



**SERNOVA CORP.**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**FOR THE THREE AND NINE MONTHS ENDED**

**JULY 31, 2021 AND 2020**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

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**SERNOVA CORP.****INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

(Unaudited)

	Note	July 31, 2021	October 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 29,888,088	\$ 3,949,412
Amounts receivable	4	128,356	506,767
Prepaid expenses		350,889	149,104
		<b>30,367,333</b>	<b>4,605,283</b>
<b>Non-current assets</b>			
Property and equipment, net		186,979	203,423
Intangible assets, net		766,793	916,818
		<b>953,772</b>	<b>1,120,241</b>
		<b>\$ 31,321,105</b>	<b>\$ 5,725,524</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	5	\$ 1,087,120	\$ 878,075
<b>Non-current liabilities</b>			
Convertible debentures	6	-	702,612
		<b>1,087,120</b>	<b>1,580,687</b>
<b>SHAREHOLDERS' EQUITY</b>			
Common shares	7	73,556,565	44,640,757
Warrants	7	3,693,248	1,549,759
Contributed surplus		5,557,780	5,737,733
Deficit		(52,573,608)	(47,783,412)
		<b>30,233,985</b>	<b>4,144,837</b>
		<b>\$ 31,321,105</b>	<b>\$ 5,725,524</b>

Grants, Contributions, Commitments and Contingencies (Note 10)

Events After the Reporting Period (Note 14)

See accompanying notes to the interim condensed consolidated financial statements.

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

		<u>Three months ended July 31,</u>		<u>Nine months ended July 31,</u>	
	Note	<b>2021</b>	2020	<b>2021</b>	2020
<b>EXPENSES</b>					
Research and development	9	\$ <b>956,965</b>	\$ 616,551	\$ <b>2,746,350</b>	\$ 2,218,648
General and administrative	9	<b>679,816</b>	569,922	<b>1,732,330</b>	2,066,364
		<b>1,636,781</b>	1,186,473	<b>4,478,680</b>	4,285,012
<b>OTHER EXPENSE (INCOME)</b>					
Interest income		<b>(23,374)</b>	(11,607)	<b>(53,539)</b>	(35,874)
Finance costs	6	<b>892</b>	29,271	<b>324,081</b>	38,696
Foreign exchange loss (gain)		<b>16,699</b>	(8,557)	<b>40,974</b>	2,938
		<b>(5,783)</b>	9,107	<b>311,516</b>	5,760
<b>LOSS AND COMPREHENSIVE LOSS</b>		<b>\$ 1,630,998</b>	\$ 1,195,580	<b>\$ 4,790,196</b>	\$ 4,290,772
Weighted average number of common shares					
outstanding – basic and diluted		239,770,878	196,004,897	229,577,283	195,965,187
Basic and diluted loss per common share					
	11	\$ 0.01	\$ 0.01	\$ 0.03	\$ 0.03

See accompanying notes to the interim condensed consolidated financial statements.

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

	2021	2020
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (4,790,196)	\$ (4,290,772)
Adjustments for items not affecting cash:		
Amortization and depreciation	182,461	152,674
Share-based compensation (Note 7)	179,876	563,853
Grants and contributions recognized (Note 10)	(610,006)	(66,348)
Interest income accrued on short-term investments	-	(24,153)
Accretion and accrued interest expense (Note 6)	297,388	14,830
Interest on lease liabilities	-	6,271
Changes in non-cash working capital balances:		
Amounts receivable	6,626	33,878
Prepaid expenses	(201,785)	700,410
Accounts payable and accrued liabilities	109,514	53,904
	<b>(4,826,122)</b>	<b>(2,855,453)</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(15,992)	(5,466)
Acquisition of intangible assets (Note 12)	-	(959,905)
	<b>(15,992)</b>	<b>(965,371)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from units financing, net	21,110,836	-
Proceeds from exercise of warrants	7,631,856	-
Proceeds from convertible debentures, net of issue costs (Note 6)	-	969,104
Other financing costs	(11,808)	(42,184)
Proceeds from exercise of stock options (Note 7)	916,666	21,000
Proceeds from sale of short-term investments	-	600,000
Grant contribution receipts (Note 10)	871,799	658,755
Research collaboration advances	261,439	-
Lease liabilities payments	-	(84,964)
	<b>31,697,456</b>	<b>2,121,711</b>
<b>CHANGE IN CASH DURING THE PERIOD</b>	<b>25,938,676</b>	<b>(1,699,113)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>3,949,412</b>	<b>1,797,138</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 29,888,088</b>	<b>\$ 98,025</b>
<b>Supplementary cash flow information</b>		
Warrants issued to convertible debenture investor (Note 7)		175,160
Right-of-use asset additions	-	91,268
Accrued liabilities on intangible assets acquisition (Note 12)	-	40,260
Income taxes paid	-	-
Interest received	53,539	11,721

See accompanying notes to the interim condensed consolidated financial statements.

**SERNOVA CORP.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020

(Expressed in Canadian Dollars)

(Unaudited)

	<u>Common Shares</u>		<u>Warrants</u>	<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
	(Note 7)		(Notes 6 and 7)	(Notes 6 and 7)		
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	–	–	–	–	(4,790,196)	(4,790,196)
Transactions with owners of the Company, recognized directly in equity:						
Units financing, net of issuance costs	19,205,000	18,759,912	2,350,924	–	–	21,110,836
Units issued for corporate finance fee in conjunction with units financing	384,100	(460,920)	–	460,920	–	–
Exercise of warrants	24,389,616	7,839,291	(207,435)	–	–	7,631,856
Exercise of stock options	4,093,527	1,600,098	–	(683,432)	–	916,666
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
Share-based compensation	–	–	–	179,876	–	179,876
<b>Balance, July 31, 2021</b>	<b>260,474,670</b>	<b>\$ 73,556,565</b>	<b>\$ 3,693,248</b>	<b>\$ 5,557,780</b>	<b>\$ (52,573,608)</b>	<b>\$ 30,233,985</b>
Balance, October 31, 2019	195,945,114	\$ 41,305,138	\$ 1,106,278	\$ 4,932,406	\$ (42,462,104)	\$ 4,881,718
Loss and comprehensive loss for the period	–	–	–	–	(4,290,772)	(4,290,772)
Transactions with owners of the Company, recognized directly in equity:						
Equity component of convertible debentures issued, net of allocated costs	–	–	169,748	137,317	–	307,065
Exercise of stock options	100,000	36,000	–	(15,000)	–	21,000
Share-based compensation	–	–	–	563,853	–	563,853
Balance, July 31, 2020	196,045,114	\$ 41,341,138	\$ 1,276,026	\$ 5,618,576	\$ (46,752,876)	\$ 1,482,864

See accompanying notes to the consolidated financial statements.

## **SERNOVA CORP.**

### **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020**

(Expressed in Canadian Dollars)

(Unaudited)

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#### **1. DESCRIPTION OF BUSINESS**

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 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 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 / Xetra Exchanges under the symbol PSH.

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses and cash outflows from operations since its inception, and accordingly, it will require ongoing financing in order to continue its research and development activities. The ability of the Company to continue as a going concern in the long-term depends upon its ability to get its biotechnology therapeutic products approved for sale, develop profitable operations and continue to raise additional working capital. The Company will seek additional working capital as required 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 at least twelve months from the statement of financial position date.

#### **2. BASIS OF PRESENTATION**

##### **(a) Statement of compliance**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”). Accordingly, these interim condensed consolidated financial statements do not include all the disclosures required for annual financial statements.

The policies applied in these unaudited interim condensed consolidated financial statements are based on International Financial Reporting Standards (“IFRS”) as issued by the International Standards Board (“IASB”). These interim condensed consolidated financial statements were approved and authorized for issuance by the Company’s Board of Directors on September 28, 2021.

##### **(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, or at amortized cost.

**SERNOVA CORP.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020**

(Expressed in Canadian Dollars)

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**2. BASIS OF PRESENTATION (cont'd ...)**

**(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 unaudited interim condensed 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 take into account historical and forward-looking factors that the Company believes are reasonable. 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.

Significant estimates and judgements applied by management are outlined in the Company's annual audited consolidated financial statements for the year ended October 31, 2020, and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements, with additional significant estimates and judgements applied to the following:

*Share-based payments*

The fair value of equity instruments is subject to the limitations of the Black-Scholes option pricing model ("Black-Scholes Model"), as well as other pricing models such as the Geske option pricing model ("Geske Model") for equity instruments involving compound options that incorporate market data and involve uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

*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 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 and cash flow, and exposure to credit risk. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

**SERNOVA CORP.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020**

(Expressed in Canadian Dollars)

(Unaudited)

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The Company's significant accounting policies are outlined in the Company's annual consolidated financial statements for the year ended October 31, 2020, and have been applied consistently to all periods presented in these unaudited interim condensed consolidated financial statements, with additional application of the following:

*Equity units / share-based payments*

The Company engages in equity financing transactions to obtain the funds necessary to continue R&D activities and operations. These equity financing transactions may involve issuance of common shares or units. Units may comprise a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a stated price prior to expiry as stipulated by the transaction.

From time to time in conjunction with private placements or brokered financings, the Company may issue compensatory finder warrants or broker warrants to agents as consideration for services provided. Awards of finder warrants and broker warrants are accounted for in accordance with the fair value method of accounting and result in share issue costs and a credit to warrants within shareholders' equity when finder warrants or broker warrants are issued. The fair value of a warrant on a common share is measured using the Black-Scholes Model and the fair value of a warrant on the warrant component of a unit is measured using the Geske Model, both of which require the use of certain assumptions regarding the risk-free market interest rate, the expected volatility in the price of the underlying stock, and the expected life of the equity instruments.

Consideration received upon the exercise of finder or agent warrants is recorded as share capital, and the related fair value recorded at the date of issuance is reclassified from warrants to common shares within shareholders' equity.

*Valuation of equity units issued*

The Company uses the residual value method with respect to the measurement of shares and warrants issued as part of units. The residual value method first allocates value to the most readily measurable component based on fair value and then the residual value, if any, to the other component(s) as applicable.

The common share component of the equity units issued in connection with private placement and brokered financings is the more readily measurable component and the last traded market price of the common share has been used to determine its fair value and portion of the equity unit proceeds. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants within shareholders' equity.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited interim condensed consolidated financial statements for all periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended October 31, 2020, which are available on SEDAR ([www.sedar.com](http://www.sedar.com)).

**SERNOVA CORP.****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020  
(Expressed in Canadian Dollars)  
(Unaudited)****4. AMOUNTS RECEIVABLE**

	July 31, 2021	October 31, 2020
Grant contributions receivable (Note 10)	\$ -	\$ 378,631
HST / GST and other tax credits receivable	128,356	128,136
	<u>\$ 128,356</u>	<u>\$ 506,767</u>

**5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	July 31, 2021	October 31, 2020
Trade payables	\$ 346,344	\$ 529,388
Accrued liabilities	445,532	213,207
Accrued interest on convertible debentures (Note 6)	10,301	31,781
Research collaboration advances	151,447	-
Due to related parties (Note 8)	133,496	103,699
	<u>\$ 1,087,120</u>	<u>\$ 878,075</u>

**6. CONVERTIBLE DEBENTURES**

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

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 up to the repayment date. 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. 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. No finder's fees or finder's warrants were paid or issued, respectively, in connection with this offering.

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 pro-rata 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.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020  
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**6. CONVERTIBLE DEBENTURES (con't ...)**

Balance outstanding, October 31, 2020	\$ 702,612
Accretion expense	297,388
Conversion of convertible debentures principal into common shares (Note 7)	(1,000,000)
Balance outstanding, July 31, 2021	\$ -

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

Unlimited number of common shares, without par value.

**(b) Share capital changes**

During the nine months ended July 31, 2021:

- (i) cash proceeds of approximately \$23 million were received from 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”). 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 10-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 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 \$258,837 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 2 years, a dividend yield of 0% and no forfeiture;
- (ii) cash proceeds of approximately \$8.55 million were received from the exercise of common share purchase warrants and stock options; and
- (iii) 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.

During the final quarter of the fiscal year ended October 31, 2020, the Company closed 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 September 22, 2022, 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

**SERNOVA CORP.**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
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**7. COMMON SHARES AND WARRANTS (cont'd ...)****(b) Share capital changes (cont'd ...)**

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.

**(c) Warrants**

Changes in the number of warrants outstanding during the nine months ended July 31, 2021 and 2020 were as follows:

	2021		2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, October 31, 2020 and 2019	50,246,590	\$ 0.32	35,411,647	\$ 0.32
Issued in conjunction with a prospectus offering of units	19,589,100	1.70	-	-
Issuance of broker warrants	1,210,818	1.20	-	-
Exercised	(24,389,616)	(0.31)	-	-
Balance outstanding, July 31, 2021 and 2020	46,656,892	\$ 0.92	35,411,647	\$ 0.32

The following table summarizes the warrants outstanding as at July 31, 2021:

	Number of Warrants	Exercise Price	Expiry Date
	7,242,375	\$ 0.30	August 16, 2022
	7,260,372	0.30	August 31, 2022
	221,000	0.30	September 9, 2022
	11,133,227	0.35	September 22, 2022 *
	19,589,100	1.70	March 1, 2023 **
	1,210,818	1.20	March 1, 2023 ***
	46,656,892		

\* 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 10-day volume-weighted price of the Company's common shares exceeds \$3.05 per share.

**SERNOVA CORP.**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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(Expressed in Canadian Dollars)

(Unaudited)

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

**(c) Warrants (cont'd ...)**

During the third fiscal quarter ended July 31, 2020, unsecured convertible debentures were issued on a non-brokered private placement basis for an aggregate principal amount and gross proceeds of \$1,000,000. In conjunction with the convertible debentures issuance, 3,000,000 non-transferable common share purchase warrants were issued with each exercisable into one common share at a price of \$0.20 per share until December 8, 2022. These common share purchase warrants were valued at \$175,160 before allocated acquisition transaction related costs, see Note 6 – Convertible Debentures, as 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. Issue costs totaling \$30,896 were incurred. No finders' fees or finders' warrants were paid or issued, respectively. The convertible debentures and common share purchase warrants, and any securities into which they may be exchanged or converted, were subject to a four-month hold period in accordance with applicable securities regulations. For more information, see Note 6 – Convertible Debentures.

**(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 14.9% of the common shares outstanding as at July 31, 2021. 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 July 31, 2021, 9,038,338 stock options were outstanding, representing 3.5% of the Company's issued and outstanding common shares (October 31, 2020 – 14,474,600 stock options outstanding representing 7.0% of the then issued and outstanding common shares).

**SERNOVA CORP.****NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE NINE MONTHS ENDED JULY 31, 2021 AND 2020

(Expressed in Canadian Dollars)

(Unaudited)

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

Changes in the number of stock options outstanding during the nine months ended July 31, 2021 and 2020 were as follows:

	2021		2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, October 31, 2020 and 2019	14,474,600	\$ 0.22	14,574,600	\$ 0.22
Granted	100,000	1.40	-	-
Cancelled / forfeited	(1,442,735)	(0.21)	-	-
Exercised	(4,093,527)	(0.22)	(100,000)	(0.21)
Balance outstanding, July 31, 2021 and 2020	9,038,338	\$ 0.24	14,474,600	\$ 0.22
Options exercisable, July 31, 2021 and 2020	7,655,863	\$ 0.24	9,087,225	\$ 0.23

The following table reflects details of the stock options outstanding by range of exercise prices as at July 31, 2021:

Range of Exercise Prices	Number Outstanding	Weighted Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.21 to \$ 0.21	4,723,338	8.1	\$ 0.21	3,340,863	\$ 0.21
\$ 0.22 to \$ 0.26	4,215,000	5.2	0.24	4,215,000	0.24
\$ 1.40	100,000	1.9	1.40	100,000	1.40
\$ 0.21 to \$ 1.40	9,038,338	6.7	\$ 0.24	7,655,863	\$ 0.24

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 is estimated for the stock options granted based on the history of the Company's stock option grants. The dividend yield is assigned a zero value since it is the policy of the Company to not pay dividends on its common shares for the foreseeable future.

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

For the stock options granted during the three and nine months ended July 31, 2021, 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 using the following assumptions:

	2021	2020
Dividend yield	0%	n/a
Expected volatility	151%	n/a
Risk free interest rate	0.45%	n/a
Expected life of options	2.0 years	n/a

The Company's Incentive 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 Incentive Plan, it has been accounted for as an equity-settled plan. No DSUs were granted, cancelled or equity-settled during the three and nine months ended July 31, 2021 or year ended October 31, 2020. DSUs generally vest over a three-year period after the date of grant. As at July 31, 2021, a total of 4,150,001 DSUs were outstanding (October 31, 2020 – 4,150,001) of which 3,344,446 had vested (October 31, 2020 – 2,861,112).

**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 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 July 31, 2021 was \$133,496 due to key management personnel (October 31, 2020 – \$103,699).

Compensation to key management personnel for the reporting period:

	Three months ended July 31,		Nine months ended July 31,	
	2021	2020	2021	2020
Personnel costs	\$ 225,971	\$ 146,152	\$ 816,229	\$ 454,205
Director fees and costs	64,311	30,962	161,789	83,525
Share-based compensation - DSUs	19,772	49,800	75,063	203,831
Share-based compensation - options	12,712	46,022	48,266	142,137
	\$ 322,766	\$ 272,936	\$ 1,101,347	\$ 883,698

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**9. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION****Research and Development Expenses**

	Three months ended July 31,		Nine months ended July 31,	
	2021	2020	2021	2020
Personnel costs	\$ 255,848	\$ 171,180	\$ 821,435	\$ 512,318
Contract services and consulting	477,690	93,875	1,777,374	860,601
Lab operations	35,898	692	105,940	11,114
Manufacturing Fees	63,321	94,788	63,321	168,709
Patent fees and costs	210,673	164,827	456,927	401,139
License fees	-	20,117	10,000	20,117
Other costs	2,512	2,863	19,347	34,235
Amortization and depreciation	60,157	64,046	180,319	134,224
Share-based compensation - options	(10,479)	70,519	81,008	237,194
	1,095,620	683,907	3,515,671	2,379,651
Less: contributions and tax credits	(138,655)	(67,356)	(769,321)	(161,003)
	\$ 956,965	\$ 616,551	\$ 2,746,350	\$ 2,218,648

**General and Administrative Expenses**

	Three months ended July 31,		Nine months ended July 31,	
	2021	2020	2021	2020
Personnel costs	\$ 161,738	\$ 117,321	\$ 550,329	\$ 364,899
Consulting and professional fees	102,480	23,848	217,628	206,576
Director fees and expenses	66,302	30,962	163,780	86,748
Investor relations	137,350	265,349	443,097	902,559
Other costs	99,745	37,610	256,486	160,473
Depreciation	1,056	6,164	2,142	18,450
Share-based compensation - DSUs	19,772	49,800	75,064	203,831
Share-based compensation - options	91,373	38,868	23,804	122,828
	\$ 679,816	\$ 569,922	\$ 1,732,330	\$ 2,066,364

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

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. 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. No contributions relating to milestone achievements were earned during the three months ended July 31, 2021 (2020 – US\$nil) and US\$400,000 (\$500,014) were earned in aggregate for the nine months ended July 31, 2021 (2020 – US\$48,340 (\$66,348)). Remaining funding available to be earned under the JDRF grant award totals approximately US\$0.75 million (\$0.93 million) as at July 31, 2021.

During the current fiscal year, the Company entered into multiple research collaborations with international pharmaceutical companies to evaluate the safety, survival and efficacy of the collaborators’ proprietary stem cell assets in our Cell Pouch™ in proof-of-concept studies. Successful studies may lead to future development and commercial partnership opportunities. Under the collaboration agreements, the Company has committed to perform certain pre-clinical activities which the collaboration parties will fund enabling the Company to recover costs incurred. Payments totaling US\$205,490 (\$261,439) were received earlier in the fiscal year and recorded as research collaboration advances under current liabilities. During the three months ended July 31, 2021, \$109,992 was allocated from the advance and recorded as a cost recovery contribution in the statements of loss.

Effective September 1, 2017, the Company entered into a three-year lease expiring August 31, 2020. 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. After July 31, 2021, the Company entered into a two-year lease, expiring August 31, 2023, for existing and additional office space at a monthly rent of approximately \$14,000 over the term. Under the terms of the new lease, the Company has an option to extend the lease for an additional twelve months, up to August 31, 2024, with a minimum of ninety days advance written notice of intent to extend occupancy.

See Note 14 - Events After the Reporting Period.

**11. LOSS PER SHARE**

Basic loss per share is calculated by dividing the loss by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is similarly computed, except that the weighted average shares outstanding amount is increased to include additional shares for the exercise of all stock options and common share purchase warrants and for the settlement of all outstanding DSUs, unless it would be anti-dilutive.

**12. 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

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**12. CAPITAL RISK MANAGEMENT (con't ...)**

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.

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, 2020.

**13. 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, 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 was determined using the effective interest rate method. See Note 6 – Convertible Debentures for significant assumptions and techniques used in determining the fair value of these financial instruments.

**Financial risk factors**

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

**(a) Credit risk**

Credit risk is the risk of loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and short-term investments and there is additional risk 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 July 31, 2021 are composed of amounts due from the Canadian federal government.

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**13. 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 July 31, 2021 and October 31, 2020, the Company had cash of \$30,367,333 and \$3,949,412, respectively available to settle current liabilities of \$1,087,120 and \$878,075, 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 share.

**(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. For the nine months ended July 31, 2021, and 2020, the Company earned interest income of \$53,539 and \$35,874, respectively. Interest income is not significant to the Company's projected operational budget.

**(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.

**14. EVENTS AFTER THE REPORTING PERIOD**

After July 31, 2021, a collaboration research agreement was entered into with Dr. Alice Tomei and the University of Miami to validate the Company's Conformal Coating Technology in combination with therapeutic cells in Sernova's Cell Pouch for T1D. Under the terms of the agreement, the Company has committed to fund a one-year budget of up to US\$833,154 (approximately \$1,052,357).