SERNOVA CORP.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
JANUARY 31, 2020 AND 2019

(Expressed in Canadian Dollars)

(Unaudited)

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These unaudited interim condensed consolidated financial statements of Sernova Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SERNOVA CORP.
Interim Condensed Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited)

	Note	**January 31, 2020**	October 31, 2019
ASSETS			
Current assets			
Cash		**$ 937,266**	$ 1,797,138
Marketable securities		**2,019,148**	2,006,999
Amounts receivable	4	**364,262**	735,042
Prepaid expenses		**588,250**	777,860
		3,908,926	5,317,039
Non-current assets			
Property and equipment, net		**243,684**	251,502
Right-of-use asset		**63,888**	-
		307,572	251,502
		$ 4,216,498	$ 5,568,541
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	**$ 406,893**	$ 686,823
Lease liabilities		**65,068**	-
		471,961	686,823
SHAREHOLDERS' EQUITY			
Common shares	6	**41,305,138**	41,305,138
Warrants	6	**1,106,278**	1,106,278
Contributed surplus		**5,157,204**	4,932,406
Deficit		**(43,824,083)**	(42,462,104)
		3,744,537	4,881,718
		$ 4,216,498	$ 5,568,541

Nature and Continuance of Operations (Note 1)
Deferred Grants, Commitments and Contingencies (Note 9)

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
For the Three Months Ended January 31,
(Expressed in Canadian Dollars)
(Unaudited)

	Note	**2020**	2019
EXPENSES			
Research and development	8	**$ 581,065**	$ 442,966
General and administrative	8	**790,932**	277,907
		1,371,997	720,873
OTHER EXPENSE (INCOME)			
Interest income		**(12,281)**	(1,862)
Finance costs		**5,268**	2,075
Foreign exchange (gain) loss		**(3,005)**	2,664
		(10,018)	(2,877)
LOSS AND COMPREHENSIVE LOSS		**$ 1,361,979**	$ 723,750
Weighted average number of common shares outstanding – basic and diluted		195,945,114	169,193,750
Basic and diluted loss per common share		$ 0.01	$ 0.00

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
Interim Condensed Consolidated Statements of Cash Flows
For the Three Months Ended January 31,
(Expressed in Canadian Dollars)
(Unaudited)

	2020	2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	**$ (1,361,979)**	$ (723,750)
Adjustments for items not affecting cash:		
Depreciation	**40,664**	16,785
Share-based compensation	**224,798**	57,383
Interest accrued on marketable securities	**(12,149)**	(1,420)
Interest on lease liabilities	**3,098**	-
Changes in non-cash working capital balances:		
Amounts receivable	**41,573**	(46,762)
Prepaid expenses	**189,610**	27,535
Accounts payable and accrued liabilities	**(237,746)**	13,131
	(1,112,131)	(657,098)
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(5,466)**	(24,497)
	(5,466)	(24,497)
FINANCING ACTIVITIES		
Financing costs	**(42,184)**	(20,650)
Special warrant conversion costs	**-**	(18,990)
Proceeds from exercise of stock options	**-**	187,500
Grant contributions	**329,207**	-
Lease liabilities payments	**(29,298)**	-
	257,725	147,860
CHANGE IN CASH DURING THE PERIOD	**(859,872)**	(533,735)
CASH, BEGINNING OF PERIOD	**1,797,138**	1,739,346
CASH, END OF PERIOD	**$ 937,266**	$ 1,205,611

Supplementary cash flow information		
Reclassification of special warrants to common shares	$ -	$ 2,515,997
Income taxes paid	-	-
Interest received	-	-

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
Interim Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares		Special Warrants	Warrants	Contributed Surplus	Deficit	Total
Balance, October 31, 2019	195,945,114	$ 41,305,138	$ –	$ 1,106,278	$ 4,932,406	$ (42,462,104)	$ 4,881,718
Loss and comprehensive loss for the period	–	–	–	–	–	(1,361,979)	(1,361,979)
Transactions with owners of the Company, recognized directly in equity:							
Share-based compensation	–	–	–	–	224,798	–	224,798
Balance, January 31, 2020	**195,945,114**	**$ 41,305,138**	**$ –**	**$ 1,106,278**	**$ 5,157,204**	**$ (43,824,083)**	**$ 3,744,537**
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
Loss and comprehensive loss for the period	–	–	–	–	–	(723,750)	(723,750)
Transactions with owners of the Company, recognized directly in equity:							
Exercise of stock options	1,250,000	287,500	–	–	(100,000)	–	187,500
Conversion of Special Warrants to Common Share Units	11,016,000	2,515,997	(2,515,997)	–	–	–	–
Special Warrant issuance costs	–	–	(18,990)	–	–	–	(18,990)
Share-based compensation	–	–	–	–	57,383	–	57,383
Balance, January 31, 2019	172,237,348	$ 36,694,637	$ –	$ 1,051,106	$ 4,234,968	$ (39,214,582)	$ 2,766,129

See accompanying notes to the interim condensed 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 (the "Exchange") under the symbol SVA, on the OTCQB Venture Market under the symbol SEOVF and on the Frankfurt Exchange under the symbol PSH.

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 get its biotechnology therapeutic products approved for sale, develop profitable operations and continue to raise additional financing. The Company will seek additional financing from equity financings, licensing agreements and strategic collaborations, non-dilutive sources such as research grants and / or securing credit facilities. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on March 17, 2020.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"), and the accounting policies and estimates used are consistent with those used in the Company's annual consolidated financial statements, with the exception of IFRS 16 *Leases* ("IFRS 16") which became effective for the Company on November 1, 2019. Accordingly, these interim condensed consolidated financial statements do not include all the disclosures required for annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended October 31, 2019, which are available on SEDAR (www.sedar.com). In the opinion of management, these interim condensed consolidated financial statements include all adjustments that are of a recurring nature and necessary to fairly state the results for the interim periods presented.

(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, or at amortized cost.

2. BASIS OF PRESENTATION (cont'd …)

(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 judgments, 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:

Going concern

Until such time as the Company's biotechnology therapeutic products are approved and available for sale, the Company's liquidity requirements will be dependent on its ability to raise additional financing from selling additional equity, the exercise of common share purchase warrants and stock options, licensing agreements or strategic collaborations and/or securing credit facilities. The Company's future financing will depend on many factors, including, but not limited to, market conditions which are not within the Company's control and the market acceptance of its products. No assurance can be given that any such additional financing will be available or that, if available, it can be obtained on terms favourable to the Company. See Note 11 – Capital Risk Management and Note 12 – Financial Instruments and Risk Management.

These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern, and realize its assets and discharge its liabilities and commitments in the normal course of business. The Company's ability to continue as a going concern is subject to management's ongoing ability to successfully raise additional financing, and ultimately generate cash flow from the commercialization of its products. Failure to do so could have a material adverse effect on the Company's financial condition and financial performance.

If the going concern assumption was not appropriate for these interim condensed consolidated financial statements, adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the classifications used in the interim condensed consolidated statements of financial position. The interim condensed consolidated financial statements do not include adjustments that would be necessary if the going concern assumption was not appropriate.

Valuation of share-based compensation and warrants

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.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of new accounting standards

IFRS 16 *Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model, with certain exemptions. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases with a lease term of 12 months or less. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees are also required to remeasure the lease liability upon the occurrence of certain events such as a change in lease term. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. The new standard was effective for annual periods beginning on or after January 1, 2019.

The effect of adoption of IFRS 16 as at November 1, 2019 was as follows:

	October 31, 2019	IFRS 16 Adjustments	November 1, 2019
Assets			
Right-of-use assets	$ -	$ 91,268	$ 91,268
Liabilities			
Lease liabilities	-	91,268	91,268
Shareholders' equity	$ -	$ -	$ -

The Company recognized a right-of-use asset based on the amount equal to the lease liability. The lease liability was recognized based on the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the following available practical expedients:

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Elected not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The carrying amounts of the Company's right-of-use asset and lease liabilities and movements during the period were as follows:

	Right-of-use asset	Lease liabilities
Balance, November 1, 2019	$ 91,268	$ 91,268
Depreciation	(27,380)	-
Interest expense	-	3,098
Payments	-	(29,298)
Balance, January 31, 2020	$ 63,888	$ 65,068

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

	January 31, 2020	October 31, 2019
Grant contributions receivable (Note 9)	$ 264,660	$ 592,407
GST and other tax credits receivable	83,147	126,670
Other	16,455	16,365
	$ 364,262	$ 735,042

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	January 31, 2020	October 31, 2019
Trade payables	$ 168,438	$ 472,888
Accrued liabilities	138,147	156,957
Due to related parties (Note 7)	99,308	56,978
	$ 406,893	$ 686,823

6. COMMON SHARES AND WARRANTS

(a) Authorized

Unlimited number of common shares, without par value.

(b) Share Capital Changes

No common share purchase warrants or stock options were exercised during the three months ended January 31, 2020, compared to the exercise of 1,250,000 stock options for gross cash proceeds of $187,500 during the three months ended January 31, 2019.

In September 2019, the Company completed a non-brokered private placement issuing a total of 23,422,822 units at $0.20 per unit ("2019 Unit" or "2019 Units") for gross proceeds of $4,684,564. Each 2019 Unit consisted of one common share and one common share purchase warrant, with each common share purchase warrant being exercisable into one common share at a price of $0.30 per share for a period of 3 years. The Company incurred legal costs and finders' fees totaling $144,338 and issued 391,125 finder warrants valued at $55,172. The value of these finders warrants was determined using the Black-Scholes Model based on the following assumptions: an exercise price of $0.30 per common share, expected life of 3 years, volatility of 134% and a risk-free interest rate of 1.33%. The terms of the finder warrants were identical to those of the common share purchase warrants of the 2019 Units issued.

During the three months ended January 31, 2019, 11,016,000 special warrants were converted into 2018 Units (defined below) resulting in the issuance of 11,016,000 common shares and common share purchase warrants for no additional consideration.

(Expressed in Canadian Dollars)

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

(c) Special warrants

During July 2018, the Company completed a non-brokered private placement of and 11,016,000 special warrants at $0.25 per special warrant for gross proceeds of $2,754,000. Each special warrant converted, for no additional consideration, into one unit ("2018 Unit") during the three months ended January 31, 2019. Each 2018 Unit consisted of one common share and one common share purchase warrant, with each common share purchase warrant exercisable into one share at a price of $0.35 per share for a 2 year 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.

(d) Common share purchase warrants

Changes in the number of common share purchase warrants ("Warrants") outstanding during the three months ended January 31, 2020 and 2019 were as follows:

	2020		2019	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	35,411,647	$ 0.32	581,700	$ 0.35
Issued upon conversion of special warrants into 2018 Units	-	-	11,016,000	0.35
Balance outstanding, end of period	35,411,647	$ 0.32	11,597,700	$ 0.35

The following table summarizes the Warrants outstanding as at January 31, 2020:

Number of Warrants	Exercise Price	Expiry Date
581,700	$ 0.35	July 20, 2020
8,000,000	0.35	November 14, 2020*
3,016,000	0.35	November 21, 2020*
11,667,500	0.30	August 16, 2022
94,325	0.30	August 16, 2022
11,255,322	0.30	August 31, 2022
275,800	0.30	August 31, 2022
500,000	0.30	September 9, 2022
21,000	0.30	September 9, 2022
35,411,647		

* subject to acceleration of the exercise period expiry on 30 days' notice to warrant holders in the event that the twenty-day volume weighted average price of the shares exceeds $0.50 per share.

(Expressed in Canadian Dollars)

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

(e) 2015 Incentive Plan

The Company has a 2015 Incentive Plan (the "Plan"), with the latest amendments thereto approved by shareholders of the Company on April 26, 2019. 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 fixed maximum of 25,835,602 of the Company's issued and outstanding common shares, representing approximately 13.2% of the common shares outstanding as at January 31, 2020. The portion of common shares reserved for issuance as DSUs under the Plan is fixed at a maximum of 5,167,120, representing approximately 2.6% of the common shares outstanding as at January 31, 2020.

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 of Directors. According to the terms of the Plan, the exercise price of any stock options granted must be in accordance with the policies of the Exchange.

As at January 31, 2020, 14,574,600 stock options were outstanding, representing 7.4% of the Company's issued and outstanding common shares (October 31, 2019 – 14,574,600 stock options outstanding representing 7.4% of the then issued and outstanding common shares).

Changes in the number of stock options outstanding during the three months ended January 31, 2020 and 2019 were as follows:

	2020		2019	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of period	14,574,600	$ 0.22	9,005,000	$ 0.23
Expired	-	-	(50,000)	0.15
Exercised	-	-	(1,250,000)	0.15
Balance outstanding, end of period	14,574,600	$ 0.22	7,705,000	$ 0.24
Options exercisable, end of period	8,568,063	$ 0.23	5,186,213	$ 0.25

(Expressed in Canadian Dollars)

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

(e) 2015 Incentive Plan (cont'd …)

The following table reflects details of the stock options outstanding by range of exercise prices as at January 31, 2020:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.21 to $ 0.21	8,649,600	9.7	$ 0.21	3,732,125	$ 0.21
$ 0.22 to $ 0.26	5,925,000	6.6	0.24	4,835,938	0.24
$ 0.21 to $ 0.26	14,574,600	8.5	$ 0.22	8,568,063	$ 0.23

The Company's Plan allows for the issuance of DSUs to directors and officers of the Company and settlement in the form of a cash payment or issuance of shares at the time the DSU holder leaves the Company. Since the method of settlement of the DSUs is at the discretion of the Company under the plan, it has been accounted for as an equity-settled plan. During the year ended October 31, 2019, 3,120,167 DSUs were issued to directors, 660,222 DSUs held by directors were cancelled and 284,944 DSUs were equity-settled with the issuance of common shares in the same amount to a director who had completed his term of service. No DSUs were granted, cancelled or equity-settled during the three months ended January 31, 2020. DSUs generally vest over a three-year period after the date of grant. As at January 31, 2020, a total of 4,150,001 DSUs were outstanding (October 31, 2019 – 4,150,001) of which 3,098,215 had vested (October 31, 2019 – 2,862,044).

7. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the Directors, the President and Chief Executive Officer and the Chief Financial Officer. Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured, interest free and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at January 31, 2020 was $99,308 due to key management personnel (October 31, 2019 – $56,978).

Compensation to key management personnel for the reporting period:

	Three months ended January 31,	
	2020	2019
Personnel costs and consulting fees	$ 149,928	$ 89,575
Director fees and benefits	25,012	24,063
Share-based compensation - DSUs	90,651	11,900
Share-based compensation	49,485	45,483
	$ 315,076	$ 171,021

(Expressed in Canadian Dollars)

8. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Three months ended January 31,	
	2020	2019
Personnel costs, supplies and contract payments	$ 420,779	$ 355,820
Manufacturing costs	-	8,078
Patent fees and costs	49,262	53,829
Depreciation	34,541	16,160
Share-based compensation	90,133	34,079
	594,715	467,966
Less: grant contributions and tax credits	(13,650)	(25,000)
	$ 581,065	$ 442,966

General and Administrative Expenses

	Three months ended January 31,	
	2020	2019
Personnel costs	$ 128,350	$ 45,329
Consulting fees	85,923	9,000
Professional fees	11,761	15,783
Director fees and benefits	25,012	25,012
Investor relations	350,430	116,159
Travel and other costs	48,668	42,695
Depreciation	6,123	625
Share-based compensation - DSUs	90,651	11,900
Share-based compensation	44,014	11,404
	$ 790,932	$ 277,907

9. DEFERRED GRANTS, COMMITMENTS AND CONTINGENCIES

All the Company's product development commitments relating to the HemAcure Consortium's European Commission Horizon 2020 Program grant were completed by October 31, 2019. The Company's final funding claim of €226,268 ($329,207), included in amounts receivable at October 31, 2019, was collected during the three months ended January 31, 2020. The Company received total grant funding of €1,019,378 (approximately $1.48 million).

During 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 US transplantation center. 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. Furthermore, 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. A grant contribution of US$200,000 ($264,660) relating to milestone achievement was earned during the final quarter of the year ended October 31, 2019 and included in amounts receivable at both October 31, 2019 and January 31, 2020. Remaining funding available to be advanced under the JDRF grant award totals approximately US$1.48 million ($1.95 million) as at January 31, 2020.

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

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. As at January 31, 2020, the remaining maximum gross lease payments totaled $68,362 under the lease.

10. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is similarly computed, except that the weighted average shares outstanding amount is increased to include additional shares for the exercise of all stock options and common share purchase warrants as well as for the settlement of all outstanding DSUs, unless it would be anti-dilutive.

11. 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 from the year ended October 31, 2019.

12. 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:

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

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 Company's financial assets and financial liabilities, including cash, marketable securities, amounts receivable, accounts payable and accrued liabilities, are all short-term in nature being receivable or due within one year and 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 at January 31, 2020 are primarily composed of amounts due from the Canadian federal government and $264,660 from JDRF.

(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 January 31, 2020 and October 31, 2019, the Company had cash and marketable securities of $2,956,414 and $3,804,137, respectively available to settle current liabilities of $471,961 and $686,823, respectively. The majority of the Company's accounts payable and accrued liabilities are due within three months or less. With the adoption of IFRS 16 Leases (IFRS 16), an initial lease liability of $91,268 was recorded as a current liability on November 1, 2019, of which $65,068 remains in current liabilities as of January 31, 2020.

(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 three months ended January 31, 2020 and 2019, the Company earned interest income of $12,281 and $1,862, 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 marketable securities held at January 31, 2020 and 2019, would have a net impact on interest income of $20,056 and $10,053 respectively, on an annualized basis.

(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 primarily related to expenses denominated in United States dollars.