SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
OCTOBER 31, 2023 AND 2022

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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 statements of financial position as at October 31, 2023 and October 31, 2022
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(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, 2023 and October 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

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.

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

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Material Uncertainty Related to Going Concern

We draw attention to Note 2(c) in the financial statements, which indicates that the Entity has incurred losses and has generated negative cash flows since inception. A loss and comprehensive loss of $38,997,520 was incurred during the year ended October 31, 2023. As at October 31, 2023, the Entity had an accumulated deficit of $118,167,007 and working capital of $11,431,210. Until the Entity's biotechnology therapeutic products are approved and available for sale and profitable operations are developed, the Entity's liquidity requirements will be dependent on its ability to continue to obtain additional funding as required. The Entity must secure sufficient funding to cover R&D expenditures to advance program initiatives that are planned for the next twelve months. At this time, no assurance can be given that such financing will be available or that, if available, it can be obtained on favorable terms.

As stated in Note 2(c) in the financial statements, these events or conditions, along with other matters as set forth in Note 2(c) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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, 2023. 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.

In addition to the matter described in the "***Material Uncertainty related to Going Concern***" section of the auditor's report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of accrued expenses related to research and development costs

Description of the matter

We draw attention to Notes 2(d), 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 (R&D) costs outsourced to third-party contract service providers are included in the accrued liabilities balance of $1,848,190. 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 enable the Entity to determine the appropriate accrual at period end. The accrued expenses related to R&D costs at period end reflects the Entity's assessment of third-party information and its best estimate of the status of R&D activities and applicable costs for services completed at period end based on a number of factors including the Entity's knowledge of the R&D programs and associated timelines and the terms and conditions in the contractual arrangements.

Why the matter is a key audit matter

We identified the evaluation of accrued expenses related to R&D costs as a key audit matter. The matter represented an area of significant risk of material misstatement given the high degree of estimation uncertainty in determining the completeness and accuracy of certain accrued expenses related to R&D costs and significant auditor judgment and effort was required in evaluating the results of our audit procedures due to the Entity's significant judgments.

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 related to R&D costs to invoices, third-party contracts, and communications
- We tested a selection of subsequent payments to third-party contract service providers as part of our search for unrecorded liabilities
- For a selection of accrued expenses related to R&D costs, we performed a sensitivity analysis by comparing to third-party contracts and communications to assess the impact of possible changes on the accrued expenses related to R&D costs.

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 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 IFRS Accounting Standards 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.

- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
January 26, 2024

SERNOVA CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	**As at October 31, 2023**	As at October 31, 2022
ASSETS			
Current assets			
Cash		**$ 8,721,835**	$ 3,776,054
Marketable securities		**11,084,000**	46,000,000
Amounts receivable	4	**1,052,991**	1,146,542
Prepaid expenses		**164,664**	168,012
Total current assets		**21,023,490**	51,090,608
Non-current assets			
Deposits		**259,164**	223,860
Property and equipment, net	5	**393,224**	402,421
Intangible assets, net	6	**316,719**	516,752
Right-of-use asset, net	7	**114,218**	251,280
Total non-current assets		**1,083,325**	1,394,313
TOTAL ASSETS		**$ 22,106,815**	$ 52,484,921
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	8	**$ 9,456,157**	$ 4,600,277
Lease liabilities	7	**136,123**	139,856
Total current liabilities		**9,592,280**	4,740,133
Non-current liabilities			
Lease liabilities	7	**–**	136,123
Total liabilities		**9,592,280**	4,876,256
SHAREHOLDERS' EQUITY			
Common shares	9	**110,987,766**	110,987,766
Warrants	9	**–**	3,296,332
Contributed surplus	9	**19,693,776**	12,494,054
Deficit		**(118,167,007)**	(79,169,487)
Total shareholders' equity		**12,514,535**	47,608,665
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 22,106,815**	$ 52,484,921

Commitments and Contingencies (Note 12)
Events After the Reporting Period (Note 17)

On behalf of the Board of Directors

''Brett Whalen'' Director ***''James Parsons''*** Director

See accompanying notes to the consolidated financial statements.

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

	Note	**Year ended October 31, 2023**	Year ended October 31, 2022
EXPENSES			
Research and development	11	**$ 32,042,533**	$ 16,896,624
General and administrative	11	**8,459,060**	7,857,137
Total expenses		**40,501,593**	24,753,761
OTHER EXPENSE (INCOME)			
Interest income		**(1,500,222)**	(577,285)
Finance costs		**32,075**	118,002
Foreign exchange loss (gain)		**(35,926)**	126,058
Net other income		**(1,504,073)**	(333,225)
LOSS AND COMPREHENSIVE LOSS		**$ 38,997,520**	$ 24,420,536
Weighted average number of common shares outstanding – basic and diluted		**303,332,686**	273,593,143
Basic and diluted loss per common share	14	**$ 0.13**	$ 0.09

See accompanying notes to the consolidated financial statements.

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

	Note	**Year ended October 31, 2023**	Year ended October 31, 2022
OPERATING ACTIVITIES			
Loss for the year		**$ (38,997,520)**	$ (24,420,536)
Adjustments for items not affecting cash:			
Amortization and depreciation		**445,551**	439,998
Share-based compensation	9	**3,903,390**	7,451,051
Grants and contributions recognized	12	**(326,932)**	(369,976)
Research collaboration advances recognized as cost recoveries	12	**(62,092)**	(163,028)
Interest income accrued on marketable securities		**(319,386)**	(356,751)
Interest on lease liabilities	7	**32,075**	51,185
Changes in non-cash working capital balances:			
Amounts receivable	4	**229,699**	(195,036)
Prepaid expenses		**3,348**	(163,812)
Accounts payable and accrued liabilities	8	**4,752,750**	3,305,507
Cash used in operating activities		**(30,339,117)**	(14,421,398)
INVESTING ACTIVITIES			
Purchase of marketable securities		**(18,051,750)**	(59,000,000)
Redemption of marketable securities		**52,967,750**	13,000,000
Deposits		**(35,304)**	(12,312)
Purchase of property and equipment	5	**(99,259)**	(329,000)
Cash provided by (used in) investing activities		**34,781,437**	(46,341,312)
FINANCING ACTIVITIES			
Proceeds from private placement of shares, net	9	**–**	20,279,178
Proceeds from exercise of warrants	9	**–**	16,136,728
Proceeds from exercise of stock options	9	**–**	93,750
Grant contribution receipts	12	**510,170**	224,168
Research collaboration advances	12	**165,222**	99,302
Lease liabilities payments	7	**(171,931)**	(168,560)
Cash provided by financing activities		**503,461**	36,664,566
Net increase (decrease) cash during the year		**4,945,781**	(24,098,144)
Cash, beginning of year		**3,776,054**	27,874,198
CASH, END OF YEAR		**$ 8,721,835**	$ 3,776,054
SUPPLEMENTAL CASH FLOW DISCLOSURES			
Income taxes paid		**$ –**	$ –
Interest received		**$ 1,527,328**	$ 257,016

See accompanying notes to the consolidated financial statements.

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

	Common Shares (Note 9)		Warrants (Note 9)	Contributed Surplus (Note 9)	Deficit	Total
Balance, October 31, 2022	303,332,686	$ 110,987,766	$ 3,296,332	$ 12,494,054	$ (79,169,487)	$ 47,608,665
Loss and comprehensive loss for the year	–	–	–	–	(38,997,520)	(38,997,520)
Transactions with owners of the Company, recognized directly in equity:						
Expiry of warrants	–	–	(3,296,332)	3,296,332	–	–
Share-based compensation	–	–	–	3,903,390	–	3,903,390
Balance, October 31, 2023	**303,332,686**	**$ 110,987,766**	**$ –**	**$ 19,693,776**	**$(118,167,007)**	**$ 12,514,535**
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
Balance, October 31, 2022	303,332,686	$ 110,987,766	$ 3,296,332	$ 12,494,054	$ (79,169,487)	$ 47,608,665

See accompanying notes to the consolidated financial statements.

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™ platform and associated technologies, including Cell Pouch™ and immune-protected therapeutic cells. The Cell Pouch™ is a scalable, implantable medical device designed to create a highly vascularized organ-like environment for the transplantation and engraftment of therapeutic cells, which then release proteins, hormones or other factors into the bloodstream for the long-term treatment of multiple chronic diseases such as type 1 diabetes, hypothyroid disease, and rare diseases such as hemophilia A.

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

The Company's head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company's registered address is Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7. The Company's common shares are listed and trade on the Toronto Stock Exchange (the "Exchange") under the symbol SVA. 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 IFRS Accounting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on January 26, 2024.

Certain comparative figures in the statements of cash flows have been reclassified to conform to the current period's presentation. This reclassification had no impact on the cash provided by (used in) operating, investing or financing activities.

(b) Basis of measurement

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Sernova (US) Corp. The financial statements of the subsidiary is prepared for the same reporting period as the Company using consistent accounting policies. Intercompany transactions, balances and gains and losses on transactions between the Company and its subsidiary are eliminated.

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

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(c) 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 generated negative cashflow since inception. A loss and comprehensive loss of $38,997,520 was incurred during the year ended October 31, 2023 (2022 - $24,420,536). As at October 31, 2023, the Company had an accumulated deficit of $118,167,007 (October 31, 2022 - $79,169,487) and working capital of $11,431,210 (October 31, 2022 – $46,350,475).

2. BASIS OF PRESENTATION (cont'd…)

(c) Going concern (cont'd…)

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 additional funding as required. The Company must secure sufficient funding to cover research and development expenditures to advance program initiatives that are planned for the next twelve months. Failure to do so could have a material adverse effect on the Company's financial condition and may cause it to defer or reduce planned expenditures. At this time, no assurance can be given that such financing will be available or that, if available, it can be obtained on favorable terms. As a result, material uncertainty exists which may cast significant doubt on the Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business. To address this uncertainty, Management's plans include seeking additional funding through sources such as loans and strategic alliances, and or equity financings, but there can be no assurance as to when or whether the Company will secure additional funding or complete any strategic alliances.

If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses, and the classifications used in the consolidated statements of financial position, which could be material. The consolidated financial statements do not include adjustments that would be necessary if the going concern assumption was not appropriate.

(d) Use of significant estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, expenses and cost recoveries. The reported amounts and note disclosures reflect management's best estimate of the most probable set of economic conditions and planned course of actions. Actual results may differ from these estimates. Management has applied significant estimates and judgements to the following:

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 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.

2. BASIS OF PRESENTATION (cont'd…)

(d) Use of significant estimates and judgments (cont'd…)

Accrued expenses related to research and development costs
The Company's determination of accrued research and development (R&D) costs at each reporting period requires significant judgement, as estimates are based on a number of factors, including Management's knowledge of the R&D programs and associated timelines, invoicing to date from third-party contract service providers, and the terms and conditions in the contractual arrangements. The completeness and accuracy of accrued expenses related to R&D costs are subject to risk of estimation uncertainty related to services having been received where invoices are not received from third parties in a timely manner prior to the issuance of the audited consolidated financial statements. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust R&D expenses in subsequent periods.

3. MATERIAL ACCOUNTING POLICIES

The Company's material 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 of 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.

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.

3. MATERIAL ACCOUNTING POLICIES (cont'd …)

(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 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.

3. MATERIAL ACCOUNTING POLICIES (cont'd …)

(f) Impairment (cont'd…)

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 R&D activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. 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.

3. MATERIAL ACCOUNTING POLICIES (cont'd …)

(i) Research and development costs (cont'd…)

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 enable the Company to determine the appropriate accrual at period end. The accrued expenses related to R&D costs at period end reflects the Company's assessment of third-party information and its best estimate of the status of R&D activities and applicable costs for services completed at period end. Any changes to the estimates could have a significant impact on the accruals for R&D activities recorded. If the actual timing of services provided or level of effort varies from the Company's estimates, R&D expense and accrued liabilities are adjusted accordingly on a prospective basis.

(j) Share-based payments and compensation

The Company may grant stock options to its directors, officers, employees and consultants and previously granted deferred share units ("DSUs") to directors. 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 previously granted 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 warrants to agents as consideration for services provided. Awards of 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 warrants are issued.

(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 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.

3. MATERIAL ACCOUNTING POLICIES (cont'd …)

(k) Income taxes (cont'd…)

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

- 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.

3. MATERIAL ACCOUNTING POLICIES (cont'd …)

(m) Financial instruments (cont'd …)

When the Company's short-term investments include guaranteed investment certificates ("GICs") held, they are measured at amortized cost. The Company generally 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, 2023.

(n) New accounting standards and interpretations adopted during the current period

IAS 1 *Presentation of Financial Statements*
As at November 1, 2022, the Company adopted amendments made to International Accounting Standard 1 *Presentation of Financial Statements* ("IAS 1"). IAS 1 provides a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date and does not impact the amount or timing of recognition. The adoption of this amendment did not have a material impact on the audited consolidated financial statements.

As at November 1, 2022, the Company adopted amendments made to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* in which guidance and examples are provided to help entities apply materiality judgements to accounting policy disclosures. The adoption of this amendment did not have a material impact on the audited consolidated financial statements.

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
As at November 1, 2022, the Company adopted amendments made to International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") which 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 adoption of this amendment did not have a material impact on the audited consolidated financial statements.

IAS 12 Income taxes
As at November 1, 2022, the Company adopted amendments made to International Accounting Standard 12 *Income Taxes* ("IAS 12"). IAS 12 was amended 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 adoption of this amendment did not have a material impact on the audited condensed consolidated financial statements.

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

None

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

	October 31, 2023	October 31, 2022
Grant contributions receivable (Note 12)	$ 194,998	$ 383,756
HST / GST and other tax credits receivable	538,607	406,035
Interest receivable	319,386	356,751
	$ 1,052,991	$ 1,146,542

5. PROPERTY AND EQUIPMENT

	Computer and office equipment	Laboratory equipment	Manufacturing equipment	Total
Cost				
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
Additions	25,720	7,080	66,459	99,259
Balance, October 31, 2023	$ 150,433	$ 577,733	$ 171,557	$ 899,723
Accumulated depreciation				
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
Depreciation	12,117	76,817	19,522	108,456
Balance, October 31, 2023	$ 98,742	$ 318,241	$ 89,516	$ 506,499
Net carrying amounts				
October 31, 2022	$ 38,088	$ 329,229	$ 35,104	$ 402,421
October 31, 2023	$ 51,691	$ 259,492	$ 82,041	$ 393,224

(Expressed in Canadian Dollars)

6. INTANGIBLE ASSETS

	Total
Cost	
Balance, October 31, 2021, 2022 and 2023	$ 1,000,165
Accumulated amortization	
Balance, October 31, 2021	$ 283,380
Amortization	200,033
Balance, October 31, 2022	483,413
Amortization	200,033
Balance, October 31, 2023	$ 683,446
Net carrying amounts	
October 31, 2022	$ 516,752
October 31, 2023	$ 316,719

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, 2021	$ 388,341	$ 393,354
Depreciation	(137,061)	–
Interest expense	–	51,185
Payments	–	(168,560)
Balance, October 31, 2022	251,280	275,979
Depreciation	(137,062)	–
Interest expense	–	32,075
Payments	–	(171,931)
Balance, October 31, 2023	$ 114,218	$ 136,123

	October 31, 2023	October 31, 2022
Lease liabilities – short term portion	$ 136,123	$ 139,856
Lease liabilities – long term portion	–	136,123
	$ 136,123	$ 275,979

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2023	October 31, 2022
Trade payables	$ 6,850,693	$ 3,613,355
Accrued liabilities	1,848,190	700,512
Research collaboration advances	95,013	–
Due to related parties (Note 10)	662,261	286,410
	$ 9,456,157	$ 4,600,277

9. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares, without par value.

(b) Share capital changes

During the year ended October 31, 2023, there were no changes to the Company's share capital.

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 a 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.

(c) Warrants

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

	2023		2022	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance outstanding, beginning of year	20,136,918	$ 1.67	46,144,142	$ 0.93
Expired	(20,136,918)	(1.67)	–	–
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)
Balance outstanding, end of year	–	$ –	20,136,918	$ 1.67

(Expressed in Canadian Dollars)

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, 2023. The remaining balance available for grant under the Incentive Plan as of October 31, 2023 is 995,088 which is reserved for the issuance of stock options.

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 no less than the price pursuant to the policies of the Exchange.

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

	2023		2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance outstanding, beginning of year	22,285,984	$ 0.91	8,892,500	$ 0.24
Granted	8,738,613	0.95	13,980,984	1.32
Cancelled	(338,334)	(0.62)	–	–
Forfeited	(612,081)	(1.21)	(150,000)	1.32
Exercised	–	–	(437,500)	(0.21)
Balance outstanding, end of year	30,074,182	$ 0.92	22,285,984	$ 0.92
Options exercisable, end of year	20,326,683	$ 0.87	14,699,413	$ 0.71

Stock options outstanding by range of exercise prices as at October 31, 2023:

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	8,130,000	4.5	$ 0.23	8,130,000	$ 0.23
$ 0.74 to $ 1.20	8,169,863	8.7	0.94	1,400,577	1.09
$ 1.32 to $ 1.42	13,774,319	3.0	1.32	10,796,106	1.32
$ 0.21 to $ 1.42	30,074,182	4.9	$ 0.92	20,326,683	$ 0.87

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

The Black-Scholes option pricing 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 and volatility of the Company's common shares in determining the fair value of the stock options. The risk-free interest rate is based on the Government of Canada benchmark bond yield rates in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (cont'd…)

(d) Incentive Plan (cont'd…)

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 weighted average assumptions:

	2023	2022
Dividend yield	0%	0%
Expected volatility	85.5%	85.6%
Risk free interest rate	1.8%	1.4%
Expected life of options	4.8 years	4.7 years

For the years ended October 31, 2023 and 2022, the Company issued stock options with weighted average grant date fair values of $0.63 and $0.63 per stock option, respectively.

During the year ended October 31, 2023, the terms of 455,613 stock options were modified to be fully vested on an accelerated basis. The modification resulted in the accelerated recognition of $278,264 of share-based compensation expense during the year, but no incremental fair value recognition.

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, it has been accounted for as an equity-settled plan. There were no DSUs granted during the year ended October 31, 2023 (2022 – 1,360,000 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, 2023 and 2022. DSUs have generally vested over a three-year period after the date of grant.

During the year ended October 31, 2023, the terms of 418,161 DSUs were modified to be fully vested on an accelerated basis. The modification resulted in the accelerated recognition of $283,340 of share-based compensation expense during the year, but no incremental fair value recognition.

As at October 31, 2023, a total of 5,510,001 DSUs were outstanding (October 31, 2022 – 5,510,001) of which 5,455,836 had vested (October 31, 2022 – 4,727,254).

10. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the Directors, Executive Officers and Vice Presidents. 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. Two of the Company's Directors incurred $92,744 of non-recurring expenses related to the 2023 annual general meeting of shareholders which the Company reimbursed. These amounts are recorded as expense during the year ended October 31, 2023. Included in accounts payable and accrued liabilities at October 31, 2023, was $662,261 due to key management personnel (October 31, 2022 – $286,410).

Compensation to key management personnel for the reporting period:

	Years ended October 31,	
	2023	2022
Personnel costs	$ 2,233,810	$ 1,156,433
Director fees and costs	354,152	266,051
Share-based compensation	3,536,753	7,031,590
	$ 6,124,715	$ 8,454,074

(Expressed in Canadian Dollars)

11. STATEMENTS OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Research and Development Expenses

	Years ended October 31,	
	2023	2022
Personnel costs	$ 2,767,778	$ 1,837,700
Research and clinical development	26,296,160	9,922,277
Manufacturing costs	595,266	890,702
Patent fees and costs	546,657	544,674
Other costs	500,333	262,326
Amortization and depreciation	414,249	409,191
Share-based compensation - options	1,551,114	3,702,379
	32,671,557	17,569,249
Less: grants, contributions and tax credits	(629,024)	(672,625)
Total research and development expenses	$ 32,042,533	$ 16,896,624

General and Administrative Expenses

	Years ended October 31,	
	2023	2022
Personnel costs	$ 1,788,360	$ 1,148,756
Consulting and professional fees	840,033	636,632
Director fees and expenses	425,143	343,386
Investor relations	1,390,157	909,651
Public company expenses	978,997	387,840
Insurance and other costs	652,792	651,393
Depreciation	31,302	30,807
Share-based compensation - DSUs	564,066	1,222,480
Share-based compensation - options	1,788,210	2,526,192
Total general and administrative expenses	$ 8,459,060	$ 7,857,137

12. COMMITMENTS AND CONTINGENCIES

The Company was previously awarded a US$2.45 million (approximately $3.40 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$239,010 ($326,932) were earned during the year ended October 31, 2023 (2022 – US$281,160 ($369,976)). Remaining funding available to be earned under the JDRF grant award totals approximately US$0.05 million ($0.07 million) as at October 31, 2023. 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.

(Expressed in Canadian Dollars)

12. COMMITMENTS AND CONTINGENCIES (cont'd…)

In May 2022, the Company entered into a strategic partnership with Evotec 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$25.0 million ($34.7 million). The Evotec Agreement is cancellable by the Company with notice, subject to certain terms and conditions. iPSC Program costs of US$13,812,276 ($18,615,546) were incurred during the year ended October 31, 2023 (2022 – US$5,635,624 ($7,420,725)). 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. Total iPSC Program costs of US$17,759,233 ($23,781,061) have been incurred since the commencement of the initiative up to the end of the most recently completed year ended October 31, 2023.

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, 2023, the Company has commitments totaling approximately $6,337,000, of which approximately $2,427,000 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 $32,000 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, which it exercised. As of October 31, 2023, remaining undiscounted lease payment obligations total $145,650, all of which are 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, 2023, and 2022, deferred tax assets have not been recognized with respect to the following items:

	2023	2022
Non-capital losses	$ 22,047,000	$ 13,041,000
Tax credits	2,402,000	2,071,000
Tax basis of property, equipment and intangible assets greater than accounting basis	409,000	328,000
Scientific research and experimental development expenditures	3,074,000	2,585,000
Share issue costs and other	515,000	782,000
	$ 28,447,000	$ 18,807,000

As at October 31, 2023, the Company had available research and development expenditures of approximately $11,600,000 (October 31, 2022 - $9,755,000), which may be carried forward indefinitely to reduce future years' taxable income.

(Expressed in Canadian Dollars)

13. INCOME TAXES (cont'd…)

(a) Unrecognized deferred tax assets (cont'd…)

As at October 31, 2023, the Company also had available unclaimed research and development tax credits of approximately $2,948,000 (October 31, 2022 - $2,554,000), which are available to reduce future taxes payable, with expiries from 2024 through 2043.

As at October 31, 2023, the Company has other available future tax deductions related to assets and share issuance costs of approximately $3,487,000 (October 31, 2022 - $4,186,000).

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
2043	33,874,191
	$ 76,274,791

As at October 31, 2023, and 2022, the Company also had non-capital income tax losses available to offset future taxable income in the United States of approximately $7,338,000 (US$5,290,000) and $7,220,000 (US$5,290,000), 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:

	2023	2022
Loss for the year before income tax	$ (38,997,520)	$ (24,420,536)
Expected income tax recovery at statutory rates	$ (10,334,000)	$ (6,471,000)
Change in statutory tax, foreign tax and foreign exchange rates	(79,000)	(115,000)
Tax credits	(313,000)	(210,000)
Permanent differences	1,039,000	1,980,000
Share issue costs	–	(12,000)
Change in unrecognized deductible temporary differences	9,640,000	4,829,000
Adjustment to prior year provision versus statutory returns	47,000	(1,000)
Income tax recovery	$ –	$ –

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, 2022.

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.

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 financial institutions including Canadian chartered banks and financial service firms. Management actively reviews the risk of the financial institutions and or the counterparty to the underlying financial instruments held failing to meet its obligations and adjusts expected credit losses if and when any undue risk is identified. Amounts receivable at October 31, 2023 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, 2023, the Company had working capital of $11,431,210 (October 31, 2022 - $46,350,475).

(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, 2023 would have an impact on interest income of approximately $110,840 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, 2023 of $232,933 (2022 – $224,523)

Balances in US dollars are as follows:

	Years ended October 31,	
	2023	2022
Cash	$ 3,288,063	$ 261,909
Amounts receivable	140,580	329,700
Accounts payable and accrued liabilities	(5,757,977)	(2,836,838)
	$ (2,329,334)	$ (2,245,229)

17. EVENTS AFTER THE REPORTING PERIOD

The Company entered into a successor long-term lease for office premises and lab space at the same facility under lease, at a rate of $14,010 per month with a 3% annual increase thereafter for the duration of the lease period. The new three-year lease is effective January 1, 2024, and would extend to December 31, 2028 if both one-year extension options were exercised by the Company.