SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2008

AUDITORS' REPORT

To the Shareholders of
Sernova Corp.

We have audited the consolidated balance sheets of Sernova Corp. as at October 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 5, 2009

SERNOVA CORP.
CONSOLIDATED BALANCE SHEETS
AS AT OCTOBER 31

	2008	2007
ASSETS		
Current		
Cash	$ 461,346	$ 1,800,205
Receivables	17,355	61,591
Prepaid expenses	6,197	17,425
	484,898	1,879,221
Equipment (Note 5)	4,991	8,307
Intangible assets (Note 6)	4,659,441	5,344,898
	$ 5,149,330	$ 7,232,426
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 120,841	$ 34,286
Shareholders' equity		
Capital stock (Note 7)	17,232,859	17,232,859
Contributed surplus (Note 7)	1,890,909	1,307,075
Deficit	(14,095,279)	(11,341,794)
	5,028,489	7,198,140
	$ 5,149,330	$ 7,232,426

Nature and continuance of operations (Note 1)
Commitments (Note 8)

On behalf of the Board:

"Dr. George Adams" Director "Dr. Eldon Smith" Director

The accompanying notes are an integral part of these consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED OCTOBER 31

	2008	2007
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization on equipment	$ 3,316	$ 3,626
Amortization on intangible assets	802,232	791,839
Consulting fees and wages	319,902	310,133
Office and miscellaneous	194,437	218,460
Professional fees	113,269	175,449
Research	816,799	1,603,292
Stock-based compensation (Note 7)	583,834	614,452
	(2,833,789)	(3,717,251)
OTHER ITEMS		
Foreign currency gain (loss)	312	(6,226)
Interest income	37,721	91,449
Royalty income	42,271	39,808
	80,304	125,031
Loss and comprehensive loss for the year	(2,753,485)	(3,592,220)
Deficit, beginning of year	(11,341,794)	(7,749,574)
Deficit, end of year	$ (14,095,279)	$ (11,341,794)
Basic and diluted loss per common share	$ (0.05)	$ (0.07)
Weighted average number of common shares outstanding	53,324,858	48,874,390

The accompanying notes are an integral part of these consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED OCTOBER 31

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (2,753,485)	$ (3,592,220)
Items not affecting cash:		
Amortization on equipment	3,316	3,626
Amortization on intangible assets	802,232	791,839
Stock-based compensation	583,834	614,452
Changes in non-cash working capital items:		
Increase (decrease) in receivables	44,236	(576)
Decrease in prepaid expenses	11,228	15,993
Increase (decrease) in accounts payable and accrued liabilities	59,461	(58,436)
Net cash used in operating activities	(1,249,178)	(2,225,322)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	-	2,475,625
Net cash provided by operating activities	-	2,475,625
CASH FLOWS FROM INVESTING ACTIVITIES		
Intangible assets	(89,681)	(1,324,834)
Net cash used in investing activities	(89,681)	(1,324,834)
Decrease in cash during the year	(1,338,859)	(1,074,531)
Cash, beginning of year	1,800,205	2,874,736
Cash, end of year	$ 461,346	$ 1,800,205

Supplemental disclosure with respect to cash flows (Note 9)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

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

Pursuant to the definitive agreement for the sale of its proprietary technology in fiscal 2004, the Company retains a graduated royalty on world wide sales of the fertility monitor and any related products stemming from the Fertilité-OV™ fertility monitor and accompanying technology and patents until the earlier of expiry of the patents or 2014.

The Company acquired a sublicense to certain patents (Note 6) and a subsidiary, Sertonex Inc. ("Sertonex") (Note 4), and became engaged in the research and development of a commercially viable treatment for Type 1 human diabetes using transplanted devices containing porcine cells. The Company has no products in commercial production or use and is in the development stage.

Going concern

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and research programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The current market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows, and needs to invest in the continued prosecution of patents and trademarks which cannot be met from existing cash balances. The Company will continue to search for new funds and for new collaborative partners for the research but anticipates that the current market conditions may impact the ability to source such funds.

	2008	2007
Working capital	$ 364,057	$ 1,844,935
Deficit	(14,095,279)	(11,341,794)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Sertocell Biotechnology (US) Corp. ("Sertocell") and Sertonex from its date of acquisition (Note 4). All significant inter-company balances and transactions have been eliminated.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant accounts that require estimates relate to the impairment of the intangible assets, valuation allowance for future income tax assets, stock-based compensation and valuation of warrants in private placements.

Computer equipment

Computer equipment is recorded at cost less accumulated amortization and related investment tax credits and government grants. Amortization is provided annually on assets placed in use on a 30% declining balance basis.

Intangible assets

Costs incurred in obtaining patent licenses and non-patented intellectual property associated with the patents are capitalized and amortized on a straight-line basis over the remaining legal life of the respective patent licenses, or their economic life, if shorter. The cost of servicing the Company's patent licenses' is expensed as incurred.

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future net cash flows expected to be generated by the asset. When the carrying amount of an asset exceeds such cash flows, an impairment charge is recognized for the excess.

Research and development

All research costs are charged to operations in the year of expenditure. Development costs are capitalized if they meet the criteria for capitalization and amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits.

Investment tax credits and government grants

The Company follows the cost reduction method of accounting for investment tax credits. Investment tax credits related to acquisition of equipment are deducted from the related asset with amortization being calculated on the net amount. Investment tax credits related to current expenditures are included in the determination of net income as the expenditures are incurred when there is reasonable assurance they will be realized.

Non-refundable government grants are recorded as a reduction of expenditures when directly related to such expenditures. Grants in excess of expenditures are deferred to future periods, to be offset against any future expenditures to be incurred or credited to development costs if they exceed future expenditures on that project.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Escrow shares

Company shares placed in escrow to be released upon achievement of certain performance criteria in connection with an acquisition are considered to be contingently issueable and compensatory in nature. Accordingly, the fair value of these shares upon satisfaction of the performance criteria is accounted for as compensation expense in the period of satisfaction.

Stock-based compensation

The Company uses the fair value based method of accounting for stock options granted to employees and directors and compensatory warrants issued on private placements. Under this method, the fair value of the stock options at the date of the grant, as determined using the Black-Scholes option pricing model, is recognized to expense over the vesting period, and the fair value of compensatory warrants at the date of issuance, as determined using the Black-Scholes model, is recognized as share issuance costs, with the offsetting credit to contributed surplus. If the stock options or warrants are exercised, the proceeds are credited to share capital and the fair value of the options or warrants exercised are reclassified from contributed surplus to share capital.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Foreign currency translation

The Company's subsidiaries are integrated foreign operations and are translated into Canadian dollar equivalents using the temporal method. The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those in effect at the time of the transaction. Exchange gains and losses arising on translation are included in the statement of operations.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The performance escrow shares outstanding as of October 31, 2008 (Note 7) have been excluded from the weighted average number of shares because they are contingently returnable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Financial instruments

Effective November 1, 2006, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measures in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of these new standards, the Company has classified its cash equivalents as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

There were no transitional adjustments on the adoption of the financial instruments standard.

Changes in accounting policies

Accounting changes

CICA Handbook Section 1506: "Accounting Changes" ("Section 1506"), which is effective for fiscal years beginning on or after January 1, 2007, establishes standards and new disclosure requirements for the reporting of changes in accounting policies and estimates and the reporting of error corrections. Section 1506 clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application of prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable, with a corresponding adjustment made to opening retained earnings.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Changes in accounting policies (cont'd…)

Financial instruments

The Accounting Standards Board of the CICA (the "AcSB") issued CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges* (see Note 13).

AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset (see Note 13).

Capital management

AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note 14).

The Company adopted the above new accounting policies for its fiscal year beginning November 1, 2007. The adoption of these new pronouncements did not effect the Company's financial position or results of operations.

3. NEW ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs and amendments to Accounting Guidline (AcG) 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

Assessing going concern

AcSB amended CICA Handbook Section 1400 "General Standards on Financial Statement Presentation", to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS (cont'd…)

International financial reporting standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be November 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended October 31, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

4. ACQUISITION OF SUBSIDIARY

The Company acquired an option to purchase 100% of the issued and outstanding common shares of Sertonex, a privately held company, in consideration of the staged issuance of 6,945,000 common shares of the Company and the completion of an aggregate of $3,500,000 in equity financing. The common shares issued pursuant to the acquisition agreement are subject to time release escrow agreements, of which 50% are performance based escrow shares that are considered compensatory in nature. The compensatory escrow shares are released in accordance with the performance criteria disclosed in Note 7 and do not comprise acquisition costs.

On August 9, 2006, the Company acquired 66.67% of the issued and outstanding shares of Sertonex, in consideration for the issuance of 4,630,000 common shares of the Company, of which 3,472,500 are compensatory and 1,157,500 are non-compensatory, and completed $2,000,000 of the required $3,500,000 equity financing. The acquisition was accounted for using the purchase method.

Total cost of acquisition was $594,540 consisting of the issuance of 1,157,500 non-compensatory common shares valued at $463,000 and transaction costs of $131,540. The operating results of Sertonex were recognized in the consolidated statement of operations beginning on August 9, 2006, the effective date of the first acquisition.

The allocation of the purchase price to the assets and liabilities of Sertonex are as follows:

Cash	$	1,941
Equipment		6,115
Due to related parties		(11,921)
Accounts payable		(19,251)
Intellectual property		617,656
	$	594,540

On July 26, 2007, the Company acquired the remaining 33.33% of the issued and outstanding shares of Sertonex, in consideration for the issuance of 2,315,000 non-compensatory common shares of the Company, valued at $1,574,200. The purchase cost of $1,574,200 has been allocated entirely to intellectual property. The Company also completed the remaining $1,500,000 of the required $3,500,000 equity financing. As of July 26, 2007, all requirements were met for 100% ownership of Sertonex.

5. EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 12,695	$ 7,704	$ 4,991	$ 12,695	$ 4,388	$ 8,307

6. INTANGIBLE ASSETS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patent licenses	$ 4,167,048	$ 1,119,501	$ 3,047,547	$ 4,050,273	$ 597,599	$ 3,452,674
Intellectual property	2,191,856	579,962	1,611,894	2,191,856	299,632	1,892,224
	$ 6,358,904	$ 1,699,463	$ 4,659,441	$ 6,242,129	$ 897,231	$ 5,344,898

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
An unlimited number of common shares, without par value			
Balance as at October 31, 2006	50,305,483	$ 13,128,789	$ 746,868
Exercise of warrants	4,036,375	2,421,825	-
Exercise of options	140,500	108,045	(54,245)
Shares issued on acquisition (Note 4)	2,315,000	1,574,200	-
Stock-based compensation	-	-	614,452
Balance as at October 31, 2007	56,797,358	17,232,859	1,307,075
Stock-based compensation	-	-	583,834
Balance as at October 31, 2008	56,797,358	$ 17,232,859	$ 1,890,909

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Escrow shares

Included in issued capital stock at October 31, 2008 are 6,819,750 common shares held in escrow which were subject to time release escrow agreements and will not be released, transferred or assigned without the consent of the regulatory authorities.

Performance escrow shares

Included in issued capital stock and part of the escrow shares mentioned above at October 31, 2008 are 3,472,500 common shares also subject to a performance based release as follows:

a) 1,736,250 common shares on the date the Company receives approval from authorities for the initiation of human trials for a licensed product;

b) 1,736,250 common shares on the date the Company enrolls the first patient in a Phase 3 human clinical efficacy trial for a licensed product.

Any remaining performance escrow shares will be cancelled and returned to treasury upon the earlier of (i) August, 2016, (ii) the Company ceasing to hold an interest in the intellectual property, or (iii) the mutual agreement of the Company and the shareholder

Warrants and stock options

The Company has a stock option plan whereby, from time to time, at the discretion of the Board of Directors, stock options are granted to directors, officers, employees, and certain consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less an applicable discount. The options can be granted for a maximum term of five years with vesting provisions determined by the Board of Directors.

Stock option and warrant transactions are summarized as follows:

	Stock options			Warrants		
	Number of Shares		Weighted Average Exercise Price	Number of Shares		Weighted Average Exercise Price
Balance outstanding, October 31, 2006	4,070,000	$	0.39	4,036,375	$	0.60
Granted	785,000		0.72	-		-
Exercised	(140,500)		0.38	(4,036,375)		0.60
Balance outstanding, October 31, 2007	4,714,500		0.44	-		-
Granted	425,000		0.26	-		-
Cancelled/expired	(755,000)		0.54	-		-
Balance outstanding, October 31, 2008	4,384,500	$	0.41	-	$	-
Exercisable, October 31, 2008	3,764,500	$	0.42	-	$	-

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Warrants and stock options (cont'd…)

The following table summarizes information about the stock options outstanding at October 31, 2008:

	Number of Shares		Exercise Price	Expiry Date
Options	150,000	$	0.13	March 28, 2010
	30,000		0.16	January 3, 2010
	2,049,500		0.40	March 20, 2011
	1,220,000		0.40	September 11, 2011
	300,000		0.40	November 22, 2011
	105,000		0.88	June 22, 2012
	150,000		1.00	June 22, 2012
	280,000		0.30	March 13, 2013
	100,000		0.12	October 15, 2013
Total	4,384,500			

Stock-based compensation

The Company used the Black-Scholes option pricing model to determine the fair value of options granted. During fiscal 2008, the Company granted 425,000 (2007 – 785,000) options with a weighted average fair value of $0.13 (2007 - $0.36) per option, which is being recognized over the vesting periods of the options. Total stock-based compensation recognized in the Statement of Operations and Deficit for fiscal 2008 was $583,384 (2007 – $614,452). This amount represents the value of vested options.

The fair value of stock options has been estimated with the following assumptions:

Year ended October 31	2008	2007
Dividend yield	$0.00	$0.00
Expected volatility	89.15%	67.79%
Risk free interest rate	2.86%	4.39%
Expected life of options	5 years	5 years

8. COMMITMENTS

Pursuant to an agreement with a shareholder, the Company has exclusive rights to use certain patents and technology utilized in the Fertilité-OV ™. Under the agreement, the shareholder earns a royalty of 2% of cumulative royalties in excess of $1.5 million to a maximum lifetime royalty of $570,000.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2008	2007
Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income taxes	$ -	$ -

Significant non-cash transactions for the year ended October 31, 2008 included accruing $47,126 in patent costs.

Significant non-cash transactions for the year ended October 31, 2007 included:

a) Issuance of 2,315,000 common shares valued at $1,574,200 pursuant to the acquisition of a subsidiary.

b) Accrued $20,032 in patent costs.

10. RELATED PARTY TRANSACTIONS

During fiscal 2008 the Company paid or accrued $68,625 (2007 - $129,800) in consulting fees and wages to a director, an officer and former officer, and a company controlled by a director.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

11. INCOME TAXES

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

	2008	2007
Loss before income taxes	$ (2,753,485)	$ (3,592,220)
Expected income tax recovery	$ 870,000	$ 1,221,000
Excess of amortization over capital cost allowance	(255,000)	(270,000)
Other items	(172,000)	(194,000)
Unrecognized benefits of losses	(443,000)	(757,000)
Income tax recovery	$ -	$ -

11. INCOME TAXES (cont'd…)

The significant components of the Company's future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets:		
Losses available for future periods	$ 2,000,000	$ 1,928,000
Share issuance costs	18,000	30,000
Research and development costs	511,000	530,000
Other items	476,000	330,000
	3,005,000	2,818,000
Less: valuation allowance	(3,005,000)	(2,818,000)
Net future income tax assets	$ -	$ -

The Company has Canadian non-capital losses of approximately $4,152,000 and United States operating losses of approximately $2,709,000 available to reduce future years' taxable income. These losses, if not utilized, will expire through to 2028. Future tax benefits, which may arise as a result of these non-capital losses and other items have not been recognized in these financial statements and have been offset by a valuation allowance.

12. SEGMENTED INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by management, in deciding how to allocate resources in assessing performance. All of the Company's operations are within research and development in the biotechnology sector with all of the Company's capital assets located in Canada.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, receivables, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Financial risk factors

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

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to short-term investments included in cash. Management believes that the credit risk concentration with respect to financial instruments included in cash is remote. Receivables are due primarily from a government agency.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at October 31, 2008, the Company had a cash balance of $461,346 (2007 - $1,800,205) to settle current liabilities of $120,841 (2007 - $34,286). All of the Company's financial liabilities are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The cash balance as at October 31, 2008 of $461, 346 is held on interest-bearing deposits with banks. A 1% change in interest rates would have an effect of $4,613 on interest income.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars. However management believes the risk is not currently significant as less than 0.1% of the Company's assets and none of its liabilities as at October 31, 2008 are denominated in United States Dollars,

c) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

14. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to 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 of the business. The Company defines capital that it manages as share capital, and cash.

The intellectual properties 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 new sources of financing available and to manage research and administrative expenditures to reflect current financial resources in the interest of sustaining long term viability.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.