SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
OCTOBER 31, 2018 AND 2017

(Expressed in Canadian Dollars)

700 Collip Circle
The Stiller Centre, Suite 114
London, ON
N6G 4X8
www.sernova.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sernova Corp.

We have audited the accompanying consolidated financial statements of Sernova Corp., which comprise the consolidated statements of financial position as at October 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sernova Corp. as at October 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

February 15, 2019

A member of Nexia International

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Davidson-co.com

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT OCTOBER 31,
(Expressed in Canadian Dollars)

	Note	2018	2017
ASSETS			
Current assets			
Cash		$ 1,739,346	$ 2,627,513
Marketable securities		1,003,974	1,004,374
Amounts receivable	4	471,631	641,372
Prepaid expenses		101,260	39,785
Total current assets		3,316,211	4,313,044
Non-current assets			
Property and equipment, net	5	288,977	238,474
Total non-current assets		288,977	238,474
Total assets		$ 3,605,188	$ 4,551,518
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	$ 341,202	$ 463,466
Deferred government assistance	10	-	437,600
Total current liabilities		341,202	901,066
EQUITY			
Common shares	7	33,891,140	33,673,521
Special warrants	7	2,534,987	-
Warrants	7	1,051,106	993,360
Contributed surplus		4,277,585	3,775,776
Deficit		(38,490,832)	(34,792,205)
Total equity		3,263,986	3,650,452
Total liabilities and equity		$ 3,605,188	$ 4,551,518

Nature and continuance of operations (Note 1)
Deferred grants, commitments and contingencies (Note 10)
Events after the reporting period (Note 14)

Approved and authorized by the Board of Directors on February 14, 2019:

"Frank Holler"	Director	*"Dr.Philip Toleikis"*	Director
Frank Holler		Dr. Philip Toleikis	

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian Dollars)

	Note	2018	2017
EXPENSES			
Research and development	9	$ 2,231,455	$ 1,544,852
General and administrative	9	1,474,980	1,098,569
Total operating expenses		3,706,435	2,643,421
Finance income		(27,749)	(54,158)
Finance costs		9,705	13,835
Foreign exchange loss		10,236	36,381
Net finance income		(7,808)	(3,942)
Net loss and comprehensive loss for the year		$ 3,698,627	$ 2,639,479
Weighted average number of common shares outstanding for the year		159,461,142	158,242,840
Basic and diluted loss per common share		$ 0.02	$ 0.02

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian Dollars)

		2018		2017
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Loss for the year	$	(3,698,627)	$	(2,639,479)
Adjustments for items not affecting cash:				
Depreciation of property and equipment		64,529		39,866
Share-based compensation		526,079		440,461
Interest accrued on marketable securities		(3,974)		(4,374)
Government contributions		(662,329)		(799,105)
Changes in non-cash working capital balances:				
Amounts receivable		62,700		(78,251)
Prepaid expenses		(61,475)		28,007
Accounts payable and accrued liabilities		(142,914)		272,516
Cash used in operating activities		(3,916,011)		(2,740,359)
INVESTING ACTIVITIES				
Marketable securities, net		4,374		(300,000)
Acquisition of property and equipment		(115,032)		(251,690)
Cash used in investing activities		(110,658)		(551,690)
FINANCING ACTIVITIES				
Proceeds from special warrant financing, net		2,613,383		-
Proceeds from exercise of warrants		162,960		-
Proceeds from exercise of stock options		30,389		470,500
Government and other asssitance		331,770		249,611
Cash provided by financing activities		3,138,502		720,111
Change in cash during the year		(888,167)		(2,571,938)
Cash, beginning of year		2,627,513		5,199,451
Cash, end of year	$	1,739,346	$	2,627,513

Supplementary cash flow information:				
Finder's warrants issued	$	57,746	$	-
Contributions accrued through amounts receivable	$	224,729	$	331,770
Share issuance costs accrued through accounts payable and accrued liabilities		20,650		-
Income taxes paid	$	Nil	$	Nil
Interest received	$	32,086	$	$49,487

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED OCTOBER 31,
(Expressed in Canadian Dollars)

	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
Net loss and comprehensive loss for the year	–	–	–	–	–	(3,698,627)	(3,698,627)
Transactions with owners of the Company, recognized directly in equity:							
Exercise of stock options	131,250	54,659	–	–	(24,270)	–	30,389
Exercise of warrants	465,600	162,960	–	–	–	–	162,960
Special warrant financing, net of issuance costs	–	–	2,534,987	57,746	–	–	2,592,733
Share-based compensation	–	–	–	–	526,079	–	526,079
Balance, October 31, 2018	159,971,348	$ 33,891,140	$ 2,534,987	$ 1,051,106	$ 4,277,585	$ (38,490,832)	$ 3,263,986
Balance, October 31, 2016	156,679,498	$ 32,902,583	$ –	$993,360	$3,635,753	$ (32,152,726)	$ 5,378,970
Net loss and comprehensive loss for the year	–	–	–	–	–	(2,639,479)	(2,639,479)
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	–	–	–	–	440,461	–	440,461
Balance, October 31, 2017	159,374,498	$ 33,673,521	$ –	$ 993,360	$ 3,775,776	$ (34,792,205)	$ 3,650,452

See accompanying notes to the consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Sernova Corp. (the "Company") is a clinical-stage regenerative medicine therapeutics company, focused on developing and commercializing its proprietary Cell Pouch and associated technologies including therapeutic cells and local immune protection. The Cell Pouch is a scalable, implantable, medical device, designed to create a vascularized tissue environment for the transplantation and engraftment of therapeutic cells, which then release proteins and/or hormones for the long-term treatment of a number of serious, chronic diseases such as diabetes, hemophilia and thyroid disease.

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

The Company's head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company's registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. The Company is listed on the TSX Venture Exchange under the symbol SVA, on the OTCQB Venture Market under the symbol SEOVF and on the Frankfurt Exchange under the symbol PSH.

These 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. Based on historical and future projected operations, the Company expects current cash and marketable securities of $2.7 million to be sufficient to fund the Company's operating requirements for at least the next 12 months.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued and in effect as of February 15, 2019, the date the Board of Directors approved these statements.

(b) Basis of measurement:

These 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 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 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,

2. BASIS OF PRESENTATION (cont'd …)

(d) Use of significant estimates and assumptions (cont'd …)

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

The Company's principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars as follows: monetary assets and liabilities at the closing rate at the date of the statement of financial position, non-monetary assets at historical rates, and income and expenses at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of loss and comprehensive loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and short-term money market investments that are readily convertible to cash with original terms of three months or less.

(c) Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment**.**

The estimated useful lives and the methods of depreciation are reviewed annually and have been calculated as follows:

- Office equipment – 20% declining balance
- Computer equipment – 30% declining balance
- Laboratory equipment – 20% declining balance
- Manufacturing equipment – 20% declining balance

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(d) Impairment

Financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses for intangible assets are recognized in research and development expenses.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(e) Provisions

Provisions are recognized when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(f) Government assistance

Government assistance is recognized where there is reasonable assurance that the assistance will be received and any attached conditions will be complied with. When the assistance relates to an expense item, it is recognized as income over the period necessary to match the amount to the costs that it is intended to compensate. When the assistance relates to an asset, it is recognized as deferred government assistance and released to income over the expected useful life of the related asset.

Non-repayable government assistance relating to research and development is recorded as a reduction of expenditures when directly related to such expenditures. Assistance in excess of expenditures are deferred to future periods, to be offset against any future expenditure to be incurred or credited to development costs if they exceed future expenditures on that project.

(g) Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures will be expensed as incurred. No development costs have been capitalized to date.

Research and development expenses include all direct and indirect operating expenses supporting the products in development.

(h) Share-based compensation

The Company may grant stock options to its directors, officers, employees and consultants and deferred share units ("DSUs") to its directors and officers. The Company records share-based compensation related to stock options using the fair value method using the Black-Scholes option pricing model. The Company records share-based compensation related to DSUs using the fair value of the Company's common shares on the date of grant of the DSU.

The grant-date fair value of the stock options and DSUs are recognized, together with a corresponding increase in contributed surplus, over the period that the performance and/or service conditions are fulfilled. The amount recognized as an expense at each reporting date is adjusted to reflect the number of awards for which the related service and non-market conditions are expected to be met at the vesting date.

For equity-settled share-based payment transactions, the Company measures the goods and services received, and the corresponding increase in contributed surplus, directly, at the fair value of goods and services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instrument granted.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(i) Income taxes

Income tax expense comprises current and deferred taxes which are recognized in profit and loss, except to the extent that they relate to items recognized directly in other comprehensive income or in equity.

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities and any adjustment to tax payable in respect of previous years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date in the countries where the company operates. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Investment tax credits related to research and development expenditures are recorded as government assistance when there is reasonable assurance they will be collected. Investment tax credits can be subject to government audits, so the amount received by the Company may differ from the amounts recorded.

(j) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options, DSUs and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options, DSUs and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options, DSUs and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and therefore have been excluded from the calculation of diluted loss per share.

(k) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(l) Financial instruments (cont'd…)

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	FVTPL	FVTPL
Marketable securities	FVTPL	Amortized cost
Amounts receivable	Amortized cost	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(l) Financial instruments (cont'd…)

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.

Impairment of Financial Assets

The Company's cash 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.

(m) 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 consolidated 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 October 31,	2018	2017
Government programs receivable	$ 224,729	$ 331,771
Sales and other tax credits receivable (Note 10)	246,902	309,601
	$ 471,631	$ 641,372

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

	Computer and Office Equipment	Laboratory Equipment	Manufacturing Equipment	Total
Cost				
Balance, October 31, 2016	$ 26,020	$ 32,027	$ -	$ 58,047
Additions	51,071	95,521	105,098	251,690
Balance, October 31, 2017	77,091	127,548	105,098	309,737
Additions	9,371	105,661	-	115,032
Balance, October 31, 2018	$ 86,462	$ 233,209	$ 105,098	$ 424,769
Accumulated depreciation				
Balance, October 31, 2016	$ 20,661	$ 10,736	$ -	$ 31,397
Depreciation	14,752	23,362	1,752	39,866
Balance, October 31, 2017	35,413	34,098	1,752	71,263
Depreciation	11,285	34,075	19,169	64,529
Balance, October 31, 2018	$ 46,698	$ 68,173	$ 20,921	$ 135,792
Net carrying amounts				
October 31, 2017	$ 41,678	$ 93,450	$ 103,346	$ 238,474
October 31, 2018	$ 39,764	$ 165,036	$ 84,177	$ 288,977

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at October 31,	2018	2017
Accounts payable	$ 182,566	$ 182,860
Accrued liabilities	97,280	216,086
Due to related parties (Note 8)	61,356	64,520
	$ 341,202	$ 463,466

7. COMMON SHARES AND WARRANTS

(a) Authorized

Unlimited number of common shares, without par value.

(b) Share Capital Changes – years ended October 31, 2018 and 2017

For the year ended October 31, 2018, 131,250 stock options were exercised for gross cash proceeds of $30,389 and 465,600 warrants were exercised for gross proceeds of $162,960.

For the year ended October 31, 2017, 2,695,000 stock options were exercised for gross cash proceeds of $470,500.

(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.

(Expressed in Canadian Dollars)

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

(c) Special warrants (cont'd…)

The Company paid legal costs and finder's fees totaling $161,267 and granted non-cash finder warrants valued at $57,746.

Each Special Warrant will convert, for no additional consideration, into one unit after the expiry of a 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 on 30 days' notice to holders in the event that the twenty-day volume weighted average 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 expired 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

The changes in the number of warrants outstanding during the year ended October 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 in November 2017	(8,788,889)	0.30	(105,623)	0.30
Exercised	(465,600)	0.35	-	-
Expired in June 2018	(16,856,250)	0.35	-	-
Granted with Special Warrant financing	581,700	0.35	-	-
Balance outstanding, end of period	581,700	$ 0.35	26,110,739	$ 0.33

The 581,700 outstanding warrants, exercisable at $0.35 expire on July 20, 2020.

Upon the conversion of the special warrants the Company will issue 11,016,000 common share purchase warrants exercisable at $0.35. (See subsequent events -Note 14).

(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 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 DSUs 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 Company. The Board also approved an amendment to the Company's 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 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 Plan for exercise of options pursuant to the stock option component of the Plan; and (b) a further amendment to the DSU component of the 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 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 October 31, 2018:

	Number of Options	Exercise Price	Expiry Date
Options	1,750,000	0.15	January 27, 2019 (1)
	150,000	0.15	February 11, 2019
	1,525,000	0.26	June 25, 2025
	2,250,000	0.22	March 14, 2026
	3,330,000	0.25	August 14, 2027
	9,005,000		

(1) Subsequent to October 31, 2018, these options were exercised or extended (Note 14).

As at October 31, 2018, there were 9,005,000 options outstanding, representing 5.6% 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 years ended October 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 year	10,548,600	$ 0.23	10,436,100	$ 0.21
Granted	-	-	3,985,000	0.25
Cancelled/Forfeited	(1,412,350)	0.25	(1,177,500)	0.22
Exercised	(131,250)	0.23	(2,695,000)	0.17
Balance outstanding, end of year	9,005,000	$ 0.23	10,548,600	$ 0.23
Options exercisable, end of year	6,286,213	$ 0.21	5,215,463	$ 0.21

The following table reflects details of the stock options outstanding by range of exercise prices as at October 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	0.3	$ 0.15	1,900,000	$ 0.15
$ 0.22 to $ 0.26	7,105,000	8.0	0.24	4,386,213	0.24
$ 0.14 to $ 0.26	9,005,000	6.5	$ 0.23	6,286,213	$ 0.21

The Black-Scholes option pricing model used 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 the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

The expected risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon issued with a remaining term equal to the expected term of the option. The expected volatility is based solely on historical volatility for a period equivalent to the expected life of the option. The expected option life is estimated considering the vesting period at the grant date, the contractual life of the option and the average length of time similar grants have remained outstanding in the past. The forfeiture rate has been assigned a zero rate and is an estimate based on the history of the Company's stock option grants. The dividend yield has been assigned a zero value since it is the policy of the Company to not pay dividends on its common shares for the foreseeable future.

(Expressed in Canadian Dollars)

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

(e) 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:

Year ended October 31,	2018	2017
Dividend yield	n/a	0.0%
Expected volatility	n/a	106.7%
Risk free interest rate	n/a	0.9%
Expected life of options	n/a	6.5 years

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. As at October 31, 2018, 1,080,106 DSUs had vested.

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 October 31, 2018 was $61,356 due to key management personnel (October 31, 2017 – $64,520).

Compensation to key management personnel for the years ended October 31, was as follows:

	2018	2017
Salaries, benefits and consulting fees	$ 407,826	$453,618
Director fees and benefits	101,504	102,387
DSUs issued for director compensation	121,288	79,509
Share-based compensation	153,512	129,955
Total	$ 784,130	$765,469

(Expressed in Canadian Dollars)

9. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the years ended October 31, were as follows:

	2018	2017
Employee costs, supplies and contract payments	$ 1,680,352	$1,601,045
Manufacturing costs	568,927	345,109
Patent fees and costs	359,415	283,226
Depreciation of property and equipment	62,272	36,916
Share-based compensation	281,407	242,357
	2,952,373	2,508,653
Contributions and tax credits	(720,918)	(963,801)
Total research and development expenses	$ 2,231,455	$1,544,852

Components of the general and administrative expenses for the years ended October 31, were as follows:

	2018	2017
Employee costs and consulting fees	$ 325,483	$ 268,475
Professional fees	331,097	137,540
Director fees and benefits	101,504	102,387
Investor relations	217,201	210,722
Travel and other costs	252,766	178,391
Depreciation of property and equipment	2,257	2,950
DSUs issued for director compensation	121,288	79,509
Share-based compensation	123,384	118,595
Total general and administrative expenses	$ 1,474,980	$ 1,098,569

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 October 31, 2017 amounted to $767,383 leaving $437,600 of the grant received as deferred grants, which will be recognized against future expenditures covered by the grant. By participating in the HemAcure consortium and accepting grant funding, the Company has committed to perform certain product development activities, as outlined in the grant agreement with the European Commission's Horizon 2020 program. Amounts claimed by the Company against the grant will be subject to an audit by the European Commission.

In July 2016, the Company was awarded a US$2.45 million (approximately $3.2 million) grant under an agreement with JDRF Therapeutics Fund, LLC ("JDRF"). The grant supports a 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) as per the terms under the agreement. Pursuant to the agreement with JDRF, the Company has committed to perform certain clinical trial activities and to use commercially reasonable efforts to introduce a diabetes product into the US market. Further, the agreement creates an obligation for the Company to pay royalties to JDRF on any future net sales received by the Company from a diabetes product or in certain future license or disposition transactions limited to a certain percentage of funds received over time up to a prescribed limit related to the amount of the grant funding.

(Expressed in Canadian Dollars)

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

In October 2016, the Company entered into a collaboration with an international pharmaceutical company to study Sernova's Cell Pouch™ in a large animal diabetes model. The collaboration involves the study of safety, survival and efficacy of locally immune protected therapeutic cells in our Cell Pouch™ in proof of concept studies with the goal to establish a future development and commercial partnership. Pursuant to the collaboration agreement, the Company performed certain pre-clinical activities. 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.

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

The Company entered into a three year lease effective September 1, 2017. Notwithstanding the term, the Company has the right to terminate the lease after the first anniversary by providing 90 days' written notice. Gross payments required under the new lease for the fiscal year ending October 31, 2019 amounts to $115,282.

11. INCOME TAXES

Income taxes have not been recognized in profit and loss, as the Company has been incurring losses since inception, and it is not probable that future taxable profits will be available against which the accumulated tax losses can be utilized.

(a) Unrecognized deferred tax assets

As at October 31, 2018 and 2017, deferred tax assets have not been recognized with respect to the following items:

	2018	2017
Non-capital losses carried forward	$ 5,761,922	$ 5,268,236
Tax credits carried forward	1,728,668	1,603,351
Tax basis of property, equipment and intangible assets greater than accounting basis	348,960	334,624
Scientific research and experimental development expenditures carried forward	1,841,106	1,656,884
Share issue costs and other	43,294	31,819
Total	$ 9,723,950	$ 8,894,914

As at October 31, 2018 and 2017, the Company had available research and development expenditures of approximately $6,947,570 and $6,252,393, respectively, which may be carried forward indefinitely to reduce future years' taxable income.

As at October 31, 2018 and 2017, the Company also had available unclaimed research and development tax credits of approximately $1,728,668 and $1,603,351, respectively, which are available to reduce future taxes payable, with expiries from 2020 through 2038.

As at October 31, 2018 and 2017, the Company has other available future tax deductions related to assets and share issuance costs of approximately $1,480,206 and $1,367,339, respectively.

(Expressed in Canadian Dollars)

11. INCOME TAXES (cont'd …)

(b) Non-capital losses

The Company's Canadian non-capital tax losses expire as follows:

Years ended October 31,	Amount
2025	$ 35,477
2026	355,044
2027	599,000
2028	580,631
2029	353,274
2030	682,246
2031	599,170
2032	992,747
2033	901,738
2034	926,182
2035	1,520,901
2036	1,490,274
2037	1,372,997
2038	1,862,966
Total	$ 12,272,647

As at October 31, 2018 and 2017, the Company also had non-capital income tax losses available to offset future taxable income in the United States of approximately $6,501,720 (US$5,042,047) and $6,501,720 (US$5,042,047) respectively. The United States non-capital income tax losses will expire in the years 2026 to 2037.

(c) Reconciliation of expected and actual income taxes

Reconciliations of the expected income tax recovery at statutory rates, as applied to the net loss for the year, to the actual income tax recovery for the years ended October 31, were as follows:

	2018	2017
Loss for the year before income tax	$ (3,698,627)	$ (2,639,479)
Expected income tax recovery at statutory rates	$ (980,136)	$ (727,561)
Change in statutory tax, foreign tax and foreign exchange rates	-	(153,376)
Permanent differences	144,540	96,294
Share issue costs	-	-
Change in unrecognized deductible temporary differences	835,596	1,609,914
Adjustment to prior year provision versus statutory return	-	(825,271)
Income tax recovery	$ –	$ –

12. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to advance its programs in a timely manner while safeguarding the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development and commercialization of its technologies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development and commercialization of the business. The Company defines capital that it manages as shareholders' equity.

The intellectual property in which the Company currently has an interest are in the development stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess sources of financing available and to assess the potential for collaboration with interested partners with a view to managing its current financial resources, in the interest of sustaining the long-term viability of the Company's research and development programs.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the stage of the Company, is reasonable.

The Company's overall strategy with respect to capital risk management remains unchanged for the year ended October 31, 2018.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

IFRS 13 *Fair Value Measurement* provides a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs are those which reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions with respect to how market participants would price an asset or liability. These two inputs used to measure fair value fall into the following three different levels of the fair value hierarchy:

Level 1: Quoted prices in active markets for identical instruments that are observable.
Level 2: Quoted prices in active markets for similar instruments; inputs other than quoted prices that are observable and derived from or corroborated by observable market data.
Level 3: Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The hierarchy requires the use of observable market data when available. The Company has classified its cash and marketable securities as Level 1. Cash, marketable securities, amounts receivable, accounts payable and accrued liabilities, due within one year, are all short-term in nature and, as such, their carrying values approximate fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and marketable securities and there is additional risk since those financial instruments are primarily held by a single counterparty. Management believes the risk of the counterparty, a Canadian Schedule A bank, failing to meet its obligations related to the cash and marketable securities held by the Company is remote. Amounts receivable are primarily composed of amounts due from the Canadian federal government, and $224,729 from the H2020 government program.

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a development stage company and is reliant on external fundraising to support its operations. Once funds have been raised, the Company manages its liquidity risk by investing in cash and marketable securities to provide regular cash flow for its operations and monitoring actual and projected cash flows. As at October 31, 2018 and 2017, the Company had cash and marketable securities of $2,743,320 and $3,631,887, respectively which are available to settle the current liabilities of $341,202 and $901,066, respectively. The majority of the Company's accounts payable and accrued liabilities are due within three months or less.

(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 highly liquid short-term instruments. For the years ended October 31, 2018 and 2017, the Company earned interest income of $27,749 and $54,158, respectively. Interest income is not significant to the Company's projected operational budget. A change in one hundred basis points in the interest rate on cash and marketable securities for the year ended October 31, 2018 and 2017, would have a net impact on finance income of $10,235 and $36,381 respectively.

(d) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations in foreign exchange rates for any cash, amounts receivable, accounts payable and accrued liabilities and deferred grants that are denominated in foreign currencies. The Company's foreign currency risk is related to expenses denominated in United States dollars and Euros.

In December 2015, the Company was awarded a €5.6 million (approximately $8.5 million) non-dilutive grant by the European Commission's Horizon 2020 program, as part of a consortium. The Company expects to receive total funding in the amount of €944,178 (approximately $1.4 million), representing its portion of the grant, based upon the terms of the grant agreement. In January 2016, the Company received an initial funding payment related to the grant in the amount of €566,607 ($873,213). In November 2017, the Company received an interim payment in the amount of €226,603 ($331,770). A 10% change in the foreign exchange rate between the Canadian dollar and the Euro would result in a fluctuation of $22,600 in respect of the grant balance outstanding.

14. EVENTS AFTER THE REPORTING PERIOD

On November 14, 2018 and November 21, 2018, the special warrants from the July 2018 financing disclosed in Note 7 (c) were converted into units resulting in the issuance of 8,000,000 and 3,016,000 common shares and warrants. Each warrant is exercisable at a price of $0.35 for a period of 24 months, subject to accelerated exercise clauses.

On January 27, 2019, 1,250,000 stock options were exercised and 500,000 stock options were extended until the completion of the Company's financial reporting black out period in accordance with the Company's stock option plan.