



SERNOVA CORP.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED
JANUARY 31, 2017 AND 2016**

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

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The Stiller Centre, Suite 114
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	January 31, 2017	October 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents		\$ 5,305,288	\$ 5,199,451
Marketable securities		202,492	700,000
Amounts receivable	4	263,400	231,351
Prepaid expenses		<u>45,706</u>	<u>67,792</u>
Total current assets		<u>5,816,886</u>	<u>6,198,594</u>
Non-current assets			
Property and equipment, net	5	<u>121,722</u>	<u>26,650</u>
Total non-current assets		<u>121,722</u>	<u>26,650</u>
Total assets		<u>\$ 5,938,608</u>	<u>\$ 6,225,244</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	\$ 182,545	\$ 190,950
Deferred government assistance	10	<u>566,712</u>	<u>655,324</u>
Total current liabilities		<u>749,257</u>	<u>846,274</u>
EQUITY			
Common shares	7	32,902,583	32,902,583
Warrants	7	993,360	993,360
Contributed surplus		3,763,658	3,635,753
Deficit		<u>(32,470,250)</u>	<u>(32,152,726)</u>
Total equity		<u>5,189,351</u>	<u>5,378,970</u>
Total liabilities and equity		<u>\$ 5,938,608</u>	<u>\$ 6,225,244</u>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 11)

Approved and authorized by the Board of Directors on March 23, 2017:

<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 MONTHS ENDED JANUARY 31,**

(Expressed in Canadian Dollars)

(Unaudited)

	Note	2017	2016
EXPENSES			
Research and development	9	\$ 63,522	\$ 388,483
General and administrative	9	<u>256,221</u>	<u>280,503</u>
Total operating expenses		<u>319,743</u>	<u>668,986</u>
Finance income		(19,004)	(6,530)
Finance costs		3,966	1,350
Foreign exchange loss		<u>12,819</u>	<u>12,644</u>
Net finance costs		<u>(2,219)</u>	<u>7,464</u>
Loss and comprehensive loss for the period		<u>\$ 317,524</u>	<u>\$ 676,450</u>
Weighted average number of common shares outstanding for the period			
		156,679,498	142,642,706
Basic and diluted loss per common share		<u>\$ 0.00</u>	<u>\$ 0.00</u>

See accompanying notes to the interim condensed consolidated financial statements.

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

	2017	2016
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	\$ (317,524)	\$ (676,450)
Adjustments for items not affecting cash:		
Depreciation of property and equipment	6,539	1,892
Share-based compensation	127,905	103,336
Interest accrued on short-term investments	(2,492)	10,145
Contributions	(338,223)	(55,791)
Changes in non-cash working capital balances:		
Amounts receivable	(32,049)	96,767
Prepaid expenses	22,086	2,822
Accounts payable and accrued liabilities	(86,193)	166,244
Net cash used in operating activities	<u>(619,951)</u>	<u>(351,035)</u>
INVESTING ACTIVITIES		
Marketable securities, net	500,000	183,717
Acquisition of property and equipment	<u>(23,823)</u>	<u>(5,025)</u>
Net cash provided by investing activities	<u>476,177</u>	<u>178,692</u>
FINANCING ACTIVITIES		
Issue of common shares on exercise of stock options	-	187,812
Grants	<u>249,611</u>	<u>873,213</u>
Net cash provided by financing activities	<u>249,611</u>	<u>1,061,025</u>
Change in cash and cash equivalents during the period	<u>105,837</u>	<u>888,682</u>
Cash and cash equivalents, beginning of period	<u>5,199,451</u>	<u>211,938</u>
Cash and cash equivalents, end of period	<u>\$ 5,305,288</u>	<u>\$ 1,100,620</u>
Supplementary cash flow information:		
Property and equipment acquired through accounts payable and accrued liabilities	\$ 77,788	\$ -

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016

(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares (Note 7)		Warrants (Note 7)		Contributed Surplus	Deficit	Total
	Number	Amount	Number	Amount			
Balance, October 31, 2016	156,679,498	\$ 32,902,583	26,216,362	\$ 993,360	\$ 3,635,753	\$ (32,152,726)	\$ 5,378,970
Loss and comprehensive loss for the period	–	–	–	–	–	(317,524)	(317,524)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	–	–	–	–	–	–	–
Share-based compensation	–	–	–	–	127,905	–	127,905
Balance, January 31, 2017	156,679,498	\$ 32,902,583	26,216,362	\$ 993,360	\$ 3,763,658	\$ (32,470,250)	\$ 5,189,351
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	–	–	–	–	–	(676,450)	(676,450)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	1,208,750	296,600	–	–	(108,788)	–	187,812
Share-based compensation	–	–	–	–	103,336	–	103,336
Balance, January 31, 2016	143,030,470	\$ 28,885,049	19,026,040	\$ 935,157	\$ 3,077,495	\$ (30,329,554)	\$ 2,568,147

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

1. NATURE AND CONTINUANCE OF OPERATIONS

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.

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.

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 months ended January 31, 2017 and 2016 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, 2016 and 2015, 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, 2017, 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 months ended January 31, 2017 and 2016 should be read together with the annual consolidated financial statements for the years ended October 31, 2016 and 2015.

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 March 23, 2017.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

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 significant estimates and assumptions

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 has not yet assessed the impact of this standard 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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FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

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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 has not yet assessed the impact of this standard 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 assessed 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	January 31, 2017	October 31, 2016
Government programs receivable	\$ 166,142	\$ 166,142
Sales tax credits receivable	<u>97,259</u>	<u>65,209</u>
	<u>\$ 263,400</u>	<u>\$ 231,351</u>

5. PROPERTY AND EQUIPMENT

	Computer and Office Equipment	Laboratory Equipment	Total
Cost			
Balance, October 31, 2016	\$ 26,020	\$ 32,027	\$ 58,047
Additions	<u>-</u>	<u>101,611</u>	<u>101,611</u>
Balance, January 31, 2017	<u>\$ 26,020</u>	<u>\$ 133,638</u>	<u>\$ 159,658</u>
Accumulated depreciation			
Balance, October 31, 2016	\$ 20,661	\$ 10,736	\$ 31,397
Depreciation	<u>394</u>	<u>6,145</u>	<u>6,539</u>
Balance, January 31, 2017	<u>\$ 21,055</u>	<u>\$ 16,881</u>	<u>\$ 37,936</u>
Net carrying amounts			
October 31, 2016	\$ 5,359	\$ 21,291	\$ 26,650
January 31, 2017	<u>\$ 4,965</u>	<u>\$ 116,757</u>	<u>\$ 121,722</u>

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	January 31, 2017	October 31, 2016
Accounts payable	\$ 99,870	\$ 116,003
Accrued liabilities	71,286	71,383
Due to related parties (Note 9)	<u>11,389</u>	<u>3,564</u>
	<u>\$ 182,545</u>	<u>\$ 190,950</u>

7. COMMON SHARES AND WARRANTS**(a) Authorized**

Unlimited number of common shares, without par value.

(b) Share capital transactions – three months ended January 31, 2017 and 2016

For the three months ended January 31, 2017, there were no share capital transactions.

For the three months ended January 31, 2016, 1,208,750 stock options were exercised for gross cash proceeds of \$187,812.

(c) Performance escrow shares

Included in issued common shares at January 31, 2016 were 3,472,500 performance escrow share. In August 2016 all of these shares were cancelled and returned to treasury. The shares had an original value of \$nil.

(d) Warrants

The following table summarizes warrants outstanding as at January 31, 2017:

Warrants	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>	<u>0.35</u>	<u>June 30, 2018</u>
	<u>26,216,362</u>		

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

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

All warrants are exercisable on issuance. There were no changes in the number of warrants outstanding during the three months ended January 31, 2017 and 2016:

	2017		2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning and end of the period	26,216,362	\$ 0.33	19,026,040	\$ 0.35

(e) 2015 Incentive Plan

Under the 2015 Incentive Plan (the "Plan"), approved by the Company's shareholders on April 28, 2015, the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units ("DSU's") to directors and officers of the Company up to an aggregate of 10% of the Company's issued and outstanding common shares. The number of common shares reserved for issuance as DSU's under the Plan is fixed at a maximum of 1,314,778.

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

The following table summarizes options outstanding as at January 31, 2017:

	Number of Options*	Exercise Price	Expiry Date
Options	365,000	\$ 0.140	March 6, 2017
	270,000	0.180	March 6, 2017
	1,890,000	0.180	April 18, 2017
	500,000	0.180	April 19, 2017
	313,600	0.350	July 4, 2018
	1,775,000	0.150	January 27, 2019
	150,000	0.150	February 11, 2019
	1,775,000	0.260	June 25, 2025
	2,550,000	\$ 0.225	March 14, 2026
	<u>250,000</u>	\$ 0.260	November 14, 2026
	9,838,600		

As at January 31, 2017, there were 9,838,600 options outstanding, representing 6.3% of the Company's issued and outstanding common shares (October 31, 2016 – 10,436,100 options outstanding representing 6.7%).

*Subsequent to January 31, 2017 925,000 stock options with an average price of \$0.16 were exercised, and 70,000 stock options at an exercise price of \$0.18 expired.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

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

Changes in the number of options outstanding during the three months ended January 31, 2017 and 2016, were as follows:

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of period	10,436,100	\$ 0.19	8,873,750	\$ 0.19
Granted	250,000	0.26	-	-
Cancelled/Forfeited	(847,500)	0.23	-	-
Exercised	-	-	(1,208,750)	0.16
Balance outstanding, end of period	9,838,600	\$ 0.21	7,665,000	\$ 0.20
Options exercisable, end of period	6,673,050	\$ 0.19	5,586,250	\$ 0.17

The following table reflects details of the stock options outstanding by range of exercise prices as at January 31, 2017:

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	4,950,000	0.9	\$ 0.17	4,950,000	\$ 0.17
\$ 0.22 to \$ 0.26	4,575,000	8.9	0.24	1,409,450	0.25
\$ 0.35	313,600	1.4	0.35	313,600	0.35
\$ 0.14 to \$ 0.35	9,838,600	4.6	\$ 0.21	6,673,050	\$ 0.19

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 January 31, 2017 312,562 DSU's had vested.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

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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 period-end 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 January 31, 2017 was \$11,389 due to key management personnel (October 31, 2016 – \$3,564).

Compensation to key management personnel for the three months ended January 31, 2017 and 2016, was as follows:

	2017	2016
Salaries, benefits and consulting fees	\$ 96,336	\$ 157,033
Director fees and benefits	24,984	25,812
DSU's issued for director compensation	27,039	27,517
Share-based compensation	<u>34,797</u>	<u>41,945</u>
Total	<u>\$ 183,156</u>	<u>\$ 252,307</u>

9. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the three months ended January 31, 2017 and 2016, were as follows:

	2017	2016
Salaries, supplies and contract payments	\$ 294,012	\$ 381,624
Patent fees and costs	31,785	51,789
Depreciation of property and equipment	6,460	1,777
Share-based compensation	69,488	43,489
Contributions and tax credits	<u>(338,223)</u>	<u>(90,196)</u>
Total research and development expenses	<u>\$ 63,522</u>	<u>\$ 388,483</u>

Components of the general and administrative expenses for the three months ended January 31, 2017 and 2016, were as follows:

	2017	2016
Salaries, benefits and consulting fees	\$ 59,759	\$ 54,924
Professional fees	15,912	27,055
Director fees and benefits	24,984	25,812
Investor relations	51,629	68,330
Travel and other costs	45,441	44,420
Depreciation of property and equipment	79	115
DSU's issued for director compensation	27,039	27,517
Share-based compensation	<u>31,378</u>	<u>32,330</u>
Total general and administrative expenses	<u>\$ 256,221</u>	<u>\$ 280,503</u>

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED JANUARY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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10. DEFERRED GRANTS, COMMITMENTS AND CONTINGENCIES

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 January 31, 2017 amounted to \$306,501 leaving \$566,712 of the grant received as deferred grants, which will be recognized against future expenditures covered by the grant. 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. Amounts claimed by the Company against the grant will be subject to an audit by the European Commission.

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

In October 2016, the Company entered into a collaboration with an international pharmaceutical company to study Sernova's Cell Pouch™ in a large animal diabetes model. The collaboration involves the study of safety, survival and efficacy of locally immune protected therapeutic cells in our Cell Pouch™ in proof of concept studies with the goal to establish a future development and commercial partnership. This agreement included 50% cost sharing for the agreed studies. The first payment in the amount of US\$185,778 (\$249,611) was received in December 2016.

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.

The Company entered into a lease commitment beginning on August 1, 2015, with remaining gross payments required under the lease of approximately \$34,000 related to the rental of laboratory space payable in the 2017 fiscal year. The lease also includes options for the Company to extend the lease for two additional one year periods.