SERNOVA CORP.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED

APRIL 30, 2021 AND 2020

(Expressed in Canadian Dollars)

(Unaudited)

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

	Note	**April 30, 2021**	October 31, 2020
ASSETS			
Current assets			
Cash		**$ 31,047,908**	$ 3,949,412
Amounts receivable	4	**448,538**	506,767
Prepaid expenses		**8,403**	149,104
		31,504,849	4,605,283
Non-current assets			
Property and equipment, net		**185,486**	203,423
Intangible assets, net		**816,802**	916,818
		1,002,288	1,120,241
		$ 32,507,137	$ 5,725,524
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	**$ 1,314,111**	$ 878,075
Non-current liabilities			
Convertible debentures	6	**-**	702,612
		1,314,111	1,580,687
SHAREHOLDERS' EQUITY			
Common shares	7	**72,625,076**	44,640,757
Warrants	7	**3,694,849**	1,549,759
Contributed surplus		**5,815,711**	5,737,733
Deficit		**(50,942,610)**	(47,783,412)
		31,193,026	4,144,837
		$ 32,507,137	$ 5,725,524

Deferred Grants, Commitments and Contingencies (Note 10)
Events After the Reporting Period (Note 14)

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE SIX MONTHS ENDED APRIL 30,
(Expressed in Canadian Dollars)
(Unaudited)

	Note	Three months ended April 30,		Six months ended April 30,	
		2021	2020	**2021**	2020
EXPENSES					
Research and development	9	**$ 1,111,105**	$ 1,025,084	**$ 1,789,385**	$ 1,602,097
General and administrative	9	**565,233**	701,458	**1,052,514**	1,496,442
		1,676,338	1,726,542	**2,841,899**	3,098,539
OTHER EXPENSE (INCOME)					
Interest income		**(26,073)**	(11,986)	**(30,165)**	(24,267)
Finance costs	6	**5,351**	4,157	**323,189**	9,425
Foreign exchange loss		**11,350**	14,501	**24,275**	11,496
		(9,372)	6,672	**317,299**	(3,346)
LOSS AND COMPREHENSIVE LOSS		**$ 1,666,966**	$ 1,733,214	**$ 3,159,198**	$ 3,095,193
Weighted average number of common shares outstanding – basic and diluted		236,670,373	195,945,114	214,003,636	195,945,114
Basic and diluted loss per common share	11	$ 0.01	$ 0.01	$ 0.02	$ 0.02

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED APRIL 30,
(Expressed in Canadian Dollars)
(Unaudited)

	2021	2020
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	**$ (3,159,198)**	$ (3,095,193)
Adjustments for items not affecting cash:		
Amortization and depreciation	**121,249**	81,465
Share-based compensation (Note 7)	**79,210**	404,666
Grant contributions accrued (Note 10)	**(500,014)**	(66,348)
Interest income accrued on short-term investments	**-**	(24,034)
Accretion and accrued interest expense (Note 6)	**297,388**	-
Interest on lease liabilities	**-**	5,201
Changes in non-cash working capital balances:		
Amounts receivable	**(72,723)**	9,980
Prepaid expenses	**140,701**	452,317
Accounts payable and accrued liabilities	**3,168**	309,737
	(3,090,219)	(1,922,209)
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(3,296)**	(5,466)
	(3,296)	(5,466)
FINANCING ACTIVITIES		
Proceeds from units financing, net	**21,334,182**	-
Proceeds from exercise of warrants	**7,540,706**	-
Proceeds from exercise of stock options	**436,525**	-
Other financing costs	**(11,807)**	(42,184)
Grant contribution receipts (Note 10)	**630,966**	658,755
Research collaboration advances	**261,439**	-
Lease liabilities payments	**-**	(58,596)
	30,192,011	557,975
CHANGE IN CASH DURING THE PERIOD	**27,098,496**	(1,369,700)
CASH, BEGINNING OF PERIOD	**3,949,412**	1,797,138
CASH, END OF PERIOD	**$ 31,047,908**	$ 427,438

Supplementary cash flow information		
Grant contributions accrued through amounts receivable (Note 10)	245,700	-
Right-of-use asset additions	-	91,268
Share issuance costs accrued through accounts payable and accrued liabilities	223,345	-
Income taxes paid	-	-
Interest received	30,165	-

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED APRIL 30, 2021 AND 2020
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares		**Warrants**	**Contributed Surplus**	**Deficit**	**Total**
	(Note 7)		(Notes 6 and 7)	(Notes 6 and 7)		
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 period	–	–	–	–	(3,159,198)	(3,159,198)
Transactions with owners of the Company, recognized directly in equity:						
Units financing, net of issuance costs	19,205,000	18,759,912	2,350,924	–	–	21,110,836
Units issued for corporate finance fee in conjunction with units financing	384,000	(460,920)	–	460,920	–	–
Exercise of warrants	24,099,116	7,746,540	(205,834)	–	–	7,540,706
Exercise of stock options	1,975,000	761,360	–	(324,835)	–	436,525
Shares issued upon conversion of convertible debentures	4,000,000	1,137,317	–	(137,317)	–	1,000,000
Shares issued for payment of convertible debentures interest	138,980	40,110	–	–	–	40,110
Share-based compensation	–	–	–	79,210	–	79,210
Balance, April 30, 2021	**258,065,643**	**$ 72,625,076**	**$ 3,694,849**	**$ 5,815,711**	**$ (50,942,610)**	**$ 31,193,026**
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 period	–	–	–	–	(3,095,193)	(3,095,193)
Transactions with owners of the Company, recognized directly in equity:						
Share-based compensation	–	–	–	404,666	–	404,666
Balance, April 30, 2020	195,945,114	$ 41,305,138	$ 1,106,278	$ 5,337,072	$ (45,557,297)	$ 2,191,191

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 its proprietary Cell Pouch™ and associated technologies including therapeutic cells and local 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 / Xetra Exchanges under the symbol PSH.

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 get its biotechnology therapeutic products approved for sale, develop profitable operations and continue to raise additional financing. The Company will seek additional financing as required from equity financings, licensing agreements and strategic collaborations, non-dilutive sources such as research grants and / or securing credit facilities. After considering its plans to mitigate the going concern risk, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for a period of at least twelve months from the statement of financial position date.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). Accordingly, these interim condensed consolidated financial statements do not include all the disclosures required for annual financial statements.

The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards ("IFRS") as issued by the International Standards Board ("IASB"). These interim condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on June 25, 2021.

(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 though profit or loss, which are stated at their fair value, or at amortized cost.

2. BASIS OF PRESENTATION (cont'd …)

(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 significant estimates and judgements

The preparation of these unaudited interim condensed 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. 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.

Significant estimates and judgements applied by management are outlined in the Company's annual audited consolidated financial statements for the year ended October 31, 2020, and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements, with additional significant estimates and judgements applied to the following:

Share-based payments

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 that incorporate market data and involve uncertainty in estimates used by managementin the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

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, 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 and additional actions that may be taken to contain it. Such developments could have a material adverse effect on the Company's business, 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 are outlined in the Company's annual consolidated financial statements for the year ended October 31, 2020, and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements, with additional application of the following:

Equity units / share-based payments

The Company engages in equity financing transactions to obtain the funds necessary to continue R&D activities and operations. These equity financing transactions may involve issuance of common shares or units. Units may comprise a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a stated price prior to expiry as stipulated by the transaction.

From time to time in conjunction with private placements or brokered financings, the Company may issue compensatory finder warrants or broker warrants to agents as consideration for services provided. Awards of finder warrants 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 warrants 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 agent 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.

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.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited interim condensed consolidated financial statements for all periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended October 31, 2020, which are available on SEDAR (www.sedar.com).

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

	April 30, 2021	October 31, 2020
Grant contributions receivable (Note 10)	$ 245,700	$ 378,631
HST / GST and other tax credits receivable	202,838	128,136
	$ 448,538	$ 506,767

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2021	October 31, 2020
Trade payables	$ 548,584	$ 529,388
Accrued liabilities	421,751	213,207
Accrued interest on convertible debentures (Note 6)	10,301	31,781
Research collaboration advances	261,439	-
Due to related parties (Note 8)	72,036	103,699
	$ 1,314,111	$ 878,075

6. CONVERTIBLE DEBENTURES

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 are repayable in thirty months, on December 8, 2022, unless earlier converted or redeemed and bear 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 has 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. The convertible debentures and warrants, and any securities into which they may be exchanged or converted, are subject to a four month hold period in accordance with applicable securities regulations. 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 prorata 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.

During the six months ended April 30, 2021, the convertible debentures were fully converted by the holder into 4,000,000 common shares of the Company on January 18, 2021. See Note 7 – Share Capital and Warrants.

(Expressed in Canadian Dollars)

6. CONVERTIBLE DEBENTURES (con't ...)

Balance outstanding, October 31, 2020	$ 702,612
Accretion expense	297,388
Conversion of convertible debentures principal into common shares (Note 7)	(1,000,000)
Balance outstanding, April 30, 2021	$ -

7. COMMON SHARES AND WARRANTS

(a) **Authorized**

Unlimited number of common shares, without par value.

(b) **Share capital changes**

During the six months ended April 30, 2021:

(i) cash proceeds of approximately $23 million 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 10-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 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 $258,837 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 2 years, a dividend yield of 0% and no forfeiture;

(ii) cash proceeds of approximately $7.98 million were received from the exercise of common share purchase warrants and stock options; and

(iii) 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 final quarter of the fiscal 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 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

(Expressed in Canadian Dollars)

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

(b) Share capital changes (cont'd …)

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.

(c) Warrants

Changes in the number of warrants outstanding during the six months ended April 30, 2021 and 2020 were as follows:

	2021		2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, October 31, 2020 and 2019	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	-	-
Exercised	(10,083,116)	(0.30)	-	-
Exercised	(11,016,000)	(0.35)	-	-
Exercised	(3,000,000)	(0.20)	-	-
Balance outstanding, April 30, 2021 and 2020	46,947,392	$ 0.92	35,411,647	$ 0.32

The following table summarizes the warrants outstanding as at April 30, 2021:

Number of Warrants	Exercise Price	Expiry Date
7,434,875	$ 0.30	August 16, 2022
7,278,372	0.30	August 31, 2022
221,000	0.30	September 9, 2022
11,213,227	0.35	September 22, 2022 *
19,589,100	1.70	March 1, 2023 **
1,210,818	1.20	March 1, 2023 ***
46,947,392		

* 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 10-day volume-weighted price of the Company's common shares exceeds $3.05 per share.

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

(c) **Warrants (cont'd …)**

During the third fiscal quarter ended July 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, 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 6 – 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. For more information, see Note 6 – 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 April 26, 2019 (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 25,835,602 of the Company's issued and outstanding common shares, representing approximately 10.0% of the common shares outstanding as at April 30, 2021. The portion of common shares reserved for issuance as DSUs under the Incentive Plan is fixed at a maximum of 5,167,120, representing approximately 1.6% of the common shares outstanding as at April 30, 2021. See Note 14 - Events After the Reporting Period.

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 April 30, 2021, 11,515,225 stock options were outstanding, representing 4.5% 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)

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

(d) **Incentive Plan (cont'd …)**

Changes in the number of stock options outstanding during the six months ended April 30, 2021 and 2020 were as follows:

	2021		2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, October 31, 2020 and 2019	14,474,600	$ 0.22	14,574,600	$ 0.22
Cancelled / forfeited	(984,375)	(0.21)	-	-
Exercised	(1,975,000)	(0.22)	-	-
Balance outstanding, April 30, 2021 and 2020	11,515,225	$ 0.23	14,574,600	$ 0.22
Options exercisable, April 30, 2021 and 2020	9,201,375	$ 0.23	8,897,175	$ 0.23

The following table reflects details of the stock options outstanding by range of exercise prices as at April 30, 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 to $ 0.21	6,225,225	8.4	$ 0.21	4,073,250	$ 0.21
$ 0.22 to $ 0.26	5,290,000	5.4	0.24	5,128,125	0.24
$ 0.21 to $ 0.26	11,515,225	7.0	$ 0.23	9,201,375	$ 0.23

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 awards. This model also requires highly subjective assumptions, including the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

The expected risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon issued with a remaining term equal to the expected term of the option. The expected volatility is based solely on historical volatility for a period equivalent to the expected life of the option. The expected option life is estimated considering the vesting period at the grant date, the contractual life of the option and the average length of time similar grants have remained outstanding in the past. 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)

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

(d) **Incentive Plan (cont'd …)**

No stock options were granted during the three and six months ended April 30, 2021 and the year ended October 31, 2020, therefore no calculation of additional share-based compensation expense using the Black-Scholes option pricing model was required during either period.

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 three and six months ended April 30, 2021 or year ended October 31, 2020. DSUs generally vest over a three-year period after the date of grant. As at April 30, 2021, a total of 4,150,001 DSUs were outstanding (October 31, 2020 – 4,150,001) of which 3,183,335 had vested (October 31, 2020 – 2,861,112).

See Note 14 - Events After the Reporting Period.

8. 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 April 30, 2021 was $72,035 due to key management personnel (October 31, 2020 – $103,699).

Compensation to key management personnel for the reporting period:

	Three months ended April 30,		Six months ended April 30,	
	2021	2020	2021	2020
Personnel costs	$ 412,402	$ 158,125	$ 590,258	$ 308,053
Director fees and costs	60,075	27,551	97,478	52,563
Share-based compensation - DSUs	24,181	63,380	55,291	154,031
Share-based compensation - options	15,548	46,630	35,554	96,115
	$ 512,206	$ 295,686	$ 778,5811	$ 610,762

(Expressed in Canadian Dollars)

9. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Three months ended April 30,		Six months ended April 30,	
	2021	2020	2021	2020
Personnel costs	$ 363,462	$ 177,561	$ 565,587	$ 341,138
Contract services and consulting	771,425	537,412	1,299,684	766,726
Lab operations	34,135	6,661	70,042	10,422
Manufacturing Fees	-	73,921	-	73,921
Patent fees and costs	125,574	187,050	246,254	236,312
License fees	-	-	10,000	-
Other costs	9,993	11,298	16,835	31,372
Amortization and depreciation	60,081	34,637	120,162	69,178
Share-based compensation - options	36,647	76,542	91,487	166,675
	1,401,317	1,105,082	2,420,051	1,695,744
Less: grant contributions and tax credits	(290,212)	(79,998)	(630,666)	(93,647)
	$ 1,111,105	$ 1,025,084	$ 1,789,385	$ 1,602,097

General and Administrative Expenses

	Three months ended April 30,		Six months ended April 30,	
	2021	2020	2021	2020
Personnel costs	$ 262,034	$ 119,228	$ 388,591	$ 247,578
Consulting and professional fees	92,760	85,044	115,148	182,728
Director fees and expenses	60,075	29,474	97,478	55,786
Investor relations	143,575	286,780	305,747	637,210
Other costs	82,340	71,442	156,741	122,862
Depreciation	584	6,164	1,086	12,287
Share-based compensation - DSUs	24,182	63,380	55,292	154,031
Share-based compensation - options	(100,317)	39,946	(67,569)	83,960
	$ 565,233	$ 701,458	$ 1,052,514	$ 1,496,442

10. DEFERRED GRANTS, COMMITMENTS AND CONTINGENCIES

During 2016, the Company was awarded a US$2.45 million (approximately $3.3 million) grant under an agreement with JDRF Therapeutics Fund LLC ("JDRF"). The grant supports a clinical trial of Sernova's Cell Pouch™ for treatment of patients with type 1 diabetes. 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 the US market. Furthermore, the agreement creates an obligation for the Company to pay royalties to JDRF on any future net sales received by the Company from a diabetes product or in certain future license or disposition transactions limited to a certain percentage of funds received over time up to a prescribed limit related to the amount of the grant funding. Grant contributions totalling US$200,000 ($245,545) relating to milestone achievements were earned during the three months ended April 30, 2021 (2020 – US$48,340 ($66,348)) and US$400,000 ($500,014) in aggregate for the six months ended April 30, 2021 (2020 – US$48,340 ($66,348)). Remaining funding available to be earned under the JDRF grant award totals approximately US$0.75 million ($0.92 million) as at April 30, 2021.

Effective September 1, 2017, the Company entered into a three-year lease expiring August 31, 2020. As the Company chose not to enter into a long-term extension of the lease before the end of the fixed term amidst the uncertain COVID-19 environment, the lease was deemed to have been renewed on September 1, 2020 on a month-to-month basis with minimum rent of $10,000 per month and terminable upon ninety days prior written notice by either party.

11. 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.

12. 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 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.

13. 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, short-term investments, 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. The fair value of the convertible debentures financial liability, which has an embedded conversion feature was determined using the effective interest rate method. See Note 6 – Convertible Debentures for significant assumptions and techniques used in determining the fair value of these financial instruments.

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 April 30, 2021 are composed of amounts due from the Canadian federal government and $245,700 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 April 30, 2021 and October 31, 2020, the Company had cash of $31,047,908 and $3,949,412, respectively available to settle current liabilities of $1,314,111and $878,075, respectively. 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.

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

(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. For the six months ended April 30, 2021, and 2020, the Company earned interest income of $26,073 and $30,165, respectively. Interest income is not significant to the Company's projected operational budget.

(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 deferred grants that are denominated in foreign currencies. The Company's foreign currency risk is primarily related to expenses denominated in United States dollars.

14. EVENTS AFTER THE REPORTING PERIOD

On May 14, 2021, the Board of Directors approved amendments to the Incentive Plan to increase the maximum number of common shares that may be reserved for the exercise of options and the conversion of DSUs pursuant to the Incentive Plan to 38,746,536, the fixed amount equivalent of 15% of the 258,310,243 common shares of the Company issued and outstanding as of May 14, 2021. The maximum number of common shares to be reserved for options exercise will increase by 10,328,747 to a total maximum of 30,997,229 (12% of common shares issued and outstanding). The maximum number of common shares to be reserved for DSUs conversion will increase by 2,582,187 to a total maximum of 7,749,307 (3% of the common shares issued and outstanding). These amendments have been approved by the Exchange, but are subject to the Company obtaining shareholder approval.