SERNOVA CORP.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
July 31, 2018 AND 2017

(Expressed in Canadian Dollars)
(Unaudited)

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

	Note	July 31, 2018	October 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		$ 2,199,183	$ 2,627,513
Marketable securities		1,600,042	1,004,374
Amounts receivable	4	401,396	641,372
Prepaid expenses		12,947	39,785
Total current assets		4,213,568	4,313,044
Non-current assets			
Property and equipment, net	5	304,914	238,474
Total non-current assets		304,914	238,474
Total assets		$ 4,518,482	$ 4,551,518
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	$ 489,204	$ 463,466
Deferred government contributions	10	-	437,600
Total current liabilities		489,204	901,066
EQUITY			
Common shares	7	33,891,140	33,673,521
Special warrants	7	2,544,105	-
Common share warrants	7	1,051,106	993,360
Contributed surplus	7	4,199,392	3,775,776
Deficit		(37,656,465)	(34,792,205)
Total equity		4,029,278	3,650,452
Total liabilities and equity		$ 4,518,482	$ 4,551,518

Nature and continuance of operations (Note 1)
Deferred grants, commitments and contingencies (Note 10)

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, 2018	Three Months Ended July 31, 2017	Nine Months Ended July 31, 2018	Nine Months Ended July 31, 2017
EXPENSES					
Research and development	9	$ 681,636	$ 414,029	$ 1,703,941	$ 866,976
General and administrative	9	430,574	241,369	1,166,826	783,168
Total operating expenses		1,112,210	655,398	2,870,767	1,650,144
Finance income		(5,525)	(11,853)	(22,560)	(43,135)
Finance costs		1,949	2,993	7,717	11,035
Foreign exchange loss		2,922	59,255	8,336	43,705
Net finance income		(654)	50,395	(6,507)	11,605
Net loss and comprehensive loss for the period		$ 1,111,556	$ 705,793	$ 2,864,260	$ 1,661,749
Weighted average number of common shares Outstanding for the period		159,964,628	159,374,498	159,783,410	157,861,476
Basic and diluted loss per common share		$ 0.01	$ 0.00	$ 0.02	$ 0.01

See accompanying notes to the interim condensed consolidated financial statements.

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

	Nine Months Ended July 31, 2018	2017
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	$ (2,864,260)	$ (1,661,749)
Adjustments for items not affecting cash:		
Depreciation of property and equipment	48,592	25,328
Share-based compensation	447,885	294,938
Interest accrued on short-term investments	(10,668)	(999)
Government and other contributions	(105,830)	(651,579)
Changes in non-cash working capital balances:		
Amounts receivable	(423,564)	(364,446)
Prepaid expenses	26,838	55,135
Accounts payable and accrued liabilities	25,738	159,858
Net cash used in operating activities	(2,855,269)	(2,143,514)
INVESTING ACTIVITIES		
Marketable securities, net	(585,000)	(300,000)
Acquisition of property and equipment	(115,032)	(152,825)
Net cash used in investing activities	(700,032)	(452,825)
FINANCING ACTIVITIES		
Proceeds from special warrant financing	2,601,851	-
Proceeds from exercise of warrants	162,960	470,500
Proceeds from exercise of stock options	30,390	-
Government and other assistance	331,770	661,995
Net cash provided by financing activities	3,126,971	1,132,495
Change in cash and cash equivalents during the period	(428,330)	(1,463,844)
Cash and cash equivalents, beginning of period	2,627,513	5,199,451
Cash and cash equivalents, end of period	$ 2,199,183	$ 3,735,607

Supplementary cash flow information:		
Property and equipment acquired through accounts payable and accrued liabilities	$ -	$ 77,788
Finder's warrants issued	$ 57,746	$ -

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED JULY 31, 2018 AND 2017
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares	(Note 7)	Special Warrants	Warrants			
	Number	**Amount**	**Amount**	**Amount**	**Contributed Surplus**	**Deficit**	**Total**
Balance, October 31, 2017	159,374,498	$ 33,673,521	$ –	$ 993,360	$ 3,775,776	$ (34,792,205)	$ 3,650,452
Loss and comprehensive loss for the period	–	–	–	–	–	(2,864,260)	(2,864,260)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	131,250	54,659	–	–	(24,269)	–	30,390
Exercise of warrants	465,600	162,960	–	–	–	–	162,960
Warrants expired unexercised	–	–	–	–	–	–	–
Special warrant financing, net of finder's warrants	–	–	2,544,105	57,746	–	–	2,601,851
Share-based compensation	–	–	–	–	447,885	–	447,885
Balance, July 31, 2018	159,971,348	$ 33,891,140	$ 2,544,105	$1,051,106	$ 4,199,392	$ (37,656,465)	$ 4,029,278
Balance, October 31, 2016	156,679,498	$ 32,902,583	$ –	$ 993,360	$ 3,635,753	$ (32,152,726)	$ 5,378,970
Loss and comprehensive loss for the period	–	–	–	–	–	(1,661,749)	(1,661,749)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	2,695,000	770,938	–	–	(300,438)	–	470,500
Share-based compensation	–	–	–	–	294,938	–	294,938
Balance, July 31, 2017	159,374,498	$ 33,673,521	$ –	$ 993,360	$ 3,630,253	$ (33,814,475)	$ 4,482,659

See accompanying notes to the interim condensed consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Sernova Corp. (the "Company") 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. 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 and nine months ended July 31, 2018 and 2017 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, 2017 and 2016, 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, 2018, could result in a restatement of these unaudited interim condensed consolidated financial statements. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the three and nine months ended July 31, 2018 and 2017 should be read together with the annual consolidated financial statements for the years ended October 31, 2017 and 2016.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. These interim condensed consolidated financial statements were authorized for issuance by the Company's Board of Directors on September 28, 2018.

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 though 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, amendments and interpretations adopted during 2018

IFRS 9, Financial Instruments

As at November 1, 2017, the Company adopted IFRS 9, Financial Instruments (IFRS 9). The Company has elected to not restate comparative periods in the year of initial application of IFRS 9 relating to the transition for classification, measurement and impairment. As a result, the comparative information provided continues to be accounted for on a basis consistent with those followed in the most recent annual consolidated financial statements.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7, Financial Instruments: Disclosures.

Classification and Measurement of Financial Instruments

The Company assessed the classification and measurement of the financial instruments it held at the date of initial application of IFRS 9 (November 1, 2017) and has classified its financial instruments into the appropriate IFRS 9 categories. There were no changes to the carrying value of the Company's financial instruments resulting from this reclassification and accordingly there was no impact to the Company's opening balance of deficit as at November 1, 2017 as a result of the adoption of IFRS 9.

At initial recognition, the Company measures a financial instrument at its fair value plus, in the case of a financial instrument not at fair value through profit (loss), transaction costs that are directly attributable to the acquisition of the financial instrument. Transaction costs of financial instruments carried at fair value through profit (loss) are expensed in profit (loss).

Subsequent measurement of financial assets depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories in which the Company classifies its financial instruments:

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Finance income from these financial instruments is recorded in net income (loss) using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in net income (loss).

- Fair value through profit (loss) (FVTPL): Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit (loss). A gain or loss on a financial instrument that is subsequently measured at fair value through profit (loss) and is not part of a hedging relationship is recognized in net income (loss) and presented net in comprehensive income (loss) in the period in which it arises.

Financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. Financial liabilities are subsequently measured as FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) it is designated as FVTPL if eligible.

Reclassifications of Financial Instruments on Adoption of IFRS 9

On the date of initial application, November 1, 2017, the financial instruments of the Company were as follows, with any reclassifications noted:

	Measurement	
	Original (IAS 39)	**New (IFRS 9)**
Financial Assets		
Cash and cash equivalents	FVTPL	FVTPL
Marketable securities	FVTPL	Amortized cost
Receivables	Amortized cost	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The Company's marketable securities include guaranteed investment certificates (GICs) held by the Company which were reclassified from the fair value through profit (loss) measurement category to amortized cost. At the date of initial application, the Company's business model meets the criteria for amortized cost. The Company intends to hold the GICs to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

(Expressed in Canadian Dollars)

Impairment of Financial Assets

The Company's cash and cash equivalents and marketable securities are subject to IFRS 9's new expected credit loss model which results in a revision to its impairment methodology. Marketable securities at amortized cost are considered to be low risk, and therefore the impairment provision is determined using a twelve month expected credit loss basis. There was no impact to the Company's opening balance of deficit as a result of the change in impairment methodology.

New standards and interpretations not yet effective

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. The new standard is required to be applied for years beginning on or after January 1, 2018. The Company has assessed there is no impact of this standard on the Company's consolidated financial statements, and accordingly these interim condensed financial statements have been prepared in accordance with IFRS 15 Revenue from Contracts with Customers.

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

4. AMOUNTS RECEIVABLE

As at		July 31, 2018		October 31, 2017
Government programs receivable	$	260,053	$	240,981
Grants receivable (Note 10)		-		331,770
Tax credits receivable		141,343		68,621
	$	401,396	$	641,372

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

	Computer and Office Equipment	Laboratory Equipment	Manufacturing Equipment	Total
Cost				
Balance, October 31, 2017	$ 77,091	$ 127,548	$ 105,098	$ 309,737
Additions	9,371	105,661	-	115,032
Balance, July 31, 2018	$ 86,462	$ 233,209	$ 105,098	$ 424,769
Accumulated depreciation				
Balance, October 31, 2017	$ 35,413	$ 34,098	$ 1,752	$ 71,263
Depreciation	8,464	25,389	14,739	48,592
Balance, July 31, 2018	$ 43,877	$ 59,487	$ 16,491	$ 119,855
Net carrying amounts				
October 31, 2017	$ 41,678	$ 93,450	$ 103,346	$ 238,474
July 31, 2018	$ 42,585	$ 173,722	$ 88,607	$ 304,914

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	July 31, 2018	October 31, 2017
Accounts payable	$ 170,778	$ 182,860
Accrued liabilities	230,926	216,086
Due to related parties (Note 8)	87,500	64,520
	$ 489,204	$ 463,466

7. COMMON SHARES AND WARRANTS

(a) Authorized

Unlimited number of common shares, without par value.

(b) Share capital transactions – nine months ended July 31, 2018 and 2017

For the nine months ended July 31, 2018, 131,250 stock options were exercised for gross cash proceeds of $30,390 and 465,600 warrants were exercised for gross cash proceeds of $162,960. During the same period 676,875 stock options expired and 993,360 warrants expired.

For the nine months ended July 31, 2017, 2,695,000 stock options were exercised for gross cash proceeds of $470,500. During the same period 330,000 stock options expired.

(Expressed in Canadian Dollars)

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

(c) Special Warrants

On July 13, 2018 and July 20, 2018, the company completed a non-brokered private placement of 8,000,000 and 3,016,000 special warrants at $0.25 per special warrant for gross proceeds of $2,000,000 and $754,000, respectively. The Company paid legal costs and finder's fees totaling $ 152,149 and non-cash finder warrants valued at $57,746.

Each Special Warrant will convert, for no additional consideration, into one Unit on the earlier of the third business day after a receipt of a final prospectus qualifying the conversion is issued and the day after the expiry of the four-month statutory hold period. Each Unit will consist of one common share and one common share purchase warrant, with each warrant exercisable into one share at a price of $0.35 per share for a 24 month exercise period, subject to abridgement of the exercise period (after the expiry of the 4 month hold period) on 30 days' notice to holders in the event that the twenty-day volume weighted price of the shares exceeds $0.50 per share.

The private placement received approval of the TSX Venture Exchange. Pursuant to applicable Canadian securities laws, the securities issued under the Private Placement are subject to a four-month hold period from the time of closing of the Private Placement. The hold periods for this Private Placement expire on November 14, 2018 and November 21, 2018.

The Company compensated finders by way of cash fees of $145,425 and 581,700 non-transferable finder warrants, each such finder warrant having the same terms as the Unit warrants. The value of these finder's warrants was determined to be $57,746 using the Black-Scholes Model based on the following assumptions: an exercise price of $0.35 per common share, expected life of 2 years, volatility of 71.2%, and a risk-free interest rate of 1.93%.

(d) Common share warrants

All common share warrants expired on June 27, 2018 and June 30, 2018, respectively. The carrying value of the expired warrants were reclassed to contributed surplus.

The changes in the number of warrants outstanding during the nine months ended July 31, 2018 and 2017 were as follows:

	2018		2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	26,110,739	$ 0.33	26,216,362	$ 0.33
Expired	(8,788,889)	0.30	(105,623)	0.30
Expired	(16,856,250)	0.35	-	-
Granted with Special Warrant financing	581,700	0.35	-	-
Exercised	(465,600)	0.35	-	-
Balance outstanding, end of period	581,700	$ -	26,110,739	$ 0.33

Upon the conversion of the special warrants the Company will issue 11,016,000 common share purchase warrants exercisable at $0.35.

(Expressed in Canadian Dollars)

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

(e) 2015 Incentive Plan

The Company has a 2015 Incentive Plan (the "Plan"), the terms of which were most recently approved by shareholders of the Company on April 25, 2018. Under the Plan the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units ("DSUs") to directors and officers of the Company up to an aggregate of 15% 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 4,796,797, representing 3% of the Common Shares at the date hereof.

During the year ended October 31, 2017, the Corporation granted 239,778 DSUs to certain directors of the Corporation. The Board also approved an amendment to the Company's Incentive Plan to increase the number of DSUs available by 660,222 to a maximum of 1,975,000. These additional DSUs were conditionally approved and granted subject to the Company obtaining shareholder approval and TSX Venture Exchange approval ("Exchange approval").

On March 19, 2018, the Board approved two further amendments to the Incentive Plan, subject to shareholder and Exchange approval, being: (a) an increase to 15% of the rolling number maximum of Common Shares available for reserve under the Incentive Plan for exercise of Options pursuant to the Stock Option component of the Incentive Plan; and (b) a further amendment to the DSU component of the Incentive Plan to further increase the number of DSUs available by an additional 2,821,797 DSUs to a maximum fixed number total of 4,796,797 DSUs.

All of the proposed amendments to the Incentive Plan were approved by shareholders of the Company at the Annual General Meeting on April 25, 2018 but have not yet been approved by the TSX Venture Exchange. No additional options or DSUs were granted after the year ended October 31, 2017 and to the date of these financial statements.

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 July 31, 2018:

	Number of Options	Exercise Price	Expiry Date
Options	1,750,000	$ 0.150	January 27, 2019
	150,000	$ 0.150	February 11, 2019
	1,525,000	$ 0.260	June 25, 2025
	2,250,000	$ 0.225	March 14, 2026
	3,330,000	$ 0.250	August 14, 2027
	9,005,000		

As at July 31, 2018, there were 9,005,000 options outstanding, representing 5.63% of the Company's issued and outstanding common shares (October 31, 2017 – 10,548,600 options outstanding representing 6.6%).

(Expressed in Canadian Dollars)

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

(e) 2015 Incentive Plan (cont'd…)

Changes in the number of options outstanding during the nine months ended July 31, 2018 and 2017, were as follows:

	2018		2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of period	10,548,600	$ 0.23	10,436,100	$ 0.19
Granted	-	-	250,000	0.26
Cancelled/Forfeited	(1,412,350)	0.25	(1,177,500)	0.22
Exercised	(131,250)	0.23	(2,695,000)	0.217
Balance outstanding, end of period	9,005,000	$ 0.23	6,813,600	$ 0.22
Options exercisable, end of period	5,027,063	$ 0.22	4,682,550	$ 0.21

The following table reflects details of the stock options outstanding by range of exercise prices as at July 31, 2018:

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	1,900,000	0.5	$ 0.15	1,900,000	$ 0.15
$ 0.22 to $ 0.26	7,105,000	8.2	0.24	3,127,063	0.24
$ 0.14 to $ 0.26	9,005,000	6.58	$ 0.23	5,027,063	$ 0.22

The Company's Plan allows for the issuance of DSUs 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 DSUs is at the discretion of the Company under the plan, it has been accounted for as an equity settled plan. On June 25, 2015, March 14, 2016 and August 14, 2017, the Company issued 625,000, 450,000 and 239,778 DSUs to directors, respectively. The DSUs vest over a three-year period after the date of grant. Up to July 31, 2018 962,635 DSUs had vested.

(Expressed in Canadian Dollars)

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 July 31, 2018 was $124,984 due to key management personnel (October 31, 2017 – $64,520).

Compensation to key management personnel for the three and nine months ended July 31, 2018 and 2017, was as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2018	2017	2018	2017
Salaries, benefits and consulting fees	$ 155,977	$ 90,685	$ 416,950	$ 302,199
Director fees and benefits	24,985	24,985	75,465	74,954
DSU's issued for director compensation	28,014	14,288	105,135	63,007
Share-based compensation	40,881	10,917	149,407	62,888
Total	$ 249,857	$ 140,875	$ 746,957	$ 503,048

9. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the three and nine months ended July 31, 2018 and 2017, were as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2018	2017	2018	2017
Employee costs, supplies and contract payments	$ 558,713	$ 448,551	$ 1,256,634	$ 1,183,753
Manufacturing costs	134,340	42,389	549,882	71,417
Patent fees and costs	113,834	72,029	299,092	155,642
Depreciation of property and equipment	16,228	11,029	46,899	23,949
Share-based compensation	74,863	36,354	235,376	155,862
Contributions and tax credits	(216,342)	(196,323)	(683,942)	(723,647)
Total research and development expenses	$ 681,636	$ 414,029	$ 1,703,941	$ 866,976

(Expressed in Canadian Dollars)

9. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION (Cont'd…)

Components of the general and administrative expenses for the three and nine months ended July 31, 2018 and 2017, were as follows:

	Three months ended July 31, 2018	Three months ended July 31, 2017	Nine months ended July 31, 2018	Nine months ended July 31, 2017
Employee costs and consulting fees	$ 155,977	$ 73,401	$ 280,814	$ 218,822
Professional fees	30,225	19,351	215,904	60,399
Director fees and benefits	24,984	25,455	75,465	76,933
Investor relations	96,142	44,067	173,576	155,422
Travel and other costs	65,348	43,578	206,865	131,137
Depreciation of property and equipment	606	1,221	1,693	1,379
DSU's issued for director compensation	28,014	14,288	105,135	63,007
Share-based compensation	29,278	20,008	107,374	76,068
Total general and administrative expenses	$ 430,574	$ 241,369	$ 1,166,826	$ 783,167

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 €566,507 ($873,213). In November 2017, the Company received an interim payment in the amount of €226,603 ($331,770). Expenditures incurred by the Company related to the grant to July 31, 2018 amounted to $1,283,817. 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 up to 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 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). Pursuant to the agreement with JDRF, the Company has committed to perform certain clinical trial activities and to use commercially reasonable efforts to introduce a diabetes product into the US market. Further, the Company is required 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 research 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. A payment in the amount of US$185,778 ($249,611) was received in December 2016.

10. DEFERRED GRANTS, COMMITMENTS AND CONTINGENCIES (Cont'd…)

The Company expects to pay certain future costs related to its 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 three-year lease effective September 1, 2017. Notwithstanding the term, the Company has the right to terminate the lease at any time after the first anniversary by providing 90 days' written notice. As at July 31, 2018 gross minimum payments, to the earliest termination date, amounted to $38,122.