intangibles with infinite lives.

Intangible assets are amortized on a straight-line basis over their useful economic life, currently estimated as five years, and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (con't …)

(e) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A right-of-use asset and corresponding lease liability is recognized on the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the implicit interest rate in the lease or, if the rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its estimated incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase, extension or termination option is reasonably certain to be exercised, or if the underlying lease contract is amended. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to separate fixed non-lease components from lease components and instead accounts for both components as a single lease component. The Company also does not recognize right-of-use assets and lease liabilities for short-term leases with a term of twelve months or less, lease payments for these leases are recorded as an expense over the lease term.

(f) 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.

The Company applies a forward-looking expected credit loss ("ECL") model, which requires a loss allowance be recognized based on expected credit losses, to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to

3. SIGNIFICANT ACCOUNTING POLICIES (con't …)

(f) Impairment (con't …)

the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Non-financial assets

The carrying amounts of the Company's property and equipment and intangible assets with finite lives 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.

(g) 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.

(h) Government assistance

Government assistance, consisting of investment tax credits and or grants, is recognized as a reduction of the related expense or cost of the asset acquired. Government assistance is recognized where there is reasonable assurance that the assistance will be received, and any attached conditions will be complied with.

Research grants that compensate the Company for expenses incurred are recognized in the statement of loss and comprehensive loss as a reduction thereof on a systematic basis in the same years in which the expenses are recognized. Research grants that compensate the Company for the cost of an asset are recognized in the statement of loss and comprehensive loss on a systematic basis over the expected useful life of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd …)

(i) 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.

(j) Share-based payments and compensation

The Company may grant stock options to its directors, officers, employees and consultants and deferred share units ("DSUs") 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 DSUs 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 DSUs 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.

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.

In conjunction with private placements or brokered financings, the Company may issue compensatory finder or broker warrants to agents as consideration for services provided. Awards of finder and broker warrants are accounted for in accordance with the fair value method of accounting and result in share issue costs and a credit to warrants within shareholders' equity when finder or broker warrants are issued. The fair value of a warrant on a common share is measured using the Black-Scholes Model and the fair value of a warrant on the warrant component of a unit is measured using the Geske Model, both of which require the use of certain assumptions regarding the risk-free market interest rate, the expected volatility in the price of the underlying stock, and the expected life of the equity instruments. Consideration received upon the exercise of finder or broker warrants is recorded as share capital, and the related fair value recorded at the date of issuance is reclassified from warrants to common shares within shareholders' equity.

(k) 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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd …)

(k) Income taxes (con't …)

countries where the company operates. 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.

(l) 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, DSUs and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options, DSUs 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, DSUs 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.

(m) Financial instruments

Classification and Measurement of Financial Instruments

At initial recognition, the Company measures a financial instrument at its fair value plus, in the case of a financial instrument not at fair value through profit (loss), transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at fair value through profit (loss) are expensed in profit (loss).

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories in which the Company classifies its financial instruments:

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Finance income from these financial instruments is recorded in income (loss) using the effective interest rate method;

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd …)

(m) Financial instruments (con't …)

- Fair value through other comprehensive income ("FVOCI"): Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in income (loss); and
- Fair value through profit (loss) ("FVTPL"): Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit (loss). A gain or loss on a financial instrument that is subsequently measured at fair value through profit (loss) and is not part of a hedging relationship is recognized in income (loss) and presented net in comprehensive income (loss) in the period in which it arises.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) it is designated as FVTPL if eligible.

When the Company's short-term investments include guaranteed investment certificates ("GICs") held, they are measured at amortized cost. The Company typically holds GICs to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of Financial Assets

Financial assets measured at amortized cost and subject to the ECL model may consist of short-term investments and amounts receivable. Short-term investments at amortized cost are considered to be low risk, and therefore the impairment provision is determined using a twelve-month expected credit loss basis. No impairment in the Company's financial assets was identified as at October 31, 2021.

(n) Valuation of equity units issued

The Company uses the residual value method with respect to the measurement of shares and warrants issued as part of units. The residual value method first allocates value to the most readily measurable component based on fair value and then the residual value, if any, to the other component(s) as applicable.

The common share component of the equity units issued in connection with private placement and brokered financings is the more readily measurable component and the last traded market price of the common share has been used to determine its fair value and portion of the equity unit proceeds. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants within shareholders' equity.

(o) New accounting standards and interpretations not yet adopted

In January 2020, the IASB issued amendments to Presentation of financial statements ("IAS 1") to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. The company is currently evaluating the potential impacts of adoption.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that are expected to have a material impact on the consolidated financial statements of the Company.

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

	October 31, 2021	October 31, 2020
Grant contributions receivable (Note 14)	$ 224,349	$ 378,631
HST / GST and other tax credits receivable	224,598	128,136
	$ 448,947	$ 506,767

5. PROPERTY AND EQUIPMENT

	Computer and Office Equipment	Laboratory Equipment	Manufacturing Equipment	Total
Cost				
Balance, October 31, 2019	$ 86,462	$ 257,209	$ 105,098	$ 448,769
Additions	5,466	-	-	5,466
Balance, October 31, 2020	91,928	257,209	105,098	454,235
Additions	17,229	-	-	17,229
Balance, October 31, 2021	$ 109,157	$ 257,209	$ 105,098	$ 471,464
Accumulated depreciation				
Balance, October 31, 2019	$ 57,494	$ 103,328	$ 36,535	$ 197,267
Depreciation	9,038	30,794	13,713	53,545
Balance, October 31, 2020	66,532	134,032	50,248	250,812
Depreciation	8,722	24,635	10,970	44,327
Balance, October 31, 2021	$ 75,254	$ 158,667	$ 61,218	$ 295,139
Net carrying amounts				
October 31, 2020	$ 25,396	$ 123,177	$ 54,850	$ 203,423
October 31, 2021	$ 33,903	$ 98,542	$ 43,880	$ 176,325

(Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS

	Total
Cost	
Balance, October 31, 2019	$ -
Additions	1,000,165
Balance, October 31, 2021 and 2020	$ 1,000,165
Accumulated amortization	
Balance, October 31, 2019	$ -
Amortization	83,347
Balance, October 31, 2020	83,347
Amortization	200,033
Balance, October 31, 2021	$ 283,380
Net carrying amounts	
October 31, 2020	$ 916,818
October 31, 2021	$ 716,785

7. RIGHT-OF-USE ASSET AND LEASE LIABILITIES

Right-of-use asset and lease liabilities carrying amounts and changes during the years were as follows:

	Right-of-use asset	Lease liabilities
Balance, October 31, 2019	$ -	$ -
Initial recognition	91,268	91,268
Depreciation	(88,338)	-
Interest expense	-	6,392
COVID-19 relief granted by landlord	(2,930)	(2,930)
Payments	-	(94,730)
Balance, October 31, 2020	-	-
Initial recognition	411,185	411,185
Depreciation	(22,844)	-
Interest expense	-	10,169
Payments	-	(28,000)
Balance, October 31, 2021	$ 388,341	$ 393,354

	October 31, 2021	October 31, 2020
Lease liabilities – short term portion	$ 117,375	$ -
Lease liabilities – long term portion	275,979	-
	$ 393,354	$ -

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2021	October 31, 2020
Trade payables	$ 379,516	$ 529,388
Accrued liabilities	691,210	213,207
Accrued interest on convertible debentures (Note 9)	-	31,781
Research collaboration advances (Note 14)	69,890	-
Due to related parties (Note 11)	217,880	103,699
	$ 1,358,496	$ 878,075

9. CONVERTIBLE DEBENTURES

During the year ended October 31, 2021, and prior to maturity, the convertible debentures were fully converted by the holder into 4,000,000 common shares of the Company on January 18, 2021. See Note 10 – Share Capital and Warrants.

On June 8, 2020, the Company issued unsecured convertible debentures through a non-brokered private placement for an aggregate principal amount and gross proceeds of $1,000,000. The convertible debentures were repayable in thirty months, on December 8, 2022, unless earlier converted or redeemed and bore interest at a rate of 8% per annum payable semi-annually in arrears, in cash or common shares at the option of the Company. The holder exercised the right to convert the principal amount into common shares of the Company at a conversion price of $0.25 per share, at any time up to the repayment date. A total of 3,000,000 non-transferable common share purchase warrants were issued as part of the offering with each warrant being exercisable into a common share at a price of $0.20 per share up to December 8, 2022, which were fully exercised during the year ended October 31, 2021. No finder's fees or finder's warrants were paid or issued, respectively, in connection with this offering.

The liability component of the convertible debentures was initially recognized at the fair value of a comparable liability without an equity conversion option and related warrant issuance, in the amount of $683,146 (before issue costs allocation) based on future cash flows discounted at the estimated market interest rate of 15%. The residual value of the gross proceeds was allocated to the conversion option and warrants based on their respective inherent fair values. Issue costs totalling $30,896 were incurred and allocated on a pro-rata basis to the convertible debentures, conversion option and warrants.

Accretion of the liability component and accrued interest expense on the convertible debentures are included in finance costs in the statements of loss and comprehensive loss.

Balance outstanding, October 31, 2020	$ 702,612
Accretion expense	24,203
Conversion of convertible debentures principal into common shares (Note 10)	(726,815)
Balance outstanding, October 31, 2021	$ -

10. COMMON SHARES AND WARRANTS

(a) **Authorized**

Unlimited number of common shares, without par value.

(b) **Share capital changes**

During the year ended October 31, 2021:

(i) cash proceeds of $23,046,000 were received from a brokered bought deal offering ("Offering") of 19,205,000 units, including the full exercise of the underwriters' 15% over-allotment option, at the issue price of $1.20 per unit ("2021 Units"). Each 2021 Unit consists of a common share and one common share purchase warrant, with each common share purchase warrant being exercisable into one common share at a price of $1.70 per share until March 1, 2023, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company's common shares exceeds $3.05 per share. As consideration for services provided in connection with the Offering, the Company paid to the underwriters: a cash commission of $1,452,981, a corporate finance fee of 384,100 2021 Units ("Corporate Finance Fee Units") and 1,210,818 broker warrants (also referred to as compensation options), where each broker warrant upon exercise entitles the holder to purchase one 2021 Unit at $1.20 until March 1, 2023 ("Broker Warrant"). The Corporate Finance Fee Units and Broker Warrants issued were valued at $460,920 and $2,350,924, respectively. Share issuance costs totalling $466,915 were also incurred and paid. The value of the Broker Warrants was determined using the Geske Model with the following assumptions: volatility of 129%, a risk-free interest rate of 0.3%, an expected life of two years, a dividend yield of 0% and no forfeiture;

(ii) cash proceeds of $8,777,772 were received from the exercise of common share purchase warrants and stock options for a combined 29,141,731 common shares;

(iii) 138,980 common shares were issued as settlement for $40,110 of interest accrued on the convertible debentures; and

(iv) upon receipt of a conversion notice from the holder of the convertible debentures, the outstanding principal of $1,000,000 was converted into 4,000,000 common shares, at the fixed conversion price of $0.25 per common share. No additional consideration was received for the conversion into common shares.

During the year ended October 31, 2020, the Company closed a non-brokered private placement on September 22, 2020, issuing a total of 12,218,333 units at $0.30 per unit ("2020 Units") for gross proceeds of $3,665,500, of which $244,367 was allocated to the related common share purchase warrants issued using the residual value approach. Each 2020 Unit consisted of one common share and one common share purchase warrant, with each common share purchase warrant being exercisable into one common share at a price of $0.35 per share until September 22, 2022, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company's shares exceeds $0.50 per share. All securities issued in connection with the private placement were subject to a statutory hold period of four months. The Company incurred legal costs and finders' fees totaling $92,148 and issued 198,310 finder warrants valued at $29,366. The value of these finders' warrants was determined using the Black-Scholes Model based on the following assumptions: an exercise price of $0.35 per common share, expected life of two years, volatility of 113% and a risk-free interest rate of 0.26%. The terms of the finder warrants were the same as the common share purchase warrants of the 2020 Units issued.

(Expressed in Canadian Dollars)

10. COMMON SHARES AND WARRANTS (cont'd …)

(c) **Warrants**

Changes in the number of common share purchase warrants outstanding during the years ended October 31st were as follows:

	2021		2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of year	50,246,590	$ 0.32	35,411,647	$ 0.32
Issued in conjunction with a prospectus offering of units	19,589,100	1.70	-	-
Issuance of broker warrants	1,210,818	1.20	-	-
Issued in conjunction with convertible debenture offering	-	-	3,000,000	0.20
Issued in conjunction with private placement of units	-	-	12,218,333	0.35
Issued to finders in conjunction with private placement of units	-	-	198,310	0.35
Exercised	(24,902,366)	(0.31)	-	-
Expiry of warrants	-	-	(581,700)	(0.35)
Balance outstanding, end of year	46,144,142	$ 0.93	50,246,590	$ 0.32

The following table summarizes the warrants outstanding as at October 31, 2021:

Number of Warrants	Exercise Price	Expiry Date
6,912,375	$ 0.30	August 16, 2022
7,130,622	0.30	August 31, 2022
200,000	0.30	September 9, 2022
11,133,227	0.35	September 22, 2022 *
19,557,100	1.70	March 1, 2023 **
1,210,818	1.20	March 1, 2023 ***
46,144,142		

* subject to acceleration of the exercise period expiry on thirty days notice to warrant holders in the event that the ten-day volume weighted average price of the shares exceeds $0.50 per share.

** subject to acceleration of the exercise period expiry on thirty days notice to warrant holders in the event that the ten-day volume weighted average price of the shares exceeds $3.05 per share.

*** exercisable into one 2021 Unit at $1.20 until March 1, 2023. Each 2021 Unit consists of one common share and one common share purchase warrant, with each common share purchase warrant being exercisable into one common share at a price of $1.70 per share until March 1, 2023, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company's common shares exceeds $3.05 per share.

10. COMMON SHARES AND WARRANTS (cont'd …)

(c) Warrants (cont'd …)

During the year ended October 31, 2020, unsecured convertible debentures were issued on a non-brokered private placement basis for an aggregate principal amount and gross proceeds of $1,000,000. In conjunction with the convertible debentures' issuance on June 8, 2021, 3,000,000 non-transferable common share purchase warrants were issued with each exercisable into one common share at a price of $0.20 per share until December 8, 2022. These common share purchase warrants were valued at $175,160 before allocated acquisition transaction related costs, see Note 9 – Convertible Debentures, as determined using the Black-Scholes Model based on the following assumptions: an exercise price of $0.20 per common share, an expected life of two and a half years, volatility of 86%, a risk-free interest rate of 0.32% and no forfeiture. Issue costs totaling $30,896 were incurred. No finders' fees or finders' warrants were paid or issued, respectively. The convertible debentures and common share purchase warrants, and any securities into which they may be exchanged or converted, were subject to a four-month hold period in accordance with applicable securities regulations. The 3,000,000 common share purchase warrants were fully exercised during the year ended October 31, 2021. For more information, see Note 9 – Convertible Debentures.

(d) Incentive Plan

The Company initiated its incentive plan in 2015, with the latest amendments thereto approved by shareholders of the Company on June 30, 2021 (the "Incentive Plan"). Under the Incentive Plan, the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units ("DSUs") to directors and officers of the Company up to an aggregate fixed maximum of 38,746,536 of the Company's issued and outstanding common shares, representing approximately 14.8% of the common shares outstanding as at October 31, 2021. The maximum fixed number of common shares to be reserved for options exercise and DSUs conversion under the Incentive Plan is 30,997,229 and 7,749,307, respectively.

Options granted under the Incentive 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 of Directors. According to the terms of the Incentive Plan, the exercise price of any stock options granted must be in accordance with the policies of the Exchange.

As at October 31, 2021, 8,892,500 stock options were outstanding, representing 3.4% of the Company's issued and outstanding common shares (October 31, 2020 – 14,474,600 stock options outstanding representing 7.0% of the then issued and outstanding common shares).

(Expressed in Canadian Dollars)

10. COMMON SHARES AND WARRANTS (cont'd …)

(d) **Incentive Plan (cont'd …)**

Changes in the number of stock options outstanding during the years ended October 31st were as follows:

	2021		2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of year	14,474,600	$ 0.22	14,574,600	$ 0.22
Granted	100,000	1.40	-	-
Expired				
Cancelled / forfeited	(1,442,735)	(0.21)	-	-
Exercised	(4,239,365)	(0.22)	(100,000)	(0.21)
Balance outstanding, end of year	8,892,500	$ 0.24	14,474,600	$ 0.22
Options exercisable, end of year	7,933,800	$ 0.24	10,608,025	$ 0.23

Stock options outstanding by range of exercise prices as at October 31, 2021:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.21	4,577,500	7.9	$ 0.21	3,618,800	$ 0.21
$ 0.22 to $ 0.26	4,215,000	4.9	0.24	4,215,000	0.24
$ 1.40	100,000	1.6	1.40	100,000	1.40
$ 0.21 to $ 1.40	8,892,500	6.4	$ 0.24	7,933,800	$ 0.24

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

The expected risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon bond 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. A forfeiture rate is estimated for the stock options granted based on the history of the Company's stock option grants. The dividend yield is assigned a zero value since it is the policy of the Company to not pay dividends on its common shares for the foreseeable future.

(Expressed in Canadian Dollars)

10. COMMON SHARES AND WARRANTS (cont'd …)

(d) **Incentive Plan (cont'd …)**

For the stock options granted during the year ended October 31, the share-based compensation expense was determined based on the fair value of the stock options on the grant-date (date of measurement) using the Black-Scholes option pricing model using the following assumptions:

	2021	2020
Dividend yield	0%	n/a
Expected volatility	151%	n/a
Risk free interest rate	0.45%	n/a
Expected life of options	2 years	n/a

The Company's Incentive Plan allows for the issuance of DSUs to directors and officers of the Company and settlement 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 DSUs is at the discretion of the Company under the Incentive Plan, it has been accounted for as an equity-settled plan. No DSUs were granted, cancelled or equity-settled during the years ended October 31, 2021, and 2020. DSUs generally vest over a three-year period after the date of grant.

As at October 31, 2021, a total of 4,150,001 DSUs were outstanding (October 31, 2020 – 4,150,001) of which 3,505,557 had vested (October 31, 2020 – 2,861,112).

See Note 20 – Events After the Reporting Period.

11. 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 end of the reporting period are unsecured, interest free and settlement generally 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, 2021, was $217,880 due to key management personnel (October 31, 2020 – $103,699).

Compensation to key management personnel for the reporting period:

	Years Ended October 31,	
	2021	2020
Personnel costs	$ 1,109,986	$ 625,140
Director fees and costs	241,673	121,780
Share-based compensation - DSUs	90,186	242,675
Share-based compensation - options	57,986	174,935
	$ 1,499,831	$ 1,164,530

(Expressed in Canadian Dollars)

12. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Years Ended October 31, 2021	2020
Personnel costs	$ 1,271,948	$ 703,017
Contract services and consulting	3,022,244	1,334,168
Lab operations	122,892	37,967
Manufacturing costs	389,191	202,259
Patent fees and costs	529,041	484,060
License fees	39,880	20,020
Other costs	27,085	35,558
Amortization and depreciation	258,966	204,265
Share-based compensation - options	96,463	288,468
	5,757,710	3,309,782
Less: contributions and tax credits	(1,119,721)	(551,149)
	$ 4,637,989	$ 2,758,633

General and Administrative Expenses

	Years Ended October 31, 2021	2020
Personnel costs	$ 728,379	$ 484,607
Consulting and professional fees	315,936	226,688
Director fees and expenses	239,293	125,004
Investor relations	551,946	1,043,735
Other costs	332,794	205,590
Depreciation	8,238	20,965
Share-based compensation - DSUs	31,746	242,674
Share-based compensation - options	90,186	151,868
	$ 2,298,518	$ 2,501,131

(Expressed in Canadian Dollars)

13. STATEMENTS OF CASH FLOWS SUPPLEMENTARY INFORMATION

	Years Ended October 31,	
	2021	2020
Broker warrants issued (Note 10)	$ 2,350,924	$ -
Corporate finance fee units issued (Note 10)	460,920	-
Warrants issued to convertible debenture investor (Note 9)	-	175,160
Convertible debenture conversion option equity allocation (Note 9)	-	141,695
Finders' warrants issued (Note 10)	-	29,366
Grant contributions accrued through amounts receivable (Note 14)	224,349	378,631
Right-of-use asset additions (Note 7)	411,185	91,268
Convertible debentures interest settled in common shares (Note 10)	40,110	-
Share issuance costs accrued through accounts payable and accrued liabilities	-	11,807
Income taxes paid	-	-
Interest received	70,552	45,852

14. COMMITMENTS AND CONTINGENCIES

During the 2016 fiscal year, the Company was awarded a US$2.45 million (approximately $3.0 million) grant under an agreement with JDRF Therapeutics Fund LLC ("JDRF"). The grant supports a Phase 1/2 clinical trial of Sernova's Cell Pouch for treatment of patients with type 1 diabetes. Pursuant to the agreement, the Company has committed to perform certain clinical trial activities and to use commercially reasonable efforts to introduce a diabetes product into the US market. Contributions relating to milestone achievements totaling US$581,160 ($724,182) were earned during the year ended October 31, 2021 (2020 – US$332,730 ($442,844)). Remaining funding available to be earned under the JDRF grant award totals approximately US$0.57 million ($0.70 million) as at October 31, 2021. The Company is required to pay royalties to JDRF as a percentage of any future net sales received from such diabetes product or in certain future license or disposition transactions up to an aggregate maximum of four times the aggregate amount of JDRF grant funding received. A bonus amount equal to the total amount of grant funding received is also payable to JDRF on two aggregate net sales thresholds if they are achieved. Given the early and inconclusive stage of development of the diabetes product, the royalty is not probable at this time and therefore no liability has been recorded.

During the 2021 fiscal year, the Company entered into research collaborations with international pharmaceutical companies to evaluate the collaborators' stem cell assets in the Company's Cell Pouch for proof-of-concept studies. Successful studies may lead to future development and commercial partnership opportunities. Under the terms of the collaboration agreements, the Company has committed to perform certain preclinical activities and the collaboration parties will provide funding enabling the Company to fully recover costs incurred. Of the total US$205,490 ($261,439) of funding received during the year, US$150,563 ($191,549) was recorded as a research and development cost recovery contribution in the statement of loss and comprehensive loss with the remainder of U$54,927 ($69,890) recorded as research collaboration advances in current liabilities as at October 31, 2021 (Note 8 - Accounts Payable).

The Company enters into contracts in the normal course of business, including for research and development activities, consulting and other services. As at October 31, 2021, the Company has commitments totally approximately $5,386,000, of which approximately $3,728,000 is expected to be paid over the next twelve months. The majority of these contracts are cancellable by the Company with notice. In addition, the Company has minimum annual royalty payment obligations of approximately $30,000 for third party licensing agreements.

(Expressed in Canadian Dollars)

14. COMMITMENTS AND CONTINGENCIES (cont'd…)

Effective September 1, 2021, the Company entered into a two-year lease for both its existing office premises and lab facilities and additional office space at a rate of $14,000 per month, with a 2% increase on the anniversary of the lease agreement. Under the terms of the lease, the Company has an option to extend the lease term for an additional twelve months, up to August 31, 2024, with a minimum of ninety days advance written notice of its intent to extend occupancy. As of October 31, 2021, remaining undiscounted lease payment obligations total $486,147 assuming the Company exercises its option, of which $168,560 is payable over the next twelve months.

15. 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, 2021, and 2020, deferred tax assets have not been recognized with respect to the following items:

	2021	2020
Non-capital losses carried forward	$ 8,529,000	$ 6,981,000
Tax credits carried forward	1,811,000	1,741,000
Tax basis of property, equipment and intangible assets greater than accounting basis	242,000	176,000
Debt with accretion	-	(79,000)
Scientific research and experimental development expenditures carry forward	2,351,000	2,123,000
Share issue costs and other	1,045,000	60,000
	$ 13,978,000	$ 11,002,000

As at October 31, 2021, the Company had available research and development expenditures of approximately $8,872,000 (October 31, 2020 - $8,012,000), which may be carried forward indefinitely to reduce future years' taxable income.

As at October 31, 2021, the Company also had available unclaimed research and development tax credits of approximately $2,231,000 (October 31, 2020 - $2,162,000), which are available to reduce future taxes payable, with expiries from 2022 through 2041.

As at October 31, 2021, the Company has other available future tax deductions related to assets and share issuance costs of approximately $4,857,000 (October 31, 2020 - $890,000).

(Expressed in Canadian Dollars)

15. INCOME TAXES (cont'd …)

(a) Unrecognized deferred tax assets (cont'd …)

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

Years ended October 31,	Amount
2026	$ 355,044
2027	599,000
2028	580,631
2029	353,274
2030	682,246
2031	599,170
2032	992,747
2033	901,738
2034	926,182
2035	1,520,901
2036	1,490,274
2037	1,351,446
2038	2,561,697
2039	2,489,810
2040	4,047,786
2041	6,552,864
	$ 26,004,510

As at October 31, 2021, and 2020, the Company also had non-capital income tax losses available to offset future taxable income in the United States of approximately $6,551,000 (US$5,290,073) and $7,013,000 (US$5,290,073), respectively. The United States non-capital income tax losses will expire in the years 2026 to 2038.

(b) Reconciliation of expected and actual income taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2021	2020
Loss for the year before income tax	$ (6,965,539)	$ (5,321,308)
Expected income tax recovery at statutory rates	$ (1,846,000)	$ (1,410,000)
Change in statutory tax, foreign tax and foreign exchange rates	43,000	(7,000)
Tax credits	(141,000)	(103,000)
Impact of convertible debentures	-	81,000
Permanent differences	58,000	182,000
Share issue costs	(1,258,000)	(24,000)
Change in unrecognized deductible temporary differences	2,976,000	1,298,000
Adjustment to prior year provision versus statutory returns	168,000	(17,000)
Income tax recovery	$ -	$ -

16. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is similarly computed, except that the weighted average shares outstanding amount is increased to include additional shares for the exercise of all stock options and common share purchase warrants and for the settlement of all outstanding DSUs, unless it would be anti-dilutive.

17. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to advance its programs in a timely manner while safeguarding 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 adjusts 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 working capital and 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 the stage of the Company, is reasonable. The Company’s overall strategy with respect to capital risk management remains unchanged since the year ended October 31, 2020.

18. 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 or significant value drivers are unobservable.

The Company’s financial assets and financial liabilities, including cash, amounts receivable, accounts payable and accrued liabilities, are all short-term in nature being receivable or due within one year and their carrying values approximate fair values.

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

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 short-term investments and there is additional risk as those financial instruments are primarily held by a single counterparty and or an affiliate. Management believes the risk of the counterparty, a Canadian Schedule A bank, failing to meet its obligations related to the cash and any short-term investments held by the Company is remote. Amounts receivable at October 31, 2021, are composed of amounts due from the Canadian federal government agencies and $224,349 from JDRF.

(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 short-term investments to provide regular cash flow for its operations and monitoring actual and projected cash flows. As at October 31, 2021, the Company had working capital of $26,851,474 (2020 - $3,727,208). The majority of the Company's accounts payable and accrued liabilities are due within three months or less. Repayment of the non-current unsecured convertible debentures with a face value of $1,000,000 outstanding as at October 31, 2020, that would have been due on December 8, 2022, will no longer be required with the January 18, 2021 conversion of the convertible debentures by the holder into 4,000,000 common shares of the Company at the fixed price of $0.25 per share.

(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 cash in high yield savings accounts or highly liquid short-term instruments. Interest income is not significant to the Company's projected operational budget and related rate fluctuations are not significant to the Company's risk assessment.

(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 and accrued liabilities and grant contributions that are denominated in foreign currencies. The Company's foreign currency risk is primarily related to expenses denominated in United States dollars.

(Expressed in Canadian Dollars)

19. ACQUISITION OF LOCAL IMMUNE PROTECTION TECHNOLOGY

On June 14, 2020, the Company acquired local immune protection technology intellectual property assets for the purchase price of US$700,000 ($939,400). Acquisition related costs of $60,765 were incurred.

Purchase price	$ 939,400

Initial recognition of the purchase price and acquisition related costs was as follows:

Intangible assets (identifiable assets)	$ 939,400
Acquisition related costs	60,765
Intangible assets, total cost	$ 1,000,165
Current liabilities (assumed liabilities)	$ 40,260

The assumed liabilities were paid and no balance was outstanding and included in accounts payable and accrued liabilities as at October 31, 2020. The patents acquired are being amortized over their estimated average useful life of five years, see Note 6 – Intangible Assets.

20. EVENTS AFTER THE REPORTING PERIOD

After October 31, 2021, the Company:

(a) granted a total of 13,575,484 stock options to officers, management, other personnel and consultants at an exercise price of $1.32, expiring December 9, 2026, and a total of 1,360,000 DSUs to members of the Company's Board of Directors; and

(b) received cash proceeds of $1,303,475 from the exercise of common share purchase warrants and stock options and the related issuance of 1,129,000 common shares.