



**SERNOVA CORP.**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTH MONTHS ENDED  
APRIL 30, 2019 AND 2018**

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

700 Collip Circle  
The Stiller Centre, Suite 114  
London, ON  
N6G 4X8  
[www.sernova.com](http://www.sernova.com)

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

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

	Note	April 30, 2019	October 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 611,024	\$ 1,739,346
Marketable securities		1,007,943	1,003,974
Amounts receivable	4	818,629	471,631
Prepaid expenses		<u>48,406</u>	<u>101,260</u>
<b>Total current assets</b>		<u>2,486,002</u>	<u>3,316,211</u>
<b>Non-current assets</b>			
Property and equipment, net	5	<u>280,805</u>	<u>288,977</u>
<b>Total non-current assets</b>		<u>280,805</u>	<u>288,977</u>
<b>Total assets</b>		<u>\$ 2,766,807</u>	<u>\$ 3,605,188</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6	<u>\$ 570,254</u>	<u>\$ 341,202</u>
<b>Total current liabilities</b>		<u>570,254</u>	<u>341,202</u>
<b>EQUITY</b>			
Common shares	7	36,694,637	33,891,140
Special warrants	7	-	2,534,987
Warrants	7	1,051,106	1,051,106
Contributed surplus		4,278,746	4,277,585
Deficit		<u>(39,827,936)</u>	<u>(38,490,832)</u>
<b>Total equity</b>		<u>2,196,553</u>	<u>3,263,986</u>
<b>Total liabilities and equity</b>		<u>\$ 2,766,807</u>	<u>\$ 3,605,188</u>

Nature and continuance of operations (Note 1)

Deferred grants, commitments and contingencies (Note 10)

Approved and authorized by the Board of Directors on June 28, 2019.

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 SIX MONTHS ENDED APRIL 30,  
(Expressed in Canadian Dollars)  
(Unaudited)**

	Note	Three Months Ended April 30,		Six Months Ended April 30,	
		2019	2018	2019	2018
<b>EXPENSES</b>					
Research and development	9	\$ 301,649	\$ 524,518	\$ 744,614	\$ 1,021,524
General and administrative	9	<u>312,670</u>	<u>464,850</u>	<u>590,578</u>	<u>737,037</u>
Total operating expenses		<u>614,319</u>	<u>989,368</u>	<u>1,335,192</u>	<u>1,758,561</u>
Finance income		(4,174)	(7,660)	(6,036)	(17,035)
Finance costs		2,172	2,052	4,246	5,411
Foreign exchange loss		<u>1,039</u>	<u>2,590</u>	<u>3,702</u>	<u>5,768</u>
Net finance income		<u>(963)</u>	<u>(3,018)</u>	<u>1,912</u>	<u>(5,856)</u>
<b>Loss and comprehensive loss for the period</b>		<b>\$ 613,356</b>	<b>\$ 986,350</b>	<b>\$ 1,337,104</b>	<b>\$ 1,752,705</b>
<b>Weighted average number of common shares outstanding for the period</b>					
		160,711,142	159,893,223	160,545,267	159,691,413
<b>Basic and diluted loss per common share</b>		<b>\$ 0.00</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>

See accompanying notes to the interim condensed consolidated financial statement

**SERNOVA CORP.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED APRIL 30,**  
(Expressed in Canadian Dollars)  
(Unaudited)

	2019	2018
<b>CASH PROVIDED BY (USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,337,104)	\$ (1,752,705)
Adjustments for items not affecting cash:		
Depreciation of property and equipment	32,669	31,757
Share-based compensation	101,161	315,729
Interest accrued on marketable securities	(3,969)	(6,722)
Contributions	-	(437,600)
Changes in non-cash working capital balances:		
Amounts receivable	(346,998)	152,168
Prepaid expenses	52,854	13,257
Accounts payable and accrued liabilities	229,052	48,457
Net cash used in operating activities	<u>(1,272,335)</u>	<u>(1,635,659)</u>
<b>INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	<u>(24,497)</u>	<u>(115,032)</u>
Net cash used in investing activities	<u>(24,497)</u>	<u>(115,032)</u>
<b>FINANCING ACTIVITIES</b>		
Issue of common shares on exercise of warrants	-	162,960
Issue of common shares on exercise of stock options	187,500	10,078
Special warrant financing costs	(18,990)	-
Government support	-	331,770
Net cash provided by financing activities	<u>168,510</u>	<u>504,808</u>
<b>Change in cash during the period</b>	<b>(1,128,322)</b>	<b>(1,245,883)</b>
<b>Cash beginning of period</b>	<b><u>1,739,346</u></b>	<b><u>2,627,513</u></b>
<b>Cash end of period</b>	<b><u>\$ 611,024</u></b>	<b><u>\$ 1,381,630</u></b>
Supplementary cash flow information:		
Reclassification of special warrants to common shares	\$ 2,515,997	\$ -

See accompanying notes to the interim condensed consolidated financial statements.

**SERNOVA CORP.**

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018

(Expressed in Canadian Dollars)

(Unaudited)

	Common Shares (Note 7)		Special Warrants	Warrants	Contributed Surplus	Deficit	Total
	Number	Amount	Amount	Amount			
<b>Balance, October 31, 2018</b>	159,971,348	\$ 33,891,140	\$ 2,534,987	\$ 1,051,106	\$ 4,277,585	\$ (38,490,832)	\$ 3,263,986
Net loss and comprehensive loss for the period	–	–	–	–	–	(1,337,104)	(1,337,104)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	1,250,000	287,500	–	–	(100,000)	–	187,500
Special Warrant issuance costs	–	–	(18,990)	–	–	–	(18,990)
Conversion of Special Warrants to Common Share Units	11,016,000	2,515,997	(2,515,997)	–	–	–	–
Share-based compensation	–	–	–	–	101,161	–	101,161
<b>Balance, April 30, 2019</b>	172,237,348	\$ 36,694,637	\$ –	\$ 1,051,106	\$ 4,278,746	\$ (39,827,936)	\$ 2,196,553
<b>Balance, October 31, 2017</b>	159,374,498	\$ 33,673,521	–	\$ 993,360	\$ 3,775,776	\$ (34,792,205)	\$ 3,650,452
Loss and comprehensive loss for the period	–	–	–	–	–	(1,752,705)	(1,752,705)
Transactions with owners of the Company, recognized directly in equity							
Exercise of stock options	53,125	17,393	–	–	(7,315)	–	10,078
Exercise of warrants	465,600	162,960	–	–	–	–	162,960
Share-based compensation	–	–	–	–	315,729	–	315,728
<b>Balance, April 30, 2018</b>	159,893,223	\$ 33,853,874	–	\$ 993,360	\$ 4,084,190	\$ (36,544,910)	\$ 2,386,513

See accompanying notes to the interim condensed consolidated financial statements.

## **SERNOVA CORP.**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

---

#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

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

Sernova Corp. was incorporated under the Company Act (British Columbia) on August 19, 1998. Effective May 29, 2001, the Company was continued under the Canada Business Corporations Act. The Company’s head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company’s registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. The Company is listed on the TSX Venture Exchange (the “Exchange”) under the symbol SVA, on the OTCQB Venture Market under the symbol SEOVF and on the Frankfurt Exchange under the symbol PSH.

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses and cash outflows from operations since its inception, and accordingly, it will require ongoing financing in order to continue its research and development activities. The ability of the Company to continue as a going concern in the long-term depends upon its ability to 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 is of the opinion that sufficient working capital will be obtained from external financing to meet the Company’s liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

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

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

These interim condensed consolidated financial statements for the three months and six months ended April 30, 2019 and 2018 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, 2018 and 2017, 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, 2019, 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 six months ended April 30, 2019 and 2018 should be read together with the annual consolidated financial statements for the years ended October 31, 2018 and 2017.

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 June 28, 2019.

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

---

**(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. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 7 of the audited consolidated financial statements for the years ended October 31, 2018 and 2017.

**3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS****New standards and interpretations not yet effective****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 is effective for year ends commencing after December 31, 2018 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 interim condensed 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.

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

**4. AMOUNTS RECEIVABLE**

As at	April 30, 2019	October 31, 2018
Government programs receivable	\$ 224,729	\$ 224,729
Sales and other tax credits receivable	58,239	-
JDRF receivable	<u>535,661</u>	<u>246,902</u>
	<u>\$ 818,629</u>	<u>\$ 471,631</u>

**5. PROPERTY AND EQUIPMENT**

	Computer and Office Equipment	Laboratory Equipment	Manufacturing Equipment	Total
<b>Cost</b>				
Balance, October 31, 2018	\$ 86,462	\$ 233,209	\$ 105,098	\$ 424,769
Additions	<u>497</u>	<u>24,000</u>	<u>-</u>	<u>24,497</u>
Balance, April 30, 2019	<u>\$ 86,959</u>	<u>\$ 257,209</u>	<u>\$ 105,098</u>	<u>\$ 449,266</u>
<b>Accumulated depreciation</b>				
Balance, October 31, 2018	\$ 46,698	\$ 68,173	\$ 20,921	\$ 135,792
Depreciation	<u>6,031</u>	<u>18,431</u>	<u>8,207</u>	<u>32,669</u>
Balance, April 30, 2019	<u>\$ 52,729</u>	<u>\$ 86,604</u>	<u>\$ 29,128</u>	<u>\$ 168,461</u>
<b>Net carrying amounts</b>				
October 31, 2018	\$ 39,764	\$ 165,036	\$ 84,177	\$ 288,977
April 30, 2019	<u>\$ 34,230</u>	<u>\$ 170,605</u>	<u>\$ 75,970</u>	<u>\$ 280,805</u>

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As at	April 30, 2019	October 31, 2018
Accounts payable	\$ 471,444	\$ 182,566
Accrued liabilities	30,723	97,280
Due to related parties (Note 8)	<u>68,087</u>	<u>61,356</u>
	<u>\$ 570,254</u>	<u>\$ 341,202</u>



**SERNOVA CORP.**

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

---

**7. COMMON SHARES AND WARRANTS**

**(a) Authorized**

Unlimited number of common shares, without par value.

**(b) Share capital transactions**

In November 2018 the Special Warrants disclosed in Note 7 (c) were converted into units resulting in the issuance of 11,016,000 common shares and warrants.

For the six months ended April 30, 2019, 1,250,000 stock options were exercised for gross cash proceeds of \$187,500, 650,000 options expired and 1,180,000 stock options were cancelled.

For the six months ended April 30, 2018, 53,125 stock options were exercised for gross cash proceeds of \$10,078 and 465,600 warrants were exercised for gross cash proceeds of \$162,960. During the same period 676,875 stock options expired and 8,788,889 warrants expired.

**(c) Special warrants**

On July 13, 2018 and July 20, 2018, the Company completed a non-brokered private placement of 8,000,000 and 3,016,000 special warrants at \$0.25 per special warrant for gross proceeds of \$2,000,000 and \$754,000, respectively.

Each Special Warrant converted, for no additional consideration, into one unit upon the expiry of a four-month statutory hold period in November 2018. Each unit consisted of one common share and one common share purchase warrant, with each warrant exercisable into one share at a price of \$0.35 per share for a 24 month exercise period, subject to abridgement of the exercise period on 30 days' notice to holders in the event that the twenty-day volume weighted average price of the shares exceeds \$0.50 per share. The Company incurred \$18,990 as share issuance costs.

The Company paid legal costs and finder's fees totaling \$161,267 and granted 581,700 finder warrants valued at \$57,746.

The finder warrants have the same terms as the unit warrants. The value of these finder's warrants was determined using the Black-Scholes Model based on the following assumptions: an exercise price of \$0.35 per common share, expected life of 2 years, volatility of 71.2%, and a risk-free interest rate of 1.93%.

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

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

The changes in the number of warrants outstanding during the six months ended April 30, 2019 and 2018 were as follows:

	2019		2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	581,700	\$ 0.35	26,110,739	\$ 0.33
Issued on conversion of Special Warrants	11,016,000	0.35	-	-
Expired	-	-	(8,788,889)	0.30
Exercised	-	-	(465,600)	0.35
Balance outstanding, end of period	11,597,700	\$ 0.35	16,856,250	\$ 0.35

The Company's warrants expire 24 months from the date of issuance as follows:

- 581,700 warrants expire on July 20, 2020
- 8,000,000 warrants expire on November 14, 2020
- 3,016,000 warrants expire on November 21, 2020

**(e) 2015 Incentive Plan**

The Company has an Incentive Plan (the "Plan"), which was approved by shareholders of the Company on April 26, 2019. Under the Plan the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company and DSUs to directors and officers of the Company up to an aggregate of 15% of the Company's issued and outstanding common shares at the date of the approval.

On January 25, 2019, the Board approved amendments to the Plan, subject to shareholder and Exchange approval, being (a) to amend the Incentive Plan to change the current rolling number maximum percentage, to a fixed number maximum plan representing 15% of the common shares of the Company issued and outstanding at the date of Board approval of the amended and restated Incentive Plan, which will allow for the reserve of up to an aggregate of 25,835,602 common shares for exercise of options pursuant to the stock option component of the Incentive Plan; and (b) a further amendment to the DSU component of the plan to further increase the number of DSUs available to a fixed number maximum of 5,167,120 representing 3% of the current and issued outstanding common shares of the Company. Both Incentive Plan amendments were approved by the Company's shareholders at the 2019 AGM and subsequently approved by the Exchange on May 13, 2019.

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.

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

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

The following table summarizes stock options outstanding as at April 30, 2019:

Number of Options	Exercise Price	Expiry Date
1,325,000	0.26	June 25, 2025
1,800,000	0.22	March 14, 2026
<u>2,800,000</u>	0.25	August 14, 2027
<u>5,925,000</u>		

As at April 30, 2019, there were 5,925,000 options outstanding, representing 3.7% of the Company's issued and outstanding common shares (October 31, 2018 – 9,005,000 options outstanding representing 5.6%).

Changes in the number of stock options outstanding during the six months ended April 30, 2019 and 2018, were as follows:

	2019		2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance outstanding, beginning of Period	9,005,000	\$ 0.23	10,548,600	\$ 0.23
Expired	(50,000)	0.15	-	-
Cancelled/Forfeited	(1,780,000)	0.15	(676,875)	0.24
Exercised	(1,250,000)	0.15	(53,125)	0.19
Balance outstanding, end of period	<u>5,925,000</u>	<u>\$ 0.22</u>	<u>9,818,600</u>	<u>\$ 0.23</u>
Options exercisable, end of period	<u>4,288,263</u>	<u>\$ 0.24</u>	<u>4,968,688</u>	<u>\$ 0.21</u>

The following table reflects details of the stock options outstanding by range of exercise prices as at April 30, 2019:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.22 to \$ 0.26	5,925,000	7.25	0.22	4,288,263	0.22

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

---

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

The Black-Scholes option pricing model used to calculate option values was developed to estimate the fair value of freely tradable, fully transferable 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 bond issued with a remaining term equal to the expected term of the option. The expected volatility is based 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. The forfeiture rate has been assigned a zero rate and is an estimate based on the history of the Company's stock option grants. The dividend yield has been assigned a zero value since it is the policy of the Company to not pay dividends on its common shares for the foreseeable future.

The Company's Plan allows for the issuance of DSUs 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 DSUs is at the discretion of the Company under the plan, it has been accounted for as an equity settled plan. On June 25, 2015, March 14, 2016 and August 14, 2017, the Company issued 625,000, 450,000 and 239,778 for a total of 1,314,778 DSUs to directors. The DSUs vest over a three-year period after the date of grant. As at April 30, 2019, 1,194,913 DSUs had vested.

**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 April 30, 2019 was \$68,087 due to key management personnel (January 31, 2019 – \$79,104).

Compensation to key management personnel for the three and six months ended April 30, 2019 and 2018 was as follows:

	Three months ended April 30,		Six months ended April 30,	
	2019	2018	2019	2018
Salaries, benefits and consulting fees	\$ 123,300	\$ 160,644	\$ 265,376	\$ 234,541
Director fees and benefits	25,012	24,985	49,074	50,481
Share-based compensation	<u>43,778</u>	<u>115,088</u>	<u>101,160</u>	<u>186,662</u>
Total	<u>\$ 192,090</u>	<u>\$ 300,717</u>	<u>\$ 415,610</u>	<u>\$ 471,684</u>

**SERNOVA CORP.****NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED APRIL 30, 2019 AND 2018**

(Expressed in Canadian Dollars)

(Unaudited)

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

Components of the research and development expenses for the three months ended April 30, 2019 and 2018 were as follows:

	Three months ended April 30,		Six months ended April 30,	
	2019	2018	2019	2018
Salaries, supplies and contract payment	\$ 746,206	\$ 356,807	\$ 1,102,026	\$ 697,142
Manufacturing costs	5,326	204,468	13,404	415,542
Patent fees and costs	54,646	49,933	108,475	185,258
Depreciation of property and equipment	15,303	15,355	31,462	30,670
Share-based compensation	26,044	76,324	60,123	160,512
JDRF and other funding contributions	(535,661)	(163,369)	(535,661)	(437,600)
Research and development tax credits	<u>(10,215)</u>	<u>(15,000)</u>	<u>(35,215)</u>	<u>(30,000)</u>
<b>Total research and development expenses</b>	<b>\$ 301,649</b>	<b>\$ 524,518</b>	<b>\$ 744,614</b>	<b>\$ 1,021,524</b>

Components of the general and administrative expenses for the three and six months ended April 30, 2019 and 2018, were as follows:

	Three months ended April 30,		Six months ended April 30,	
	2019	2018	2019	2018
Salaries, benefit and consulting fees	\$ 48,229	\$ 62,400	\$ 102,560	\$ 124,838
Professional fees	48,101	163,108	63,883	187,378
Director fees and benefits	25,012	24,985	50,025	50,481
Investor relations	111,944	52,267	228,103	98,726
Travel and other costs	61,069	62,157	103,764	119,311
Depreciation of property and equipment	581	549	1,206	1,087
Share-based compensation	<u>17,734</u>	<u>99,384</u>	<u>41,037</u>	<u>155,216</u>
<b>Total general and administrative expenses</b>	<b>\$ 312,670</b>	<b>\$ 464,850</b>	<b>\$ 590,578</b>	<b>\$ 737,037</b>

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

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). In May 2019 the Company achieved a defined milestone with the US clinical study and as such recognized the amount receivable of US \$400,000 (CDN \$535,661). 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. Further, the Company is required 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.

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 three-year lease effective September 1, 2017. Notwithstanding the term, the Company has the right to terminate the lease after the first anniversary by providing 90 days’ written notice. As at April 30, 2019 gross minimum payments, to the earliest termination date, amounted to \$76,791.