SERNOVA CORP.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

APRIL 30, 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	**April 30, 2020**	October 31, 2019
ASSETS			
Current assets			
Cash		**$ 427,438**	$ 1,797,138
Short-term investments		**2,031,033**	2,006,999
Amounts receivable	4	**132,655**	735,042
Prepaid expenses		**325,543**	777,860
		2,916,669	5,317,039
Non-current assets			
Property and equipment, net		**230,264**	251,502
Right-of-use asset	3	**36,507**	-
		266,771	251,502
		$ 3,183,440	$ 5,568,541
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	**$ 954,376**	$ 686,823
Lease liabilities	3	**37,873**	-
		992,249	686,823
SHAREHOLDERS' EQUITY			
Common shares	6	**41,305,138**	41,305,138
Warrants	6	**1,106,278**	1,106,278
Contributed surplus		**5,337,072**	4,932,406
Deficit		**(45,557,297)**	(42,462,104)
		2,191,191	4,881,718
		$ 3,183,440	$ 5,568,541

Nature and Continuance of Operations (Note 1)
Deferred Grants, Commitments and Contingencies (Note 9)
Events After the Reporting Period (Note 13)

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
For the Three and Six Months Ended April 30,
(Expressed in Canadian Dollars)
(Unaudited)

		Three months ended April 30,		Six months ended April 30,	
	Note	**2020**	2019	**2020**	2019
EXPENSES					
Research and development	8	**$ 1,025,084**	$ 301,649	**$ 1,602,097**	$ 744,614
General and administrative	8	**701,458**	312,670	**1,496,442**	590,578
		1,726,542	614,319	**3,098,539**	1,335,192
OTHER EXPENSE (INCOME)					
Interest income		**(11,986)**	(4,174)	**(24,267)**	(6,036)
Finance costs		**4,157**	2,172	**9,425**	4,246
Foreign exchange loss		**14,501**	1,039	**11,496**	3,702
		6,672	(963)	**(3,346)**	1,912
LOSS AND COMPREHENSIVE LOSS		**$ 1,733,214**	$ 613,356	**$ 3,095,193**	$ 1,337,104
Weighted average number of common shares outstanding – basic and diluted		195,945,114	160,711,142	195,945,114	160,545,267
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
For the Six Months Ended April 30,
(Expressed in Canadian Dollars)
(Unaudited)

	2020	2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	**$ (3,095,193)**	$ (1,337,104)
Adjustments for items not affecting cash:		
Depreciation	**81,465**	32,669
Share-based compensation	**404,666**	101,161
Grant contributions	**(66,348)**	-
Interest accrued on short-term investments	**(24,034)**	(3,969)
Interest on lease liabilities	**5,201**	-
Changes in non-cash working capital balances:		
Amounts receivable	**9,980**	(346,998)
Prepaid expenses	**452,317**	52,854
Accounts payable and accrued liabilities	**309,737**	249,702
	(1,922,209)	(1,251,685)
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 contribution receipts	**658,755**	-
Lease liabilities payments	**(58,596)**	-
	557,975	147,860
CHANGE IN CASH DURING THE PERIOD	**(1,369,700)**	(1,128,322)
CASH, BEGINNING OF PERIOD	**1,797,138**	1,739,346
CASH, END OF PERIOD	**$ 427,438**	$ 611,024

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 Six Months Ended April 30, 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	–	–	–	–	–	(3,095,193)	(3,095,193)
Transactions with owners of the Company, recognized directly in equity:							
Share-based compensation	–	–	–	–	404,666	–	404,666
Balance, April 30, 2020	**195,945,114**	**$ 41,305,138**	**$ –**	**$ 1,106,278**	**$ 5,337,072**	**$ (45,557,297)**	**$ 2,191,191**
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	–	–	–	–	–	(1,337,104)	(1,337,104)
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	–	–	–	–	101,161	–	101,161
Balance, April 30, 2019	172,237,348	$ 36,694,637	$ –	$ 1,051,106	$ 4,278,746	$ (39,827,936)	$ 2,196,553

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.

During March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on June 25, 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.

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, or at amortized cost.

(c) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its wholly-owned and controlled subsidiaries.

(d) Use of significant estimates and 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 and 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. Furthermore, the full extent to which the novel coronavirus (COVID-19) pandemic will directly or indirectly impact the Company's estimates or results of operations will depend on future developments that are uncertain at this time. As events continue to evolve and additional COVID-19 information becomes available, the Company's estimates may change materially in 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.

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (cont'd …)

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

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.

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 twelve 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.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Adoption of new accounting standards (cont'd)

The Company also applied the following available practical expedients:

(a) Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and

(b) 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	(54,761)	-
Interest expense	-	5,201
Payments	-	(58,596)
Balance, April 30, 2020	$ 36,507	$ 37,873

4. AMOUNTS RECEIVABLE

	April 30, 2020	October 31, 2019
Grant contributions receivable (Note 9)	$ -	$ 592,407
GST and other tax credits receivable	116,290	126,670
Other	16,365	16,365
	$ 132,655	$ 735,042

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2020	October 31, 2019
Trade payables	$ 694,934	$ 472,888
Accrued liabilities	208,817	156,957
Due to related parties (Note 7)	50,625	56,978
	$ 954,376	$ 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 six months ended April 30, 2020, compared to the exercise of 1,250,000 stock options for gross cash proceeds of $187,500 during the six months ended April 30, 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 three 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 three years, volatility of 134% and a risk-free interest rate of 1.33%. The terms of the finder warrants were the same as the common share purchase warrants of the 2019 Units issued.

During the six months ended April 30, 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.

(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 six months ended April 30, 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 two year exercise period, subject to abridgement of the exercise period on thirty days' notice to holders in the event that the twenty-day volume weighted average price ofthe shares exceeds $0.50 per share.

(Expressed in Canadian Dollars)

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

(d) **Common share purchase warrants**

Changes in the number of common share purchase warrants ("Warrants") outstanding during the six months ended April 30, 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 April 30, 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*
	11,761,825	0.30	August 16, 2022
	11,531,122	0.30	August 31, 2022
	521,000	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 April 30, 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 April 30, 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 April 30, 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 six months ended April 30, 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
Cancelled / forfeited	-	-	(1,780,000)	0.15
Exercised	-	-	(1,250,000)	0.15
Balance outstanding, end of period	14,574,600	$ 0.22	5,925,000	$ 0.24
Options exercisable, end of period	8,897,175	$ 0.23	4,288,263	$ 0.24

(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 April 30, 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	9.5	$ 0.21	3,847,175	$ 0.21
$ 0.22 to $ 0.26	5,925,000	6.4	0.24	5,050,000	0.24
$ 0.21 to $ 0.26	14,574,600	8.2	$ 0.22	8,897,175	$ 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, a total of 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 and six months ended April 30, 2020. DSUs generally vest over a three-year period after the date of grant. As at April 30, 2020, a total of 4,150,001 DSUs were outstanding (October 31, 2019 – 4,150,001) of which 3,334,386 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 April 30, 2020 was $50,625 due to key management personnel (October 31, 2019 – $56,978).

Compensation to key management personnel for the reporting period:

	Three months ended April 30,		Six months ended April 30,	
	2020	2019	2020	2019
Personnel costs and consulting services	$ 158,125	$ 123,300	$ 308,053	$ 265,376
Director fees and expenses	27,551	25,012	52,563	49,074
Share-based compensation - DSUs	63,380	8,372	154,031	19,776
Share-based compensation - options	46,630	35,406	96,115	81,384
	$ 295,686	$ 192,090	$ 610,762	$ 415,610

(Expressed in Canadian Dollars)

8. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Three months ended April 30,		Six months ended April 30,	
	2020	2019	2020	2019
Personnel costs	$ 177,561	$ 220,332	$ 341,138	$ 377,426
Contract services and consulting	537,412	445,789	766,726	542,590
Lab operations	6,661	54,830	10,422	106,744
Manufacturing costs	73,921	5,326	73,921	13,404
Patent fees and costs	187,050	54,646	236,312	108,475
Other costs	11,298	25,255	31,372	75,266
Depreciation	34,637	15,303	69,178	31,462
Share-based compensation - options	76,542	26,044	166,675	60,123
	1,105,082	847,525	1,695,744	1,315,490
Less: grant contributions and tax credits	(79,998)	(545,876)	(93,647)	(570,876)
	$ 1,025,084	$ 301,649	$ 1,602,097	$ 744,614

General and Administrative Expenses

	Three months ended April 30,		Six months ended April 30,	
	2020	2019	2020	2019
Personnel costs	$ 119,228	$ 48,229	$ 247,578	$ 93,560
Consulting fees	52,015	-	137,938	9,000
Professional fees	33,029	48,101	44,790	63,883
Director fees and expenses	29,474	25,012	55,786	50,025
Investor relations	286,780	111,944	637,210	228,103
Other costs	71,442	61,069	122,862	103,764
Depreciation	6,164	581	12,287	1,206
Share-based compensation - DSUs	63,380	8,372	154,031	19,776
Share-based compensation - options	39,946	9,362	83,960	21,261
	$ 701,458	$ 312,670	$ 1,496,442	$ 590,578

9. DEFERRED GRANTS, COMMITMENTS AND CONTINGENCIES

All the Company's product development commitments relating to the December 2015 awarded 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 first quarter of the current fiscal year. 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 $3.4 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$48,340 ($66,348) relating to a milestone achievement was earned and received during the three months ended April 30, 2020. Remaining funding available to be advanced under the JDRF grant award totals approximately US$1.43 million ($2.0 million) as at April 30, 2020.

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 / R&D personnel and related overheads, for patient procedures performed and activities related to the US Phase I/II Cell Pouch clinical trial, CRO costs, additional Cell Pouch manufacturing, clinical trial insurance and outsourced or lab work and testing, and may include travel and a portion of drug or procedure–related expenses not covered by patients' insurance. The total expected future payments over the duration of the clinical trial 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 April 30, 2020, the remaining maximum gross lease payments totaled $39,064 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:

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, short-term investments, 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.

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

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 short-term investments 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 short-term investments held by the Company is remote. Amounts receivable at April 30, 2020 are primarily composed of amounts due from the Canadian federal government.

(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 short-term investments to provide regular cash flow for its operations and monitoring actual and projected cash flows. As at April 30, 2020 and October 31, 2019, the Company had cash and short-term investments of $2,458,471 and $3,804,137, respectively available to settle current liabilities of $992,249 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 $37,873 remains in current liabilities as of April 30, 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 April 30, 2020 and 2019, the Company earned interest income of $11,986 and $4,174, respectively. For the six months ended April 30, 2020 and 2019, the Company earned interest income of $24,267 and $6,036, 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 short-term investments held at April 30, 2020 and 2019, would have a net impact on interest income of $20,310 and $10,079 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.

13. EVENTS AFTER THE REPORTING PERIOD

Subsequent to April 30, 2020, the Company:

(a) acquired local immune protection technology intellectual property for the purchase price of US$700,000 (approximately $950,000); and

(b) issued unsecured convertible debentures for proceeds of $1,000,000 to finance the above noted local immune protection technology acquisition. The debentures are repayable in thirty months, on December 8, 2022, unless earlier converted or redeemed. The holder has the right to convert the principal amount into common shares of the Company at a conversion price of $0.25 per share. Interest on the debentures at an annual rate of 8% is payable semi-annually, in cash or common shares at the option of the Company. In conjunction with the debentures issuance, 3,000,000 non-transferable share purchase warrants were issued with each warrant being exercisable into one common share at a price of $0.20 per share up to December 8, 2022.