



SERNOVA CORP.

**INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED
JULY 31, 2023 AND 2022**

SERNOVA CORP.

Interim Condensed Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	Note	As at July 31, 2023	As at October 31, 2022
ASSETS			
Current assets			
Cash		\$ 17,778,323	\$ 3,776,054
Marketable securities		13,260,073	46,000,000
Amounts receivable		759,307	1,146,542
Prepaid expenses		201,744	168,012
Total current assets		31,999,447	51,090,608
Non-current assets			
Deposits		259,164	223,860
Property and equipment, net		429,286	402,421
Intangible assets, net		366,727	516,752
Right-of-use asset, net		148,483	251,280
Total non-current assets		1,203,660	1,394,313
TOTAL ASSETS		\$ 33,203,107	\$ 52,484,921
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		\$ 9,761,351	\$ 4,600,277
Lease liabilities		159,102	139,856
Total current liabilities		9,920,453	4,740,133
Non-current liabilities			
Lease liabilities		14,386	136,123
Total liabilities		9,934,839	4,876,256
SHAREHOLDERS' EQUITY			
Common shares	4	110,987,766	110,987,766
Warrants	4	–	3,296,332
Contributed surplus	4	18,743,851	12,494,054
Deficit		(106,463,349)	(79,169,487)
Total shareholders' equity		23,268,268	47,608,665
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 33,203,107	\$ 52,484,921

Commitments and Contingencies (Note 7)

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Three months ended July 31,		Nine months ended July 31,	
		2023	2022	2023	2022
EXPENSES					
Research and development	6	\$ 8,427,684	\$ 4,005,508	\$ 22,366,685	\$ 10,353,048
General and administrative	6	1,845,980	1,905,441	6,323,313	5,948,886
Total expenses		10,273,664	5,910,949	28,689,998	16,301,934
OTHER EXPENSE (INCOME)					
Interest income		(340,258)	(120,101)	(1,204,914)	(159,490)
Finance costs		7,395	13,919	26,029	45,486
Foreign exchange loss (gain)		(9,097)	26,725	(217,251)	22,184
Net other expense (income)		(341,960)	(79,457)	(1,396,136)	(91,820)
LOSS AND COMPREHENSIVE LOSS		\$ 9,931,704	\$ 5,831,492	\$ 27,293,862	\$ 16,210,114
Weighted average number of common shares outstanding – basic and diluted		303,332,686	270,312,346	303,332,686	262,681,311
Basic and diluted loss per common share	8	\$ 0.03	\$ 0.02	\$ 0.09	\$ 0.06

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.

Interim Condensed Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Nine months ended July 31, 2023	Nine months ended July 31, 2022
OPERATING ACTIVITIES			
Loss for the period		\$ (27,293,862)	\$ (16,210,114)
Adjustments for items not affecting cash:			
Amortization and depreciation		325,216	322,377
Share-based compensation	4	2,953,465	6,157,670
Research collaboration advances recognized as cost recoveries	7	(195,986)	(306,331)
Interest income accrued on marketable securities		(221,770)	(21,056)
Interest on lease liabilities		26,029	40,043
Changes in non-cash working capital balances:			
Amounts receivable		394,991	(283,275)
Prepaid expenses		(33,732)	(351,543)
Accounts payable and accrued liabilities		5,057,944	984,306
Cash used in operating activities		(18,987,705)	(9,667,923)
INVESTING ACTIVITIES			
Marketable securities, net		32,739,927	(39,000,000)
Deposits		(35,304)	(12,312)
Purchase of property and equipment		(99,259)	(310,454)
Cash provided by (used in) investing activities		32,605,364	(39,322,766)
FINANCING ACTIVITIES			
Proceeds from private placement of shares, net	4	–	20,279,178
Proceeds from exercise of warrants	4	–	3,705,254
Proceeds from exercise of stock options	4	–	51,750
Grant contribution receipts	7	347,908	224,168
Research collaboration advances	7	165,222	–
Lease liabilities payments		(128,520)	(126,000)
Cash provided by financing activities		384,610	24,134,350
Net increase (decrease) cash during the period		14,002,269	(24,856,339)
Cash, beginning of period		3,776,054	27,874,198
CASH, END OF PERIOD		\$ 17,778,323	\$ 3,017,859
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Income taxes paid		\$ –	\$ –
Interest received		\$ 1,351,696	\$ 138,434

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.Interim Condensed Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)
(Unaudited)

	<u>Common Shares</u>		<u>Warrants</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
	(Note 4)		(Note 4)	(Note 4)		
Balance, October 31, 2022	303,332,686	\$ 110,987,766	\$ 3,296,332	\$ 12,494,054	\$ (79,169,487)	\$ 47,608,665
Loss and comprehensive loss for the period	–	–	–	–	(27,293,862)	(27,293,862)
Transactions with owners of the Company, recognized directly in equity:						
Expiry of warrants	–	–	(3,296,332)	3,296,332	–	–
Share-based compensation	–	–	–	2,953,465	–	2,953,465
Balance, July 31, 2023	303,332,686	\$ 110,987,766	\$ –	\$ 18,743,851	\$(106,463,349)	\$ 23,268,268
Balance, October 31, 2021	261,133,258	\$ 74,010,694	\$ 3,693,248	\$ 5,113,503	\$ (54,748,951)	\$ 28,068,494
Loss and comprehensive loss for the period	–	–	–	–	(16,210,114)	(16,210,114)
Transactions with owners of the Company, recognized directly in equity:						
Shares issued for private placement, net	12,944,904	20,279,178	–	–	–	20,279,178
Exercise of warrants	8,941,588	3,866,297	(161,043)	–	–	3,705,254
Exercise of stock options	237,500	92,250	–	(40,500)	–	51,750
Share-based compensation	–	–	–	6,157,670	–	6,157,670
Balance, July 31, 2022	283,257,250	\$ 98,248,419	\$ 3,532,205	\$ 11,230,673	\$ (70,959,065)	\$ 42,052,232

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, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

1. DESCRIPTION OF BUSINESS

Sernova Corp. (the “Company”) is a clinical stage cell therapeutics company focused on developing and commercializing its proprietary Cell Pouch System™ platform and associated technologies, including Cell Pouch™ and immune-protected therapeutic cells. The Cell Pouch is a scalable, implantable medical device designed to create a highly vascularized organ-like environment for the transplantation and engraftment of therapeutic cells, which then release proteins, hormones or other factors into the bloodstream for the long-term treatment of multiple chronic diseases such as type 1 diabetes, hypothyroid disease, and rare diseases such as hemophilia A.

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. On June 2, 2022, trading of the Company’s common shares commenced on the Toronto Stock Exchange (the “Exchange”) under the symbol SVA, and were concurrently voluntarily delisted from the TSX Venture Exchange. The Company’s shares are also listed on the OTCQB Venture Market under the symbol SEOVF and on the Frankfurt and Xetra Exchanges under the symbol PSH.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements.

These interim condensed consolidated financial statements were approved and authorized for issue by the Company’s Audit Committee on September 12, 2023.

Certain comparative figures in the statements of cash flows have been reclassified to confirm to the current period’s presentation. This reclassification had no impact on the cash provided by (used in) operations, investing or financing activities.

(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, or at amortized cost.

(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 judgments

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The reported amounts and note disclosures reflect management’s best estimates of the most probable set of economic conditions and planned course of actions. Actual results may differ from these estimates.

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

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

(d) Use of significant estimates and judgments (cont'd...)

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended October 31, 2022.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are outlined in the Company's audited consolidated financial statements for the years ended October 31, 2022 and 2021, and have been applied consistently in these interim condensed consolidated financial statements.

(a) New accounting standards and interpretations adopted during the current period

IAS 1 Presentation of Financial Statements

As at November 1, 2022, the Company adopted amendments made to International Accounting Standard 1 *Presentation of Financial Statements* ("IAS 1"). IAS 1 provides a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date and does not impact the amount or timing of recognition. The adoption of this amendment did not have a material impact on the interim condensed consolidated financial statements.

As at November 1, 2022, the Company adopted amendments made to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* in which guidance and examples are provided to help entities apply materiality judgements to accounting policy disclosures. The adoption of this amendment did not have a material impact on the interim condensed consolidated financial statements.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

As at November 1, 2022, the Company adopted amendments made to International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") which introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify how entities use measurement techniques and inputs to develop accounting estimates. The adoption of this amendment did not have a material impact on the interim condensed consolidated financial statements.

IAS 12 Income taxes

As at November 1, 2022, the Company adopted amendments made to International Accounting Standard 12 *Income Taxes* ("IAS 12"). IAS 12 was amended so that it no longer applies to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments apply to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The adoption of this amendment did not have a material impact on 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, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

4. SHARE CAPITAL**(a) Authorized**

Unlimited number of common shares, without par value.

(b) Share capital changes

During the nine months ended July 31, 2023, there were no changes to the Company's share capital.

During the comparative nine months ended July 31, 2022, the Company:

- i) received proceeds of \$3,757,004 from the exercise of common share purchase warrants and stock options and the corresponding issuance of 9,179,088 common shares; and
- ii) closed on May 16, 2022 a non-brokered private placement as part of an exclusive global strategic partnership with Hamburg, Germany based Evotec SE ("Evotec"), issuing a total of 12,944,904 common shares at a price of \$1.57 and 2,709,800 unconditional common share purchase warrants. The gross proceeds from this private placement were \$20,323,500, before deducting issuance costs totalling \$44,322. Each common share purchase warrant is exercisable into one common share at a price of \$2.50 per share until August 31, 2022, subject to abridgment of the exercise period if the five-day volume-weighted price of the Company's common shares exceeds \$2.50 per share, representing guaranteed future proceeds of \$6,774,500.

(c) Warrants

Common share purchase warrants outstanding changed during the nine months ended July 31 as follows:

	2023		2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance outstanding, beginning of period	20,136,918	\$ 1.67	46,144,142	\$ 0.93
Expired	(20,136,918)	(1.67)	–	–
Issued in conjunction with a private placement	–	–	2,709,800	2.50
Issued in conjunction with the exercise of broker unit warrants	–	–	100,000	1.70
Exercised	–	–	(8,941,588)	(0.41)
Balance outstanding, end of period	–	\$ –	40,012,354	\$ 1.15

(d) Incentive Plan

The Company initiated its incentive plan in 2015, with the latest amendments thereto approved by shareholders of the Company on June 30, 2021 (the "Incentive Plan"). Under the Incentive Plan, the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units to directors and officers of the Company up to an aggregate fixed maximum of 38,746,536 of the Company's issued and outstanding common shares, representing approximately 12.8% of the common shares outstanding as at July 31, 2023. The maximum fixed number of common shares to be reserved for options exercise and DSUs conversion under the Incentive Plan is 32,951,591 and 5,794,945, respectively, after the Board of Directors' approval on July 28, 2023 of the transfer and reduction of 1,954,362 common shares reserved for DSU conversion and a corresponding increase in the number of common shares reserved for options exercise.

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

4. SHARE CAPITAL (cont'd...)**(d) Incentive Plan (cont'd...)**

Options granted under the Incentive Plan have a term 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. The exercise price of any stock options granted is no less than the price pursuant to the policies of the Exchange.

Changes in the number of stock options outstanding during the nine months ended July 31 were as follows:

	2023		2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance outstanding, beginning of period	22,245,984	\$ 0.92	8,892,500	\$ 0.24
Granted	5,999,047	1.05	14,095,984	1.32
Cancelled	(325,000)	(0.58)	–	–
Forfeited	(860,434)	(1.19)	–	–
Exercised	–	–	(237,500)	(0.22)
Balance outstanding, end of period	27,059,597	\$ 0.94	22,750,984	\$ 0.91
Options exercisable, end of period	19,339,826	\$ 0.85	13,545,864	\$ 0.66

Stock options outstanding by range of exercise prices as at July 31, 2023:

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 \$ 0.26	8,130,000	4.7	\$ 0.23	8,105,625	\$ 0.23
\$ 0.84 to \$ 1.20	5,138,613	8.2	0.92	1,037,073	1.12
\$ 1.32	13,425,484	3.4	1.32	9,831,628	1.32
\$ 1.40 to \$ 1.42	365,500	0.7	1.42	365,500	1.42
\$ 0.21 to \$ 1.42	27,059,597	4.7	\$ 0.94	19,339,826	\$ 0.85

Option grants generally vest either i) immediately or ii) quarterly or annually over periods of up to four years.

The Black-Scholes option pricing valuation model is used to estimate fair value for the purpose of recording share-based compensation expense. Historical data is used to estimate the expected dividend yield and volatility of the Company's common shares in determining the fair value of the stock options. The risk-free interest rate is based on the Government of Canada benchmark bond yield rates in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding.

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

4. SHARE CAPITAL (cont'd...)**(d) Incentive Plan (cont'd...)**

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

	2023	2022
Dividend yield	0%	0%
Expected volatility	85.8%	85.7%
Risk free interest rate	1.7%	1.4%
Expected life of options	4.8 years	3.0 years

For the nine months ended July 31, 2023 and 2022, the Company issued stock options with weighted average grant date fair values of \$0.61 and \$0.64 per stock option, respectively.

During the three and nine months ended July 31, 2023, the terms of 140,000 and 455,613 stock options were modified to be fully vested on an accelerated basis, respectively. The modification resulted in the accelerated recognition of \$77,243 and \$278,264 of share-based compensation expense in these periods, respectively, but no incremental fair value recognition.

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, it has been accounted for as an equity-settled plan. There were no DSUs granted during the three and nine months ended July 31, 2023 (2022 – nil and 1,360,000 at their intrinsic value of \$nil and \$1.32 prior to the application of an estimated forfeiture rate, respectively). No DSUs were cancelled, or equity settled during the three and nine months ended July 31, 2023 and 2022. DSUs generally vest over a three-year period after the date of grant.

During the three and nine months ended July 31, 2023, the terms of 206,247 and 418,161 DSUs were modified to be fully vested on an accelerated basis, respectively. The modification resulted in the accelerated recognition of \$143,052 and \$283,340 of share-based compensation expense in these periods, respectively, but no incremental fair value recognition.

As at July 31, 2023, a total of 5,510,001 DSUs were outstanding (October 31, 2022 – 5,510,001) of which 5,445,003 had vested (October 31, 2022 – 4,727,254).

5. 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. Two of the Company's Directors incurred \$92,744 of non-recurring expenses related to the 2023 annual general meeting of shareholders which the Company reimbursed. These amounts are recorded as expense during the nine months ended July 31, 2023. Included in accounts payable and accrued liabilities at July 31, 2023 was \$202,757 due to key management personnel (October 31, 2022 – \$286,410).

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

5. RELATED PARTY TRANSACTIONS (cont'd...)

Compensation to key management personnel for the reporting period:

	Three months ended July 31,		Nine months ended July 31,	
	2023	2022	2023	2022
Personnel costs	\$ 455,588	\$ 201,970	\$ 1,177,269	\$ 672,910
Director fees and costs	90,670	65,750	273,753	197,250
Share-based compensation	894,905	1,120,243	2,538,089	5,628,316
	\$ 1,441,163	\$ 1,387,963	\$ 3,989,111	\$ 6,498,476

6. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION**Research and Development Expenses**

	Three months ended July 31,		Nine months ended July 31,	
	2023	2022	2023	2022
Personnel costs	\$ 679,452	\$ 440,255	\$ 1,873,423	\$ 1,275,008
Research and clinical development	7,002,586	2,469,269	18,254,704	5,024,101
Manufacturing costs	213,621	216,530	483,016	664,169
Patent fees and costs	78,484	88,673	336,648	301,194
Other costs	109,120	50,997	317,887	123,941
Amortization and depreciation	101,668	108,836	302,044	299,433
Share-based compensation - options	436,647	701,661	1,159,949	3,066,200
	8,621,578	4,076,221	22,727,671	10,754,046
Less: grants, contributions and tax credits	(193,894)	(70,713)	(360,986)	(400,998)
Total research and development expenses	\$ 8,427,684	\$ 4,005,508	\$ 22,366,685	\$ 10,353,048

General and Administrative Expenses

	Three months ended July 31,		Nine months ended July 31,	
	2023	2022	2023	2022
Personnel costs	\$ 298,305	\$ 267,901	\$ 1,052,735	\$ 722,124
Consulting and professional fees	292,212	163,321	663,991	481,851
Director fees and expenses	114,713	75,323	335,901	223,364
Investor relations	347,351	272,368	1,044,877	625,409
Public company expenses	14,710	184,253	955,359	366,167
Insurance and other costs	134,387	189,757	453,762	415,557
Depreciation	7,911	7,780	23,172	22,944
Share-based compensation - DSUs	157,664	241,786	554,021	1,190,584
Share-based compensation - options	478,727	502,952	1,239,495	1,900,886
Total general and administrative expenses	\$ 1,845,980	\$ 1,905,441	\$ 6,323,313	\$ 5,948,886

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

7. COMMITMENTS AND CONTINGENCIES

The Company was previously awarded a US\$2.45 million (approximately \$3.23 million) grant under an agreement with JDRF Therapeutics Fund LLC (“JDRF”). The grant supports a Phase 1/2 clinical trial of Sernova’s Cell Pouch for treatment of patients with type 1 diabetes. Pursuant to the agreement, the Company has committed to perform certain clinical trial activities and to use commercially reasonable efforts to introduce a diabetes product into the US market. Contributions relating to milestone achievements totaling US\$98,430 (\$129,701) were earned during the three and nine months ended July 31, 2023 (2022 – US\$nil and US\$148,430 (\$189,872), respectively). Remaining funding available to be earned under the JDRF grant award totals approximately US\$0.19 million (\$0.25 million) as at July 31, 2023. The Company is required to pay royalties to JDRF as a percentage of any future net sales received from such diabetes product or in certain future license or disposition transactions up to an aggregate maximum of four times the aggregate amount of JDRF grant funding received. A bonus amount equal to the total amount of grant funding received is also payable to JDRF on two aggregate net sales thresholds if they are achieved. Given the early and inconclusive stage of development of the diabetes product, the royalty is not probable at this time and therefore no liability has been recorded.

In May 2022, the Company entered into an exclusive global strategic partnership with Evotec (NASDAQ:EVO | FSE:EVT) for the development and commercialization of an iPSC-based beta cell replacement therapy (“iPSC Program”) with the goal to provide an unlimited insulin-producing cell source to treat patients with insulin-dependent diabetes. The Company has committed to pay future milestone and royalty payments to Evotec pursuant to the occurrence of certain events as set forth in the Evotec collaboration agreement (the “Evotec Agreement”). Under the terms of the Evotec Agreement, the preclinical development program(s) will be jointly funded up to IND submission with the Company’s share of potential costs capped at a maximum of approximately US\$25 million (\$33 million). The Evotec Agreement is cancellable by the Company with notice, subject to certain terms and conditions. iPSC Program costs of US\$3,373,669 (\$4,463,816) and US\$9,711,484 (\$13,024,501) were incurred during the three and nine months ended July 31, 2023, respectively (2022 – US\$2,102,652 (\$2,671,603) and US\$2,858,570 (\$3,635,508), respectively). The amount of joint iPSC Program costs originally incurred by Evotec and subsequently recharged to the Company was recorded in research and development expenses in the consolidated statements of loss, and the reimbursement of iPSC Program costs originally incurred by the Company was recorded as a reduction of research and development expenses in the consolidated statements of loss. Total iPSC Program costs of US\$13,836,559 (\$18,433,372) have been incurred since the commencement of the initiative up to the end of the most recently completed quarter ended July 31, 2023.

The Company enters into contracts in the normal course of business, including for research and development activities, consulting and other services. As at July 31, 2023, the Company has commitments totaling approximately \$6,567,000, of which approximately \$2,515,000 is expected to be paid over the next twelve months. The majority of these contracts are cancellable by the Company with notice. In addition, the Company has minimum annual royalty payment obligations of approximately \$30,000 for third party licensing agreements.

Effective September 1, 2021, the Company entered into a two-year lease for both its existing office premises and lab facilities and additional office space at a rate of \$14,000 per month, with a 2% increase on the anniversary of the lease agreement. Under the terms of the lease, the Company has an option to extend the lease term for an additional twelve months, up to August 31, 2024. As of July 31, 2023, remaining undiscounted lease payment obligations total \$189,067 assuming the Company exercises its option, of which \$174,502 is payable over the next twelve months.

8. 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. The effect of any potential exercise of stock options and common share purchase warrants and settlement of DSUs has been excluded from the calculation of diluted loss per share as it would be anti-dilutive.

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

9. FINANCIAL RISK MANAGEMENT

The Company's financial instruments consist of cash, marketable securities, amounts receivable, accounts payable and accrued liabilities. With all financial instruments being short-term in nature, their carrying values approximate fair values. Marketable securities, which primarily include guaranteed investment certificates held by the Company, are valued at amortized cost.

Financial risk factors

The Company's risk exposures and 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 marketable securities, in excess of insured amounts, held or invested at financial institutions including Canadian chartered banks and financial service firms. Management actively reviews the risk of the financial institutions and or the counterparty to the underlying financial instruments held failing to meet its obligations and adjusts expected credit losses if and when any undue risk is identified. Amounts receivable at July 31, 2023 are composed of amounts due from Canadian federal government agencies and international industry collaborators with full collection expected.

(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 its cash resources in high interest savings accounts or marketable securities to provide regular cash flow for its operations and monitoring actual and projected cash flows. At July 31, 2023, the Company had working capital of \$22,078,994 (October 31, 2022— \$46,350,475).

(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 investments. With recent increases in global interest rates and higher average investment balances, interest income is becoming more significant to the Company's projected operational budget although rate fluctuations are not significant to the Company's risk assessment. A change in one hundred basis points in the interest rate on marketable securities held at July 31, 2023 would have an impact on interest income of approximately \$132,601 on an annualized basis.

(d) Foreign currency risk

Foreign currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk on fluctuations in foreign exchange rates for any cash, amounts receivable, accounts payable and accrued liabilities and grant contributions that are denominated in foreign currencies. The Company's foreign currency risk is primarily related to expenses denominated in US dollars. Fluctuations in the US dollar exchange rate could have a significant impact on the Company's results. Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase or decrease in loss and comprehensive loss for the period ended July 31, 2023 of \$467,829 (October 31 2022 – \$224,523).

SERNOVA CORP.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended July 31, 2023 and 2022

(Expressed in Canadian Dollars)

(Unaudited)

9. FINANCIAL RISK MANAGEMENT (cont'd...)

Balances in US dollars are as follows:

	As at July 31, 2023	As at October 31, 2022
Cash	\$ 1,322,076	\$ 261,909
Marketable securities	513,071	—
Amounts receivable	98,430	329,700
Accounts payable and accrued liabilities	(6,611,863)	(2,836,838)
	\$ (4,678,286)	\$ (2,245,229)