SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

OCTOBER 31, 2020 AND 2019

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sernova Corp.

Opinion

We have audited the accompanying consolidated financial statements of Sernova Corp. (the "Company"), which comprise the consolidated statements of financial position as at October 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, cash flows, and changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Stephen Hawkshaw.

“Davidson & Company LLP”

Vancouver, Canada — Chartered Professional Accountants

February 1, 2021

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

	Note	**2020**	2019
ASSETS			
Current assets			
Cash		**$ 3,949,412**	$ 1,797,138
Short-term investments		**-**	2,006,999
Amounts receivable	5	**506,767**	735,042
Prepaid expenses		**149,104**	777,860
		4,605,283	5,317,039
Non-current assets			
Property and equipment, net	6	**203,423**	251,502
Intangible assets, net	7	**916,818**	-
		1,120,241	251,502
		$ 5,725,524	$ 5,568,541
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	**$ 878,075**	$ 686,823
Non-current liabilities			
Convertible debentures	9	**702,612**	-
		1,580,687	686,823
SHAREHOLDERS' EQUITY			
Common shares	10	**44,640,757**	41,305,138
Warrants	10	**1,549,759**	1,106,278
Contributed surplus		**5,737,733**	4,932,406
Deficit		**(47,783,412)**	(42,462,104)
		4,144,837	4,881,718
		$ 5,725,524	$ 5,568,541

Nature and Continuance of Operations (Note 1)
Deferred Grants, Commitments and Contingencies (Note 13)
Events After the Reporting Period (Note 18)

Approved and authorized by the Board of Directors on February 1, 2021:

''Frank Holler'' Director ***''James Parsons''*** Director

See accompanying notes to the consolidated financial statements.

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

	Note	**2020**	2019
EXPENSES			
Research and development	12	**$ 2,758,633**	$ 2,010,213
General and administrative	12	**2,501,131**	1,997,926
		5,259,764	4,008,139
OTHER EXPENSE (INCOME)			
Interest income		**(38,853)**	(38,465)
Finance costs	9	**86,278**	7,268
Foreign exchange (gain) loss		**14,119**	(5,670)
		61,544	(36,867)
LOSS AND COMPREHENSIVE LOSS		**$ 5,321,308**	$ 3,971,272
Weighted average number of common shares outstanding – basic and diluted		197,287,231	175,881,455
Basic and diluted loss per common share	15	$ 0.04	$ 0.02

See accompanying notes to the consolidated financial statements.

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

	2020	2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the year	**$ (5,321,308)**	$ (3,971,272)
Adjustments for items not affecting cash:		
Amortization and depreciation	**225,230**	61,475
Share-based compensation (Note 10)	**683,010**	875,768
Grant contributions (Note 13)	**(442,844)**	(906,436)
Interest income accrued on short-term investments	**6,999**	(6,999)
Accretion and accrued interest expense (Note 9)	**40,573**	-
Interest on lease liabilities (Note 3)	**6,392**	-
Changes in non-cash working capital balances:		
Amounts receivable	**12,364**	107,588
Prepaid expenses	**628,756**	(676,600)
Accounts payable and accrued liabilities	**221,629**	324,086
	(3,939,199)	(4,192,390)
INVESTING ACTIVITIES		
Short-term investments, net	**2,000,000**	(996,024)
Acquisition of intangible assets (Note 4)	**(1,000,165)**	-
Acquisition of property and equipment	**(5,466)**	(24,000)
	994,369	(1,020,024)
FINANCING ACTIVITIES		
Proceeds from unit financing, net (Note 10)	**3,542,975**	4,561,760
Proceeds from convertible debentures, net (Note 9)	**969,104**	-
Special warrants conversion costs	**-**	(14,490)
Proceeds from exercise of share options (Note 10)	**21,000**	187,500
Grant contribution receipts (Note 13)	**658,755**	535,436
Lease liabilities payments (Note 3)	**(94,730)**	-
	5,097,104	5,270,206
CHANGE IN CASH DURING THE YEAR	**2,152,274**	57,792
CASH, BEGINNING OF YEAR	**1,797,138**	1,739,346
CASH, END OF YEAR	**$ 3,949,412**	$ 1,797,138

Supplementary cash flow information		
Warrants issued to convertible debenture investor (Note 9)	$ 175,160	$ -
Convertible debenture conversion option equity allocation (Note 9)	141,695	-
Warrants issued to finders	29,366	55,172
Grant contributions accrued through amounts receivable (Note 13)	378,631	592,407
Right-of-use asset additions (Note 3)	91,268	-
Share issuance costs accrued through accounts payable and accrued liabilities	11,807	42,184
Reclassification of special warrants to common shares	-	2,515,997
Income taxes paid	-	-
Interest received	45,852	31,325

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED OCTOBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

	Common Shares		Special Warrants	Warrants	Contributed Surplus	Deficit	Total
	(Note 10)		(Note 10)	(Notes 9 and 10)	(Notes 9 and 10)		
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 year	–	–	–	–	–	(5,321,308)	(5,321,308)
Transactions with owners of the Company, recognized directly in equity:							
Unit financing, net of issuance costs	12,218,333	3,299,619	–	273,733	–	–	3,573,352
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	–	–	–	–	683,010	–	683,010
Balance, October 31, 2020	**208,263,447**	**$ 44,640,757**	**$ –**	**$ 1,549,759**	**$ 5,737,733**	**$ (47,783,412)**	**$ 4,144,837**
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 year	–	–	–	–	–	(3,971,272)	(3,971,272)
Transactions with owners of the Company, recognized directly in equity:							
Unit financing, net of issuance costs	23,422,822	4,485,054	–	55,172	–	–	4,540,226
Exercise of stock options	1,250,000	343,856	–	–	(156,356)	–	187,500
Issuance for equity-settlement of deferred stock units	284,944	64,591	–	–	(64,591)	–	–
Conversion of special warrants to units	11,016,000	2,520,497	(2,520,497)	–	–	–	–
Special warrants issuance costs	–	–	(14,490)	–	–	–	(14,490)
Share-based compensation	–	–	–	–	875,768	–	875,768
Balance, October 31, 2019	195,945,114	$ 41,305,138	$ –	$ 1,106,278	$ 4,932,406	$ (42,462,104)	$ 4,881,718

See accompanying notes to the consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

The Company's head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company's registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. The Company's shares are 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 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. After considering its plans to mitigate the going concern risk, management has concluded that there are no material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern for a period of twelve months from the statement of financial position date.

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.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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

The policies applied in these consolidated financial statements are based on IFRS issued and in effect as of February 1, 2021, the date the Board of Directors approved these statements.

2. BASIS OF PRESENTATION (cont'd …)

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value though profit or loss, which are stated at their fair value, or at amortized cost.

(c) Functional and presentation currency

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

(d) Use of significant estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and judgements 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 judgements 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 year ended October 31, 2020, 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 judgements 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 judgements 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 16 – Capital Risk Management and Note 17 – 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 October 31, 2020, the Company received cash proceeds of $5.9 million from the exercise of common share purchase warrants and stock options, see Note 18 - Events After the Reporting Period.

2. BASIS OF PRESENTATION (cont'd …)

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

Going concern (cont'd …)

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

Estimated useful life of long-lived assets

Judgement is used to estimate each component of a long-lived asset's useful life and is based on an analysis of all pertinent factors including, but not limited to, the expected use of the asset and in the case of an intangible asset, contractual provisions that enable renewal or extension of the asset's legal or contractual life without substantial cost, and renewal history. If the estimated useful lives were incorrect, it could result in an increase or decrease in the annual amortization expense, and future impairment charges or recoveries.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the asset may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash-generating unit). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. Management evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

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 is accounted for as an equity instrument at issuance.

2. BASIS OF PRESENTATION (cont'd …)

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

Convertible instruments (cont'd …)

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.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency translation

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

(b) Cash and cash equivalents

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

(c) Property and equipment

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(d) Intangible assets

The Company's capitalized intangible assets comprise acquired patent licenses. Intangible assets with finite lives are recorded at cost on initial recognition. Following initial recognition, intangible assets with finite lives are carried at cost less any accumulated amortization and impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The Company does not hold any intangibles with infinite lives.

Intangible assets are amortized on a straight-line basis over their useful economic life, currently estimated as five years, and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

(e) Impairment

Financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

The Company applies a forward-looking expected credit loss ("ECL") model, which requires a loss allowance be recognized based on expected credit losses, to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(f) Provisions

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

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

(g) Government assistance

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

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

(h) Research and development costs

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

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

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

(i) Share-based compensation

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(i) Share-based compensation

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

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

(j) Income taxes

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

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

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

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

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

(k) Loss per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(l) Financial instruments

Classification and Measurement of Financial Instruments

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

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

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Finance income from these financial instruments is recorded in income (loss) using the effective interest rate method.
- Fair value through other comprehensive income ("FVOCI"): Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in income (loss).
- Fair value through profit (loss) ("FVTPL"): Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit (loss). A gain or loss on a financial instrument that is subsequently measured at fair value through profit (loss) and is not part of a hedging relationship is recognized in income (loss) and presented net in comprehensive income (loss) in the period in which it arises.

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

The Company's short-term investments include guaranteed investment certificates ("GICs") held by the Company are measured at amortized cost. The Company typically holds the GICs to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of Financial Assets

The Company's financial assets cash, short-term investments and amounts receivable are subject to the ECL model. Financial assets measured at amortized cost and subject to the ECL model consist of short-term investments and amounts receivable. Short-term investments at amortized cost are considered to be low risk, and therefore the impairment provision is determined using a twelve-month expected credit loss basis. No impairment in the Company's financial assets was identified as at October 31, 2020.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

(m) 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-statement of financial position 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:

- 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 changes during the year were as follows:

	Right-of-use asset	Lease liabilities
Balance, November 1, 2019	$ 91,268	$ 91,268
Depreciation	(88,338)	-
Interest expense	-	6,392
Payments COVID-19 relief granted by landlord	(2,930)	(2,930)
Payments	-	(94,730)
Balance, October 31, 2020	$ -	$ -

(Expressed in Canadian Dollars)

4. 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

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 assumed liabilities have been paid and no balance is outstanding and included in accounts payable and accrued liabilities as at October 31, 2020. The patents acquired will be amortized over their estimated average useful life of five years, see Note 7 – Intangible Assets.

5. AMOUNTS RECEIVABLE

	October 31, 2020	October 31, 2019
Grant contributions receivable (Note 10)	$ 378,631	$ 592,407
HST / GST and other tax credits receivable	128,136	126,670
Other	-	16,365
	$ 506,767	$ 735,042

(Expressed in Canadian Dollars)

6. PROPERTY AND EQUIPMENT

	Computer and Office Equipment	Laboratory Equipment	Manufacturing Equipment	Total
Cost				
Balance, October 31, 2018	$ 86,462	$ 233,209	$ 105,098	$ 424,769
Additions	-	24,000	-	24,000
Balance, October 31, 2019	86,462	257,209	105,098	448,769
Additions	5,466	-	-	5,466
Balance, October 31, 2020	$ 91,928	$ 257,209	$ 105,098	$ 454,235
Accumulated depreciation				
Balance, October 31, 2018	$ 46,698	$ 68,173	$ 20,921	$ 135,792
Depreciation	10,796	35,065	15,614	61,475
Balance, October 31, 2019	57,494	103,238	36,535	197,267
Depreciation	9,038	30,794	13,713	53,545
Balance, October 31, 2020	$ 66,532	$ 134,032	$ 50,248	$ 250,812
Net carrying amounts				
October 31, 2019	$ 28,968	$ 153,971	$ 68,563	$ 251,502
October 31, 2020	$ 25,396	$ 123,177	$ 54,850	$ 203,423

7. INTANGIBLE ASSETS

	Total
Cost	
Balance, October 31, 2019 and 2018	$ -
Additions	1,000,165
Balance, October 31, 2020	$ 1,000,165
Accumulated amortization	
Balance, October 31, 2019 and 2018	$ -
Amortization	83,347
Balance, October 31, 2020	$ 83,347
Net carrying amounts	
October 31, 2019	$ -
October 31, 2020	$ 916,818

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2020	October 31, 2019
Trade payables	$ 529,388	$ 472,888
Accrued liabilities	213,207	156,957
Accrued interest on convertible debentures (Note 9)	31,781	-
Due to related parties (Note 11)	103,699	56,978
	$ 878,075	$ 686,823

9. 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, see Note 10 – Share Capital and Warrants. No finder's fees or finder's warrants were paid or issued, respectively, in connection with this offering.

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.

Balance outstanding, beginning of year	$ -
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	40,573
Balance outstanding, end of year	$ 702,612

See Note 18 - Events After the Reporting Period.

10. COMMON SHARES AND WARRANTS

(a) **Authorized**

Unlimited number of common shares, without par value.

(b) **Share capital changes**

During the year ended October 31, 2020, the Company completed a non-brokered private placement on September 22, 2020 issuing a total of 12,218,333 units at $0.30 per unit ("2020 Units") for gross proceeds of $3,665,500, of which $244,367 was allocated to the related common share purchase warrants issued using the residual value approach. 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 for a period of two years from the date of issue, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company's shares exceeds $0.50 per share. All securities issued in connection with the private placement were subject to a statutory hold period of four months. The Company incurred legal costs and finders' fees totaling $92,148 and issued 198,310 finder warrants valued at $29,366. The value of these finders' warrants was determined using the Black-Scholes Model based on the following assumptions: an exercise price of $0.35 per common share, expected life of two years, volatility of 113% and a risk-free interest rate of 0.26%. The terms of the finder warrants were the same as the common share purchase warrants of the 2020 Units issued.

In addition, 100,000 common shares were issued for cash proceeds of $21,000 for the exercise of stock options, 581,700 warrants expired and 3,000,000 common share purchase warrants in conjunction with a convertible debenture offering and valued at $175,160 before allocated acquisition transaction related costs, see Note 9 – 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.

During the year ended October 31, 2019, the Company completed a non-brokered private placement in September 2019 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.

In addition, cash proceeds of $187,500 were received for the exercise of 1,250,000 stock options, 284,944 common shares were issued for the equity-settlement of DSUs held by a director who completed his service to the Company and 11,016,000 special warrants were converted into units resulting in the issuance of 11,016,000 common shares and common share purchase warrants for no additional consideration 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 of the shares exceeds $0.50 per share.

See Note 18 - Events After the Reporting Period.

(Expressed in Canadian Dollars)

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

(c) Common share purchase warrants

Changes in the number of common share purchase warrants outstanding during the years ended October 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 year	35,411,647	$ 0.32	581,700	$ 0.35
Issued in conjunction with convertible debenture offering	3,000,000	0.20	-	-
Issued in conjunction with units financing	12,218,333	0.35	23,422,822	0.30
Issued to finders in conjunction with units financing	198,310	0.35	391,125	0.30
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 year	50,246,590	$ 0.32	35,411,647	$ 0.32

The following table summarizes the warrants outstanding as at October 31, 2020:

Number of Warrants	Exercise Price	Expiry Date
8,000,000	$ 0.35	February 12, 2021*
3,016,000	0.35	February 19, 2021*
11,761,825	0.30	August 16, 2022
11,531,122	0.30	August 31, 2022
521,000	0.30	September 9, 2022
12,416,643	0.35	September 22, 2022 **
3,000,000	0.20	December 8, 2022
50,246,590		

* 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. On October 30, 2020, the Company extended the original November 14, 2020 and November 21, 2020 expiry dates by ninety days. See Note 18 - Events After the Reporting Period.

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

(Expressed in Canadian Dollars)

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

(d) 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 12.4% of the common shares outstanding as at October 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 2.5% of the common shares outstanding as at October 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 October 31, 2020, 14,474,600 stock options were outstanding, representing 7.0% 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 years ended October 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 year	14,574,600	$ 0.22	9,005,000	$ 0.23
Granted	-	-	8,649,600	0.21
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 year	14,474,600	$ 0.22	14,457,600	$ 0.22
Options exercisable, end of year	10,608,025	$ 0.23	8,238,950	$ 0.23

(Expressed in Canadian Dollars)

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

(d) **Incentive Plan (cont'd …)**

The following table reflects details of the stock options outstanding by range of exercise prices as at October 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	8.9	$ 0.21	5,208,025	$ 0.21
$ 0.22 to $ 0.26	5,925,000	5.9	0.24	5,400,000	0.24
$ 0.21 to $ 0.26	14,474,600	7.7	$ 0.22	10,608,025	$ 0.23

The Black-Scholes option pricing model used to calculate option values was developed to estimate the fair value of freely tradable, fully transferable stock options without vesting restrictions, which significantly differs from the Company's stock options awards. This model also requires highly subjective assumptions, including the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

The expected risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon issued with a remaining term equal to the expected term of the option. The expected volatility is based solely on historical volatility for a period equivalent to the expected life of the option. The expected option life is estimated considering the vesting period at the grant date, the contractual life of the option and the average length of time similar grants have remained outstanding in the past. A forfeiture rate of 13% has been estimated for the stock options granted in 2019 based on the history of the Company's stock option grants. The dividend yield has been assigned a zero value since it is the policy of the Company to not pay dividends on its common shares for the foreseeable future.

The share-based compensation expense was determined based on the fair value of all stock options at the date of measurement using the Black-Scholes option pricing model with the following weighted-average assumptions for options granted:

Year ended October 31,	2020	2019
Dividend yield	n/a	0%
Expected volatility	n/a	80%
Risk free interest rate	n/a	2.25%
Expected life of options	n/a	6.5 years

The Company's Plan allows for the issuance of DSUs to directors and officers of the Company 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. No DSUs were granted, cancelled or equity-settled during the year ended October 31, 2020. 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. DSUs generally vest over a three-year period after the date of grant. As at October 31, 2020, a total of 4,150,001 DSUs were outstanding (October 31, 2019 – 4,150,001) of which 2,861,112 had vested (October 31, 2019 – 2,169,533).

(Expressed in Canadian Dollars)

11. 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 year-end are unsecured, interest free and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at October 31, 2020 was $103,699 due to key management personnel (October 31, 2019 – $56,978).

Compensation to key management personnel for the reporting period:

	Years ended October 31,	
	2020	2019
Personnel costs and consulting services	$ 625,140	$ 458,093
Director fees and expenses	121,780	101,014
Share-based compensation - DSUs	242,675	227,190
Share-based compensation - options	174,935	264,701
	$ 1,164,530	$ 1,050,998

12. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Years ended October 31,	
	2020	2019
Personnel costs	$ 703,017	$ 772,712
Contract services and consulting	1,334,168	1,103,407
Lab operations	37,967	160,367
Manufacturing costs	202,259	13,917
Patent fees and costs	484,060	381,646
License fees	20,020	20,000
Other costs	35,558	115,747
Amortization and depreciation	204,265	59,316
Share-based compensation - options	288,468	345,179
	3,309,782	2,972,291
Less: grant contributions and tax credits	(551,149)	(962,078)
	$ 2,758,633	$ 2,010,213

(Expressed in Canadian Dollars)

12. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION (cont'd …)

General and Administrative Expenses

	Years ended October 31,	
	2020	2019
Personnel costs	$ 484,607	$ 216,608
Consulting fees	155,767	100,774
Professional fees	70,921	124,742
Director fees and expenses	125,004	101,014
Investor relations	1,043,735	691,578
Other costs	205,590	230,462
Depreciation	20,965	2,159
Share-based compensation - DSUs	242,674	227,190
Share-based compensation - options	151,868	303,399
	$ 2,501,131	$ 1,997,926

13. 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 2020 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. Grant contributions totalling US$332,730 ($442,844) relating to milestone achievements were earned during the year ended October 31, 2020. Remaining funding available to be earned under the JDRF grant award totals approximately US$1.15 million ($1.53 million) as at October 31, 2020.

Effective September 1, 2017, the Company entered into a three-year lease expiring August 31, 2020, see Note 3 – Significant Accounting Policies. As the Company chose not to enter into a long-term extension of the lease before the end of the fixed term amidst the uncertain COVID-19 environment, the lease was 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 ninety days prior written notice by either party.

(Expressed in Canadian Dollars)

14. INCOME TAXES

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

(a) Unrecognized deferred tax assets

As at October 31, 2020 and 2019, deferred tax assets have not been recognized with respect to the following items:

	2020	2019
Non-capital losses carried forward	$ 6,981,000	$ 5,876,000
Tax credits carried forward	1,741,000	1,632,000
Tax basis of property, equipment and intangible assets greater than accounting basis	176,000	140,000
Debt with accretion	(79,000)	-
Scientific research and experimental development expenditures carry forward	2,123,000	1,989,000
Share issue costs and other	60,000	67,000
	$ 11,002,000	$ 9,704,000

As at October 31, 2020 and 2019, the Company had available research and development expenditures of approximately $8,012,000 and $7,506,000, respectively, which may be carried forward indefinitely to reduce future years' taxable income.

As at October 31, 2020 and 2019, the Company also had available unclaimed research and development tax credits of approximately $2,162,000 and $2,030,000, respectively, which are available to reduce future taxes payable, with expiries from 2021 through 2040.

As at October 31, 2020 and 2019, the Company has other available future tax deductions related to assets and share issuance costs of approximately $890,000 and $780,000, respectively.

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

Years ended October 31,	Amount
2026	$ 355,044
2027	599,000
2028	580,631
2029	353,274
2030	682,246
2031	599,170
2032	992,747
2033	901,738
2034	926,182
2035	1,520,901
2036	1,490,274
2037	1,351,446
2038	2,809,734
2039	2,518,336
2040	4,047,786
	$ 19,728,509

(Expressed in Canadian Dollars)

14. INCOME TAXES (cont'd …)

(a) Unrecognized deferred tax assets (cont'd …)

As at October 31, 2020 and 2019, the Company also had non-capital income tax losses available to offset future taxable income in the United States of approximately $7,013,000 (US$5,290,073) and $6,882,385 (US$5,290,073), respectively. The United States non-capital income tax losses will expire in the years 2026 to 2038.

(b) Reconciliation of expected and actual income taxes

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

	2020	2019
Loss for the year before income tax	$ (5,321,308)	$ (3,971,272)
Expected income tax recovery at statutory rates	$ (1,410,000)	$ (1,052,000)
Change in statutory tax, foreign tax and foreign exchange rates	(7,000)	96,000
Tax credits	(103,000)	(109,000)
Impact of convertible debentures	81,000	-
Permanent differences	182,000	233,000
Share issue costs	(24,000)	(38,000)
Change in unrecognized deductible temporary differences	1,298,000	(20,000)
Adjustment to prior year provision versus statutory returns	(17,000)	890,000
Income tax recovery	$ -	$ -

15. 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.

16. 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.

16. CAPITAL RISK MANAGEMENT (cont'd …)

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

The Company's overall strategy with respect to capital risk management remains unchanged for the year ended October 31, 2020.

17. 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 years, was determined using the effective interest rate method. See Note 9 – 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 as 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 any short-term investments held by the Company is remote. Amounts receivable at October 31, 2020 are composed of amounts due from the Canadian federal government and $378,631 from JDRF.

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

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is a development stage company and is reliant on external fundraising to support its operations. Once funds have been raised, the Company manages its liquidity risk by investing in cash and short-term investments to provide regular cash flow for its operations and monitoring actual and projected cash flows. As at October 31, 2020 and October 31, 2019, the Company had cash and short-term investments of $3,949,412 and $3,804,137, respectively available to settle current liabilities of $878,075 and $686,823, respectively. The majority of the Company's accounts payable and accrued liabilities are due within three months or less. Repayment of the non-current unsecured convertible debentures with a face value of $1,000,000 outstanding as at October 31, 2020 - that would have been due on December 8, 2022 - will no longer be required with the January 18, 2021 conversion of the convertible debentures by the holder into 4,000,000 common shares of the Company at the fixed price of $0.25 per shares.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds its cash in bank accounts, and manages its interest rate risk by holding highly liquid short-term instruments. For the years ended October 31, 2020 and 2019, the Company earned interest income of $38,853 and $38,465, 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 October 31, 2020 and 2019, would have a net impact on interest income of $nil and $20,070 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.

18. EVENTS AFTER THE REPORTING PERIOD

After October 31, 2020, the Company:

(a) received cash proceeds totalling $5.9 million for the exercise of 18,440,950 warrants and 550,000 stock options and issued a corresponding number of common shares; and

(b) issued 4,000,000 common shares of the Company at $0.25 per share for the conversion of the outstanding convertible debentures, with a face value of $1,000,000, upon receipt of a notice of conversion from the convertible debentures holder.