



SERNOVA CORP.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED
JULY 31, 2016 AND 2015**

**(Expressed in Canadian Dollars)
(Unaudited)**

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London, ON N6G 4X8
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These unaudited interim condensed consolidated financial statements of Sernova Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(Expressed in Canadian Dollars)
(Unaudited)

	Note	July 31, 2016	October 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		\$ 4,985,614	\$ 211,938
Marketable securities		1,204,120	2,669,025
Amounts receivable	4	192,973	219,315
Prepaid expenses		<u>57,305</u>	<u>23,832</u>
Total current assets		<u>6,440,012</u>	<u>3,124,110</u>
Non-current assets			
Property and equipment, net	5	<u>28,541</u>	<u>29,189</u>
Total non-current assets		<u>28,541</u>	<u>29,189</u>
Total assets		<u>\$ 6,468,553</u>	<u>\$ 3,153,299</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	\$ 349,487	\$ 199,850
Deferred government assistance	7	<u>749,497</u>	<u>—</u>
Total current liabilities		<u>1,098,984</u>	<u>199,850</u>
EQUITY			
Common shares	8	32,887,583	28,588,449
Warrants	8	993,360	935,157
Contributed surplus		3,475,044	3,082,947
Deficit		<u>(31,986,418)</u>	<u>(29,653,104)</u>
Total equity		<u>5,369,569</u>	<u>2,953,449</u>
Total liabilities and equity		<u>\$ 6,468,553</u>	<u>\$ 3,153,299</u>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 11)

Events after the reporting period (Note 12)

Approved and authorized by the Board of Directors on September 27, 2016:

<u>“Frank Holler”</u>	Director	<u>“Dr. Philip Toleikis”</u>	Director
Frank Holler		Dr. Philip Toleikis	

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED JULY 31,**

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Three Months Ended July 31,		Nine Months Ended July 31,	
		2016	2015	2016	2015
EXPENSES					
Research and development	10	\$ 497,891	\$ 311,225	\$ 1,273,239	\$ 1,296,171
General and administrative	10	<u>489,399</u>	<u>361,017</u>	<u>1,036,363</u>	<u>697,604</u>
Total operating expenses		<u>987,290</u>	<u>672,242</u>	<u>2,309,602</u>	<u>1,993,775</u>
OTHER ITEMS					
Finance income	10	(9,402)	(8,298)	(21,059)	(24,321)
Finance costs	10	<u>(12,941)</u>	<u>2,911</u>	<u>44,771</u>	<u>3,907</u>
Net finance costs (income)		<u>(22,343)</u>	<u>(5,387)</u>	<u>23,712</u>	<u>(20,414)</u>
Loss and comprehensive loss for the period		<u>\$ 964,947</u>	<u>\$ 666,855</u>	<u>\$ 2,333,314</u>	<u>\$ 1,973,361</u>
Weighted average number of common shares outstanding for the period					
		149,040,894	139,763,506	144,918,371	134,270,073
Basic and diluted loss per common share					
		\$ 0.01	\$ 0.00	\$ 0.02	\$ 0.01

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JULY 31,
(Expressed in Canadian Dollars)
(Unaudited)

	Nine Months Ended July 31,	
	2016	2015
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	\$ (2,333,314)	\$ (1,973,361)
Adjustments for items not affecting cash:		
Depreciation of property and equipment	5,673	3,660
Patent licence and intellectual property amortization	–	492,075
Share-based compensation	509,485	142,163
Interest accrued on cash and marketable securities	13,835	(12,361)
Changes in non-cash working capital balances:		
Amounts receivable	26,342	(68,504)
Prepaid expenses	(33,473)	(67,784)
Accounts payable and accrued liabilities	149,637	(77,044)
Deferred government assistance	749,497	–
Net cash used in operating activities	<u>(912,318)</u>	<u>(1,561,156)</u>
INVESTING ACTIVITIES		
Marketable securities, net	1,451,070	(348,168)
Acquisition of property and equipment	(5,025)	(2,814)
Acquisition of patent rights	–	(59,035)
Net cash provided by (used in) investing activities	<u>1,446,045</u>	<u>(410,017)</u>
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	200,612	177,150
Net cash provided by financing activities	<u>4,239,949</u>	<u>1,701,277</u>
Change in cash and cash equivalents during the period	4,773,676	(269,896)
Cash and cash equivalents, beginning of period	211,938	463,808
Cash and cash equivalents, end of period	\$ 4,985,614	\$ 193,912
Supplementary cash flow information:		
Finder's warrants issued	\$ 58,203	\$ 11,294

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED JULY 31, 2016 AND 2015
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares		Warrants		Contributed Surplus	Deficit	Total
	Number	(Note 8)	Number	(Note 8)			
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 period	–	–	–	–	–	(2,333,314)	(2,333,314)
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	1,298,750	318,000	–	–	(117,388)	–	200,612
Exercise of warrants	131,528	39,458	(131,528)	–	–	–	39,458
Warrants expired unexercised	–	–	(10,000,000)	–	–	–	–
Share-based compensation	–	–	–	–	509,485	–	509,485
Balance, July 31, 2016	160,051,998	\$ 32,887,583	26,216,362	\$ 993,360	\$ 3,475,044	\$ (31,986,418)	\$ 5,369,569
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 period	–	–	–	–	–	(1,973,361)	(1,973,361)
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	1,125,000	297,150	–	–	(120,000)	–	177,150
Share-based compensation	–	–	–	–	142,163	–	142,163
Balance, July 31, 2015	141,491,720	\$ 28,510,999	19,026,040	\$ 935,157	\$ 2,971,896	\$ (28,766,988)	\$ 3,651,064

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

(Unaudited)

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 interim condensed 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 interim condensed consolidated financial statements for the three and nine months ended July 31, 2016 and 2015 were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the years ended October 31, 2015 and 2014, which were prepared in accordance with IFRS as issued by the IASB. Any subsequent changes to IFRS or their interpretation, that are given effect in the Company’s annual audited consolidated financial statements for the year ending October 31, 2016, could result in a restatement of these unaudited interim condensed consolidated financial statements. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the three and nine months ended July 31, 2016 and 2015 should be read together with the annual consolidated financial statements for the years ended October 31, 2015 and 2014.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors on September 27, 2016.

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2. BASIS OF PRESENTATION (cont'd...)

(b) Basis of measurement:

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

(c) Functional and presentation currency

These interim condensed 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 estimates and judgements

The preparation of these interim condensed 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

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 is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the interim condensed consolidated financial statements.

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

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**New standards and interpretations not yet effective (cont'd...)**

deferral of the effective date of the standard to January 1, 2018. The Company is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the interim condensed 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 begun the process of evaluating the impact of this standard on the interim condensed 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 interim condensed consolidated financial statements.

4. AMOUNTS RECEIVABLE

As at	July 31, 2016	October 31, 2015
Government programs receivable	\$ 148,666	\$ 164,633
Sales tax credits receivable	<u>44,307</u>	<u>54,682</u>
	<u>\$ 192,973</u>	<u>\$ 219,315</u>

5. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Furniture	Laboratory Equipment	Total
Cost				
Balance, October 31, 2015	\$ 25,285	\$ 735	\$ 27,002	\$ 53,022
Additions	<u>—</u>	<u>—</u>	<u>5,025</u>	<u>5,025</u>
Balance, July 31, 2016	\$ 25,285	\$ 735	\$ 32,027	\$ 58,047
Accumulated depreciation				
Balance, October 31, 2015	\$ 18,061	\$ 359	\$ 5,413	\$ 23,833
Depreciation for the period	<u>1,625</u>	<u>56</u>	<u>3,992</u>	<u>5,673</u>
Balance, July 31, 2016	\$ 19,686	\$ 415	\$ 9,405	\$ 29,506
Net carrying amounts				
October 31, 2015	\$ 7,224	\$ 376	\$ 21,589	\$ 29,189
July 31, 2016	\$ 5,599	\$ 320	\$ 22,622	\$ 28,541

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FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

(Unaudited)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	July 31, 2016	October 31, 2015
Accounts payable	\$ 242,482	\$ 53,880
Accrued liabilities	107,005	143,849
Due to related parties (Note 9)	–	2,121
	<u>\$ 349,487</u>	<u>\$ 199,850</u>

7. DEFERRED GOVERNMENT ASSISTANCE

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 July 31, 2016 amounted to \$123,716 leaving \$749,497 of the grant received as deferred government assistance, 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 AND WARRANTS**Authorized**

Unlimited number of common shares, without par value.

Share capital transactions – nine months ended July 31, 2016

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 (after the expiry of the 4 month hold 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.

For the nine months ended July 31, 2016, 1,298,750 stock options were exercised for cash proceeds of \$200,612 and 131,528 warrants were exercised for cash proceeds of \$39,458.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2016 AND 2015**

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8. COMMON SHARES AND WARRANTS (cont'd...)**Share capital transactions – nine months ended July 31, 2015**

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 (after the expiry of the 4 month hold 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 nine months ended July 31, 2015, 1,125,000 stock options were exercised for cash proceeds of \$177,150.

Performance escrow shares

Included in issued common shares and representing escrow shares as at July 31, 2016 are 3,472,500 (October 31, 2015 – 3,472,500) common shares which will not be released, transferred or assigned without the consent of the regulatory authorities, and which shares are 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 SertolinTM;
- 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 SertolinTM.

Pursant to an agreement related to Sertoli Technologies Inc., the Company's obligation to release performance shares expired in August 2016 and 3,472,500 issued and outstanding performance escrow shares were returned to treasury and cancelled.

Warrants

The following table summarizes warrants outstanding as at July 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
	<u>9,022,600</u>	0.35	June 30, 2018
	<u>26,216,362</u>		

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8. COMMON SHARES AND WARRANTS (cont'd...)**Warrants (cont'd...)**

All warrants are exercisable on issuance. Changes in the number of warrants outstanding during the nine months ended July 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 period	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 period	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.

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8. COMMON SHARES AND WARRANTS (cont'd...)**2015 Incentive Plan (cont'd...)**

The following table summarizes options outstanding as at July 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	June 30, 2018
	1,915,000	0.150	January 27, 2019
	150,000	0.150	February 11, 2019
	2,205,000	0.260	June 25, 2025
	<u>2,965,000</u>	0.225	March 14, 2026
	<u>10,598,600</u>		

As at July 31, 2016 there were 10,598,600 options outstanding, representing 6.6% 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 nine months ended July 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 period	8,873,750	\$ 0.19	7,988,750	\$ 0.16
Granted	3,393,600	0.24	2,460,000	0.26
Forfeited	(370,000)	0.25	–	–
Exercised	(1,298,750)	0.15	(1,125,000)	0.16
Balance outstanding, end of period	10,598,600	\$ 0.21	9,323,750	\$ 0.19
Options exercisable, end of period	6,292,325	\$ 0.19	6,723,750	\$ 0.17

In the nine months ended July 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. In the nine months ended July 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 nine months ended July 31, 2016 and 2015 was \$0.18 and \$0.23, respectively.

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(Unaudited)

8. COMMON SHARES AND WARRANTS (cont'd...)**2015 Incentive Plan (cont'd...)**

The following table reflects details of the stock options outstanding by range of exercise prices as at July 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	5,115,000	1.4	\$ 0.16	5,115,000	\$ 0.16
\$ 0.22 to \$ 0.26	5,170,000	9.3	0.24	863,725	0.26
\$ 0.35	313,600	1.9	0.35	313,600	0.35
\$ 0.14 to \$ 0.35	10,598,600	5.3	\$ 0.21	6,292,325	\$ 0.19

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:

Nine months ended July 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	5.5 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 July 31, 2016, 208,331 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 July 31, 2016 was \$nil due to key management personnel (October 31, 2015 – \$2,121).

Compensation for key management personnel for the three and nine months ended July 31, 2016 and 2015 was as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2016	2015	2016	2015
Salaries, benefits and consulting fees	\$ 156,347	\$ 95,219	\$ 426,908	\$ 264,414
Director fees and benefits	24,985	25,532	75,781	84,670
DSU's issued for director compensation	39,334	10,767	100,477	10,767
Share-based compensation	68,426	19,790	168,925	37,771
Total related party transactions	\$ 289,092	\$ 151,308	\$ 772,091	\$ 397,622

Key management personnel control approximately 2% of the issued common shares of the Company as at July 31, 2016 (October 31, 2015 – 2%).

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2016 AND 2015**

(Expressed in Canadian Dollars)

(Unaudited)

10. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the three and nine months ended July 31, 2016 and 2015 were as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2016	2015	2016	2015
Salaries, supplies and contract payments	\$ 393,269	\$ 231,131	\$ 1,088,107	\$ 740,227
Patent fees and costs	78,436	101,936	162,147	151,068
Depreciation of property and equipment	1,776	1,189	5,328	3,567
Amortization of intangible assets	—	—	—	492,075
Share-based compensation	98,583	25,360	221,475	54,234
Contributions and tax credits	<u>(74,173)</u>	<u>(48,391)</u>	<u>(203,818)</u>	<u>(145,000)</u>
Total research and development expenses	\$ 497,891	\$ 311,225	\$ 1,273,239	\$ 1,296,171

Components of the general and administrative expenses for the three and nine months ended July 31, 2016 and 2015 were as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2016	2015	2016	2015
Salaries, benefits and consulting fees	\$ 229,840	\$ 162,741	\$ 332,638	\$ 197,110
Professional fees	12,774	20,438	57,739	94,202
Director fees and benefits	25,500	27,794	76,296	84,670
Investor relations	45,176	34,457	154,308	112,557
Travel and other costs	29,094	35,848	127,027	121,043
Depreciation of property and equipment	115	31	345	93
DSU's issued for director compensation	39,335	10,767	100,478	10,767
Share-based compensation	<u>107,565</u>	<u>68,941</u>	<u>187,532</u>	<u>77,162</u>
Total general and administrative expenses	\$ 489,399	\$ 361,017	\$ 1,036,363	\$ 697,604

Components of other items for the three and nine months ended July 31, 2016 and 2015 were as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2016	2015	2016	2015
Finance income	\$ (9,402)	\$ (8,298)	\$ (21,059)	\$ (24,321)
Finance costs (excluding exchange)	2,956	1,190	7,039	2,562
Exchange loss (gain)	<u>(15,897)</u>	<u>1,721</u>	<u>37,732</u>	<u>1,345</u>
Finance costs (including exchange)	<u>(12,941)</u>	<u>2,911</u>	<u>44,771</u>	<u>3,907</u>
Net finance costs (income)	\$ (22,343)	\$ (5,387)	\$ 23,712	\$ (20,414)

SERNOVA CORP.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed in Canadian Dollars)

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11. COMMITMENTS AND CONTINGENCIES

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.

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.

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™ technologies for treatment of hypoglycemia unawareness patients with severe type 1 diabetes at a major transplantation center in the United States. 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 a commitment for repayment by the Company following successful commercialization of a diabetes product.

The Company entered into a lease commitment beginning on August 1, 2015, with remaining gross payments required under the lease of approximately \$68,000 related to the rental of laboratory space over a period of two years. The lease also includes options for the Company to extend the lease for two additional one year periods.

SERNOVA CORP.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

12. EVENTS AFTER THE REPORTING PERIOD

a) In August 2016, all of the 3,472,500 issued and outstanding performance escrow shares were cancelled and returned to treasury (see note 8).

b)

In August 2016, the Company received an initial funding payment from JDRF in the amount of US\$367,768 (\$480,783) under the agreement.