SERNOVA CORP.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

JULY 31, 2020 AND 2019

(Expressed in Canadian Dollars)

(Unaudited)

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

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	**July 31, 2020**	October 31, 2019
ASSETS			
Current assets			
Cash		**$ 98,025**	$ 1,797,138
Short-term investments		**1,431,152**	2,006,999
Amounts receivable	4	**108,757**	735,042
Prepaid expenses		**77,450**	777,860
		1,715,384	5,317,039
Non-current assets			
Property and equipment, net		**216,844**	251,502
Intangible assets, net	12	**966,826**	-
Right-of-use asset	3	**9,127**	-
		1,192,797	251,502
		$ 2,908,181	$ 5,568,541
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	5	**$ 738,803**	$ 686,823
Lease liabilities	3	**9,645**	-
		748,448	686,823
Non-current liabilities			
Convertible debentures	6	**676,869**	-
		1,425,317	686,823
SHAREHOLDERS' EQUITY			
Common shares	7	**41,341,138**	41,305,138
Warrants	7	**1,276,026**	1,106,278
Contributed surplus		**5,618,576**	4,932,406
Deficit		**(46,752,876)**	(42,462,104)
		1,482,864	4,881,718
		$ 2,908,181	$ 5,568,541

Nature and Continuance of Operations (Note 1)
Deferred Grants, Commitments and Contingencies (Note 10)
Events After the Reporting Period (Note 15)

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 Nine Months Ended July 31,
(Expressed in Canadian Dollars)
(Unaudited)

	Note	Three months ended July 31,		Nine months ended July 31,	
		2020	2019	**2020**	2019
EXPENSES					
Research and development	9	**$ 616,551**	$ 586,023	**$ 2,218,648**	$ 1,330,637
General and administrative	9	**569,922**	291,280	**2,066,364**	881,859
		1,186,473	877,303	**4,285,012**	2,212,496
OTHER EXPENSE (INCOME)					
Interest income		**(11,607)**	(490)	**(35,874)**	(5,546)
Finance costs	6	**29,271**	1,415	**38,696**	5,729
Foreign exchange (gain) loss		**(8,557)**	(3,478)	**2,938**	(824)
		9,107	(2,553)	**5,760**	(641)
LOSS AND COMPREHENSIVE LOSS		**$ 1,195,580**	$ 874,750	**$ 4,290,772**	$ 2,211,855
Weighted average number of common shares outstanding – basic and diluted		196,004,897	160,711,142	195,965,187	160,608,536
Basic and diluted loss per common share	11	$0.01	$0.01	$0.03	$ 0.01

See accompanying notes to the interim condensed consolidated financial statements.

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

	2020	2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	**$ (4,290,772)**	$ (2,211,855)
Adjustments for items not affecting cash:		
Amortization and depreciation	**152,674**	47,703
Share-based compensation (Note 7)	**563,853**	136,656
Grant contributions (Note 10)	**(66,348)**	-
Interest income accrued on short-term investments	**(24,153)**	(2,807)
Accretion and accrued interest expense (Note 6)	**14,830**	-
Interest on lease liabilities (Note 3)	**6,271**	-
Changes in non-cash working capital balances:		
Amounts receivable	**33,878**	(347,198)
Prepaid expenses	**700,410**	78,172
Accounts payable and accrued liabilities	**53,904**	(40,212)
	(2,855,453)	(2,339,541)
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(5,466)**	(24,497)
Acquisition of intangible assets (Note 12)	**(959,905)**	-
	(965,371)	(24,497)
FINANCING ACTIVITIES		
Proceeds from convertible debentures, net of issue costs (Note 6)	**969,104**	-
Financing costs	**(42,184)**	(20,650)
Special warrant conversion costs	**-**	(18,990)
Proceeds from exercise of stock options (Note 7)	**21,000**	187,500
Subscriptions received in advance (Note 7)	**-**	395,000
Proceeds from sale of short-term investments	**600,000**	-
Grant contribution receipts (Note 10)	**658,755**	535,436
Lease liabilities payments (Note 3)	**(84,964)**	-
	2,121,711	1,078,296
CHANGE IN CASH DURING THE PERIOD	**(1,699,113)**	(1,285,742)
CASH, BEGINNING OF PERIOD	**1,797,138**	1,739,346
CASH, END OF PERIOD	**$ 98,025**	$ 453,604

Supplementary cash flow information		
Warrants issued to convertible debenture investor (Note 7)	$ 175,160	$ -
Reclassification of special warrants to common shares	-	2,515,997
Right-of-use asset additions (Note 3)	91,268	-
Accrued liabilities on intangible assets acquisition (Note 12)	40,260	-
Income taxes paid	-	-
Interest received	11,721	-

See accompanying notes to the interim condensed consolidated financial statements.

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

	Common Shares (Note 7)		Special Warrants	Warrants (Notes 6 and 7)	Contributed Surplus (Notes 6 and 7)	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	–	–	–	–	–	(4,290,772)	(4,290,772)
Transactions with owners of the Company, recognized directly in equity:							
Equity component of convertible debentures issued, net of allocated costs	–	–	–	169,748	137,317	–	307,065
Exercise of stock options	100,000	36,000	–	–	(15,000)	–	21,000
Share-based compensation	–	–	–	–	563,853	–	563,853
Balance, July 31, 2020	**196,045,114**	**$ 41,341,138**	**$ –**	**$ 1,276,026**	**$ 5,618,576**	**$ (46,752,876)**	**$ 1,482,864**
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	–	–	–	–	–	(2,211,855)	(2,211,855)
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)
Subscriptions received in advance	–	395,000	–	–	–	–	395,000
Share-based compensation	–	–	–	–	136,656	–	136,656
Balance, July 31, 2019	172,237,348	$ 37,089,637	$ –	$ 1,051,106	$ 4,314,241	$ (40,702,687)	$ 1,752,297

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 the coronavirus ("COVID-19") a global pandemic. Given the ongoing and dynamic nature of the circumstances surrounding the COVID-19 pandemic, it is difficult to predict how significant the impact of COVID-19, including any responses to it, will be on the global economy and the business of the Company or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information that may emerge about COVID-19 and additional actions that may be taken to contain it. Such developments could have a material adverse effect on the Company's business, financial condition, results of operations, cash flow and the ability to raise capital.

These interim condensed consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on September 23, 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.

(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 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. These estimates and assumptions take into account historical and forward-looking factors that the Company believes are reasonable, including but not limited to the potential impacts arising from COVID-19 and public and private sector policies and initiatives aimed at reducing its transmission.

There was no material impact to the Company's consolidated financial statements as of and for the three and nine month periods ended July 31, 2021; however, the full extent to which the COVID-19 pandemic may have a direct or indirect impact on the Company's business, results of operations and financial condition, including expenses, research and clinical development plans and timelines, depends on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19, as well as the economic impact on local, regional, national and global markets. Actual results could differ materially from these estimates. Estimates and assumptions are reviewed quarterly. All revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

2. BASIS OF PRESENTATION (cont'd …)

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

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 13 – Capital Risk Management and Note 14 – 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. Subsequent to July 31, 2020, the Company closed a private placement of approximately $3.7 million, see Note 15 - Events After The Reporting Period.

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.

Discount rates

The discount rate used for any impairment analysis and to calculate the net present value of the convertible debentures is based on management's best estimate of an appropriate industry peer group weighted average cost of capital and management's best estimate of the Company's risk levels. Changes in the general economic environment could result in significant changes to this estimate.

Convertible instruments

Convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debenture in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount us accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

(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 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.

The Company also applied the following available practical expedients:

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

(f) 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 changes during the period were as follows:

	Right-of-use asset	Lease liabilities
Balance, November 1, 2019	$ 91,268	$ 91,268
Depreciation	(79,211)	-
Interest expense	-	6,271
Payments COVID-19 relief granted by landlord	(2,930)	(2,930)
Payments	-	(84,964)
Balance, July 31, 2020	$ 9,127	$ 9,645

(Expressed in Canadian Dollars)

3. AMOUNTS RECEIVABLE

	July 31, 2020	October 31, 2019
Grant contributions receivable (Note 10)	$ -	$ 592,407
HST / GST and other tax credits receivable	108,757	126,670
Other	-	16,365
	$ 108,757	$ 735,042

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31, 2020	October 31, 2019
Trade payables	$ 427,785	$ 472,888
Accrued liabilities	213,823	156,957
Accrued interest on convertible debentures (Note 6)	11,616	-
Due to related parties (Note 8)	85,579	56,978
	$ 738,803	$ 686,823

5. CONVERTIBLE DEBENTURES

On June 8, 2020, the Company issued unsecured convertible debentures through a non-brokered private placement for an aggregate principal amount and gross proceeds of $1,000,000. The convertible debentures are repayable in thirty months, on December 8, 2022, unless earlier converted or redeemed and bear interest at a rate of 8% per annum payable semi-annually in arrears, in cash or common shares at the option of the Company. 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. At any time after June 8, 2021, the Company may prepay all or a part of the principal amount, with a minimum principal redemption of $100,000, and unpaid accrued interest thereon plus a 2% redemption premium on the principal amount prepaid. A total of 3,000,000 non-transferable common share purchase warrants were issued as part of the offering with each warrant being exercisable into a common share at a price of $0.20 per share up to December 8, 2022. No finder's fees or finder's warrants were paid or issued, respectively, in connection with this offering.

Proceeds from the issuance of convertible debentures were used to finance the Company's intellectual property acquisition described in Note 12 – Acquisition of Local Immune Protection Technology. The convertible debentures and warrants, and any securities into which they may be exchanged or converted, are subject to a four month hold period in accordance with applicable securities regulations.

The liability component of the convertible debentures was initially recognized at the fair value of a comparable liability without an equity conversion option and related warrant issuance, in the amount of $683,146 (before issue costs allocation) based on future cash flows discounted at the estimated market interest rate of 15%. The residual value of the gross proceeds was allocated to the conversion option and warrants based on their respective inherent fair values. Issue costs totalling $30,896 were incurred and allocated on a prorata basis to the convertible debentures, conversion option and warrants.

Accretion of the liability component and accrued interest expense on the convertible debentures are included in finance costs in the Statements of Loss and Comprehensive Loss.

(Expressed in Canadian Dollars)

6. CONVERTIBLE DEBENTURES (cont'd …)

Balance outstanding, beginning of period	$ -
Face value of convertible debentures issued	1,000,000
Less: fair value of conversion option	(141,695)
Less: fair value of warrants	(175,160)
Less: issue costs allocation	(21,106)
Convertible debenture liability component initial recognition	662,039
Accretion expense	14,830
Balance outstanding, end of period	$ 676,869

7. COMMON SHARES AND WARRANTS

(a) **Authorized**

Unlimited number of common shares, without par value.

(b) **Share capital changes**

During the nine months ended July 31, 2020, 100,000 stock options were exercised for cash proceeds of $21,000 compared to the exercise of 1,250,000 stock options for cash proceeds of $187,500 during the 2019 comparative period.

No common share purchase warrants were exercised during the nine months ended July 31, 2020 nor during the 2019 comparative period. During the three and nine months ended July 31, 2020, a total of 581,700 warrants expired and 3,000,000 common share purchase warrants were issued in conjunction with a convertible debenture offering and valued at $175,160 before allocated acquisition transaction related costs, see Note 6 – Convertible Debentures. The value of these warrants was determined using the Black-Scholes Model based on the following assumptions: an exercise price of $0.20 per common share, an expected life of two and a half years, volatility of 86%, a risk-free interest rate of 0.32% and no forfeiture.

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 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 nine months ended July 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. In addition, cash receipts totalling $395,000 for subscription of 2019 Units were recorded.

(Expressed in Canadian Dollars)

7. 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 nine months ended July 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 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.

(d) Common share purchase warrants

Changes in the number of common share purchase warrants ("Warrants") outstanding during the nine months ended July 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 in conjunction with convertible debenture offering	3,000,000	0.20	-	-
Expiry of warrants	(581,700)	(0.35)	-	-
Issued upon conversion of special warrants into 2018 Units	-	-	11,016,000	0.35
Balance outstanding, end of period	37,829,947	$ 0.31	11,597,700	$ 0.35

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

	Number of Warrants	Exercise Price	Expiry Date
	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
	3,000,000	0.20	December 8, 2022
	37,829,947		

* subject to acceleration of the exercise period expiry on thirty 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)

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

(e) **Incentive Plan**

The Company initiated its Incentive Plan (the "Plan") in 2015, 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 July 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 July 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 July 31, 2020, 14,474,600 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 nine months ended July 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	-	-	(650,000)	0.15
Cancelled / forfeited	-	-	(1,180,000)	0.15
Exercised	(100,000)	0.21	(1,250,000)	0.15
Balance outstanding, end of period	14,474,600	$ 0.22	5,925,000	$ 0.24
Options exercisable, end of period	9,087,225	$ 0.23	4,382,813	$ 0.24

(Expressed in Canadian Dollars)

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

(e) **Incentive Plan (cont'd …)**

The following table reflects details of the stock options outstanding by range of exercise prices as at July 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	8,549,600	9.1	$ 0.21	3,862,225	$ 0.21
$ 0.22 to $ 0.26	5,925,000	6.1	0.24	5,225,000	0.24
$ 0.21 to $ 0.26	14,474,600	7.9	$ 0.22	9,087,225	$ 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 nine months ended July 31, 2020. DSUs generally vest over a three-year period after the date of grant. As at July 31, 2020, a total of 4,150,001 DSUs were outstanding (October 31, 2019 – 4,150,001) of which 3,570,557 had vested (October 31, 2019 – 2,862,044).

8. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the Directors, the President and Chief Executive Officer and the Chief Financial Officer. Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured, interest free and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at July 31, 2020 was $85,579 due to key management personnel (October 31, 2019 – $56,978).

Compensation to key management personnel for the reporting period:

	Three months ended July 31,		Nine months ended July 31,	
	2020	2019	2020	2019
Personnel costs and consulting services	$ 146,152	$ 85,373	$ 454,205	$ 350,749
Director fees and expenses	30,962	25,012	83,525	74,086
Share-based compensation - DSUs	49,800	6,469	203,831	26,245
Share-based compensation - options	46,022	29,026	142,137	110,410
	$ 272,936	$ 145,880	$ 883,698	$ 561,490

(Expressed in Canadian Dollars)

9. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Three months ended July 31,		Nine months ended July 31,	
	2020	2019	2020	2019
Personnel costs	$ 171,180	$ 187,151	$ 512,318	$ 564,577
Contract services and consulting	93,875	162,099	860,601	704,689
Lab operations	692	46,884	11,114	153,627
Manufacturing costs	94,788	-	168,709	13,404
Patent fees and costs	164,827	121,717	401,139	230,192
License fees	20,117	20,000	20,117	20,000
Other costs	2,863	22,708	34,235	97,974
Amortization and depreciation	64,046	14,493	134,224	45,955
Share-based compensation - options	70,519	21,185	237,194	81,309
	683,907	596,237	2,379,651	1,911,727
Less: grant contributions and tax credits	(13,650)	(10,214)	(107,297)	(581,090)
Less: COVID-19 wage subsidy	(53,706)	-	(53,706)	-
	$ 616,551	$ 586,023	$ 2,218,648	$ 1,330,637

General and Administrative Expenses

	Three months ended July 31,		Nine months ended July 31,	
	2020	2019	2020	2019
Personnel costs	$ 117,321	$ 46,253	$ 364,899	$ 139,813
Consulting fees	17,829	56,076	155,767	65,076
Professional fees	6,019	21,997	50,809	85,881
Director fees and expenses	30,962	25,012	86,748	75,037
Investor relations	265,349	66,306	902,559	294,409
Other costs	37,610	60,786	160,473	164,548
Depreciation	6,164	541	18,450	1,748
Share-based compensation - DSUs	49,800	6,469	203,831	26,246
Share-based compensation - options	38,868	7,840	122,828	29,101
	$ 569,922	$ 291,280	$ 2,066,364	$ 881,859

10. 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 $3.3 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 ($1.9 million) as at July 31, 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 July 31, 2020, the remaining maximum gross lease payments totaled $9,766 under the lease. As the Company has not entered into a long-term extension of the lease, the lease will be deemed to have been renewed on September 1, 2020 on a month-to-month basis with minimum rent of $10,000 per month and terminable upon 90 days prior written notice by either party.

11. 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, the conversion of convertible debentures and for the settlement of all outstanding DSUs, unless it would be anti-dilutive.

(Expressed in Canadian Dollars)

12. ACQUISITION OF LOCAL IMMUNE PROTECTION TECHNOLOGY

On June 14, 2020, the Company acquired local immune protection technology intellectual property assets for the purchase price of US$700,000 ($939,400). Acquisition related costs of $60,765 were incurred.

Purchase price	$ 939,400
Less: assumed liabilities	(40,260)
Cash consideration paid	$ 899,140

Initial recognition of the purchase price and acquisition related costs was as follows:

Intangible assets (identifiable assets)	$ 939,400
Acquisition related costs	60,765
Intangible assets, total cost	$ 1,000,165
Current liabilities (assumed liabilities)	$ 40,260

The patents acquired will be amortized over their estimated average useful life of 5 years.

13. 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 adjusts 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.

14. 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 or significant value drivers are unobservable.

The Company's financial assets and most 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. The fair value of the convertible debentures financial liability, which has an embedded conversion feature and is due in approximately two and one third years, was determined based on Level 3 of the fair value hierarchy. See Note 6 – Convertible Debentures for significant assumptions and techniques used in determining the fair value of these financial instruments.

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 July 31, 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 July 31, 2020 and October 31, 2019, the Company had cash and short-term investments of $1,529,177 and $3,804,137, respectively available to settle current liabilities of $748,448 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 $9,645 remains in current liabilities as of July 31, 2020. Repayment of the non-current outstanding unsecured convertible debentures with a face value of $1,000,000 is due on December 8, 2022.

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

(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 July 31, 2020 and 2019, the Company earned interest income of $11,607 and $490, respectively. For the nine months ended July 31, 2020 and 2019, the Company earned interest income of $35,874 and $5,546, 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 July 31, 2020 and 2019, would have a net impact on interest income of $14,312 and $10,067 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.

15. EVENTS AFTER THE REPORTING PERIOD

After July 31, 2020, the Company completed a non-brokered private placement issuing a total of 12,218,333 units at $0.30 per unit ("2020 Units") for gross proceeds of approximately $3.7 million. Each 2020 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 $0.35 per share until September 22, 2022, subject to acceleration.