



**SERNOVA CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
OCTOBER 31, 2022 AND 2021**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sernova Corp.

### ***Opinion***

We have audited the consolidated financial statements of Sernova Corp. (the Entity), which comprise:

- the consolidated statement of financial position as at October 31, 2022
- the consolidated statement of loss and comprehensive loss for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at October 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### ***Other Matter – Comparative Information***

The financial statements for the year ended October 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 14, 2022.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our auditor’s report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.



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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended October 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

### ***Accrued expenses related to research and development costs***

#### ***Description of the matter***

We draw attention to Notes 3(i) and Note 8 to the consolidated financial statements. Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

The Entity's accrued expenses related to research and development activities outsourced to third-party contract service providers are included in the accrued liabilities balance of \$700,512. The amount of expense recognized in a period for third-party contract service providers is based on the work performed using the accrual basis of accounting. The Entity's third-party contract service providers generally provide information of services performed to allow the Entity to determine the appropriate accrual at period end.

#### ***Why the matter is a key audit matter***

We identified accrued liabilities related to research and development expenditures outsourced to third-party contract service providers as a key audit matter as significant auditor effort was required to evaluate the completeness of the balance.

#### ***How the matter was addressed in the audit***

The primary procedures we performed to address this key audit matter included the following:

- We compared a selection of accrued expenses to invoices, third-party contracts, and communications.
- We tested subsequent payments to suppliers as part of our search for unrecorded liabilities.

#### ***Other Information***

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the



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financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Pauline Wu.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

Vancouver, BC  
January 26, 2023



**SERNOVA CORP.**Consolidated Statements of Loss and Comprehensive Loss  
(Expressed in Canadian Dollars)

|   | Note | Year ended<br>October 31, 2022 | Year ended<br>October 31, 2021 |
|---|------|--------------------------------|--------------------------------|
| <b>EXPENSES</b>   |      |                                |                                |
| Research and development  | 11   | \$ 16,896,624                  | \$ 4,637,989                   |
| General and administrative  | 11   | 7,857,137                      | 2,298,518                      |
| Total expenses  |      | 24,753,761                     | 6,936,507                      |
| <b>OTHER EXPENSE (INCOME)</b>   |      |                                |                                |
| Interest income   |      | (577,285)                      | (70,552)                       |
| Finance costs   |      | 118,002                        | 58,368                         |
| Foreign exchange loss   |      | 126,058                        | 41,216                         |
| Net other expense (income)  |      | (333,225)                      | 29,032                         |
| <b>LOSS AND COMPREHENSIVE LOSS</b>  |      | <b>\$ 24,420,536</b>           | <b>\$ 6,965,539</b>            |
| Weighted average number of common shares<br>outstanding – basic and diluted |      |                                |                                |
|   |      | 273,593,143                    | 245,522,770                    |
| Basic and diluted loss per common share                                     | 14   | \$ 0.09                        | \$ 0.03                        |

See accompanying notes to the consolidated financial statements.

**SERNOVA CORP.**  
Consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars)

|   | Note | Year ended<br>October 31, 2022 | Year ended<br>October 31, 2021 |
|---|------|--------------------------------|--------------------------------|
| <b>OPERATING ACTIVITIES</b>                                   |      |                                |                                |
| Loss for the year   |      | \$ (24,420,536)                | \$ (6,965,539)                 |
| Adjustments for items not affecting cash:                     |      |                                |                                |
| Amortization and depreciation                                 |      | 439,998                        | 267,204                        |
| Share-based compensation                                      | 9    | 7,451,051                      | 218,395                        |
| Grants and contributions recognized                           | 12   | (369,976)                      | (724,182)                      |
| Research collaboration advances recognized as cost recoveries | 12   | (163,028)                      | (191,549)                      |
| Interest income accrued on marketable securities              |      | (356,751)                      | –                              |
| Accretion and accrued interest expense                        |      | –                              | 24,203                         |
| Interest on lease liabilities                                 | 7    | 51,185                         | 10,169                         |
| Changes in non-cash working capital balances:                 |      |                                |                                |
| Amounts receivable  | 4    | (195,036)                      | (89,797)                       |
| Prepaid expenses  |      | (163,812)                      | 144,904                        |
| Accounts payable and accrued liabilities                      | 8    | 3,305,507                      | 462,448                        |
| <b>Cash used in operating activities</b>                      |      | <b>(14,421,398)</b>            | <b>(6,843,744)</b>             |
| <b>INVESTING ACTIVITIES</b>                                   |      |                                |                                |
| Marketable securities, net                                    |      | (46,000,000)                   | –                              |
| Deposits  |      | (12,312)                       | (211,548)                      |
| Purchase of property and equipment                            | 5    | (329,000)                      | (17,229)                       |
| <b>Cash used in investing activities</b>                      |      | <b>(46,341,312)</b>            | <b>(228,777)</b>               |
| <b>FINANCING ACTIVITIES</b>                                   |      |                                |                                |
| Proceeds from private placement, net                          | 9    | 20,279,178                     | –                              |
| Proceeds from prospectus offering, net                        | 9    | –                              | 21,126,104                     |
| Proceeds from exercise of warrants                            | 9    | 16,136,728                     | 7,830,480                      |
| Proceeds from exercise of stock options                       | 9    | 93,750                         | 947,292                        |
| Other financing costs   |      | –                              | (11,807)                       |
| Grant contribution receipts                                   | 12   | 224,168                        | 871,799                        |
| Research collaboration advances                               | 12   | 99,302                         | 261,439                        |
| Lease liabilities payments                                    | 7    | (168,560)                      | (28,000)                       |
| <b>Cash provided by financing activities</b>                  |      | <b>36,664,566</b>              | <b>30,997,307</b>              |
| <b>NET (DECREASE) INCREASE CASH DURING THE YEAR</b>           |      | <b>(24,098,144)</b>            | <b>23,924,786</b>              |
| <b>CASH, BEGINNING OF YEAR</b>                                |      | <b>27,874,198</b>              | <b>3,949,412</b>               |
| <b>CASH, END OF YEAR</b>                                      |      | <b>\$ 3,776,054</b>            | <b>\$ 27,874,198</b>           |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURES</b>                     |      |                                |                                |
| Income taxes paid   |      | \$ –                           | \$ –                           |
| Interest received   |      | \$ 257,016                     | \$ 70,552                      |

See accompanying notes to the consolidated financial statements.



**SERNOVA CORP.**Consolidated Statements of Changes in Equity  
(Expressed in Canadian Dollars)

|  | <u>Common Shares</u> |                       | <u>Warrants</u>     | <u>Contributed Surplus</u> | <u>Deficit</u>         | <u>Total</u>         |
|--|----------------------|-----------------------|---------------------|----------------------------|------------------------|----------------------|
|  | (Note 9)             |                       | (Note 9)            | (Note 9)                   |                        |                      |
| Balance, October 31, 2021  | 261,133,258          | \$ 74,010,694         | \$ 3,693,248        | \$ 5,113,503               | \$ (54,748,951)        | \$ 28,068,494        |
| Loss and comprehensive loss for the year                                   | –                    | –                     | –                   | –                          | (24,420,536)           | (24,420,536)         |
| Transactions with owners of the Company, recognized directly in equity:    |                      |                       |                     |                            |                        |                      |
| Shares issued for private placement, net                                   | 12,944,904           | 20,279,178            | –                   | –                          | –                      | 20,279,178           |
| Exercise of warrants   | 28,817,024           | 16,533,644            | (396,916)           | –                          | –                      | 16,136,728           |
| Exercise of stock options  | 437,500              | 164,250               | –                   | (70,500)                   | –                      | 93,750               |
| Share-based compensation   | –                    | –                     | –                   | 7,451,051                  | –                      | 7,451,051            |
| <b>Balance, October 31, 2022</b>   | <b>303,332,686</b>   | <b>\$ 110,987,766</b> | <b>\$ 3,296,332</b> | <b>\$ 12,494,054</b>       | <b>\$ (79,169,487)</b> | <b>\$ 47,608,665</b> |
| 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 year                                   | –                    | –                     | –                   | –                          | (6,965,539)            | (6,965,539)          |
| Transactions with owners of the Company, recognized directly in equity:    |                      |                       |                     |                            |                        |                      |
| Units financing, net of issuance costs                                     | 19,205,000           | 18,314,260            | 2,350,924           | –                          | –                      | 20,665,184           |
| Units issued for corporate finance fee in conjunction with units financing | 384,100              | 460,920               | –                   | –                          | –                      | 460,920              |
| Exercise of warrants   | 24,902,366           | 8,037,915             | (207,435)           | –                          | –                      | 7,830,480            |
| Exercise of stock options  | 4,239,365            | 1,652,600             | –                   | (705,308)                  | –                      | 947,292              |
| Shares issued upon conversion of convertible debentures                    | 4,000,000            | 864,132               | –                   | (137,317)                  | –                      | 726,815              |
| Shares issued for payment of convertible debentures interest               | 138,980              | 40,110                | –                   | –                          | –                      | 40,110               |
| Share-based compensation   | –                    | –                     | –                   | 218,395                    | –                      | 218,395              |
| Balance, October 31, 2021  | 261,133,258          | \$ 74,010,694         | \$ 3,693,248        | \$ 5,113,503               | \$ (54,748,951)        | \$ 28,068,494        |

See accompanying notes to the consolidated financial statements.

## **SERNOVA CORP.**

Notes to the Consolidated Financial Statements

For the years ended October 31, 2022 and 2021

(Expressed in Canadian Dollars)

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

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

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

The Company’s head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company’s registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. On June 2, 2022, trading of the Company’s common shares commenced on the Toronto Stock Exchange under the symbol SVA, and were concurrently voluntarily delisted from the TSX Venture Exchange. The Company’s shares are also listed on the OTCQB Venture Market under the symbol SEOVF and on the Frankfurt and Xetra Exchanges under the symbol PSH.

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

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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved and authorized for issue by the Company’s Board of Directors on January 26, 2023.

#### **(b) Basis of measurement**

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

#### **(c) Functional and presentation currency**

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

#### **(d) Use of significant estimates and judgments**

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and judgements that affect the application of accounting policies, the reported amounts of assets and liabilities, expenses and related disclosures of contingent assets and liabilities, as well as the Company’s ability to continue as a going concern. These estimates and judgements consider historical and forward-looking factors that the Company believes are reasonable, including but not limited to the potential impacts arising from COVID-19 and public and private sector policies and initiatives aimed at reducing or containing its transmission. Actual results could differ materially from these estimates and judgements. The Company reviews its estimates and underlying judgements on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and may impact future periods.

## **SERNOVA CORP.**

Notes to the Consolidated Financial Statements

For the years ended October 31, 2022 and 2021

(Expressed in Canadian Dollars)

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

#### **(d) Use of significant estimates and judgments (cont'd...)**

Management has applied significant estimates and judgements to the following:

##### **Going concern**

These consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred losses and negative cashflow since inception. A comprehensive loss of \$24,420,536 was incurred during the year ended October 31, 2022, and the Company has an accumulated deficit of \$79,169,487. As at October 31, 2022, the Company had working capital of \$46,350,475.

Until the Company's biotechnology therapeutic products are approved and available for sale and profitable operations are developed, the Company's liquidity requirements will be dependent on its ability to continue to obtain adequate financing. Failure to do so could have a material adverse effect on the Company's financial condition and financial performance. During the year ended October 31, 2022, the Company raised proceeds of \$20,279,178 from a private placement financing and \$16,136,728 from the exercise of common share purchase warrants. Cash and marketable securities on hand at October 31, 2022 are anticipated to fund its operating plan for a period of at least twelve months from October 31, 2022. Future financing will depend on many factors, including, but not limited to, market conditions which are not within the Company's control, and ultimately the market acceptance of its products. No assurance can be given that any such additional financing will be available or that, if available, it can be obtained on terms favourable to the Company. See Note 15 – Capital Risk Management and Note 16 – Financial Instruments and Risk Management.

##### **Estimated useful life of long-lived assets**

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

##### **Impairment of long-lived assets**

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

##### **Valuation of share-based payments, compensation and warrants**

The Company measures the cost of equity-settled transactions 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. 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. An estimate requires determining the most appropriate data inputs for the relevant valuation model, including the expected option life, share price volatility, risk-free interest rate and dividend yield, and application of a forfeiture rate as applicable. Changes in these subjective data input assumptions can materially affect the fair value estimate for share-based payments compensation and warrants.

## **SERNOVA CORP.**

Notes to the Consolidated Financial Statements

For the years ended October 31, 2022 and 2021

(Expressed in Canadian Dollars)

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

#### **(e) COVID-19**

Given the ongoing and dynamic nature of the circumstances surrounding the COVID-19 pandemic, it is difficult to predict how significant the impact of COVID-19 and variants, including any responses to it, will be on the global economy and the business of the Company or for how long any disruptions are likely to continue. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict, including new information that may emerge about COVID-19 or variants and additional actions that may be necessary or taken to contain it. Such developments could have a material adverse effect on the Company's business, including, current or future clinical trials, research collaborations and corporate partnering activities; financial condition; results of operations and cash flow and the ability to finance operations. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts to its business.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Foreign currency translation**

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

#### **(b) Marketable Securities**

Marketable securities consist of guaranteed investment certificates with a maturity of greater than 90 days and up to one year as at the date of purchase. The Company has valued its marketable securities at amortized cost.

#### **(c) Property and equipment**

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

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

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

#### **(d) Intangible assets**

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

## SERNOVA CORP.

Notes to the Consolidated Financial Statements

For the years ended October 31, 2022 and 2021

(Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

#### (d) Intangible assets (cont'd...)

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

#### (e) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease by determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

A right-of-use asset and corresponding lease liability is recognized on the lease commencement date. The right-of-use asset is initially measured at the initial measurement of the lease liability adjusted for any initial direct costs, and lease incentives received before the commencement date and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term.

The lease liability is initially measured at the present value of fixed lease payments and variable payments that depend on an index or rate, less any lease incentives receivable that are not paid at the commencement date, discounted using the implicit interest rate in the lease or, if the rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its estimated incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase, extension or termination option is reasonably certain to be exercised, or if the underlying lease contract is amended. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to separate fixed non-lease components from lease components and instead accounts for both components as a single lease component. The Company also does not recognize right-of-use assets and lease liabilities for short-term leases with a term of twelve months or less, lease payments for these leases are recorded as an expense over the lease term.

#### (f) Impairment

##### *Financial assets*

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

The Company applies a forward-looking expected credit loss ("ECL") model, which requires a loss allowance be recognized based on expected credit losses, to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit

## **SERNOVA CORP.**

Notes to the Consolidated Financial Statements

For the years ended October 31, 2022 and 2021

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

#### **(f) Impairment (cont'd...)**

or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### *Non-financial assets*

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

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

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

#### **(g) Provisions**

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

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

#### **(h) Government assistance**

Government assistance, consisting of investment tax credits and or grants, is recognized as a reduction of the related expense or cost of the asset acquired. Government assistance is recognized where there is reasonable assurance that the assistance will be received, and any attached conditions will be complied with.

Research grants that compensate the Company for expenses incurred are recognized in the statement of loss and comprehensive loss as a reduction thereof on a systematic basis in the same period in which the expenses are recognized. Research grants that compensate the Company for the cost of an asset are recognized in the statement of loss and comprehensive loss on a systematic basis over the expected useful life of the asset.

#### **(i) Research and development costs**

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

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd ...)**

#### **(i) Research and development costs (cont'd ...)**

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

Research and development (R&D) expenses include all direct and indirect operating expenses supporting the products in development and clinical trials, less the recognition of any cost recoveries from industry collaborators. The Company outsources a significant portion of its R&D activities to third-party contract service providers. Third-party costs include those related to preclinical research, clinical trial activities and product manufacturing. Clinical trial activities expenses include investigator fees, clinical site costs, contract research organization fees and other related costs. The amount of expense recognized in a period for third-party contract service providers is based on the work performed using the accrual basis of accounting. The Company's third-party contract service providers generally provide information of services performed to allow the Company to determine the appropriate accrual at period end.

#### **(j) Share-based payments and compensation**

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

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

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

In conjunction with private placements or brokered financings, the Company may issue compensatory finder or broker warrants to agents as consideration for services provided. Awards of finder 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 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 expected life of the equity instrument, share price volatility, risk-free interest rate and the dividend yield. Consideration received upon the exercise of finder or broker 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.

#### **(k) Income taxes**

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

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities and any adjustment to tax payable in respect of previous years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date in the

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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd ...)

#### (k) Income taxes (cont'd ...)

countries where the company operates. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

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

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

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

#### (l) Loss per share

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

#### (m) Financial instruments

##### *Classification and Measurement of Financial Instruments*

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

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

- Amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Finance income from these financial instruments is recorded in the consolidated statement of loss using the effective interest rate method;
- Fair value through other comprehensive income ("FVOCI"): Financial instruments that are held for collection of contractual cash flows and for selling the financial instruments, where the financial instruments' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in income (loss); and



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### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd ...)

#### (m) Financial instruments (cont'd ...)

- Fair value through profit (loss) (“FVTPL”): Financial instruments that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit (loss). A gain or loss on a financial instrument that is subsequently measured at fair value through profit (loss) and is not part of a hedging relationship is recognized in income (loss) and presented net in comprehensive income (loss) in the period in which it arises.

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

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

#### *Impairment of Financial Assets*

Financial assets measured at amortized cost and subject to the ECL model may consist of short-term investments and amounts receivable. Short-term investments at amortized cost are considered to be low risk, and therefore the impairment provision is determined using a twelve-month expected credit loss basis. No impairment in the Company’s financial assets was identified as at October 31, 2022.

#### (n) 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.

#### (o) New accounting standards and interpretations issued but not yet effective

##### **IAS 1 Presentation of Financial Statements**

In January 2020, the IASB issued amendments to International Accounting Standard 1 *Presentation of Financial Statements* (“IAS 1”) to provide a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023. The Company does not anticipate adoption of this standard to have a material impact on the consolidated financial statements.

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* in which it provides guidance and example to help entities apply materiality judgements to accounting policy disclosures. The amendments apply to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate adoption of this standard to have a material impact on the consolidated financial statements.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd ...)****(o) New accounting standards and interpretations issued but not yet effective (cont'd...)****IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

In February 2021, the IASB issued amendments to International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") in which it introduces a new definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments apply to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate adoption of this standard to have a material impact on the consolidated financial statements.

**IAS 12 Income taxes**

In May 2022, the IASB issued amendments to International Accounting Standard 12 *Income Taxes* ("IAS 12") so that it no longer applies to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. The amendments apply to annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The Company does not anticipate adoption of this standard to have a material impact on the consolidated financial statements.

**4. AMOUNTS RECEIVABLE**

|  | October 31,<br>2022 | October 31,<br>2021 |
|--|---------------------|---------------------|
| Grant contributions receivable (Note 12)   | \$ 383,756          | \$ 224,349          |
| HST / GST and other tax credits receivable | 406,035             | 224,598             |
| Interest receivable                        | 356,751             | –                   |
|  | <u>\$ 1,146,542</u> | <u>\$ 448,947</u>   |

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**5. PROPERTY AND EQUIPMENT**

|                                 | Computer and<br>office equipment | Laboratory<br>equipment | Manufacturing<br>equipment | Total      |
|---------------------------------|----------------------------------|-------------------------|----------------------------|------------|
| <b>Cost</b>                     |                                  |                         |                            |            |
| Balance, October 31, 2020       | \$ 91,928                        | \$ 257,209              | \$ 105,098                 | \$ 454,235 |
| Additions                       | 17,229                           | –                       | –                          | 17,229     |
| Balance, October 31, 2021       | 109,157                          | 257,209                 | 105,098                    | 471,464    |
| Additions                       | 15,556                           | 313,444                 | –                          | 329,000    |
| Balance, October 31, 2022       | \$ 124,713                       | \$ 570,653              | \$ 105,098                 | \$ 800,464 |
| <b>Accumulated depreciation</b> |                                  |                         |                            |            |
| Balance, October 31, 2020       | \$ 66,532                        | \$ 134,032              | \$ 50,248                  | \$ 250,812 |
| Depreciation                    | 8,722                            | 24,635                  | 10,970                     | 44,327     |
| Balance, October 31, 2021       | 75,254                           | 158,667                 | 61,218                     | 295,139    |
| Depreciation                    | 11,371                           | 82,757                  | 8,776                      | 102,904    |
| Balance, October 31, 2022       | \$ 86,625                        | \$ 241,424              | \$ 69,994                  | \$ 398,043 |
| <b>Net carrying amounts</b>     |                                  |                         |                            |            |
| October 31, 2021                | \$ 33,903                        | \$ 98,542               | \$ 43,880                  | \$ 176,325 |
| October 31, 2022                | \$ 38,088                        | \$ 329,229              | \$ 35,104                  | \$ 402,421 |

**6. INTANGIBLE ASSETS**

|  | Total        |
|--|--------------|
| <b>Cost</b>                              |              |
| Balance, October 31, 2020, 2021 and 2022 | \$ 1,000,165 |
| <b>Accumulated amortization</b>          |              |
| Balance, October 31, 2020                | \$ 83,347    |
| Amortization                             | 200,033      |
| Balance, October 31, 2021                | 283,380      |
| Amortization                             | 200,033      |
| Balance, October 31, 2022                | \$ 483,413   |
| <b>Net carrying amounts</b>              |              |
| October 31, 2021                         | \$ 716,785   |
| October 31, 2022                         | \$ 516,752   |

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**7. RIGHT-OF-USE ASSET AND LEASE LIABILITIES**

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

|  | Right-of-use asset | Lease liabilities |
|--|--------------------|-------------------|
| Balance, October 31, 2020              | \$ –               | \$ –              |
| Initial recognition                    | 411,185            | 411,185           |
| Depreciation                           | (22,844)           | –                 |
| Interest expense                       | –                  | 10,169            |
| Payments                               | –                  | (28,000)          |
| Balance, October 31, 2021              | 388,341            | 393,354           |
| Depreciation                           | (137,061)          | –                 |
| Interest expense                       | –                  | 51,185            |
| Payments                               | –                  | (168,560)         |
| Balance, October 31, 2022              | \$ 251,280         | \$ 275,979        |
|  | October 31, 2022   | October 31, 2021  |
| Lease liabilities – short term portion | \$ 139,856         | \$ 117,375        |
| Lease liabilities – long term portion  | 136,123            | 275,979           |
|  | \$ 275,979         | \$ 393,354        |

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                                  | October 31,<br>2022 | October 31,<br>2021 |
|----------------------------------|---------------------|---------------------|
| Trade payables                   | \$ 3,613,355        | \$ 379,516          |
| Accrued liabilities              | 700,512             | 691,210             |
| Research collaboration advances  | –                   | 69,890              |
| Due to related parties (Note 10) | 286,410             | 217,880             |
|                                  | \$ 4,600,277        | \$ 1,358,496        |

## SERNOVA CORP.

Notes to the Consolidated Financial Statements

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### 9. SHARE CAPITAL

#### (a) Authorized

Unlimited number of common shares, without par value.

#### (b) Share capital changes

During the year ended October 31, 2022, the Company:

- i) received proceeds of \$16,230,478 from the exercise of common share purchase warrants and stock options and the corresponding issuance of 29,254,524 common shares; and
- ii) closed a non-brokered private placement as part of an exclusive global strategic partnership with Evotec SE (“Evotec”), issuing a total of 12,944,904 common shares at a price of \$1.57 and 2,709,800 unconditional common share purchase warrants which were fully exercised at a price of \$2.50 per share, for gross proceeds of \$20,323,500 and \$6,774,500 respectively. Total gross proceeds from Evotec’s investment were \$27,098,000, before deducting issuance costs totalling \$44,322.

During the comparative year ended October 31, 2021, the Company:

- iii) received proceeds of \$8,777,772 from the exercise of common share purchase warrants and stock options and the corresponding issuance of 29,141,731 common shares;
- iv) issued 4,000,000 common shares for the conversion of convertible debentures with outstanding principal of \$1,000,000, at the fixed conversion price of \$0.25 per common share. No additional consideration was received for the conversion into common shares. In accordance with terms of the convertible debentures, the Company elected and also issued 138,980 common shares as settlement for \$40,110 of interest accrued on the convertible debentures; and
- v) closed on March 1, 2021 a brokered bought deal offering (“Offering”) of 19,205,000 units, including the full exercise of the underwriters’ 15% over-allotment option, at the issue price of \$1.20 per unit (“2021 Units”) for cash proceeds of \$23,046,000. Each 2021 Unit consists of a common share and one common share purchase warrant, with each common share purchase warrant being exercisable into one common share at a price of \$1.70 per share until March 1, 2023, subject to abridgment of the exercise period if the ten-day volume-weighted price of the Company’s common shares exceeds \$3.05 per share. As consideration for services provided in connection with the Offering, the Company paid to the underwriters: a cash commission of \$1,452,981, a corporate finance fee of 384,100 2021 Units (“Corporate Finance Fee Units”) and 1,210,818 broker warrants (also referred to as compensation options), where each broker warrant upon exercise entitles the holder to purchase one 2021 Unit at \$1.20 until March 1, 2023 (“Broker Warrant”). The Corporate Finance Fee Units and Broker Warrants issued were valued at \$460,920 and \$2,350,924, respectively. Share issuance costs totalling \$466,915 were also incurred and paid. The value of the Broker Warrants was determined using the Geske Model with the following assumptions: volatility of 129%, a risk-free interest rate of 0.3%, an expected life of two years, a dividend yield of 0% and no forfeiture.

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**9. SHARE CAPITAL (cont'd...)****(c) Warrants**

Common share purchase warrants outstanding changed during the years ended October 31 as follows:

|   | 2022               |                                 | 2021               |                                 |
|---|--------------------|---------------------------------|--------------------|---------------------------------|
|   | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Balance outstanding, beginning of year                          | 46,144,142         | \$ 0.93                         | 50,246,590         | \$ 0.32                         |
| Issued in conjunction with a prospectus offering of units       | –                  | –                               | 19,589,100         | 1.70                            |
| Issuance of broker unit warrants                                | –                  | –                               | 1,210,818          | 1.20                            |
| Issued in conjunction with a private placement                  | 2,709,800          | 2.50                            | –                  | –                               |
| Issued in conjunction with the exercise of broker unit warrants | 100,000            | 1.70                            | –                  | –                               |
| Exercised   | (28,817,024)       | (0.56)                          | (24,902,366)       | (0.31)                          |
| Balance outstanding, end of year                                | 20,136,918         | \$ 1.67                         | 46,144,142         | \$ 0.93                         |

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

|  | Number of warrants | Exercise price | Expiry date      |
|--|--------------------|----------------|------------------|
|  | 19,026,100         | 1.70           | March 1, 2023 *  |
|  | 1,110,818          | 1.20           | March 1, 2023 ** |
|  | 20,136,918         |                |                  |

\* subject to acceleration of the exercise period expiry on thirty days notice to warrant holders in the event that the ten day volume weighted average price of the shares exceeds \$3.05 per share.

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

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**9. SHARE CAPITAL (cont'd...)****(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 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 12.8% of the common shares outstanding as at October 31, 2022. The maximum fixed number of common shares to be reserved for options exercise and DSUs conversion under the Incentive Plan is 30,997,229 and 7,749,307, respectively.

Options granted under the Incentive Plan have a term 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. The exercise price of any stock options granted is fixed pursuant to the policies of the stock exchange.

Changes in the number of stock options outstanding during the years ended October 31 were as follows:

|  | 2022              |                                 | 2021              |                                 |
|--|-------------------|---------------------------------|-------------------|---------------------------------|
|  | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance outstanding, beginning of year | 8,892,500         | \$ 0.24                         | 14,474,600        | \$ 0.22                         |
| Granted                                | 14,465,984        | 1.32                            | 100,000           | 1.40                            |
| Cancelled / forfeited                  | (150,000)         | 1.32                            | (1,442,735)       | (0.21)                          |
| Exercised                              | (437,500)         | (0.21)                          | (4,239,365)       | (0.22)                          |
| Balance outstanding, end of year       | 22,770,984        | \$ 0.92                         | 8,892,500         | \$ 0.24                         |
| Options exercisable, end of year       | 14,699,413        | \$ 0.71                         | 7,933,800         | \$ 0.24                         |

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

| Range of exercise prices | Number outstanding | Weighted average remaining contractual life (Years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
|--------------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| \$ 0.21 to \$ 0.26       | 8,355,000          | 5.4   | \$ 0.23                         | 8,257,500          | \$ 0.23                         |
| \$ 0.76 to \$ 1.15       | 370,000            | 3.0   | 0.99                            | 100,000            | 1.09                            |
| \$ 1.32                  | 13,425,484         | 4.1   | 1.32                            | 6,241,913          | 1.32                            |
| \$ 1.40 to \$ 1.60       | 620,500            | 3.9   | 1.44                            | 100,000            | 1.40                            |
| \$ 0.21 to \$ 1.60       | 22,770,984         | 4.6   | \$ 0.92                         | 14,699,413         | \$ 0.71                         |

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**9. SHARE CAPITAL (cont'd...)****(d) Incentive Plan (cont'd...)**

Option grants vest either i) immediately or ii) quarterly or annually over periods of up to four years.

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

For the stock options granted during the years ended October 31, the share-based compensation expense was determined based on the fair value of the stock options on the grant date (date of measurement) using the Black-Scholes option pricing model using the following assumptions:

|                          | 2022         | 2021    |
|--------------------------|--------------|---------|
| Dividend yield           | 0%           | 0%      |
| Expected volatility      | 65 – 93%     | 151%    |
| Risk free interest rate  | 1.07 – 3.80% | 0.45%   |
| Expected life of options | 3 years      | 2 years |

For the years ended October 31, 2022 and 2021, the Company issued stock options with weighted average grant date fair values of \$0.63 and \$1.00 per stock option, respectively.

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. There were 1,360,000 DSUs granted during the year ended October 31, 2022 (2021 – nil) at their intrinsic value of \$1.32 prior to the application of an estimated forfeiture rate. No DSUs were cancelled, or equity settled during the years ended October 31, 2022 and 2021. DSUs generally vest over a three-year period after the date of grant.

As at October 31, 2022, a total of 5,510,001 DSUs were outstanding (October 31, 2021 – 4,150,001) of which 4,727,254 had vested (October 31, 2021 – 3,505,557).

**10. RELATED PARTY TRANSACTIONS**

The key management personnel of the Company are the Directors, the Executive Chair, 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 October 31, 2022, was \$286,410 due to key management personnel (October 31, 2021 – \$217,880).

Compensation to key management personnel for the reporting period:

|                                    | Years ended October 31, |                     |
|------------------------------------|-------------------------|---------------------|
|                                    | 2022                    | 2021                |
| Personnel costs                    | \$ 1,156,433            | \$ 1,109,986        |
| Director fees and costs            | 266,051                 | 241,673             |
| Share-based compensation - DSUs    | 1,222,480               | 90,186              |
| Share-based compensation - options | 5,809,110               | 57,986              |
|                                    | <u>\$ 8,454,074</u>     | <u>\$ 1,499,831</u> |



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

|   | Years ended October 31, |              |
|---|-------------------------|--------------|
|   | 2022                    | 2021         |
| Personnel costs                             | \$ 1,837,700            | \$ 1,271,948 |
| Research and clinical development           | 9,922,277               | 3,022,244    |
| Manufacturing costs                         | 890,702                 | 389,191      |
| Patent fees and costs                       | 544,674                 | 529,041      |
| Other costs                                 | 262,326                 | 189,857      |
| Amortization and depreciation               | 409,191                 | 258,966      |
| Share-based compensation - options          | 3,702,379               | 96,463       |
|   | 17,569,249              | 5,757,710    |
| Less: grants, contributions and tax credits | (672,625)               | (1,119,721)  |
| Total research and development expenses     | \$ 16,896,624           | \$ 4,637,989 |

**General and Administrative Expenses**

|   | Years ended October 31, |              |
|---|-------------------------|--------------|
|   | 2022                    | 2021         |
| Personnel costs                           | \$ 1,148,756            | \$ 728,379   |
| Consulting and professional fees          | 636,632                 | 315,936      |
| Director fees and expenses                | 343,386                 | 239,293      |
| Investor relations                        | 909,651                 | 551,946      |
| Public company expenses                   | 387,840                 | 159,828      |
| Insurance and other costs                 | 651,393                 | 172,966      |
| Depreciation                              | 30,807                  | 8,238        |
| Share-based compensation - DSUs           | 1,222,480               | 31,746       |
| Share-based compensation - options        | 2,526,192               | 90,186       |
| Total general and administrative expenses | \$ 7,857,137            | \$ 2,298,518 |

**12. COMMITMENTS AND CONTINGENCIES**

The Company was previously awarded a US\$2.45 million (approximately \$3.35 million) grant under an agreement with JDRF Therapeutics Fund LLC (“JDRF”). The grant supports a Phase 1/2 clinical trial of Sernova’s Cell Pouch for treatment of patients with type 1 diabetes. Pursuant to the agreement, the Company has committed to perform certain clinical trial activities and to use commercially reasonable efforts to introduce a diabetes product into the US market. Contributions relating to milestone achievements totaling US\$281,160 (\$369,976) were earned during the year ended October 31, 2022 (2021 – US\$581,160 (\$724,182)). Remaining funding available to be earned under the JDRF grant award totals approximately US\$0.29 million (\$0.39 million) as at October 31, 2022. The Company is required to pay royalties to JDRF as a percentage of any future net sales received from such diabetes product or in certain future license or disposition transactions up to an aggregate maximum of four times the aggregate amount of JDRF grant funding received. A bonus amount equal to the total amount of grant funding received is also payable to JDRF on two aggregate net sales thresholds if they are achieved. Given the early and inconclusive stage of development of the diabetes product, the royalty is not probable at this time and therefore no liability has been recorded.

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**12. COMMITMENTS AND CONTINGENCIES (cont'd...)**

In May 2022, the Company entered into an exclusive global strategic partnership with Evotec (NASDAQ:EVO | FSE:EVT) for the development and commercialization of an iPSC-based beta cell replacement therapy (“iPSC Program”) with the goal to provide an unlimited insulin-producing cell source to treat patients with insulin-dependent diabetes. The Company has committed to pay future milestone and royalty payments to Evotec pursuant to the occurrence of certain events as set forth in the Evotec collaboration agreement (the “Evotec Agreement”). Under the terms of the Evotec Agreement, the preclinical development program(s) will be jointly funded up to IND submission with the Company’s share of potential costs capped at a maximum of approximately US\$25 million. The Evotec Agreement is cancellable by the Company with notice, subject to certain terms and conditions. iPSC Program costs of US\$5,635,624 (\$7,420,725) were incurred during the year ended October 31, 2022 (2021 – \$nil). The amount of joint iPSC Program costs originally incurred by Evotec and subsequently recharged to the Company was recorded in research and development expenses in the consolidated statement of loss, and the reimbursement of iPSC Program costs originally incurred by the Company was recorded as a reduction of research and development expenses in the consolidated statement of loss.

The Company enters into contracts in the normal course of business, including for research and development activities, consulting and other services. As at October 31, 2022, the Company has commitments totaling approximately \$3,625,000, of which approximately \$1,959,000 is expected to be paid over the next twelve months. The majority of these contracts are cancellable by the Company with notice. In addition, the Company has minimum annual royalty payment obligations of approximately \$30,000 for third party licensing agreements.

Effective September 1, 2021, the Company entered into a two-year lease for both its existing office premises and lab facilities and additional office space at a rate of \$14,000 per month, with a 2% increase on the anniversary of the lease agreement. Under the terms of the lease, the Company has an option to extend the lease term for an additional twelve months, up to August 31, 2024. As of October 31, 2022, remaining undiscounted lease payment obligations total \$317,587 assuming the Company exercises its option, of which \$171,931 is payable over the next twelve months.

**13. INCOME TAXES**

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

**(a) Unrecognized deferred tax assets**

As at October 31, 2022, and 2021, deferred tax assets have not been recognized with respect to the following items:

|  | 2022          | 2021          |
|--|---------------|---------------|
| Non-capital losses carried forward   | \$ 13,041,000 | \$ 8,529,000  |
| Tax credits carried forward  | 2,071,000     | 1,811,000     |
| Tax basis of property, equipment and intangible assets greater than accounting basis | 328,000       | 242,000       |
| Scientific research and experimental development expenditures carry forward          | 2,585,000     | 2,351,000     |
| Share issue costs and other  | 782,000       | 1,045,000     |
|  | \$ 18,807,000 | \$ 13,978,000 |

As at October 31, 2022, the Company had available research and development expenditures of approximately \$9,755,000 (October 31, 2021 - \$8,872,000), which may be carried forward indefinitely to reduce future years’ taxable income.

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Notes to the Consolidated Financial Statements

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**13. INCOME TAXES (cont'd...)****(a) Unrecognized deferred tax assets (cont'd...)**

As at October 31, 2022, the Company also had available unclaimed research and development tax credits of approximately \$2,554,000 (October 31, 2021 - \$2,231,000), which are available to reduce future taxes payable, with expiries from 2023 through 2042.

As at October 31, 2022, the Company has other available future tax deductions related to assets and share issuance costs of approximately \$4,186,000 (October 31, 2021 - \$4,857,000).

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

| Years ended October 31, | Amount        |
|-------------------------|---------------|
| 2026                    | \$ 355,044    |
| 2027                    | 599,000       |
| 2028                    | 580,631       |
| 2029                    | 353,274       |
| 2030                    | 682,246       |
| 2031                    | 599,170       |
| 2032                    | 992,747       |
| 2033                    | 901,738       |
| 2034                    | 926,182       |
| 2035                    | 1,520,901     |
| 2036                    | 1,490,274     |
| 2037                    | 1,304,483     |
| 2038                    | 2,561,697     |
| 2039                    | 2,489,810     |
| 2040                    | 3,980,946     |
| 2041                    | 6,762,626     |
| 2042                    | 16,299,831    |
|                         | \$ 42,400,600 |

As at October 31, 2022, and 2021, the Company also had non-capital income tax losses available to offset future taxable income in the United States of approximately \$7,220,000 (US\$5,290,073) and \$6,551,000 (US\$5,290,073), respectively. The United States non-capital income tax losses will expire in the years 2026 to 2038.

**(b) Reconciliation of expected and actual income taxes**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

|   | 2022            | 2021           |
|---|-----------------|----------------|
| Loss for the year before income tax                             | \$ (24,420,536) | \$ (6,965,539) |
| Expected income tax recovery at statutory rates                 | \$ (6,471,000)  | \$ (1,846,000) |
| Change in statutory tax, foreign tax and foreign exchange rates | (115,000)       | 43,000         |
| Tax credits   | (210,000)       | (141,000)      |
| Permanent differences   | 1,980,000       | 58,000         |
| Share issue costs   | (12,000)        | (1,258,000)    |
| Change in unrecognized deductible temporary differences         | 4,829,000       | 2,976,000      |
| Adjustment to prior year provision versus statutory returns     | (1,000)         | 168,000        |
| Income tax recovery   | \$ —            | \$ —           |

## SERNOVA CORP.

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### 14. 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. The effect of any potential exercise of stock options and common share purchase warrants and settlement of DSUs has been excluded from the calculation of diluted loss per share as it would be anti-dilutive.

### 15. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to advance the programs in a timely manner while safeguarding the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the development and commercialization of its technologies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development and commercialization of the business. The Company defines capital that it manages as shareholders' equity. The intellectual property in which the Company currently has an interest are in the development stage, as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess sources of working capital and financing available and to assess the potential for collaboration with interested partners with a view to managing its current financial resources, in the interest of sustaining the long-term viability of the Company's research and development programs.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the stage of the Company, is reasonable. The Company's overall strategy with respect to capital risk management remains unchanged since the year ended October 31, 2021.

### 16. 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 has classified cash and marketable securities as Level 1 and 2, respectively.

The Company's financial assets and financial liabilities, including cash, marketable securities, amounts receivable, accounts payable and accrued liabilities, are all short-term in nature and their carrying values approximate fair values. Marketable securities, which primarily include guaranteed investment certificates held by the Company, are valued at amortized cost.

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**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)****Financial risk factors**

The Company's risk exposures and 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 marketable securities, in excess of insured amounts, held or invested at two financial institutions. Management believes the risk of the financial institutions and or the counterparty to the underlying financial instruments held failing to meet its obligations is remote. Amounts receivable at October 31, 2022 are composed of amounts due from Canadian federal government agencies and international industry collaborators with full collection expected.

**(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 its cash resources in high interest savings accounts or marketable securities to provide regular cash flow for its operations and monitoring actual and projected cash flows. As at October 31, 2022, the Company had working capital of \$46,350,475 (October 31, 2021 - \$26,851,474).

**(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 investments. With recent increases in global interest rates and higher average investment balances, interest income is becoming more significant to the Company's projected operational budget although rate fluctuations are not significant to the Company's risk assessment. A change in one hundred basis points in the interest rate on marketable securities held at October 31, 2022 would have an impact on interest income of approximately \$460,000 on an annualized basis.

**(d) Foreign currency risk**

Foreign currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to foreign currency risk on fluctuations in foreign exchange rates for any cash, amounts receivable, accounts payable and accrued liabilities and grant contributions that are denominated in foreign currencies. The Company's foreign currency risk is primarily related to expenses denominated in US dollars. Fluctuations in the US dollar exchange rate could have a significant impact on the Company's results. Assuming all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in an increase or decrease in loss and comprehensive loss for the year ended October 31, 2022 of \$224,523 (2021 - \$40,103)

Balances in US dollars are as follows:

|  | Years ended October 31, |              |
|--|-------------------------|--------------|
|  | 2022                    | 2021         |
| Cash                                     | \$ 261,909              | \$ 152,080   |
| Amounts receivable                       | 329,700                 | 181,160      |
| Accounts payable and accrued liabilities | (2,836,838)             | (734,270)    |
|  | \$ (2,245,229)          | \$ (401,030) |