SERNOVA CORP.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
JANUARY 31, 2022 AND 2021

(Expressed in Canadian Dollars)

(Unaudited)

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SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
(Unaudited)

	Note	**January 31, 2022**	October 31, 2021
ASSETS			
Current assets			
Cash		**$ 27,177,627**	$ 27,874,198
Amounts receivable	4	**349,064**	448,947
Prepaid expenses		**338,223**	4,200
		27,864,914	28,327,345
Non-current assets			
Deposits		**211,548**	211,548
Property and equipment, net		**410,635**	176,325
Intangible assets, net		**666,777**	716,785
Right-of-use asset	5	**354,076**	388,341
		1,643,036	1,492,999
		$ 29,507,950	$ 29,820,344
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**$ 1,902,593**	$ 1,358,496
Lease liabilities	5	**122,683**	117,375
		2,025,276	1,475,871
Non-current liabilities			
Lease liabilities	5	**243,080**	275,979
		243,080	275,979
		2,268,356	1,751,850
SHAREHOLDERS' EQUITY			
Common shares	7	**75,471,698**	74,010,694
Warrants	7	**3,559,344**	3,693,248
Contributed surplus	7	**8,416,438**	5,113,503
Deficit		**(60,207,886)**	(54,748,951)
		27,239,594	28,068,494
		$ 29,507,950	$ 29,820,344

Commitments and Contingencies (Note 11)

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE THREE MONTHS ENDED JANUARY 31
(Expressed in Canadian Dollars)
(Unaudited)

	Note	**2022**	2021
EXPENSES			
Research and development	9	**$ 3,169,505**	$ 678,280
General and administrative	9	**2,287,484**	487,281
		5,456,989	1,165,561
OTHER EXPENSE (INCOME)			
Interest income		**(19,505)**	(4,092)
Finance costs		**16,382**	317,838
Foreign exchange loss		**5,069**	12,925
		1,946	326,671
LOSS AND COMPREHENSIVE LOSS		**$ 5,458,935**	$ 1,492,232
Weighted average number of common shares outstanding – basic and diluted		261,451,981	211,876,101
Basic and diluted loss per common share	12	$ 0.02	$ 0.01

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JANUARY 31
(Expressed in Canadian Dollars)
(Unaudited)

	2022	2021
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Loss for the period	**$ (5,458,935)**	$ (1,492,232)
Adjustments for items not affecting cash:		
Amortization and depreciation	**93,747**	60,583
Share-based compensation (Note 7)	**3,326,560**	118,698
Grants and contributions recognized (Note 11)	**(97,390)**	(254,469)
Accretion and accrued interest expense (Note 6)	**-**	297,388
Interest on lease liabilities (Note 5)	**14,409**	-
Changes in non-cash working capital balances:		
Amounts receivable	**(96,785)**	(13,449)
Prepaid expenses	**(334,023)**	68,102
Accounts payable and accrued liabilities	**613,987**	55,557
	(1,938,430)	(1,159,822)
INVESTING ACTIVITIES		
Acquisition of property and equipment	**(243,784)**	-
	(243,784)	-
FINANCING ACTIVITIES		
Proceeds from exercise of warrants (Note 7)	**1,275,350**	5,787,197
Proceeds from exercise of stock options (Note 7)	**28,125**	115,500
Subscription received in advance	**-**	75,000
Grant contribution receipts (Note 11)	**224,168**	376,497
Lease liabilities payments (Note 5)	**(42,000)**	-
Other financing costs	**-**	(11,807)
	1,485,643	6,342,387
CHANGE IN CASH DURING THE PERIOD	**(696,571)**	5,182,565
CASH, BEGINNING OF PERIOD	**27,874,198**	3,949,412
CASH, END OF PERIOD	**$ 27,177,627**	$ 9,131,977

Cash Flows Supplementary Information (Note 10)

See accompanying notes to the interim condensed consolidated financial statements.

SERNOVA CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED JANUARY 31, 2022 AND 2021
(Expressed in Canadian Dollars)
(Unaudited)

	Common Shares		Subscriptions Received in Advance	Warrants	Contributed Surplus	Deficit	Total
	(Note 7)		(Note 7)	(Notes 6 and 7)	(Notes 6 and 7)		
Balance, October 31, 2021	261,133,258	$ 74,010,694	$ –	$ 3,693,248	$ 5,113,503	$ (54,748,951)	$ 28,068,494
Loss and comprehensive loss for the period	–	–	–	–	–	(5,458,935)	(5,458,935)
Transactions with owners of the Company, recognized directly in equity:							
Exercise of warrants	1,004,000	1,409,254	–	(133,904)	–	–	1,275,350
Exercise of stock options	125,000	51,750	–	–	(23,625)	–	28,125
Share-based compensation	–	–		–	3,326,560	–	3,326,560
Balance, January 31, 2022	**262,262,258**	**$ 75,471,698**	**$ –**	**$ 3,559,344**	**$ 8,416,438**	**$ (60,207,886)**	**$ 27,239,594**
Balance, October 31, 2020	208,263,447	$ 44,640,757	$ –	$ 1,549,759	$ 5,737,733	$ (47,783,412)	$ 4,144,837
Loss and comprehensive loss for the period	–	–	–	–	–	(1,492,232)	(1,492,232)
Transactions with owners of the Company, recognized directly in equity:							
Exercise of warrants	18,440,950	5,910,821	–	(123,624)	–	–	5,787,197
Exercise of stock options	550,000	198,000	–	–	(82,500)	–	115,500
Shares issued upon conversion of convertible debentures	4,000,000	1,137,317	–	–	(137,317)	–	1,000,000
Shares issued for payment of convertible debentures interest	138,980	40,110	–	–	–	–	40,110
Exercise of warrants awaiting share issuance	–	–	75,000	–	–	–	75,000
Share-based compensation	–	–	–	–	118,698	–	118,698
Balance, January 31, 2021	231,393,377	$ 51,927,005	$ 75,000	$ 1,426,135	$ 5,636,614	$ (49,272,644)	$ 9,789,110

See accompanying notes to the interim condensed consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Sernova Corp. (the "Company") is a clinical-stage regenerative medicine therapeutics company focused on developing and commercializing regenerative medicine therapeutics including its proprietary Cell Pouch™ and associated technologies including therapeutic cells and local cellular 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 multiple 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 common 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 and Xetra Exchanges under the symbol PSH.

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 ("IAS34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, these interim condensed consolidated financial statements do not include all disclosures required for annual financial statements.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and in effect as of March 29, 2022, the date the Board of Directors approved these statements.

(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 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 and liabilities, expenses and related disclosures of contingent assets and liabilities, as well as the Company's ability to continue as a going concern. These estimates and judgements consider 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. Actual results could differ materially from these estimates and judgements. The Company reviews its estimates and underlying judgements on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

2. BASIS OF PRESENTATION (cont'd …)

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

Significant estimates and assumptions applied by management were outlined in the Company's annual audited consolidated financial statements for the year ended October 31, 2021, and have been applied consistently to all periods presented in these interim condensed consolidated financial statements.

(e) **COVID-19**

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 and variants, 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 or variants and additional actions that may be necessary or taken to contain it. Such developments could have a material adverse effect on the Company's business, including, current or future clinical trials, research collaborations and corporate partnering activities; financial condition; results of operations and cash flow and the ability to finance operations. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are outlined in the Company's audited consolidated financial statements for the year ended October 31, 2021 and 2020, and have been applied consistently in these interim condensed consolidated financial statements.

New accounting standards and interpretations issued but not yet effective

IAS 1 Presentation of Financial Statements
In January 2020, the IASB issued amendments to International Accounting Standard 1 *Presentation of Financial Statements* ("IAS 1") to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impacts of adoption.

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements in which it provides guidance and example to help entities apply materiality judgements to accounting policy disclosures. The amendments apply to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is currently evaluating the potential impacts of adoption.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
In February 2021, the IASB issued amendments to International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments apply to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company is currently evaluating the potential impacts of adoption.

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

	January 31, 2022	October 31, 2021
Grant contributions receivable (Note 11)	$ -	$ 224,349
HST / GST and other tax credits receivable	349,064	224,598
	$ 349,064	$ 448,947

5. RIGHT-OF-USE ASSET AND LEASE LIABILITIES

Right-of-use asset and lease liabilities carrying amounts and changes during the periods were as follows:

	Right-of-use asset	Lease liabilities
Balance, October 31, 2020	$ -	$ -
Initial recognition	411,185	411,185
Depreciation	(22,844)	-
Interest expense	-	10,169
Payments	-	(28,000)
Balance, October 31, 2021	388,341	393,354
Depreciation	(34,265)	-
Interest expense	-	14,409
Payments	-	(42,000)
Balance, January 31, 2022	$ 354,076	$ 365,763

	January 31, 2022	October 31, 2021
Lease liabilities: current	$ 122,683	$ 117,375
Lease liabilities: non-current	243,080	275,979
	$ 365,763	$ 393,354

6. 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 were repayable in thirty months, on December 8, 2022, unless earlier converted or redeemed and bore interest at a rate of 8% per annum.

During the three months ended January 31, 2021, the convertible debentures were fully converted prior to maturity by the holder into 4,000,000 common shares of the Company on January 18, 2021. See Note 7 – Share Capital and Warrants.

(Expressed in Canadian Dollars)

7. COMMON SHARES AND WARRANTS

(a) **Authorized**

Unlimited number of common shares, without par value.

(b) **Share capital changes**

During the three months ended January 31, 2022, the Company received proceeds of $1,303,475 from the exercise of common share purchase warrants and stock options and the corresponding issuance of 1,129,000 common shares.

During the three months comparative period ended January 31, 2021, the Company received proceeds of $5,877,697 from the exercise of common share purchase warrants, stock options and subscriptions received in advance (proceeds from a warrant exercise awaiting shares issuance). In addition, upon receipt of a conversion notice from the holder of the convertible debentures, the outstanding principal of $1,000,000 was converted into 4,000,000 common shares, at the fixed conversion price of $0.25 per common share. No additional consideration was received for the conversion into common shares. In accordance with terms of the convertible debentures, the Company elected and also issued 138,980 common shares as settlement for $40,110 of interest accrued on the convertible debentures.

On March 1st, 2021, the Company completed a brokered bought deal offering ("Offering") of 19,205,000 units, including the full exercise of the underwriters' 15% over-allotment option, at the issue price of $1.20 per unit ("2021 Units") for cash proceeds of $23,046,000. Each 2021 Unit consists of a common share and one common share purchase warrant, with each common share purchase warrant being exercisable into one common share at a price of $1.70 per share until March 1, 2023, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company's common shares exceeds $3.05 per share. As consideration for services provided in connection with the Offering, the Company paid to the underwriters: a cash commission of $1,452,981, a corporate finance fee of 384,100 2021 Units ("Corporate Finance Fee Units") and 1,210,818 broker warrants (also referred to as compensation options), where each broker warrant upon exercise entitles the holder to purchase one 2021 Unit at $1.20 until March 1, 2023 ("Broker Warrant"). The Corporate Finance Fee Units and Broker Warrants issued were valued at $460,920 and $2,350,924, respectively. Share issuance costs totalling $466,915 were also incurred and paid. The value of the Broker Warrants was determined using the Geske Model with the following assumptions: volatility of 129%, a risk-free interest rate of 0.3%, an expected life of two years, a dividend yield of 0% and no forfeiture.

(c) **Warrants**

Common share purchase warrants outstanding changed during the three months ended January 31st as follows:

	2022		2021	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	46,144,142	$ 0.93	50,246,590	$ 0.32
Issued in conjunction with the exercise of broker unit warrants	100,000	1.70	-	-
Exercised	(1,004,000)	(1.27)	(18,440,950)	(0.31)
Balance outstanding, end of period	45,240,142	$ 0.92	31,805,640	$ 0.32

(Expressed in Canadian Dollars)

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

(c) Warrants (cont'd …)

The following table summarizes the warrants outstanding as at January 31, 2022:

Number of Warrants	Exercise Price	Expiry Date
6,729,375	$ 0.30	August 16, 2022
7,055,622	0.30	August 31, 2022
200,000	0.30	September 9, 2022
11,118,227	0.35	September 22, 2022 *
19,026,100	1.70	March 1, 2023 **
1,110,818	1.20	March 1, 2023 ***
45,240,142		

* 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.

** 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 $3.05 per share.

*** exercisable into one 2021 Unit at $1.20 until March 1, 2023. Each 2021 Unit consists 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 $1.70 per share until March 1, 2023, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company's common shares exceeds $3.05 per share.

(d) Incentive Plan

The Company initiated its incentive plan in 2015, with the latest amendments thereto approved by shareholders of the Company on June 30, 2021 (the "Incentive Plan"). Under the Incentive Plan, the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units ("DSUs") to directors and officers of the Company up to an aggregate fixed maximum of 38,746,536 of the Company's issued and outstanding common shares, representing approximately 14.8% of the common shares outstanding as at January 31, 2022. The maximum fixed number of common shares to be reserved for options exercise and DSUs conversion under the Incentive Plan is 30,997,229 and 7,749,307, respectively.

Options granted under the Incentive 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 Incentive Plan, the exercise price of any stock options granted must be in accordance with the policies of the Exchange.

As at January 31, 2022, 22,342,984 stock options were outstanding, representing 8.5% of the Company's issued and outstanding common shares (October 31, 2021 – 8,892,500 stock options outstanding representing 3.4% of the then issued and outstanding common shares).

(Expressed in Canadian Dollars)

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

(d) **Incentive Plan (cont'd …)**

Changes in the number of stock options outstanding during the three months ended January 31st were as follows:

	2022		2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of period	8,892,500	$ 0.24	14,474,600	$ 0.23
Granted	13,575,484	1.32	-	-
Cancelled / forfeited	-	-	(625,000)	(0.21)
Exercised	(125,000)	(0.23)	(550,000)	(0.21)
Balance outstanding, end of period	22,342,984	$ 0.90	13,299,600	$ 0.23
Options exercisable, end of period	11,149,880	$ 0.54	9,984,075	$ 0.23

Stock options outstanding by range of exercise prices as at January 31, 2022:

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 $ 0.26	8,667,500	6.2	$ 0.23	7,924,350	$ 0.23
$ 1.32	13,575,484	4.9	1.32	3,125,538	1.32
$ 1.40	100,000	1.4	1.40	100,000	1.40
$ 0.21 to $ 1.40	22,342,984	5.4	$ 0.90	11,149,888	$ 0.54

Option grants vest either immediately, quarterly, or annually over periods ranging from one to four years.

The Black-Scholes option pricing valuation model is used to estimate fair value for the purpose of recording share-based compensation expense. Historical data is used to estimate the expected dividend yield, volatility and forfeiture of the Company's common shares in determining the fair value of the stock options. The risk-free interest rate is based on the Government of Canada benchmark bond yield rates in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding.

(Expressed in Canadian Dollars)

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

(d) **Incentive Plan (cont'd …)**

The estimated fair value of stock options granted and the related share-based compensation expense during the periods presented were determined using the following weighted average assumptions:

	2022	2021
Dividend yield	0%	n/a
Expected volatility	72%	n/a
Risk free interest rate	1.07%	n/a
Expected life of options	3 years	n/a

The Company's Incentive Plan allows for the issuance of deferred stock units (DSU) 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 Incentive Plan, it has been accounted for as an equity-settled plan. During the three months ended January 31, 2022, a total of 1,360,000 DSUs were granted and no DSUs were cancelled, or equity settled. No DSUs were granted, cancelled or equity settled during the comparative period ended January 31, 2021. DSUs generally vest over a three-year period after the date of grant.

As at January 31, 2022, a total of 5,510,001 DSUs were outstanding (October 31, 2021 – 4,150,001) of which 3,955,168 had vested (October 31, 2021 – 3,505,557).

8. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the Directors, the Executive Chair of the Board, 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 end of the reporting period are unsecured, interest free and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at January 31, 2022, was $185,198 due to key management personnel (October 31, 2021 – $217,880).

Compensation to key management personnel for the reporting period:

	Three Months Ended January 31,	
	2022	2021
Personnel costs	$ 235,470	$ 177,856
Director fees and costs	65,750	37,403
Share-based compensation - DSUs	624,434	31,110
Share-based compensation - options	2,605,376	20,006
	$ 3,531,030	$ 266,375

(Expressed in Canadian Dollars)

9. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Three Months Ended January 31,	
	2022	2021
Personnel costs	$ 415,944	$ 202,125
Contract services and consulting	742,311	528,259
Lab operations	27,032	35,907
Manufacturing costs	210,114	-
Patent fees and costs	70,826	120,680
License fees	-	10,000
Other costs	18,050	6,842
Amortization and depreciation	86,189	60,081
Share-based compensation: options	1,696,429	54,840
	3,266,895	1,018,734
Less: contributions and tax credits	(97,390)	(340,454)
	$ 3,169,505	$ 678,280

General and Administrative Expenses

	Three Months Ended January 31,	
	2022	2021
Personnel costs	$ 220,531	$ 126,557
Consulting and professional fees	87,713	22,388
Director fees and expenses	72,088	37,403
Investor relations	182,192	162,172
Other costs	87,270	74,401
Depreciation	7,559	502
Share-based compensation: DSUs	624,434	31,110
Share-based compensation: options	1,005,697	32,748
	$ 2,287,484	$ 487,281

10. STATEMENTS OF CASH FLOWS SUPPLEMENTARY INFORMATION

	Three Months Ended January 31,	
	2022	2021
Grant contributions accrued through amounts receivable (Note 14)	$ -	$ 254,469
Convertible debentures interest settled in common shares	-	40,110
Income taxes paid	-	-
Interest received	19,505	4,092

11. COMMITMENTS AND CONTINGENCIES

During the 2016 fiscal year, the Company was awarded a US$2.45 million (approximately $3.0 million) grant under an agreement with JDRF Therapeutics Fund LLC ("JDRF"). The grant supports a Phase 1/2 clinical trial of Sernova's Cell Pouch for treatment of patients with type 1 diabetes. Pursuant to the agreement, 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. No contributions relating to milestone achievements were earned during the three months ended January 31, 2022 (2021 – US$200,000 ($254,469)). Remaining funding available to be earned under the JDRF grant award totals approximately US$0.57 million ($0.72 million) as at January 31, 2022. The Company is required to pay royalties to JDRF as a percentage of any future net sales received from such diabetes product or in certain future license or disposition transactions up to an aggregate maximum of four times the aggregate amount of JDRF grant funding received. A bonus amount equal to the total amount of grant funding received is also payable to JDRF on two aggregate net sales thresholds if they are achieved. Given the early and inconclusive stage of development of the diabetes product, the royalty is not probable at this time and therefore no liability has been recorded.

During the 2021 fiscal year, the Company entered into research collaborations with international pharmaceutical companies to evaluate the collaborators' stem cell assets in the Company's Cell Pouch for proof-of-concept studies. Successful studies may lead to future development and commercial partnership opportunities. Under the terms of the collaboration agreements, the Company committed to perform certain preclinical activities and the collaboration parties will provide funding enabling the Company to fully recover costs incurred. Aggregate advance funding totaling US$205,490 ($261,439) was received and recorded as research collaboration advances in current liabilities upon receipt. During the three months ended January 31, 2022, the remaining balance of U$54,927 ($69,890) in current liabilities as at October 31, 2021 was recorded as a research and development cost recovery contribution in the statement of loss and comprehensive loss.

The Company enters into contracts in the normal course of business, including for research and development activities, consulting and other services. As at January 31, 2022, the Company has commitments totally approximately $4,299,000, of which approximately $2,794,000 is expected to be paid over the next twelve months. The majority of these contracts are cancellable by the Company with notice. In addition, the Company has minimum annual royalty payment obligations of approximately $30,000 for third party licensing agreements.

Effective September 1, 2021, the Company entered into a two-year lease for both its existing office premises and lab facilities and additional office space at a rate of $14,000 per month, with a 2% increase on the anniversary of the lease agreement. Under the terms of the lease, the Company has an option to extend the lease term for an additional twelve months, up to August 31, 2024, with a minimum of ninety days advance written notice of its intent to extend occupancy. As of January 31, 2022, remaining undiscounted lease payment obligations total $444,147 assuming the Company exercises its option, of which $169,400 is payable over the next twelve months.

12. 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 and for the settlement of all outstanding DSUs, unless it would be anti-dilutive.

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 working capital and 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.

As the Company's policy is to retain cash to keep funds available to finance activities required to advance product development, dividends are not currently paid. The Company is not subject to any capital requirements imposed by any regulator or by any other external source. Excess cash is invested in accordance with the Company's investment policy, as established by the Company's Audit Committee. The primary objectives of the investment policy, in order of priority, are preservation of capital, liquidity and return on investment.

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 since the year ended October 31, 2021.

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 financial liabilities, including cash, 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.

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

Financial risk factors

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

(a) **Credit risk**

Credit risk is the risk of loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and short-term investments and there is additional risk as those financial instruments are primarily held by a single counterparty and or an affiliate. 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 January 31, 2022, are composed of amounts due from the Canadian federal government agencies.

(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, 2021, the Company had working capital of $25,839,638 (October 31, 2021 - $26,851,4746).

(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 cash in high yield savings accounts or highly liquid short-term instruments. Interest income is not significant to the Company's projected operational budget and related rate fluctuations are not significant to the Company's risk assessment.

(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 grant contributions that are denominated in foreign currencies. The Company's foreign currency risk is primarily related to expenses denominated in United States dollars.