SERNOVA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended October 31, 2009

The following discussion and analysis explains the variations in the consolidated operating results and financial position and cash flows of the Company for the years ended October 31, 2009 and 2008. This analysis should be read in conjunction with the audited Consolidated Financial Statements of the Company and related notes enclosed herein as at October 31, 2009. Such Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures are in Canadian dollars unless otherwise indicated. In this report where we say "we", "us", our", or "the Company", we mean Sernova Corp., unless otherwise indicated.

The information in this report is dated as of February 21, 2010.

This MD&A contains "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "may", "will","intend","believe","estimate","consider","expect","anticipate", and "objective" and similar expressions or variations of such words. Forward looking statements are, by their nature, not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results, or that estimates or projections will be sustained.

Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date of the MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties described elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

This discussion and analysis has been reviewed and approved by the Audit Committee and the Board of Directors. The Audit Committee of the Company includes two Directors who are financially knowledgeable.

PERORMANCE SUMMARY AND UPDATE

On May 25, 2006 the Company announced it had received TSX Venture Exchange approval for the joint venture and financing agreement with Sertonex Inc. (Sertonex) of London, Ontario and Sertoli Technologies, Inc. (STI) of Tucson, Arizona ("Joint Venture"). The purpose of the Joint Venture is to develop a commercially viable treatment for insulin-dependent human diabetes which includes type-1 and a number of type-2 diabetics, using a subcutaneously implanted device into which islets and Sertoli cells can be transplanted. The technology involving the combination of islets and Sertoli cells is branded as "Sertolin" and is one of the Company's primary foci.

The Company's efforts and expenditures have been focused on obtaining preclinical data through research to support regulatory approval of clinical (human) trials of Sernova's cell technology. The Company is planning to file a regulatory application with the United States Food and Drug Administration (FDA), and/or other relevant regulatory agencies, once management believes it has sufficient preclinical safety and efficacy data. Sernova's management,

in conjunction with its Scientific Advisory Committee and regulatory consultants, periodically reviews and revises its regulatory approval strategy as needed.

On April 25, 2008 the Company met with the U.S. Food and Drug Administration (FDA) in a Pre-IND meeting to review the data that may be required for the filing of a regulatory application (IND), to allow testing of the Sertolin technology using porcine islets and Sertoli cells within a subcutaneously implanted device in human clinical trials.. After review of Sernova's pre-clinical testing data in rodents to date, the FDA suggested that a pre-clinical study of 12 months duration in a large-animal model with clear endpoints ("Pivotal Trial") could be used to support a Phase I/II human Clinical Study. Further recommendations were made regarding the design and conduct of the human clinical study.

Following the FDA meeting in 2008, the Company focused on the design, and scale-up of a cellular implantation chamber that would be suitable for humans. In addition, the Company obtained quotes from contract research facilities ("CRO's") who could perform the Pivotal Trial, and attempted to make arrangements to secure porcine cells for this trial as well as future human studies. The Company designed and manufactured the cellular implantation chamber, known as the Cell Pouch System(TM).

At the Annual General Meeting of the Shareholders held on April 28, 2009, the Board of Directors issued its report on the internal review of the Company's research and development, financing and partnering activities and strategies that had been conducted over the previous three months by an independent Director of the Company. Based on the analysis of the Company's scientific progress to date, regulatory requirements, and financial and human resources, the Board of Directors approved the recommended strategic plan.

The Company is thus evaluating various options involving a tiered entry of its technologies into the clinic and eventual marketplace with additional focus on the use of human cells.

For example, the company is examining the strategy of first obtaining regulatory approval for the Cell Pouch System(TM) as a cellular transplantation device for patients with pancreatitis who will be having their pancreas removed to alleviate intractable pain. The Company proposes that the islets from the removed pancreas could be placed into the Cell Pouch System(TM) which has been previously placed under the skin of the patient. In this autograft clinical indication, no immunosuppressant drugs would be required.

To further expand the clinical indications for Sernova's technologies the Cell Pouch System(TM) may be used in patients who are planning on having an allograft transplant as an alternative to injecting islets into the portal vein of the liver which can result in the death of up to 90% of islets due to an immediate inflammatory reaction and thrombosis. The patients with the Cell Pouch System(TM) who have had an allograft transplant may be given either immunosuppressant drugs or could be given Sertolin(TM) to reduce or eliminate the need for immunosuppressant drugs.

Due to the expectation that the Cell Pouch System(TM) will become vascularized, providing a more organ-like environment for the transplanted islets it may also be possible that the device may be islet sparing. All of these options could serve to eventually increase the market share of the Cell Pouch System(TM).

In addition to internal Research and Development activities, the Company's plans to seek scientific collaborations with key international transplant centres that currently offer islet transplantation (known as the Edmonton Protocol) to patients suffering from insulin-dependent

diabetes. The management and Board of Directors of the Company strongly believe that the Company's proprietary technology, which utilizes a unique transplantation device for therapeutic cells, offers a significant technological leap forward over the Edmonton Protocol, the current standard of care where cells are injected into the portal vein of the liver. Briefly, Sernova's technology is expected to provide a safer protected environment for the islets, which could result in healthier and longer living islets, and result in a more robust and natural long-lasting insulin response, among other benefits. In fact, the use of the proprietary cell chamber may in itself provide distinct benefits to diabetic patients over the current method of injecting islets into the portal vein of the liver even using current immunosuppressive agent protocols. It is expected that the Cell Pouch System(TM) may be used for autograft cellular transplants, for allograft cellular transplants with the use of immunosuppressive drugs or in conjunction with co-transplantation of islets and Sertoli cells.

The Company has initiated discussions with several key transplant centres in North America with a view to establishing scientific and potential future clinical collaborations to demonstrate proof of concept and commercialize its proprietary technology. Initially these collaborations may include pilot studies to assess the various aspects of the Company's technology as well as safety and efficacy studies, which may contribute to the data sufficient for filing an IDE or IND as discussed above. It is the Company's position that by collaborating with leading transplant centres, the Company can conduct various studies in parallel, while ensuring the highest quality of work to meet the standards of the FDA and the international scientific community. The company is also seeking corporate collaborations for such purposes.

While the initial primary focus of the company's development efforts will be assessment of the Cell Pouch System™ for insulin-dependent diabetes, the company is planning to develop partnerships with academic and corporate collaborators to develop the Cell Pouch for other chronic metabolic, hematologic and neurological diseases. Furthermore, the company will be seeking to investigate the use of the device for implantation of multiple cell types including natural cells, stem cells and genetically engineered cells.

The Board of Directors also announced on April 28, 2009 the appointment of Dr. Philip Toleikis as President and Chief Executive Officer of the Company. Dr. Toleikis is a seasoned and experienced biotechnology executive, with over 20 years of research, intellectual property, product development, management and business experience in the pharmaceutical and biotechnology sectors. Some of this experience has come from his 10 year tenure at Angiotech Pharmaceuticals, Inc. which began in 1996. Dr. Toleikis' major achievements include building and managing a successful product development team of over 20 scientists, development and implementation of product development strategies for multiple combination products, successful completion of Pivotal European Clinical Trials for a combination product which led to a CE Mark and product development from discovery to FDA approval for a second combination product, chairing a Joint Research Committee for a major corporate collaboration which resulted in multiple patent applications and product development opportunities and chairing key corporate collaborative product development programs, assessment of multiple technologies for in-licensing and out-licensing opportunities and development of key patent applications and patents in the drug-device arena.

On May 29, 2009, the Company completed a private placement of 14,000,000 common shares at $0.03 per common share for gross proceeds of $420,000. The proceeds of the private placement will be used to advance the development of the Company's proprietary treatment for insulin-dependent diabetes and for general working capital needs.

On July 20, 2009, the Company was awarded a non –repayable financial contribution of up to $486,000 from the National Research Council of Canada Industrial Research Assistance Program, along with technical and business oriented advisory services, to support a pre-clinical study to validate and optimize the Company's novel Cell Pouch System device for cell transplantation into humans. The Company will be reimbursed for 100% of designated salary costs to a maximum of $262,000, and 69% of contractor fees to a maximum of $224,000. The contribution will be payable to a maximum of $344,000 in the period to March 31, 2010, and a further $142,000 in the year ending March 31, 2011.

The Company under the direction of Dr. Toleikis reactivated its research and development activities, filed for patent protection on the composition and methods of use of the Cell Pouch Device and commenced the study in August 2009, which is expected to be completed within 12 months. The study involves implantation of the Company's novel medical device into pigs under the skin to assess the degree of tissue incorporation and angiogenesis into the device to establish device parameters and optimize its performance. The animals with implanted devices will then be made diabetic and their own islets transplanted into the device. The safety and efficacy of the Cell Pouch System(TM) will then be assessed over time. The study is thus an autograft assessment of the Cell Pouch System(TM). The interim results that will be generated within approximately 6 months will be used to finalize the device design for a formal large animal preclinical study, in support of a future Phase I/II human clinical study. Interim results are expected to be released approximately the first quarter of 2010.

The large animal preclinical study may assess the Cell Pouch System(TM) in an autograft or allograft model of diabetes. The allograft model may involve use of immunosuppressive agents or an immune protective cell type to protect the islets. The Company has initiated discussions to conduct this large animal study in collaboration with a major transplant centre in the United States. Regarding the proposed Phase I/II human clinical study, evaluation may occur in an autograft, and/or allograft study. Furthermore, the allograft may be protected with immunosuppressant agents or an immune protective cell type added to the Cell Pouch System(TM).

On August 6, 2009, the Company announced the appointment of Dr. Annemarie Moseley to the Company's Business Advisory Board. Dr. Moseley brings technical and business experience in the cell therapy arena that will be of significant benefit to the Company. Dr. Moseley's depth of experience in cell-based product development, clinical and regulatory affairs, as well as financing and partnering, will be a strategic asset for the Company's commercialization and partnering opportunities.

On November 2, 2009, the Company announced it had closed the first tranche of a non brokered private placement under which it raised gross proceeds of $365,000 through the issuance of 3,650,000 units. Each common share unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one share in the Company for a period of two years from closing at an exercise price of $0.20 per share. A total of $18,592 was paid to finders in connection with the Non-Brokered Offering.

The net Proceeds of the offering will be used to fund product development activities related to Sernova's proprietary Cell Pouch System(TM). The company also announced a change in the appointment of Dr. Annemarie Moseley from the Business Advisory Board to the Board of Directors, and a change in appointment of Mr. Devindar Randhawa from the Board of Directors to the Business Advisory Board.

On November 10, 2009 the Company announced the appointment of Mr. Hans Mader to the Business Advisory Board. The Company continues to seek new collaborations for the commercialization of its products and Mr. Mader's involvement will bring international recognition to the product development platform and support the evolution of the Company's cell-therapy into clinical development.

On December 31, 2009 the Company announced it had closed on an additional 1,350,000 units which raised gross proceeds of $135,000 for a total of $500,000. Additional finder's fees of $1,920 were paid.

The Company continues to seek both Government and private grants to fund key projects within the overall development plan.

To help guide the diabetes research efforts, the Company has a Scientific Advisory Board chaired by Dr. David White. Dr. White is Sernova's principal researcher on its diabetes project. He is a noted immunologist, formerly a professor at Cambridge University in England and now Professor of Xenotransplantation at the University of Western Ontario.

Also on the Scientific Advisory Board are Dr. Norman Wong, co-founder of Resverlogix and a Professor in the Departments of Medicine and Biochemistry & Molecular Biology at the University of Calgary, Dr. Jannette Dufour, an expert in Sertoli cells and Assistant Professor in the Department of Cell Biology and Biochemistry at Texas Tech University Health Sciences Center, Dr. Clive Patience a leading expert on biological safety of xenotransplants and currently Associate Director of Bioanalytical Quality Control at Biogen Idec. Inc., Dr. George King, an award winning diabetologist who is the Director of Research and Head of the Vascular Cell Biology Section at Joslin Diabetes Center, and a Professor of Medicine at Harvard Medical School, and Dr. Shinichi Matsumoto, a pancreatic islet transplant expert and Director of the Baylor All Saints Islet Cell Laboratory at the Baylor Research Institute.

On July 26, 2007, the Company exercised its right to acquire the final one-third of the shares of Sertonex as part of the Joint Venture, and issued the final tranche of 2,315,000 common shares to Dr. White and Mr. Leushner. These common shares are subject to timed escrow release as shown in the table below, and the same earn out escrow provisions described below.

The escrow terms of the timed escrow agreement with White and Leushner are shown below.

Release Dates	Total Number of Escrowed Securities to be Released
Aug. 9, 2006	463,000
February 9, 2007	694,500
July 26, 2007	231,500
Aug. 9, 2007	694,500*
January 26, 2008	347,250
February 9, 2008	694,500*
July 26, 2008	347,250

Aug. 9, 2008	694,500*
January 26, 2009	347,250
February 9, 2009	694,500*
Aug. 9, 2009	694,500*
July 26, 2009	347,250
January 26, 2010	347,250
July 26, 2010	347,250
Total	6,945,000

* In the above table, share releases with an asterisk are further restricted in escrow by earn out provisions as follows:

The common shares will be released from escrow on the following basis:

(i) 1,736,250 common shares on the date that Sernova or an affiliate receives approval from the United States FDA (or its foreign equivalent in Canada, Europe or Japan) of an investigational new drug application or other appropriate regulatory application, as applicable, (or its foreign equivalent in Canada, Europe or Japan) for the initiation of human clinical trials for a Licensed Product;

(ii) the balance of 1,736,250 common shares on the date that Sernova or an affiliate enrolls the first patient in a Phase III human clinical efficacy trial (or its foreign equivalent in Canada, Europe or Japan) for a Licensed Product;

provided the Escrow Agent receives a declaration of the Company, in each instance that the conditions for the release have been met.

As part of the Joint Venture agreement, STI exclusively licensed to Sernova all patents, and patent applications for the therapeutic use of Sertoli cell technology, the key component of Sertolin. In exchange, Sernova issued to STI 6,527,500 common shares and a licensing fee of $1,142,312, and certain other future royalties on income related to the patents. The payment shares were subject to a 3 year timed escrow agreement. STI is controlled by Research Corporation Technologies, Inc. The escrow terms of the timed escrow agreement with STI are:

Release Dates	Total Number of Escrowed Securities to be Released
August 9, 2006	652,750
February 9, 2007	979,125
Aug. 9, 2007	979,125

February 9, 2008	979,125
August 9, 2008	979,125
February 9, 2009	979,125
August 9, 2009	979,125
Total	6,527,500

All payment shares have now been released from escrow.

The Company is also receiving cash royalty payments from the July 2004 sale of its fertility monitor technology to HealthWatchSystems Inc. The product is branded as OV-Watch™, and is sold on the Internet and in selected markets in the USA.

Results of Operations

In the year ended October 31, 2009, the Company re-focused on the research and development and continues to had no products in commercial operations, other than a graduated royalty on worldwide sales of the OV-Watch™ fertility monitor and related products, as described above and in Note 1 to the Consolidated Financial Statements, and accordingly the Company has incurred losses since its inception. After a period of suspended research activities, the Company reactivated its research and development activities in August, 2009 following the appointment of the new President and CEO and the influx of new capital.

As the Company has limited cash resources, the focus of the Company will be directed to its research and development activities and strictly controlling the administrative costs in the coming year. The recruitment of Dr. Toleikis is instrumental in delivering key scientific relationships and in securing new collaborations, both at the board level and in securing new partners. Dr. Toleikis has also re-focused the research and development activities and is maximizing that component of the cash utilization.

Other income for the year ended October 31, 2009 amounted to $18,222 compared to $80,304 for the same period in the prior year, a decrease of $62,082 or 77%. The decrease in other income is partly attributable to lower interest income of $4,061 compared to $37,721 for the prior year, arising from reduced cash and term deposit balances year over year as the cash resources were utilized to meet both patent and trademark acquisition costs and administrative costs in the period. Royalty income also declined to $25,283 compared to $42,271 for the same period last year due in part to lower sales of the product but also due to royalty income for the last quarter due, which amount was not received by the Company due to financial difficulties. The company is in discussions with the party concerned to resolve the situation. Currently royalties of $7,369 USD are due the Company.

Other income was also impacted by the foreign exchange loss for the year ended October 31, 2009 was $11,122 compared to a foreign exchange gain of $312 for the prior year, both amounts which were classified in Other income.

Office and miscellaneous expenses for the year ended October 31, 2009 were $178,020 compared to $194,437 for the same period in the prior year representing a decrease of $16,417 or 8%. The expenditure levels in the past two fiscal years have declined and reflect the decision of management to manage and control corporate overheads in light of the

Company's cash resources. Significant operating costs for the year ended October 31, 2009 (defined as individual expense categories of approximately 10% of the total costs) included travel expenses of $38,607 and office costs of $27,951. Significant operating costs for same period in the prior year included office costs of $79,709 and business development costs of $58,299.

Consulting fees and wages totaled $222,951 for the year ended October 31, 2009 compared to $319,902 for the prior year, a decrease of $96,951 or 30%, which can be attributed to the suspension of research and development activities until August 2009.

Amortization of the capital assets and patent assets amounted to $2,334 and $828,589 respectively, compared to $3,316 and $802,232 for the year ended October 31, 2008.

Of the loss recorded for the year ended October 31, 2009, $144,545 related to the non-cash expense from stock based compensation ($583,834 for the same period in the prior year) which is explained in Note7 to the Consolidated Financial Statements. The decrease in the expense reflects the situation where there were a significant number of stock options cancelled or expired in the current year or where a significant number of stock options are now fully vested.

Research costs for the year ended October 31, 2009 were $20,084 compared to $816,799 for the same periods in the prior year. This decrease reflects the decision to suspend research and development activities at the start of the current fiscal year. These research and development activities were reactivated in August, 2009. Non- refundable government grants of $63,510 were recorded as a reduction of expenditures in the current fiscal year, as explained in note 8 to the Consolidated Financial Statements. There were no grants in the prior year.

No provision for income taxes or income tax recovery on either the current year or prior year earnings has been recorded in the Statement of Operations due to the existence of non-capital losses of $4,600,000 in Canada and $2,709,000 operating losses in the United States as at October 31, 2009. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependant upon the generation of future taxable income.

Net loss for the year ended October 31, 2009 was $1,468,361 compared to a net loss of $2,753,485 for the prior year, a decrease of $1,285,124 or 47% decrease in the level of the loss. The significant portion of this change in the loss can be attributed to the reduction in the research and development costs. Basic and fully diluted loss per share for the year was $0.02 compared with the basic and fully diluted loss per share of $0.05 for the year ended October 31, 2008.

Selected summary data with respect to the statement of operations for the various quarters is set out below:

SUMMARY OF QUARTERLY RESULTS

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2007	Net loss	(413,308)	(1,119,456)	(1,055,777)	(1,003,679)
	Net loss per share	(0.01)	(0.02)	(0.02)	(0.01)
2008	Net loss	(623,179)	(1,077,250)	(488,993)	(564,063)
	Net loss per share	(0.01)	(0.02)	(0.01)	(0.01)

2009	Net loss	(278,226)	(384,083)	(342,677)	(463,375)
	Net loss per share	(0.00)	(0.01)	(0.01)	(0.00)

All financial information is expressed in Canadian dollars, and has been prepared in accordance with Canadian GAAP.

It is anticipated that in the current economic and financial market volatility, management will continue to explore the opportunities to evaluate all committed programs and administrative expenditures especially in light of the limited cash resources. The Company is faced with a significant number of fixed expenditures that will be managed with a focus on the management of available resources and the success in securing new working capital funds.

CASH FLOWS

Cash flows used by the operating loss for the year ended October 31, 2009 were $556,403 compared with cash flows used by the operating loss of $1,364,103 for the prior year, representing an improvement of 807,700 or 59% in the cash used by such operations. This change year over year is the result principally of lower administrative costs and the dramatically reduced level of research expenditures, as explained elsewhere in the MD & A.

Cash used by working capital balances for the year ended October 31, 2009 was $17,793 compared with cash provided from working capital of $114,925 in the prior year. The change year over year can be explained both by the level of research and development activity and by the reduction in the level accounts payable and accrued liabilities in the year as management settled the current liabilities as at October 31, 2008 and continued to maintain its supplier relationships through prompt payments of amounts due.

Regarding financing activities, in the year ended October 31, 2009 the Company received net proceeds of $690,295 from a private placement completed in May, 2009 and the offering completed in October 2009. The gross proceeds received amounted to $739,900 from which were deducted the share issuance costs of $49,505. During the year the company advanced $32,000 to an officer as outlined in note 10 to the Consolidated Financial Statements. There were no financing activities for the year ended October 31, 2008.

With respect to investing activities, the company invested $140,291 in patents and trademarks for the year ended October 31, 2009 compared to $89,681 for the prior year. Investments in capital assets amounted to $8,191 for the current year compared to nil for the prior year.

Accordingly, cash resources used in the year ended October 31, 2009 amounted to $64,383 compared to cash resources used of $1,338,859 for the year ended October 31, 2008. The change year over year to reduce the consumption of the cash resources reflects the completion of the equity issuances during the year following the appointment of Dr. Toleikis, a continued prudent approach to the level of administrative costs and on the re-activation of the research and development activities a strictly focused management of the activities and underlying costs.

LIQUIDITY AND CAPITAL RESOURCES

Over the twelve months period to April 30, 2009, management implemented a plan to initially reduce the operating and research costs, continuously make further cuts in the costs of operating from the prior year and management finally suspended the research and development activities at the start of the current fiscal year. However, in the Three Months Ended July 31,

2009 the Company finalized the hiring of the new President, completed a private placement for net proceeds of $364,046, and subsequently reactivated its research and development activities in August, 2009. In October 2009, the Company completed an offering which resulted in the receipt of net proceeds of $321,080 to support the continued research and development activities.

As a result of the private placement and share offering, working capital improved by $88,426 for the year ended October 31, 2009 to $452,483 compared to the reduction in working capital reported of $1,480,878 for the year ended October 31, 2008. In July 2009, the Company concluded an agreement with the National Research Council of Canada Industrial Assistance Program under which the Company was awarded a non-repayable financial contribution of $486,000 which contribution is fully explained in note 8 to the Consolidated Financial Statements. While it should be noted that this award had no cash flow impact in the current year, the benefit of this award will be recognized in the next fiscal year.

Notwithstanding these successes, management will continue to explore opportunities to raise additional capital and to find collaborative partners for the commercialization of its technologies and expansion of the research and development activities. Dr. Toleikis has been successful in recruiting new members to both the Board of Directors and the Business Advisory Board which should be of benefit in concluding new collaborative agreements.

There are no significant commitments for equipment, although the Company expects some modest capital expenditures in the year ending October 31, 2010 related to the expansion of the research and development activities. Management will continue to monitor and manage the investing activities as they relate to the patent and trademarks portfolio in light of the current cash resources but expect continuing expenditures on such assets. The Company invested $140,291 in the year ended October 31, 2009 compared to $89,681 for the prior year.

The Company committed to a short term lease in August, 2009 under which the Company has a monthly commitment for the rental of laboratory space of $2,400 per month. Total expense for the year amounted to $7,200 compared to $7,134 for the prior year.

As at October 31, 2009, the Company had cash of $396,963 compared to $461,346 as at October 31, 2008. However, the Company will continue to face significant uncertainty relating to liquidity and intends to continue to search for additional sources of capital and working funds for research and administrative costs and to actively search for collaborative partners for preclinical studies in advance of proposed clinical study of the Cell Pouch System(TM) and other product development programs. Refer to the subsequent event note 15 in the Consolidated Financial Statements.

The current economic and financial market uncertainty is expected to have an impact on the Company's liquidity position. While the Company does not have available credit facilities, and such facilities will not be impacted by the changing environment, it will require cash to fund continuing operations, likely in the form of new capital or debt. It is expected that the current market conditions will continue to negatively impact the ability to raise new capital or debt, and the cost of any new capital or debt that may be raised. Management will be reviewing and assessing all committed capital, research and development and administrative expenditures in an effort to preserve its' cash resources.

There are no defaults under operating agreements and management does not anticipate any significant risks that there will be such a default in the period to October 31, 2010.

GOING CONCERN

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles assuming the Company will continue as 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 operations, the Company remains solely dependant 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 sheet. The Consolidated 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 meet its current research and development activities, patent expenditures and general administrative costs, and management will continue its efforts raise additional funds. The Company is and has experienced negative operating cash flows and needs to invest in continuing patents and trademarks which cannot continuously 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.

BALANCE SHEET

Total assets as at October 31, 2009 were $4,492,018 compared with $5,149,330 at the end of the Company's last year end, representing a decrease of 13% or $657,312. Substantially all of the decrease is accounted for by the use of cash resources to fund operations and from the amortization of the intangible assets.

Total current assets of $544,703 as at October 31, 2009 have increased by $59,805 from the balance of $484,898 as at October 31, 2008, and reflect the increase in receivables due from the offering in October 2009 and amounts due under the grant from NRC offset by use of such resources to cover operations, working capital needs and patent and trademark additions. All receivable amounts were received subsequent to year end.

The net book value of equipment of $10,848 in the Company remains relatively unchanged from the balance as at October 31, 2008 and reflects the decision of management not to invest substantially in new additions. Capital expenditures amounted to $8,191 in the year ended October 31, 2009.

The net book value of patents and trademarks as at October 31, 2009 declined to $3,936,467 from $4,659,441 as at the end of the prior year, representing a change of $722,974 or 15%. Additions in the year Ended October 31, 2009 amounted to $140,291 compared to $89,681 for the prior year, and amortization of $828,589 for the current year compared to $802,232 for the prior year, which accounted for the decrease in net book value.

Accounts payable and accrued liabilities were $102,220 as at October 31, 2009 compared to $120,841 as at October 31, 2008, a decrease of $18,621 for the year then ended. The decreased level of accounts payable is the result of management's control of its resources, reduced administrative expenditures and continued settlement of payables with its trade creditors on a current basis. It is anticipated that all current liabilities as at October 31, 2009 will be settled in the next quarter.

In the year ended October 31, 2009, the Company received net proceeds of $364,046 from a private placement completed on May 29, 2009. Gross proceeds raised from the private placement amounted to $420,000 resulting from the issue of 14,000,000 common shares at $0.03 per share. Share issue costs amounted to $31,059. In October 2009 the Company completed an offering of 3,659,000 units at $0.10 per unit for gross proceeds of $365,900 of which $46,000 was received subsequent to the year end. Share issue costs totaled $44,820 including agents fees of $18,592. There were no changes in capital stock during the year ended October 31, 2008. Both of these issues are described in Note 7 to the Consolidated Financial Statements

During the year ended October 31, 2009, the Company granted a total of 1,583,875 stock options, with a grant of 883,875 stock options to directors, officers, employees and consultants with an exercise price of $0.14 per option and granted an additional 700,000 stock options to an officer with an exercise price of $0.10 per option. During the year ended October 31, 2008, the Company granted 325,000 options to directors, officers, employees and consultants with an exercise price of $0.30 per option and 100,000 stock options to directors and officers at an exercise price of $0.12 per share. In addition, during the year ended October 31, 2009 2,309,500 stock options were cancelled or expired (2008- 755,000). No options were exercised in the current year or prior year.

Accordingly, there are 3,658,875 options outstanding to directors, officers, employees, and consultants, as at October 31, 2009, compared with 4,384,500 options outstanding as at October 31, 2008. As at October 31, 2009, 2,312,500 of the stock options are exercisable.

The Company has no outstanding common share purchase warrants as at October 31, 2008. During the year ended October 31, 2009, the issued 703,467 agents' warrants with a two year term, exercisable into one common share at an exercise price of $0.05 in the first year and $0.10 in the second year, and issued 3,659,000 common share purchase warrants with an exercise price of $0.20 per share for a period of 24 months as part of the offering in October 2009. Accordingly, there are 4,362,467 warrants outstanding as at October 31, 2009.Details of the warrants are outlined in Note 7 to the Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

FOURTH QUARTER

No significant fourth quarter events or items affected the Company's financial conditions, cash flows or results of operations.

TRANSACTIONS WITH RELATED PARTIES

During the year ended October 31, 2009, the Company paid $30,000 (2008 - nil) to Jeffrey Bacha, a Director of the Company for his services in conducting an internal review of the Company's research and development, financing and partnering activities and strategies.

During the year ended October 31, 2009, the Company advanced $22,000 USD (2008 - nil) to Dr. A. Moseley, a Director of the Company for her services in advising on cell-based product development, clinical and regulatory affairs as well as financing and partnering activities and strategies. Of the funds advanced, only $7,895 had been expensed in the period to October 31, 2009.

During the year ended October 31, 2009 the Company paid $35,700 (2008 - $8,000) in consulting fees for the services of the new Chief Financial Officer, paid to a company controlled by the officer.

During the year Ended October 31, 2009 the Company paid $45,816 (2008 - nil) in consulting fees for the services of the Executive Vice President.

During the year ended October 31, 2008, the Company paid $20,000 to Patrick Groening, the former Chief Financial Officer of the Company for his services. Consulting fees in the amount of $40,625 were paid to a company controlled by Phil Morehouse, the former Executive Vice President of the Company for the same period. Both of these arrangements were terminated in 2008 as part of the overall reduction of overhead.

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. Amounts due to related parties are non-interest bearing, unsecured and have no specific repayment terms.

PROPOSED TRANSACTIONS

There is no proposed asset or business acquisition or disposition that the Company's Board of Directors has decided to proceed with, or that senior management believes will be probably confirmed by the Board of Directors.

CHANGES IN ACCOUNTING POLICIES

The Company adopted the following new accounting policies for its fiscal year beginning November 1, 2008. The adoption of these pronouncements did not materially impact the Company's financial position or results of operations.

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 Guideline (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.

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. The new disclosure is provided in Note 1 to the Consolidated Financial Statements.

NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning November 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

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 but the Company has requested its finance department to commence a detailed assessment. The IFRS conversion project will consist of four phases: Diagnostic; Design and Planning/ Solution Development, Implementation; and Post Implementation. To date, the team is organizing for the Diagnostic phase, which will involve a high-level review of the major differences between Canadian GAAP and IFRS. This assessment will provide insight on the high risk and complex areas relating to conversion. The project philosophy is to align with current accounting policies and procedures, where possible, to minimize the impact of the changes to the business.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 31, 2009, the Company has 74,456,358 common shares issued and outstanding.

The Company also has a total of 3,658,875 outstanding stock options as at October 31, 2009 (2008-4,384,500). Details of the number of stock options, exercise price and expiry dates are outlined in Note 7 to the Consolidated Financial Statements. Of this total, 2,312,505 are exercisable as at October 31, 2009 compared to 3,764,500 as at October 31, 2008.

The Company has 4,362,467 share purchase warrants outstanding as at October 31, 2009 (2008 no outstanding warrants). Details of the terms and conditions of the outstanding warrants are outlined in Note 7 to the Consolidated Financial Statements.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, short term investments, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted. The Company is subject to any significant financial risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates. (refer to Note 13 in the Consolidated Financial Statements).

RISKS AND UNCERTAINTIES

The Company has a technology that is in the research and development stage and has not yet been approved for commercialization by regulatory authorities in any jurisdiction or marketed commercially. Our business entails significant risks, including the costs and time involved in obtaining the required regulatory approvals, the adequacy of patent protection, the uncertainties involved in clinical testing, the availability of capital to continue commercialization of our products, and competition from pharmaceutical and other biotechnology companies.

Product research and commercialization involves a high degree of risk and returns to investors are dependent upon successful development and commercialization of our products. There can be no assurance that commercialization of any product will be successfully completed or that regulatory approval of any of our products under development will be obtained. Furthermore, there can be no assurance that existing products or new products commercialized by competitors will not be more effective, or more effectively marketed and sold, than any that may be developed by us.

In light of the length of time and expense associated with bringing new products through commercialization, obtaining regulatory approval and bringing products to market, the Company places considerable importance on patent protection for significant discoveries. There can be no assurance that any pending patent application filed by any subcontractor to the Company will mature into issued patents. Furthermore, there can be no assurance that existing or pending patent claims will offer protection against competition, or will not be designed around or infringed upon by others. In addition to this fact, the commercial success will also depend in part on not infringing patents or proprietary rights of others.

Significant funding is required for the ongoing research and development, clinical trials, commercial manufacturing of products and establishment of sales and marketing teams necessary for the launch and on going sales of new products. In addition, major financial resources are necessary until such time as the products are commercialized and sold successfully, and sales are sufficient to generate earnings. We intend to raise additional financing, as required, through research, partnering and licensing arrangements, the exercise of warrants and options, and through equity and/or debt financing. However, there can be no assurance that these financings efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. It is possible that financing will not be available or, if available, may not be on favorable terms. The availability of financing will be affected by the results of our scientific and clinical research, our ability to attain regulatory approvals, the market acceptance of our products, and the state of the capital markets generally (with particular reference to pharmaceutical, biotechnology and medical companies), the status of strategic alliance agreements, and other relevant commercial considerations.

There can also be no assurance that we will be successful in marketing and distributing our products, or that we will be able to make adequate arrangements with third parties for such purposes. There can be no assurance that we will generate revenue or achieve profitability.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and have been approved by the Board of Directors. The integrity and objectivity of these Consolidated Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that this information is consistent, where appropriate, with the information contained in the Consolidated Financial Statements.

In support of this responsibility, the Company's management maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These Consolidated Financial Statements may include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the Consolidated Financial Statements are presented fairly in all material respects.

The Company maintains a set of disclosure controls and procedures designed to ensure that the information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company's President, Chief Executive Officer , Executive Vice President , and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of October 31, 2009 and concluded that the current disclosure controls and procedures are effective.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and has at least one financial expert, and none of its members are involved in the daily operations of the Company. The Audit Committee meets periodically with management and the external auditor to discuss controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Consolidated Financial Statements with the external auditors.

The Committee reports its finding to the Board for consideration when approving the Consolidated Financial Statements for issuance to shareholders. The Committee also considers, for recommendation by the Board and approval by the shareholders, the reappointment of the external auditors.

Due to the limited number of appropriately qualified staff, there is little segregation of duties within the financial internal control environment of the Company. Functions that would normally be segregated within a typical control environment are performed by one individual and the preparation and authorization of certain activities that would normally be separated are not as only one member of staff is responsible for substantially all of the day-to-day finance functions and the financial reporting of the Company. Due to the lack of segregation of duties, management has identified certain control weaknesses. The Company relies on certain compensating controls, including substantive periodic review of the financial statements, to ensure that disclosure controls and procedures are effective. The Chairman of the Board of

Directors and Chief Financial Officer have concluded that disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information about the activities of the Company is made known to them by others within the Company.

There are no changes to the critical accounting estimates as a result of the current market conditions that require any special disclosure at this time. Amounts included in the current assets are deemed collectible and do not require adjustment and management is comfortable as to the recoverability of the long term assets as at October 31, 2009.

There have been no significant changes to the Company's internal control environment during the year ended October 31, 2009 and subsequent to that date that would have materially effected the Company's internal controls over financial reporting.

The external auditor has full and free access to the Audit Committee with respect to his findings concerning the fairness of the financial reporting and adequacy of internal controls.