



SERNOVA CORP.

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED
APRIL 30, 2015 AND 2014**

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

	Note	April 30, 2015	October 31, 2014
ASSETS			
Current assets			
Cash		\$ 148,729	\$ 463,808
Short-term investments		2,455,885	2,952,902
Amounts receivable	4	122,372	114,723
Prepaid expenses		<u>15,411</u>	<u>41,808</u>
Total current assets		<u>2,742,397</u>	<u>3,573,241</u>
Non-current assets			
Equipment and furniture, net	5	15,165	14,791
Intangible assets, net	6	<u>—</u>	<u>433,040</u>
Total non-current assets		<u>15,165</u>	<u>447,831</u>
Total assets		<u>\$ 2,757,562</u>	<u>\$ 4,021,072</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	<u>\$ 245,988</u>	<u>\$ 240,087</u>
Total current liabilities		<u>245,988</u>	<u>240,087</u>
EQUITY			
Common shares	8	26,701,016	26,701,016
Warrants	8	351,920	923,863
Contributed surplus		3,558,771	2,949,733
Deficit		<u>(28,100,133)</u>	<u>(26,793,627)</u>
Total equity		<u>2,511,574</u>	<u>3,780,985</u>
Total liabilities and equity		<u>\$ 2,757,562</u>	<u>\$ 4,021,072</u>

Nature and continuance of operations (Note 1)

Commitments and contingencies (Note 11)

Events after the reporting period (Note 12)

Approved and authorized by the Board of Directors on June 25, 2015:

<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**

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Three Months Ended		Six Months Ended	
		April 30, 2015	April 30, 2014	April 30, 2015	April 30, 2014
EXPENSES					
Research and development	10	\$ 449,040	\$ 451,171	\$ 910,895	\$ 866,881
General and administrative	10	<u>233,849</u>	<u>310,095</u>	<u>410,638</u>	<u>483,309</u>
Total operating expenses		<u>682,889</u>	<u>761,266</u>	<u>1,321,533</u>	<u>1,350,190</u>
OTHER ITEMS					
Finance income		(7,037)	(13,918)	(16,023)	(29,379)
Finance costs		<u>360</u>	<u>587</u>	<u>996</u>	<u>1,229</u>
Net finance income		<u>(6,677)</u>	<u>(13,331)</u>	<u>(15,027)</u>	<u>(28,150)</u>
Loss and comprehensive loss for the period		<u>\$ 676,212</u>	<u>\$ 747,935</u>	<u>\$ 1,306,506</u>	<u>\$ 1,322,040</u>
Weighted average number of common shares outstanding for the period					
		<u>131,477,831</u>	<u>129,761,446</u>	<u>131,477,831</u>	<u>129,701,565</u>
Basic and diluted loss per common share		<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
(Unaudited)

	Six Months Ended	
	April 30, 2015	April 30, 2014
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	\$ (1,306,506)	\$ (1,322,040)
Non-cash items:		
Depreciation of equipment and furniture	2,440	2,440
Patent licence and intellectual property amortization	492,075	362,964
Share-based compensation	37,095	169,666
Interest accrued on short-term investments	(4,815)	(1,629)
Changes in non-cash working capital balances:		
Amounts receivable	(7,649)	(52,923)
Prepaid expenses	26,396	113,059
Accounts payable and accrued liabilities	5,902	(62,974)
Net cash used in operating activities	<u>(755,062)</u>	<u>(791,437)</u>
INVESTING ACTIVITIES		
Short-term investments, net	501,832	610,082
Acquisition of equipment	(2,814)	–
Acquisition of patent rights	(59,035)	(29,909)
Net cash provided by investing activities	<u>439,983</u>	<u>580,173</u>
FINANCING ACTIVITIES		
Issue of common shares on exercise of warrants	–	20,000
Issue of common shares on exercise of stock options	–	84,067
Net cash provided by financing activities	<u>–</u>	<u>104,067</u>
Decrease in cash during the period	(315,079)	(107,197)
Cash, beginning of period	463,808	273,605
Cash, end of period	\$ 148,729	\$ 166,408

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> (Note 8)		<u>Warrants</u> (Note 8)		<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>			
Balance, October 31, 2014	131,477,831	\$ 26,701,016	31,053,263	\$ 923,863	\$ 2,949,733	\$ (26,793,627)	\$ 3,780,985
Loss and comprehensive loss for the period	–	–	–	–	–	(1,306,506)	(1,306,506)
Transactions with owners of the Company, recognized directly in equity							
Warrants expired unexercised	–	–	(21,053,263)	(571,943)	571,943	–	–
Share-based compensation (Note 8)	–	–	–	–	37,095	–	37,095
Balance, April 30, 2015	131,477,831	\$ 26,701,016	10,000,000	\$ 351,920	\$ 3,558,771	\$ (28,100,133)	\$ 2,511,574
Balance, October 31, 2013	129,643,636	\$ 26,314,323	31,153,263	\$ 929,973	\$ 2,821,895	\$ (24,047,568)	\$ 6,018,623
Loss and comprehensive loss for the period	–	–	–	–	–	(1,342,040)	(1,342,040)
Transactions with owners of the Company, recognized directly in equity							
Exercise of warrants	100,000	26,110	(100,000)	(6,110)	–	–	20,000
Exercise of options	784,820	162,549	–	–	(78,482)	–	84,067
Share-based compensation (Note 8)	–	–	–	–	169,666	–	169,666
Balance, April 30, 2014	130,528,456	\$ 26,502,982	31,053,263	\$ 923,863	\$ 2,913,079	\$ (25,389,608)	\$ 4,950,316

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

1. NATURE AND CONTINUANCE OF OPERATIONS

Sernova Corp. (the “Company”) was incorporated under the Company Act (British Columbia) on August 19, 1998. Effective May 29, 2001, the Company was continued under the Canada Business Corporations Act.

The Company’s head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company’s registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7.

Sernova Corp. is a regenerative medicine company engaged in the research and development of a commercially-viable treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells placed into an implanted, prevascularized and scalable medical device (Cell Pouch™) and protected from immune system attack. The cells, as required, produce and release proteins, hormones or other factors needed to treat disease. The Company is focused on the manufacture and clinical evaluation of the Cell Pouch™ for insulin-dependent diabetes, and research and development of the Cell Pouch™ to treat other chronic diseases.

These interim condensed consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses and negative operating cash flows since inception. 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. Management is actively targeting sources of additional capital which would assure the continuation of the Company’s operations and research programs. Management believes that the Company has sufficient working capital to maintain its operations for at least the next twelve months.

2. BASIS OF PRESENTATION**(a) Statement of compliance**

These interim condensed consolidated financial statements for the three and six months ended April 30, 2015 and 2014 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, 2014 and 2013, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the three and six months ended April 30, 2015 and 2014 should be read together with the annual consolidated financial statements for the years ended October 31, 2014 and 2013.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the years ended October 31, 2014 and 2013. These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors on June 25, 2015.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

2. BASIS OF PRESENTATION (cont'd...)**(b) Basis of measurement:**

These interim condensed consolidated financial statements have been prepared on the historical cost basis, except for held-for-trading financial assets which are measured at fair value. These interim condensed consolidated financial statements include the accounts of Sernova Corp., Sertocell Biotechnology (US) Inc. ("Sertocell") and Sertonex Inc. ("Sertonex"), the Company's wholly-owned and controlled subsidiaries. The financial statements of the Company's subsidiaries are prepared for the same reporting periods as the Company, using consistent accounting policies. All significant intercompany transactions and balances have been eliminated.

(c) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgements

The Company makes estimates and judgements about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and judgements.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions that have been made relate to the following key estimates:

i. Intangible assets – impairment

The application of the Company's accounting policy for intangible asset expenditures requires judgement in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the consolidated statement of loss in the period the new information becomes available.

ii. Intangible assets – useful lives

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis, based upon management's estimate of each intangible asset's useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in the related amortization expense.

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FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

BASIS OF PRESENTATION (cont'd...)**(d) Use of estimates and judgements** (cont'd...)

iii. 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 life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 8.

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. The final standard is mandatorily effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently monitoring the developments of this standard and assessing the impact that the adoption of this standard may have on the interim condensed consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. In April 2015, the IASB agreed to publish an Exposure Draft proposing a one-year deferral of the effective date of the revenue standard to January 1, 2018. The Company is reviewing the standard to determine the impact 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. The Company assesses the impact of adoption of future standards on its interim condensed consolidated financial statements, but does not anticipate significant changes for the Company.

4. AMOUNTS RECEIVABLE

	April 30, 2015	October 31, 2014
Government programs receivable	\$ 96,609	\$ 72,214
Sales tax credits receivable	<u>25,763</u>	<u>42,509</u>
	<u>\$ 122,372</u>	<u>\$ 114,723</u>

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(Expressed in Canadian Dollars)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

4. AMOUNTS RECEIVABLE (cont'd...)

The Company is eligible for federal and provincial investment tax credits (“ITC’s”) on its qualifying research activities. Federal ITC’s are not refundable but can be used to reduce income taxes otherwise payable. Provincial ITC’s are refundable and these amounts are recorded as an asset in the period in which there is reasonable assurance that such amounts will be received as a credit to research and development expense. ITC’s can be subject to an audit, so the final amounts received may differ from those initially recorded. There are no unfulfilled conditions or contingencies associated with government assistance received by the Company to the date these interim condensed consolidated financial statements were approved by the Company’s Board of Directors.

5. EQUIPMENT AND FURNITURE

	Computer Equipment	Office Furniture	Laboratory Equipment	Total
Cost				
Balance, October 31, 2014	\$ 20,323	\$ 735	\$ 12,579	\$ 33,637
Additions	2,814	—	—	2,814
Balance, April 30, 2015	\$ 23,137	\$ 735	\$ 12,579	\$ 36,451
Accumulated depreciation				
Balance, October 31, 2014	\$ 15,590	\$ 235	\$ 3,021	\$ 18,846
Depreciation for the period	1,182	62	1,196	2,440
Balance, April 30, 2015	\$ 16,772	\$ 297	\$ 4,217	\$ 21,286
Net carrying amounts				
October 31, 2014	\$ 4,733	\$ 500	\$ 9,558	\$ 14,791
April 30, 2015	\$ 6,365	\$ 438	\$ 8,362	\$ 15,165

6. INTANGIBLE ASSETS

	Patent Licenses	Intellectual Property	Total
Cost			
Balance, October 31, 2014	\$ 4,667,399	\$ 2,191,856	\$ 6,859,255
Additions	59,035	—	59,035
Balance, April 30, 2015	\$ 4,726,434	\$ 2,191,856	\$ 6,918,290
Accumulated amortization			
Balance, October 31, 2014	\$ 4,344,489	\$ 2,081,726	\$ 6,426,215
Amortization for the period	381,945	110,130	492,075
Balance, April 30, 2015	\$ 4,726,434	\$ 2,191,856	\$ 6,918,290
Net carrying amounts			
October 31, 2014	\$ 322,910	\$ 110,130	\$ 433,040
April 30, 2015	\$ —	\$ —	\$ —

During fiscal 2006, the Company acquired various licenses and intellectual property on patents from the Sertonex acquisition related to the Sertoli technology. Amortization is recognized in the consolidated statements of loss on a straight-line basis over the estimated useful lives of these intangible assets to April 30, 2015.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2015	October 31, 2014
Accounts payable	\$ 131,077	\$ 122,411
Accrued liabilities	114,911	117,676
	<u>\$ 245,988</u>	<u>\$ 240,087</u>

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS**Authorized**

Unlimited number of common shares, without par value.

Share capital transactions – six months ended April 30, 2015 and 2014

For the six months ended April 30, 2015, there were no share capital transactions.

For the six months ended April 30, 2014, 784,820 stock options were exercised for gross proceeds of \$84,067 and 100,000 warrants were exercised for gross proceeds of \$20,000.

Performance escrow shares

Included in issued common shares and representing escrow shares as at April 30, 2015 are 3,472,500 (October 31, 2014 – 3,472,500) common shares which will not be released, transferred or assigned without the consent of the regulatory authorities, and which shares are subject to performance-based release terms as follows:

- a) 1,736,250 common shares on the date the Company receives approval from authorities for the initiation of human trials for a licensed product involving Sertolin™;
- b) 1,736,250 common shares on the date the Company enrolls the first patient in a Phase 3 human clinical efficacy trial for a licensed product involving Sertolin™.

Any remaining performance-based escrow shares will be cancelled and returned to treasury upon the earlier of (i) August 2016, and (ii) the Company ceasing to hold an interest in the intellectual property, or (iii) the mutual agreement of the Company and the shareholders.

Warrants

The following table summarizes warrants outstanding as at April 30, 2015:

Warrants	Number of Warrants	Exercise Price	Expiry Date
	10,000,000	\$0.40	February 19, 2016

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

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

All warrants are exercisable on issuance. Changes in the number of warrants outstanding during the six months ended April 30 were as follows:

	2015		2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	31,053,263	\$ 0.35	31,153,263	\$ 0.35
Warrants – re-pricing	(10,000,000)	\$ 0.35	–	–
Warrants – re-pricing	10,000,000	\$ 0.40	–	–
Exercised	–	–	(100,000)	\$ 0.20
Expired	(21,053,263)	\$ 0.34	–	–
Balance outstanding, end of period	10,000,000	\$ 0.40	31,053,263	\$ 0.35

During the six months ended April 30, 2015, 21,053,263 warrants expired unexercised. In February 2015, the exercise price of 10,000,000 warrants that were issued related to the Company's February 2013 non-brokered private placement was increased from \$0.35 per share to \$0.40 per share, based upon the terms of those warrants at the time they were issued.

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 and deferred share units ("DSU's") to directors, officers, employees or consultants 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.

Most options granted under the Plan have lives of five 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 not be less than the closing price of the Company's common shares on the TSX Venture Exchange on the trading day immediately preceding the option's grant date.

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

The following table summarizes options outstanding as at April 30, 2015:

	Number of Options	Exercise Price	Expiry Date
Options	225,000	\$ 0.12	September 5, 2015
	160,000	0.15	September 11, 2015
	1,323,750	0.15	October 28, 2015
	250,000	0.20	October 28, 2015
	300,000	0.15	November 27, 2015
	460,000	0.14	March 6, 2017
	270,000	0.18	March 6, 2017
	2,190,000	0.18	April 18, 2017
	500,000	0.18	April 19, 2017
	2,160,000	0.15	January 27, 2019
	<u>150,000</u>	0.15	February 11, 2019
	7,988,750		

As at April 30, 2015 there were 7,998,750 options outstanding, representing 6.1% of the Company's issued and outstanding common shares (October 31, 2014 – 7,998,750 options outstanding representing 6.1%).

Changes in the number of options outstanding during the six months ended April 30 were as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of period	7,988,750	\$ 0.16	7,675,445	\$ 0.16
Granted	–	–	3,360,000	\$ 0.15
Cancelled	–	–	(294,250)	\$ 0.15
Exercised	–	–	(784,820)	\$ 0.11
Balance outstanding, end of period	7,988,750	\$ 0.16	9,956,375	\$ 0.16
Options exercisable, end of period	7,488,125	\$ 0.16	7,301,345	\$ 0.16

No options were granted in the six months ended April 30, 2015. In the six months ended April 30, 2014, the Company granted 3,360,000 stock options to directors, officers, employees and consultants at an exercise price of \$0.15 per share with expiry dates ranging from September 2015 to February 2019. The weighted average grant-date fair value of the stock options granted during the six months ended April 30, 2014 was \$0.12.

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock options awards. This model also requires highly subjective assumptions, including future stock price volatility, average option life and forfeiture rates which greatly impact the calculated values.

The 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 volatility is based solely on historical volatility for a period equivalent to the expected life of the option. The life of the option is estimated considering the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The forfeiture rate has been assigned a zero rate and is an estimate based on history of the Company stock options. The dividend yield has been assigned a zero value since it is the present policy of the Company to retain all earnings to finance operations and future growth.

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

The share-based compensation expense was determined based on the fair value of all options at the date of measurement using the Black-Scholes option pricing model with the following weighted-average assumptions:

Six months ended April 30	2015	2014
Dividend yield	n/a	0%
Expected volatility	n/a	143%
Risk free interest rate	n/a	1.7%
Expected life of options	n/a	4.6 years

The expense recognized for employee services received during the three and six months ended April 30, 2015, which is included in the interim condensed consolidated statement of loss and comprehensive loss was \$12,385 and \$37,095, respectively (2014 – \$145,921 and \$169,666). The weighted average remaining contractual life for the stock options outstanding as at April 30, 2015 was 2.1 years (October 31, 2014 – 2.2 years). The range of exercise prices for the options outstanding as at April 30, 2015 was \$0.12 to \$0.20 (October 31, 2014 – \$0.12 to \$0.20).

9. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the Directors, the Chief Executive Officer and President and the Chief Financial Officer.

Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at April 30, 2015 was \$35,813 due to key management personnel (October 31, 2014 – \$74,477).

Compensation for key management personnel for the three and six months ended April 30 was as follows:

	Three months ended		Six months ended	
	April 30, 2015	April 30, 2014	April 30, 2015	April 30, 2014
Salaries, benefits and consulting fees	\$ 82,570	\$ 117,637	\$ 169,195	\$ 209,619
Director's fees and benefits	30,700	32,813	59,138	32,813
Share-based compensation	<u>10,242</u>	<u>104,628</u>	<u>17,981</u>	<u>113,521</u>
Total related party transactions	\$ 123,512	\$ 255,078	\$ 246,314	\$ 355,953

Key management personnel control approximately 1.9% of the issued common shares of the Company as at April 30, 2015 (October 31, 2014 – 3.0%).

SERNOVA CORP.**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

10. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the three and six months ended April 30 were as follows:

	Three months ended		Six months ended	
	April 30, 2015	April 30, 2014	April 30, 2015	April 30, 2014
Salaries, supplies and contract payments	\$ 239,394	\$ 276,988	\$ 435,045	\$ 514,639
Patent fees and costs	25,513	58,217	49,132	95,009
Depreciation of equipment and furniture	1,189	1,189	2,378	2,378
Amortization of intangible assets	267,650	181,565	492,075	362,964
Share-based compensation	11,903	32,539	28,874	35,518
Contributions and tax credits	(96,609)	(99,327)	(96,609)	(123,627)
Total research and development expenses	\$ 449,040	\$ 451,171	\$ 910,895	\$ 886,881

Components of the general and administrative expenses for the three and six months ended April 30 were as follows:

	Three months ended		Six months ended	
	April 30, 2015	April 30, 2014	April 30, 2015	April 30, 2014
Salaries, benefits and consulting fees	\$ 32,902	\$ 22,089	\$ 67,369	\$ 43,148
Professional fees	50,283	48,643	73,764	71,263
Director's fees	28,438	39,596	56,876	39,596
Investor relations	36,115	41,464	78,100	83,955
Travel and other costs	85,598	44,890	126,246	111,137
Depreciation of equipment and furniture	31	31	62	62
Share-based compensation	482	113,382	8,221	134,148
Total general and administrative expenses	\$ 233,849	\$ 310,095	\$ 410,638	\$ 483,309

11. COMMITMENTS AND CONTINGENCIES

The Company expects to pay certain future costs related to its pre-clinical and clinical trials. Such payments are expected to include the cost of clinical staff and overhead thereon, trial insurance, and may include travel and a portion of drug or procedure-related expenses or transplantation expenses not covered by insurance. The total payments over the duration of the trial will be impacted by such factors as the rate of enrollment, the province in which the patient resides and the specifics of patient insurance.

The Company expects to make future payments to maintain and expand its patent portfolio in good standing. For the six months ended April 30, 2015 and 2014, such payments amounted to \$108,167 and \$95,009, respectively.

The Company has a commitment for the rental of laboratory space under a month-to-month lease.

SERNOVA CORP.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2015 AND 2014

12. EVENTS AFTER THE REPORTING PERIOD

- a. In May 2015, the Company raised gross proceeds of \$1.6 million in a non-brokered private placement. The offering consisted of 8,888,889 units sold at a price of \$0.18 per unit. Each unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder thereto to purchase one common share of the company for a period of 24 months at a price of \$0.30 per share, subject to abridgement of the exercise period (after the expiry of the 4 month hold period) with 30 days' notice to holders in the event that the twenty-day volume weighted price of the Company's common share shares exceeds \$0.50. Related to the private placement, cash share issue costs amounting to approximately \$73,000 were incurred and 137,151 finder's warrants valued at approximately \$12,000 were issued, exercisable at a price of \$0.30 per share for a period of 24 months, subject to the same hold period and abridgement conditions as the warrants included in each unit of the offering.
- b. Subsequent to April 30, 2015, the Company has issued 505,000 common shares pursuant to the exercise of stock options for gross proceeds of \$75,750.
- c. In June 2015, the Company granted 625,000 DSU's to its directors and 2,460,000 stock options to certain officers, employees and consultants at an exercise price of \$0.26 per share with an expiry date of June 2025 and vesting periods ranging from two to four years.