



**SERNOVA CORP.**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND NINE MONTHS ENDED  
JULY 31, 2017 AND 2016**

**(Expressed in Canadian Dollars)  
(Unaudited)**

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The Stiller Centre, Suite 114  
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These unaudited interim condensed consolidated financial statements of Sernova Corp. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

	Note	July 31, 2017	October 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 3,735,607	\$ 5,199,451
Marketable securities		1,000,999	700,000
Amounts receivable	4	595,797	231,351
Prepaid expenses		<u>12,657</u>	<u>67,792</u>
<b>Total current assets</b>		<u>5,345,060</u>	<u>6,198,594</u>
<b>Non-current assets</b>			
Property and equipment, net	5	<u>231,935</u>	<u>26,650</u>
<b>Total non-current assets</b>		<u>231,935</u>	<u>26,650</u>
<b>Total assets</b>		<u>\$ 5,576,995</u>	<u>\$ 6,225,244</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6	\$ 428,596	\$ 190,950
Deferred government assistance	10	<u>665,740</u>	<u>655,324</u>
<b>Total current liabilities</b>		<u>1,094,336</u>	<u>846,274</u>
<b>EQUITY</b>			
Common shares	7	33,834,283	32,902,583
Warrants	7	993,360	993,360
Contributed surplus		3,469,491	3,635,753
Deficit		<u>(33,814,475)</u>	<u>(32,152,726)</u>
<b>Total equity</b>		<u>4,482,659</u>	<u>5,378,970</u>
<b>Total liabilities and equity</b>		<u>\$ 5,576,995</u>	<u>\$ 6,225,244</u>

**Nature and continuance of operations** (Note 1)

**Commitments and contingencies** (Note 10)

**Approved and authorized by the Board of Directors on September 29, 2017:**

<u>“Frank Holler”</u>	Director	<u>“Dr. Philip Toleikis”</u>	Director
Frank Holler		Dr. Philip Toleikis	

See accompanying notes to the interim condensed consolidated financial statements.

**SERNOVA CORP.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

	Note	Three Months Ended July 31,		Nine Months Ended July 31,	
		2017	2016	2017	2016
<b>EXPENSES</b>					
Research and development	9	\$ 414,029	\$ 497,891	\$ 866,976	\$ 1,273,239
General and administrative	9	<u>241,369</u>	<u>489,399</u>	<u>783,168</u>	<u>1,036,363</u>
Total operating expenses		<u>655,398</u>	<u>987,290</u>	<u>1,650,144</u>	<u>2,309,602</u>
Finance income		(11,853)	(9,402)	(43,135)	(21,059)
Finance costs		2,993	2,956	11,035	7,039
Foreign exchange (gain) loss		<u>59,255</u>	<u>(15,897)</u>	<u>43,705</u>	<u>37,732</u>
Net finance (income) costs		<u>50,395</u>	<u>(22,343)</u>	<u>11,605</u>	<u>23,712</u>
<b>Net loss and comprehensive loss for the period</b>		<u>\$ 705,793</u>	<u>\$ 964,947</u>	<u>\$ 1,661,749</u>	<u>\$ 2,333,314</u>
<b>Weighted average number of common shares outstanding for the period</b>		<u>159,374,498</u>	<u>149,040,894</u>	<u>157,861,476</u>	<u>144,918,371</u>
<b>Basic and diluted loss per common share</b>		<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

See accompanying notes to the interim condensed consolidated financial statements.

**SERNOVA CORP.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED JULY 31, 2017 AND 2016**  
(Expressed in Canadian Dollars)  
(Unaudited)

	Nine Months Ended July 31,	
	2017	2016
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,661,749)	\$ (2,333,314)
Adjustments for items not affecting cash:		
Depreciation of property and equipment	25,328	5,673
Share-based compensation	294,938	509,485
Interest accrued on short-term investments	(999)	13,835
Contributions	(651,579)	(123,716)
Changes in non-cash working capital balances:		
Amounts receivable	(364,446)	26,342
Prepaid expenses	55,135	(33,473)
Accounts payable and accrued liabilities	159,858	149,637
Cash used in operating activities	<u>(2,143,514)</u>	<u>(1,785,531)</u>
<b>INVESTING ACTIVITIES</b>		
Marketable securities, net	(300,000)	1,451,070
Acquisition of property and equipment	(152,825)	(5,025)
Cash used in investing activities	<u>(452,825)</u>	<u>1,446,045</u>
<b>FINANCING ACTIVITIES</b>		
Issue of units under private placement	-	4,200,000
Share issue costs	-	(200,121)
Issue of common shares on exercise of warrants	-	39,458
Issue of common shares on exercise of stock options	470,500	200,612
Grants	661,995	873,213
Cash provided by financing activities	<u>1,132,495</u>	<u>5,113,162</u>
<b>Change in cash and cash equivalents during the period</b>	<b>(1,463,844)</b>	<b>4,773,676</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>5,199,451</u></b>	<b><u>211,938</u></b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 3,735,607</u></b>	<b><u>\$ 4,985,614</u></b>
Supplementary cash flow information:		
Property and equipment acquired through accounts payable and accrued liabilities	\$ 77,788	\$ -
Finder's warrants issued	\$ -	\$ 58,203

See accompanying notes to the interim condensed consolidated financial statements.

**SERNOVA CORP.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

FOR THE NINE MONTHS ENDED JULY 31, 2017 AND 2016

(Expressed in Canadian Dollars)

(Unaudited)

	<b>Common Shares</b>		<b>Warrants</b>		<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total</b>
	<b>Number</b>	<b>(Note 7) Amount</b>	<b>Number</b>	<b>(Note 7) Amount</b>			
<b>Balance, October 31, 2016</b>	156,679,498	\$ 32,902,583	26,216,362	\$ 993,360	\$ 3,635,753	\$ (32,152,726)	\$ 5,378,970
Net loss and comprehensive loss for the period	–	–	–	–	–	(1,661,749)	(1,661,749)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	2,695,000	931,700	–	–	(461,200)	–	470,500
Warrants expired unexercised	–	–	(105,623)	–	–	–	–
Share-based compensation	–	–	–	–	294,938	–	294,938
<b>Balance, July 31, 2017</b>	159,374,498	\$ 33,834,283	26,110,739	\$ 993,360	\$ 3,469,491	\$ (33,814,475)	\$ 4,482,659
<b>Balance, October 31, 2015</b>	141,821,720	\$ 28,588,449	19,026,040	\$ 935,157	\$ 3,082,947	\$ (29,653,104)	\$ 2,953,449
Net loss and comprehensive loss for the period	–	–	–	–	–	(2,333,314)	(2,333,314)
Transactions with owners of the Company, recognized directly in equity							
Issue of units under private placement	16,800,000	4,200,000	16,800,000	–	–	–	4,200,000
Share issue costs	–	(258,324)	–	–	–	–	(258,324)
Finder's warrants issued	–	–	521,850	58,203	–	–	58,203
Exercise of stock options	1,298,750	318,000	–	–	(117,388)	–	200,612
Exercise of warrants	131,528	39,458	(131,528)	–	–	–	39,458
Warrants expired unexercised	–	–	(10,000,000)	–	–	–	–
Share-based compensation	–	–	–	–	509,485	–	509,485
<b>Balance, July 31, 2016</b>	160,051,998	\$ 32,887,583	26,216,362	\$ 993,360	\$ 3,475,044	\$ (31,986,418)	\$ 5,369,569

See accompanying notes to the interim condensed consolidated financial statements.

**SERNOVA CORP.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016  
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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Sernova Corp. is a regenerative medicine company engaged in the research and development of its proprietary Cell Pouch™ and associated technologies including immune-protected therapeutic cells. The Company is focused on developing a commercially-viable treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells placed into its implanted, prevascularized and scalable medical device (the Cell Pouch™), protected from immune system attack.

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

The Company’s head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company’s registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. The Company is listed on the TSX Venture Exchange under the symbol SVA and is also listed on the OTCQB Venture Market under the symbol SEOVF.

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses and cash outflows from operations since its inception, and accordingly, it will require ongoing financing in order to continue its research and development activities. The ability of the Company to continue as a going concern in the long-term depends upon its ability to develop profitable operations and to continue to raise adequate financing. The Company will seek new funding from additional equity financings and/or licensing agreements and collaborations with development partners. Management believes that the Company has sufficient working capital to maintain its operations for at least the next twelve months.

**2. BASIS OF PRESENTATION****(a) Statement of compliance**

These interim condensed consolidated financial statements for the three and nine months ended July 31, 2017 and 2016 were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the years ended October 31, 2016 and 2015, which were prepared in accordance with IFRS as issued by the IASB. Any subsequent changes to IFRS or their interpretation, that are given effect in the Company’s annual audited consolidated financial statements for the year ending October 31, 2017, could result in a restatement of these unaudited interim condensed consolidated financial statements. These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Accordingly, these interim condensed consolidated financial statements for the three and nine months ended July 31, 2017 and 2016 should be read together with the annual consolidated financial statements for the years ended October 31, 2016 and 2015.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. These interim condensed consolidated financial statements were authorized for issuance by the Company’s Board of Directors on September 29, 2017.

**SERNOVA CORP.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**2. BASIS OF PRESENTATION (cont'd...)**

**(b) Basis of measurement:**

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

**(c) Functional and presentation currency**

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

**(d) Use of significant estimates and assumptions**

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities and expenses, as well as the Company's ability to continue as a going concern. The estimates and assumptions made are continually evaluated and have been based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates and assumptions are inherently uncertain. Actual results could differ materially from these estimates and assumptions. Revisions to estimates are recognized in the period in which the estimate is revised and may impact future periods.

Management has applied significant estimates and assumptions to the following:

**Valuation of share-based compensation**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected: option life, volatility, risk-free interest rate, forfeiture rates, stock option exercise behaviours, dividend yield and corporate performance. Changes in these assumptions affect the fair value estimate for share-based compensation.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**New standards and interpretations not yet effective**

*IFRS 9 Financial Instruments*

In October 2010, the IASB published amendments to IFRS 9 *Financial Instruments* ("IFRS 9") which provides added guidance on the classification and measurement of financial liabilities. In July 2014, the IASB issued its final version of IFRS 9, which completes the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The final standard is required to be applied for years beginning on or after January 1, 2018. Based upon current facts and circumstances, we do not expect our financial performance or disclosure to be materially affected by the application of the standard.

Accordingly the Company has decided that it will choose early adoption of this standard, effective November 1, 2017.

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****New standards and interpretations not yet effective (cont'd...)***IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"), which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is required to be applied for years beginning on or after January 1, 2018, such date reflecting the one-year deferral approved by the International Accounting Standards Board on July 22, 2015. The Company has assessed the impact of this standard on the annual and interim condensed consolidated financial statements. Based upon current facts and circumstances, we do not expect our financial performance or disclosures to be materially affected by the application of the standard. Accordingly the Company has decided that it will choose early adoption of this standard, effective November 1, 2017.

*IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16"), its new lease standard that requires lessees to recognize assets and liabilities for most leases on the statement of financial position. Lessees applying IFRS 16 will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The new standard will be effective from January 1, 2019 with limited early application permitted. The Company is currently monitoring the development of this standard and assessing the impact that adoption of this standard may have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued, but have future effective dates, are either not applicable or are not expected to have a significant impact on the Company's interim condensed consolidated financial statements.

**4. AMOUNTS RECEIVABLE**

	July 31, 2017	October 31, 2016
Government programs receivable	\$ 148,353	\$ 166,142
Grants receivable	412,384	-
Sales tax credits receivable	24,621	65,209
Other receivables	<u>10,439</u>	<u>-</u>
	<u>\$ 595,797</u>	<u>\$ 231,351</u>

**5. PROPERTY AND EQUIPMENT**

	Computer and Office Equipment	Laboratory Equipment	Manufacturing Equipment	Total
<b>Cost</b>				
Balance, October 31, 2016	\$ 26,020	\$ 32,027	\$ -	\$ 58,047
Additions	<u>25,377</u>	<u>101,611</u>	<u>103,625</u>	<u>230,613</u>
Balance, July 31, 2017	<u>\$ 51,397</u>	<u>\$ 133,638</u>	<u>\$ 103,625</u>	<u>\$ 288,660</u>
<b>Accumulated depreciation</b>				
Balance, October 31, 2016	\$ 20,661	\$ 10,736	\$ -	\$ 31,397
Depreciation	<u>6,893</u>	<u>18,435</u>	<u>-</u>	<u>25,328</u>
Balance, July 31, 2017	<u>\$ 27,554</u>	<u>\$ 29,171</u>	<u>\$ -</u>	<u>\$ 56,725</u>
<b>Net carrying amounts</b>				
October 31, 2016	\$ 5,359	\$ 21,291	\$ -	\$ 26,650
July 31, 2017	<u>\$ 23,843</u>	<u>\$ 104,467</u>	<u>\$ 103,625</u>	<u>\$ 231,935</u>

**SERNOVA CORP.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016  
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**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	July 31, 2017	October 31, 2016
Accounts payable	\$ 164,454	\$ 116,003
Accrued liabilities	259,175	71,383
Due to related parties (Note 9)	<u>4,967</u>	<u>3,564</u>
	<u>\$ 428,596</u>	<u>\$ 190,950</u>

**7. COMMON SHARES AND WARRANTS****(a) Authorized**

Unlimited number of common shares, without par value.

**(b) Share capital transactions – nine months ended July 31, 2017 and 2016**

For the nine months ended July 31, 2017, 2,695,000 stock options were exercised for gross cash proceeds of \$470,500. During the same period 330,000 stock options expired.

For the nine months ended July 31, 2016, 1,298,750 stock options were exercised for cash proceeds of \$200,612 and 131,528 warrants were exercised for cash proceeds of \$39,458.

In June 2016, the Company completed a non-brokered private placement for gross cash proceeds of \$4,200,000. The offering consisted of 16,800,000 units sold at a price of \$0.25 per unit. Each unit consisted of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company for a period of 24 months at a price of \$0.35 per share, subject to abridgement of the exercise period (after the expiry of the 4 month hold period) with 30 days' notice to holders in the event that the twenty-day volume weighted price of the Company's common shares exceeds \$0.50. The warrants were ascribed a value of \$nil representing the difference between the issue price of the units and the fair market value of the shares received as part of the offering.

Costs associated with the private placement totaled \$258,324, including cash fees of \$200,121 and the issue of 521,850 finder's warrants valued at \$58,203, which have been deducted from the gross proceeds. Each finder's warrant entitles the holder to purchase one common share of the Company for a period of 24 months at a price of \$0.35 per share, subject to the same hold and abridgement conditions as the warrants included in each unit of the offering.

**(c) Warrants**

In May 2017, the Company extended the expiry date of 5,745,633 warrants from May 8, 2017 to November 8, 2017 and the expiry date of 3,043,256 warrants from May 14, 2017 to November 14, 2017.

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

**7. COMMON SHARES AND WARRANTS (cont'd ...)****(c) Warrants (cont'd ...)**

The following table summarizes warrants outstanding as at July 31, 2017:

	Number of Warrants	Exercise Price	Expiry Date
<b>Warrants</b>	5,745,633	\$0.30	November 8, 2017
	3,043,256	0.30	November 14, 2017
	8,299,250	0.35	June 27, 2018
	9,022,600	0.35	June 30, 2018
	26,110,739		

All warrants are exercisable on issuance. Changes in the number of warrants outstanding during the nine months ended July 31, 2017 and 2016 were as follows:

	2017		2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	26,216,362	\$ 0.33	19,026,040	\$ 0.35
Warrants issued in private placement	-	-	17,321,850	0.35
Exercised	-	-	(131,528)	0.30
Expired	(105,623)	0.30	(10,000,000)	0.40
Balance outstanding, end of period	26,110,739	\$ 0.33	26,216,362	\$ 0.33

**(d) 2015 Incentive Plan**

The Company's 2015 Incentive Plan (the "Plan"), was approved by shareholders of the Company on April 26, 2017. Under the Plan the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and deferred share units ("DSU's") to directors and officers of the Company up to an aggregate of 10% of the Company's issued and outstanding common shares. The number of common shares reserved for issuance as DSU's under the Plan is fixed at a maximum of 1,314,778.

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

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**7. COMMON SHARES AND WARRANTS (cont'd ...)****(d) 2015 Incentive Plan (cont'd ...)**

The following table summarizes options outstanding as at July 31, 2017:

	Number of Options	Exercise Price	Expiry Date
<b>Options</b>	313,600	\$ 0.350	July 4, 2018
	1,775,000	0.150	January 27, 2019
	150,000	0.150	February 11, 2019
	1,775,000	0.260	June 25, 2025
	2,550,000	0.225	March 14, 2026
	<u>250,000</u>	0.260	November 14, 2026
	<b>6,813,600</b>		

As at July 31, 2017, there were 6,813,600 options outstanding, representing 4.3% of the Company's issued and outstanding common shares (October 31, 2016 – 10,436,100 options outstanding representing 6.7%).

Changes in the number of options outstanding during the nine months ended July 31, 2017 and 2016, were as follows:

	2017		2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of period	10,436,100	\$ 0.19	8,873,750	\$ 0.19
Granted	250,000	0.26	3,393,600	0.24
Cancelled/Forfeited	(1,177,500)	0.22	(370,000)	0.25
Exercised	(2,695,000)	0.17	(1,298,750)	0.15
<b>Balance outstanding, end of period</b>	<b>6,813,600</b>	<b>\$ 0.22</b>	<b>10,598,600</b>	<b>\$ 0.21</b>
<b>Options exercisable, end of period</b>	<b>4,682,550</b>	<b>\$ 0.21</b>	<b>6,292,325</b>	<b>\$ 0.19</b>

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**7. COMMON SHARES AND WARRANTS (cont'd ...)****(d) 2015 Incentive Plan (cont'd ...)**

The following table reflects details of the stock options outstanding by range of exercise prices as at July 31, 2017:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.14 to \$ 0.18	1,925,000	1.4	\$ 0.15	1,925,000	\$ 0.15
\$ 0.22 to \$ 0.26	4,575,000	8.3	0.24	2,433,950	0.24
\$ 0.35	313,600	0.9	0.35	313,600	0.35
<b>\$ 0.14 to \$ 0.35</b>	<b>6,813,600</b>	<b>6.3</b>	<b>\$ 0.22</b>	<b>4,682,550</b>	<b>\$ 0.21</b>

The Company's Plan allows for the issuance of DSU's to Directors and Officers of the Company 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 DSU's is at the discretion of the Company under the plan, it has been accounted for as an equity settled plan. On June 25, 2015 and March 14, 2016, the Company issued 625,000 and 450,000 DSU's to directors, respectively. The DSU's vest over a three year period after the date of grant. Up to July 31, 2017 604,327 DSU's had vested.

In August 2017, Sernova's Board of Directors approved an amendment to the company's Option Plan & Deferred Share Unit Plan (the "Amended Plan") to increase the maximum number of Deferred Share Units ("DSUs") issuable by an additional 660,222 DSUs to a maximum of 1,975,000 DSUs. Further to the Amended Plan, Sernova granted 3,735,000 stock options to certain officers, employees and consultants of the company, each such option being exercisable into a common share at a price of \$0.25 per share for a period of 10 years, and conditionally granted 900,000 DSUs to its Board of Directors. The DSU grants are subject to the company obtaining shareholder approval and TSX Venture Exchange approval.

**8. RELATED PARTY TRANSACTIONS**

The key management personnel of the Company are the Directors, the President and Chief Executive Officer and the Chief Financial Officer.

Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured, interest free and settlement generally occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Included in accounts payable and accrued liabilities at July 31, 2017 was \$4,967 due to key management personnel (October 31, 2016 – \$3,564).

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016**

(Expressed in Canadian Dollars)

(Unaudited)

**8. RELATED PARTY TRANSACTIONS (cont'd ...)**

Compensation to key management personnel for the three and nine months ended July 31, 2017 and 2016, was as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2017	2016	2017	2016
Salaries, benefits and consulting fees	\$ 90,685	\$ 156,347	\$ 302,199	\$ 426,908
Director fees and benefits	24,985	24,985	74,954	75,781
DSU's issued for director compensation	14,288	39,334	63,007	100,477
Share-based compensation	<u>10,917</u>	<u>68,426</u>	<u>62,888</u>	<u>168,925</u>
<b>Total</b>	<b>\$ 140,875</b>	<b>\$ 289,092</b>	<b>\$ 503,048</b>	<b>\$ 772,091</b>

**9. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION**

Components of the research and development expenses for the three and nine months ended July 31, 2017 and 2016, were as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2017	2016	2017	2016
Employee costs, supplies and contract payments	\$ 448,551	\$ 393,269	\$ 1,183,754	\$ 1,088,107
Manufacturing costs	42,389	-	71,416	-
Patent fees and costs	72,029	78,436	155,641	162,147
Depreciation of property and equipment	11,029	1,776	23,949	5,328
Share-based compensation	<u>36,354</u>	<u>98,583</u>	<u>155,863</u>	<u>221,475</u>
	610,352	572,064	1,590,623	1,477,057
Contributions and tax credits	<u>(196,323)</u>	<u>(74,173)</u>	<u>(723,647)</u>	<u>(203,818)</u>
<b>Total research and development expenses</b>	<b>\$ 414,029</b>	<b>\$ 497,891</b>	<b>\$ 866,976</b>	<b>\$ 1,273,239</b>

Components of the general and administrative expenses for the three and nine months ended July 31, 2017 and 2016, were as follows:

	Three months ended July 31,		Nine months ended July 31,	
	2017	2016	2017	2016
Employee costs and consulting fees	\$ 73,401	\$ 229,840	\$ 218,822	\$ 332,638
Professional fees	19,351	12,774	60,400	57,739
Director fees and benefits	25,455	25,500	76,933	76,296
Investor relations	44,067	45,176	155,422	154,308
Travel and other costs	43,578	29,094	131,137	127,027
Depreciation of property and equipment	1,221	115	1,379	345
DSU's issued for director compensation	14,288	39,335	63,007	100,478
Share-based compensation	<u>20,008</u>	<u>107,565</u>	<u>76,068</u>	<u>187,532</u>
<b>Total general and administrative expenses</b>	<b>\$ 241,369</b>	<b>\$ 489,399</b>	<b>\$ 783,168</b>	<b>\$ 1,036,363</b>

**SERNOVA CORP.**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2017 AND 2016  
(Expressed in Canadian Dollars)  
(Unaudited)

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**10. DEFERRED GRANTS, COMMITMENTS AND CONTINGENCIES**

In December 2015, the Company was awarded a €5.6 million (approximately \$8.5 million) non-dilutive grant by the European Commission's Horizon 2020 program, as part of a consortium. The Company expects to receive total funding in the amount of €44,178 (approximately \$1.4 million), representing its portion of the grant, based upon the terms of the grant agreement. In January 2016, the Company received an initial funding payment related to the grant in the amount of €66,507 (\$873,213). Expenditures incurred by the Company related to the grant to July 31, 2017 amounted to \$619,857 leaving \$253,356 of the grant received as deferred grants, which will be recognized against future expenditures covered by the grant. In July 2017, the Company received confirmation that a subsequent payment relating to the grant in the amount of €83,153 (estimated \$412,384) would be paid to Sernova. By participating in the HemAcure consortium and accepting grant funding, the Company has committed to perform certain product development activities, as outlined in the grant agreement with the European Commission's Horizon 2020 program. Amounts claimed by the Company against the grant will be subject to an audit by the European Commission.

In July 2016, the Company was awarded a US\$2.45 million (approximately \$3.2 million) grant under an agreement with JDRF Therapeutics Fund, LLC ("JDRF"). The grant supports a human clinical trial of Sernova's Cell Pouch™ for treatment of patients with type 1 diabetes at a major transplantation center in the United States. In August 2016, the Company received an initial funding payment from JDRF in the amount of US\$367,768 (\$480,783) as per the terms under the agreement. 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 a US market. Further, 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.

In October 2016, the Company entered into a collaboration with an international pharmaceutical company to study Sernova's Cell Pouch™ in a large animal diabetes model. The collaboration involves the study of safety, survival and efficacy of locally immune protected therapeutic cells in our Cell Pouch™ in proof of concept studies with the goal to establish a future development and commercial partnership. Pursuant to the collaboration agreement, the Company has committed to perform certain pre-clinical activities. This agreement included 50% cost sharing for the agreed studies. A payment in the amount of US\$185,778 (\$249,611) was received in December 2016.

The Company expects to pay certain future costs related to its pre-clinical and clinical trials. Such payments are expected to include the cost of clinical staff and overhead thereon, trial insurance, and may include travel and a portion of drug or procedure-related expenses or transplantation expenses not covered by insurance. The total expected future payments will be impacted by such factors as the rate of enrollment, the location in which the patient resides and the specifics of patient insurance.

The Company entered into a two year lease commitment of laboratory space on August 1, 2015. Subsequent to July 31, 2017, the Company negotiated a new three year lease effective September 1, 2017. Notwithstanding the term, the Company has the right to terminate the lease after the first anniversary by providing 90 days' written notice. Gross payments required under the new lease amounted to \$141,369.