SERNOVA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Three Months Ended January 31, 2012

The following discussion and analysis ("MD&A") provides Management's perspective on the financial position, results of operations and cash flows of the Company on a consolidated basis for the Three Months Ended January 31, 2012 and 2011. This analysis should be read in conjunction with the Condensed Consolidated Interim Financial Statements of the Company and related notes enclosed herein as at January 31, 2012. Such Condensed Consolidated Interim Financial Statements are unaudited and have been prepared by management reflecting the adoption of International Financial Reporting Standards ("IFRS"). For all periods up to and including October 31, 2011, the Company presented its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP").

Accordingly, the Company has prepared Condensed Consolidated Interim Financial Statements that comply with IFRS applicable for periods beginning on or after November 1, 2011 as described in the accounting policies. In preparing the Condensed Consolidated Interim Financial Statements, the opening consolidated statement of financial position was prepared as at November 1, 2010, the Company's date of transition to IFRS. Note 21 explains the principal adjustments made by the company in restating its Canadian GAAP consolidated statement of financial position as at November 1, 2010, and its previously published Canadian GAAP consolidated financial statements for the Year Ended October 31, 2011, to be in compliance with IFRS.

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 April 18, 2012

The Company's Condensed Consolidated Interim Financial statements and MD&A for the period, Audited Consolidated financial Statements and MD&A for the Year Ended October 31, 2011 and the annual information return for 2011 are available on SEDAR.

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.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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", or by such words as "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.

Specifically, this MD&A may contain forward-looking statements regarding:

- The company's strategies and objectives
- General business and economic events

Availability of various forms of financing or collaborations

In developing the forward-looking statements in the MD&A, the Company has applied several material assumptions, including the availability of financing on reasonable terms, the Company's ability to form and maintain strategic alliances with other business entities and general business and economic conditions.

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 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.

BACKGROUND, OVERVIEW and 2012 OUTLOOK

Background

In May, 2006 the Company entered into a Joint Venture to develop a commercially-viable treatment for insulin-dependent human diabetes using insulin producing islets. The licensed technology of the Joint Venture involves the use of sertoli cells to provide immune-protection within a local environment to reduce or eliminate the need for anti-rejection drugs in patients who have received donor therapeutic cells and is branded as "**Sertolin™**". With respect to this technology the Company initially focused on the use of porcine sertoli cells and islets for transplantation; however, more recently the Company is focused first on the use of human rather than porcine cells. The Company is also developing an implantable medical device, the Cell Pouch™ for the effective transplantation and long-term survival of therapeutic cells for multiple chronic diseases.

As part of the joint venture agreement, Sertoli Technologies Inc. ("STI") exclusively licensed to the Company all patents, and patent applications for the therapeutic use of Sertoli cell technology, the key component of Sertolin™. In exchange, the Company issued to STI 6,527,500 common shares and paid a licensing fee of $1,142,312, and agreed to pay certain other future royalties on income related to the patents.

On July 26, 2007, the Company exercised its right under the Joint Venture to acquire the final one-third of the shares of Sertonex, and issued 2,315,000 common shares to Dr. David White and Mr. Justin Leushner. These common shares have been subject to timed escrow release and earn out escrow provisions. All timed escrow release shares have been released. As of the date of this MD&A, 3,472,500 common shares (the "**Performance Escrow Shares**") remain subject to a performance-based release as follows:

(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.

Any unreleased 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.

Overview of technology

The Company, through development of its novel products, is focused on improving the outcome and safety of therapeutic cell treatment for chronic debilitating diseases with the first clinical indication of insulin-dependent diabetes. The current standard of care for therapeutic cell transplantation for diabetic patients is infusing donor insulin-producing islets into the portal vein of the liver followed by the use of life-long anti-rejection therapy. The Company believes that improvement in the safety and efficacy of this procedure with its products could improve the quality of life of patients with diabetes and significantly increase the number of treatable patients. The Company is thus developing its proprietary Cell Pouch™ and Sertolin™ platform technologies using a tiered approach. The Company is first focusing on initiating human clinical trials of the Cell Pouch™ for therapeutic cell transplantation using allograft (donor human cells) with an improved antirejection protocol that has been approved by Health Canada and other regulatory jurisdictions. The Company may also initiate clinical studies in patients with chronic pancreatitis using autograft (self-cells) in those who are having their pancreas removed to alleviate intractable pain. Such patients with chronic pancreatitis would be treated with islets into the Cell Pouch™ without the need for antirejection drugs. While the company plans to advance the Sertolin™ technology, this autograft or allograft approach is expected to result in a shorter time to entry into the clinic and product approval than assessing Sertolin™ technology with porcine tissues. The Company, with input from transplantation surgeons and device engineers, has thus focused on the design, manufacture and testing of the Cell Pouch™ that would be suitable for humans.

The Company is thus initially focused on entry of its technologies into human clinical testing and eventual marketplace with primary focus on the use of human islets using the Cell Pouch System™. To provide more detail, the Cell Pouch™ is an implantable medical device placed under the skin in the subcutaneous space with chambers for therapeutic cell transplantation. Removable plugs fill the chambers while tissue and microvessels develop around the plugs creating a natural tissue environment for cell transplantation upon removal of the plugs. While the Cell Pouch™ is suitable for various therapeutic cell types, from a clinical perspective, the Company is focused on the use of insulin-producing islets for treatment of patients who have diabetes or who will have diabetes as a result of a medical procedure. Patients who could have diabetes as a result of a medical procedure include those with chronic pancreatitis. Patients with chronic pancreatitis may have their pancreas removed to alleviate severe chronic pain. When the pancreas is removed, the patients will become insulin-dependent diabetic because the insulin producing islets located in the pancreas are also lost. The Company proposes that the islets from the removed pancreas could be isolated and placed into the pre-implanted and vascularized Cell Pouch™. In this autograft clinical indication, no immunosuppressant drugs or Sertolin™ would be required. The Company has identified a number of clinical sites around the world where such islets are currently being infused into the portal vein of the liver whereby the islets could be transplanted into the Cell Pouch™ in a clinical study, pending regulatory approval, to treat these patients.

To further expand, the clinical indications for the Company's technologies the Cell Pouch System™ may be used in patients who are candidates for an allograft transplant as an alternative to injecting islets into the portal vein of the liver which has been hypothesized to result in the a number of issues including but not limited to death of 50% or more of islets due to an instant blood-mediated inflammatory reaction (IBMIR), thrombosis and portal vein hypertension among other issues. Such patients would also normally be treated for life with a cocktail of immunosuppressant drugs to prevent islet rejection. The patients with the Cell Pouch™ who have had an allograft transplant may be given either advanced antirejection therapy or could be given Sertolin™ from a human source to reduce or eliminate the need for antirejection drugs. Due to the expectation that the Cell Pouch™ will incorporate with tissue and become vascularized, providing a more organ-like environment for the transplanted islets and avoid IBMIR associated with islets transplanted into the portal vein, it may also be possible

that the device may require fewer islet cells per patient than the conventional procedure and thus may be "islet-sparing". Furthermore, due to the proximity of the Cell Pouch™ to the skin surface, imaging of the islets and vessels may be possible providing the ability of medical personnel to monitor the health of the islets over time. Improved efficiency, safety and efficacy of islet transplantation could serve to eventually increase the number of treatable patients and thus market share of the Cell Pouch™. The Company is in advanced stages of preparing to evaluate the Cell Pouch™ in an allograft setting with advanced antirejection therapy in a first clinical study of the Cell Pouch™ to be conducted at the University of Alberta, Canada under the guidance of Dr. James Shapiro, one of the originators of the Edmonton Protocol. In preparation for clinical trial initiation, the regulatory documents have been filed with Health Canada and are currently under review. The Company believes this will be the first assessment in humans of such a polymer device for therapeutic cell transplantation in the world.

As the Company progresses, it is also exploring the possible use of ethically-derived stem cells which release insulin. Such a stem cell technology could be expanded allowing a very large number of patients with diabetes to be treated with these cells within the Cell Pouch™. Use of porcine islets from a clean herd is another opportunity the Company is exploring in the long-term as another source of cells providing a virtually unlimited supply of islets for patient treatment. Thus, the Company is exploring a number of options to expand its technology in the marketplace using human-derived cells, stem cells and porcine cells within the Cell Pouch System™.

In addition to the internal research and development activities, the Company is seeking collaborations with key international transplant centres that currently offer islet transplantation (known as the "**Edmonton Protocol**") to patients suffering from insulin-dependent diabetes. The Company's proprietary Cell Pouch™ technology, offers a potential significant technological leap forward over the Edmonton Protocol, the current standard of care where cells are injected into the portal vein of the liver followed by life-long antirejection therapy. Briefly, the Company's technology is expected to potentially 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. The use of the Cell Pouch™ 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 approved antirejection protocols including the potential to assess islet health through imaging. It is expected that the Cell Pouch™ 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 Sertolin™. In addition, methods to further increase the efficiency of cell transplantation within the Cell Pouch™ and to use alternative sources of therapeutic cells are also of Company interest. One or more of these options are expected to be explored under academic collaborations.

The Company has been in discussions with a number of 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. One such collaboration with the University of Illinois has been announced and another has been announced with the University of Alberta. These collaborations may include 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 still ensuring the highest quality of work to meet the standards of the FDA, Health Canada and the international scientific community. Similarly, the Company may also choose to conduct studies within its research and development department or may also seek 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 Company may also investigate different methods of protecting cells such as islets from the immune system within the Cell Pouch™. The allogenic transplantation of insulin

producing human islets in a human clinical study will be the first human proof of the concept of cellular transplantation using the Cell Pouch™.

Currently, Sernova's product platforms include the Cell Pouch System™ in which human clinical studies are anticipated shortly and Sertolin™, which is in the preclinical stage of development. The first human clinical study of the Cell pouch™ is anticipated to begin in the first half of fiscal 2012, at the University of Alberta under the direction of Dr. James Shapiro, subject to regulatory approval.

The Company has been conducting its own research and development at Western University, London, Ontario using the state of the art facilities and expertise of surgeons hired as contractors to work in conjunction with Sernova scientists. The Company has also hired contract laboratories to conduct some of its work including preclinical safety assessment, biocompatibility and histopathology analysis. The Company plans to continue to use external laboratories to conduct certain studies. In addition, the Company plans to work with academic centres under collaborative arrangements to conduct pre-clinical studies of the Cell Pouch™ for advanced next generation applications.

In order to develop and commercialize the Cell Pouch System™, the Company is seeking regulatory approval to conduct clinical studies in patients for the various clinical indications discussed above. It is expected that, provided regulatory approval is obtained, a clinical study of 15-20 patients will be used to assess initial safety and efficacy of its products. This will then likely be followed by one or more pivotal studies to assess efficacy and safety in a larger population. It is expected that these studies will be used to gain commercial approval of the Cell Pouch™ for the various clinical indications discussed above, pending regulatory approval. The Company is working closely with consultants and regulatory authorities in the development of the commercialization of its products.

Current Financing and Scientific Activities for the Year Ending October 31, 2012

On October 25, 2011 the Company entered into collaboration with the Clinical Trial Islet transplant program at the University of Alberta Hospital. This program is headed by Dr. Shapiro, the leader of the team that developed the Edmonton Protocol the current standard of care for islet transplantation.

The current procedure for islet transplantation to treat diabetes, commonly known as the "Edmonton Protocol" involves transplanting islets directly into a blood vessel (portal vein) of the liver followed by life-long anti-rejection therapy. The Cell Pouch™ is expected to solve a number of issues arising from portal vein delivery. For example, the Cell Pouch™ provides a natural setting where blood vessels grow adjacent to the islets rather than being bathed in blood which can result in the death of 50% or more of the islets through an instant blood-mediated inflammatory response. Use of the Cell Pouch™ would eliminate the concern of portal vein hypertension and thrombosis associated with portal vein islet delivery and potentially reduce the cost of the procedure as the catheterization laboratory is not required for implantation of the Cell Pouch™ or islet transplantation. Importantly, the Company's preclinical studies of the Cell Pouch™ have consistently shown excellent safety and efficacy profiles with significantly fewer islets than for portal vein delivery, which could increase the number of recipients treated with the current donor pool. Furthermore, implantation of the Cell Pouch™ in the subcutaneous space allows for imaging of the islets and microvessels and for potential local protection of therapeutic cells.

The Cell Pouch™ is a scalable medical device providing a natural "organ-like" environment for therapeutic cells. Once implanted under the skin, the Cell Pouch™ develops endocrine-like function when transplanted with islets, controlling blood sugar levels as shown by published preclinical data which also suggests that the natural environment promotes cell survival reducing the number of islets required for therapy. The Company has conducted successful testing of prototype Cell Pouches™ in small animal models. The Company has also completed studies in diabetic large animals successfully demonstrating the safety and efficacy the Cell Pouch™ in both an autograft and an allograft transplant model. These along with additional studies form the basis for which to test the Cell Pouch™ in human clinical trials. Based on results achieved to date and activities completed, the Company has applied to begin human clinical studies where patients with diabetes will be implanted with the Cell Pouch™ and transplanted with donor islets. The study is a Phase I/II clinical study assessing the safety and efficacy

of the Cell Pouch™ with donor islets in up to 20 diabetic patients who are to receive islet transplantation.

In discussions with Health Canada, the Cell Pouch™ has been designated as a Medical Device for regulatory purposes. Thus, the Cell Pouch™ and therapeutic cells will be regulated separately allowing Sernova the opportunity to test different types of therapeutic cells in the Cell Pouch™.

Dr. James Shapiro is principal clinical investigator for the first human clinical study of the Cell Pouch™ for patients with insulin-dependent diabetes.

With respect to manufacture of the clinical product, device specifications were set, a semi-automated manufacturing process developed and the product manufactured, packaged and sterilized by a contract manufacturer under strict regulatory guidelines (ISO 13485:2003) which will be suitable for testing in clinical trials in North America and Europe. Sterilization validation studies have been completed and the product has passed. The product has subsequently been released for clinical trial use pending approval from Health Canada.

For entry into clinical trials, beyond the completed preclinical safety and efficacy studies an additional series of biocompatibility studies (ISO 10993) have been conducted using product manufactured by the contract manufacturer, assessing the compatibility of the Cell Pouch™ with the body. All of the testing has been completed and the Cell Pouch™ performed extremely well, satisfying the requirements for biocompatibility.

The Company has developed the Cell Pouch™ regulatory documentation and worked closely with Dr. Shapiro's team at the University of Alberta in the preparation of the clinical documentation for submission to Health Canada. These documents were subsequently reviewed by Sernova's regulatory consultants. The appropriate regulatory documents have been completed and submitted to Health Canada and the Research Ethics Board (HREB) at the University of Alberta. The clinical study will begin pending Health Canada and HREB approval.

Additionally, the Company has initiated a preclinical collaboration with the University of Alberta under the direction of Dr. Shapiro. This collaboration will further seek to position the Cell Pouch™ through next generation improvements to the Edmonton Protocol to expand access to cell transplant to a much wider patient population. The collaboration will include work related to:

- Assessment of islet protective agents that could further reduce the islet mass required for each transplant using the Cell Pouch™;
- Assessment of locally administered anti-rejection strategies within the Cell Pouch™ with the goal of reducing or eliminating systemic anti-rejection regimens;
- Assessment of a proprietary, ethically derived insulin-producing stem cell technology within the Cell Pouch™ as an enabling technology which could significantly expand the number of patients treated; and
- Development of high resolution imaging systems to enable physicians to better assess and optimize long-term islet function within the Cell Pouch™.

The Company is currently evaluating various options involving the Cell Pouch System™, using a tiered product development approach, including: (1) testing autograft islets (i.e., an individual's own islets) placed in the Cell Pouch™ in patients with chronic pancreatitis who are having their pancreas removed to alleviate severe pain; (2) testing donor islets with an anti-rejection drug regimen i.e. University of Alberta clinical study; (3) testing donor islets in patients using Sertolin™ or other cell protector technology that may allow dose reduction or even elimination of anti-rejection drugs in patients; and (4) assessing insulin-producing stem cells and anti-rejection drugs or immune protective cells in diabetic patients. Management believes this tiered approach may allow the Company to explore multiple sources of revenue with its products. Under all of these settings, the Company is currently planning to focus on the use of human islets or human-derived cells for clinical testing and eventual entry into the

marketplace. While the current focus will be on human and or human derived cells, additional testing may occur using xenotransplant-derived cells as another source of cells.

In November 2011, the Company retained the services of Russo Partners LLC, a leading healthcare communications company to provide investor relations to the Company. This relationship was deemed important as the Company transitions from preclinical to a clinical stage company with an international presence.

In December 2011, the Company provided shareholders with an update of the accomplishments for the past fiscal year and the progress towards the human clinical trials, including confirmation from Health Canada that the Cell Pouch™ has been designated as a Medical device for regulatory purposes. This announcement addressed the manufacturing of clinical Cell Pouch™ product, sterilization processes and the results of the biocompatibility studies, all of which were promising.

On February 16, 2012, the Company announced a non-brokered private placement of up to 19,444,444 units of the company (”Units’) at a price of $0.18 per Unit for gross proceeds of up to $3,600,000. Each Unit will consist of one common share of the Company and one common share purchase warrant (“warrant’). Each warrant will entitle the holder to purchase one share for a period of three years, at a price of $0.20 in the first year and at a price of $0.35 per share for the second and third years. These funds represent a significant milestone and will enable the Company to initiate the clinical study referred to above in the second quarter of fiscal 2012.

On February 29, 2012, the Company completed the first tranche of the non-brokered private placement securing gross proceeds of $3,491,120.

On March 30, 2012, the Company completed the second tranche of the non-brokered private placement securing gross proceeds of $139,000.

2012 Outlook

As outlined in the December 2011 press release, over the ensuing 12 months, the Company plans to:

- Complete the filing of documentation with the University of Alberta HREB, part of the approval process to conduct the clinical trial;
- Complete filing of regulatory documentation with Health Canada, which upon receipt of a NOL (No Objections Letter) will enable initiation of the clinical study;
- Complete Cell Pouch™ manufacture and sterilization validation processes and release of clinical product for the clinical trial;
- Initiate patient enrollment for the clinical trial;
- Begin assessment of the safety and efficacy in patients with diabetes;
- Complete application for additional grants for work on local cell protector technology and for the collaboration with Dr. Shapiro to assess next generation products related to the Cell Pouch™;
- Seek additional collaborations with islet transplantation centres towards further clinical evaluation of the Cell Pouch™;
- Develop corporate collaborations to assess stem cell and other technologies in the Cell Pouch™; and

- Continue discussions with potential business partners towards a licensing deal.

New Board Members

During the last fiscal year, Dr. Annemarie Moseley resigned from the board, with effect from June 2011. Mr. Hans Mader will not be seeking re-election as a director at the annual meeting scheduled for April 19, 2012.

However, the company's nominating committee has recommended two new directors to its shareholders. Mr. James Parsons is an experienced financial executive with over 20 years in the biotechnology industry. During the course of his career Mr. Parsons has secured over $100 million of financings and has been involved in numerous licensing deals. Mr. Bruce Weber has worked in the biotechnology industry including medical devices for over 30 years and has a wealth of experience in the clinical, regulatory and product assurance fields.

Scientific Advisory Board

To help guide the diabetes research efforts, the Company has a Scientific Advisory Board chaired by Dr. David White. He is a noted immunologist, formerly a professor at Cambridge University in England and now Professor Emeritus at the Western University in Ontario.

The Scientific Advisory Board also includes the following individuals:

Dr. Shapiro, a world renowned transplantation scientist and clinician who is currently Director of Clinical Islet Transplantation program at the University of Alberta, where he oversees the largest clinical islet transplant program in the world. Dr. Shapiro with a team at the University of Alberta was instrumental in developing the Edmonton protocol, the current standard of care for islet transplantation. The experience and clinical expertise of Dr. Shapiro is considered invaluable to the Company as it continues to plan its clinical trials.

Dr. Sutherland is a professor, Transplantation Scientist and Clinician in the Division of Transplantation, Director of the Schulze Institute and Dobbs Diabetes Research Chair within the Department of Surgery at the University of Minnesota where he oversees the largest clinical islet autotransplant program in the world. The addition of Dr. Sutherland to the Advisory Board represents another key component in the strategy of advancing the Cell Pouch System™ into Human Clinical Trials.

Dr. Paraskevas is highly respected in the islet transplant field and the new islet transplantation program at McGill University headed by Dr. Paraskevas is the third such centre in Canada and provides the potential to significantly increase the number of diabetic patients that can be treated with donor islets.

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., and 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.

Transition to IFRS

The Condensed Consolidated Interim Financial Statements for the Three Months ended January 31, 2012 are the first quarterly consolidated financial statements that comply with IFRS as expected to be in effect as at October 31, 2012. The Company's Consolidated Financial Statements for the year ending October 31, 2012 must use the standards that are in effect at that date, and therefore these Condensed Consolidated Interim Financial Statements have been prepared using the standards that are expected to be effective at October 31, 2012. However, the Company's IFRS accounting policies will only be finalized when the first annual IFRS financial statements are prepared for the year ending October 31, 2012. Therefore, certain accounting policies that management currently expects to follow under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified. As a result, the Company's Condensed Consolidated Interim Financial Statements for the Three Months Ended January 31, 2012 may be subject to change.

The Condensed Consolidated Interim Financial Statements for the Three Months Ended January 31, 2012 provide the following reconciliations from Canadian GAAP to IFRS for:

Consolidated statement of financial position as at November 1, 2010

Consolidated statement of financial position as at January 31, 2011

Consolidated statement of financial position as at October 31, 2011

Consolidated statement of net loss and comprehensive loss for the Three Months Ended January 31, 2011

Consolidated statement of net loss and comprehensive loss for the Year Ended October 31, 2011.

The transition from Canadian GAAP to IFRS has not had a material impact on the statement of cash flows and the reconciling items between Canadian GAAP and IFRS presentation have no effect on the cash flows generated.

The following principal adjustments were made by the company in restating its Canadian GAAP Consolidated Statement of Financial Position for the Three Months Ended January 31, 2011 and its previously published Canadian GAAP Consolidated Financial Statements for the Year Ended October 31, 2011.

Estimates

As required by IFRS 1, estimates made under IFRS at the date of transition must be consistent with the estimates made for the same date under the previous Canadian GAAP, unless there is evidence that this estimate was in error.

Elected exemptions from full retroactive application

IFRS 1, *First-time Adoption of International Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retroactively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Company has applied the following optional exemptions from full retroactive application of IFRS to its opening statement of financial position as at November 1, 2010:

Business combinations

The Company has applied the business combination exemption in IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations,* retrospectively to past business combinations. Accordingly, the Company has not restated the business combination that occurred prior to the transition date.

Share-based payment transactions

IFRS 2, *Share-Based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the transition date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its transition date.

Presentation of statement of loss and comprehensive loss

Under Canadian GAAP, the statement of loss and comprehensive loss was presented using a combination of function and nature of expenses. The Company has elected to present its items in the consolidated statement of loss and comprehensive loss by function under IFRS. Depreciation and amortization expense related to property and equipment and intangible assets, and share-based compensation has been allocated to the related function. Certain other operating expenses were also reclassified from administrative expenses to research and development to better reflect their function.

Statement of financial position as at transition date

The following is a reconciliation of the Company's financial position and equity reported in accordance with Canadian GAAP to its financial position and equity in accordance with IFRS at the date of transition of November 1, 2010.

A Reclassification

Under IFRS certain corresponding figures under Canadian GAAP as at November 1, 2010 have been reclassified to conform to the new presentation under IFRS.

B. Share-based payments.

Under Canadian GAAP, awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes. IFRS requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has different vesting dates.

Under Canadian GAAP, compensation is recognized assuming all options will vest and adjusted as forfeitures occur. IFRS 2 requires an estimate of forfeitures to be reflected in the amount of compensation and is revised for actual forfeitures in subsequent periods. Based on the history of the Company's stock options, the forfeiture rate was estimated to be zero and there were no adjustments recognized related to the forfeiture rates.

C. Short-term investments

The Company has reclassified short-term investments of $851,422 which are transitional or current in nature, with a maturity greater than three months from cash to short-term investments as at January 31, 2011 for the purposes of presentation under Canadian GAAP. These interest bearing deposits have certain terms and conditions that differentiate the asset from cash and accordingly these assets are disclosed separately.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In each of the MD &A's throughout 2011 and for the MD & A for the Year Ended October 31, 2011, updates were provided on the status of the Company's IFRS conversion project. The information below summarizes the significant accounting policies that have been adopted under IFRS.

The preparation of the Condensed Consolidated Interim Financial Statements requires the use of estimates and assumptions to be made in applying the accounting policies that affect the application of accounting policies and reported amounts of assets, liabilities, expenses and the disclosure of contingent assets and liabilities. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making the assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by management in the application of IFRS that have significant effect on the Condensed Consolidated Interim Financial Statements relate to the following:

Useful lives of key property and equipment and intangible assets

The depreciation and amortization methods and estimates of useful lives reflect the pattern in which management expects the asset's future economic benefit to be consumed by the Company.

Impairment of non-financial assets

The Company's impairment test is based upon value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the projections for the period of the economic life of the asset and are sensitive to the discount rate used as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Share-based payments

The Company measures the cost of equity-settled transactions with officers, directors, employees and consultants by reference to the fair value of equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of these instruments, which is dependent upon the terms and conditions of the grant. This also requires determining the most appropriate inputs for the valuation model, including the expected life of the option, volatility, dividend yield and forfeiture rates.

New Standards and Interpretations not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Certain pronouncements were issued by the IASB or International Financial Reporting Interpretation Committee that are mandatory for annual periods beginning after January 1, 2011 or later periods. Many of these updates are not applicable or are inconsequential to the Company and have been excluded from the discussion below. The remaining pronouncements are being assessed to determine their impact on the Company's results and financial position.

IFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the Company's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after January 1, 2012. The amendment affects disclosure only and the Company does not expect the amendments to have a material impact on the financial statements because of the Company's operations and the types of financial assets that it holds.

IFRS 9, *Financial Instruments: Classification and Measurement*

IFRS 9 (2010) reflects the first phase of the IASBs work on the replacement of IAS 39, *Financial instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held to maturity, available for sale, and loans and receivables. The new classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on November 1, 2015. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets it holds.

IFRS 13, *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

Summary of quarterly financial results

A summary of the quarterly net loss data for the last two complete fiscal years is as follows

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2010	Net loss	(448,361)	(425,609)	(478,497)	(493,904)
	Net loss per share	($0.01)	0.00	($0.01)	0.00
2011	Net loss	(569,772)	(570,604)	(422,232)	(465,670)
	Net loss per share	($0.01)	0.00	($0.01)	0.00
2012	Net loss	(625,833)			
	Net loss per share	($0.01)			

The loss for the first quarter of 2012 and all of 2011 has been prepared in accordance with IFRS.

The loss for all of 2010 has been presented in accordance with Canadian GAAP.

Results of Operations

A summary of the selected financial information from the statement of net loss and comprehensive loss includes the following:

	Three Months Ended January 31, 2012 $	Three Months Ended January 31, 2011 $
Research and development costs	501,348	430,398
General and administrative costs	126,363	142,713
Loss and comprehensive loss for the period	(625,833)	(569,772)

For the Three Months Ended January 31, 2012 the company recorded a net loss of $625,833 or $0.01 per share versus a loss of $569,772 or $0.01 per share for the corresponding period last year. As an explanation of the increase in the loss, during the Three Months Ended January 31, 2011, the Company recorded a contribution of $99,004 from the National Research Council and other parties towards the costs of its product development, which amount was netted from the research and development costs, compared to $245 of tax credits for the same period in the current year.

Research and development expenditures for the Three Months Ended January 31 were as follows:

	Three Months Ended January 31, 2012	Three Months Ended January 31, 2011	Increase (decrease)
	$	$	$
Research and development	239,927	247,569	(7,642)
Amortization of property & equipment	472	570	(98)
Amortization of intangible assets	217,601	211,939	5,662
Share-based compensation	8,603	38,849	(30,246)
Patent fees	34,990	30,475	4,515
Grants and tax credits	(245)	(99,004)	98,759
Total expense	501,348	430,398	70,950

Patent fees for the Three Months Ended January 31, 2012 were $34,990 compared to $30,475 for the same period in the prior year. This expense was relatively unchanged year over year, reflecting a modest growth in the portfolio.

The contributions and tax credits for the Three Months Ended January 31, 2012 amounted to only $245, representing an adjustment to the tax credits for the year ended October 31, 2010 compared to $99,004 for the Three Months Ended January 31, 2011, after recording a contribution of $88,004 from the National Research Council and other contributions of $11,000 towards the costs of research and development. The program with the National Research council was completed in September 2011.

Research and development costs for the Three Months Ended January 31, 2011 included contractor payments that were partially recovered by the contribution on the completed contract with the National Research Council, while costs for the Three Months Ended January 31, 2012 reflect the costs to enable the Company to advance toward clinical trials of its Cell Pouch System™ using an autograft clinical application and/or an allograft indication with immunosuppressant drugs.

General & administrative costs for the Three Months Ended January 31 were as follows:

	Three Months Ended January 31, 2012	Three Months Ended January 31, 2011	Increase (decrease)
	$	$	$
General & administrative	47,294	41,116	6,178
Amortization of property & equipment	53	112	(59)
Share-based compensation	2,647	66,332	(63,685)
Investor relations	49,860	1,839	48,021
Consulting fees	26,509	33,314	(6,805)
Total expense	126,363	142,713	(16,350)

Consulting fees for the Three Months Ended January 31, 2012 were $26,509 compared to $33,314 for the same period in the prior year, a decrease of $6,805. These fees generally relate to the provision of investor relations and financial services in both years.

General and administrative expenses for the Three Months Ended January 31, 2012 were $47,294 compared to $41,116 for the same period in the prior year representing an increase of $6,178 or 15%. Significant operating costs for the Three Months Ended January 31, 2012 (defined as individual

expense categories of approximately 10% of the total costs) included travel expenses of $5,018, and professional fees of $21,994. Significant operating costs for the Three Months Ended January 31, 2011 included travel expenses of $12,411 and professional fees of $11,563. The increased costs for the professional fees for current year reflect the current research and product development activity and the requirements for advice on drafting of agreements.

The increase in the investor relations charge in the Three Months Ended January 31, 2012 is the result of retaining Russo Partners LLC in November 2011, a leading healthcare communications expert. Pursuant to the agreement, the Company is paying a monthly fee of $8,000 USD per month, plus a one-time fee of $15,000. The agreement may be terminated at 30 days' notice.

Included in the net loss recorded for the Three Months Ended January 31, 2012, $11,251 is related to the non-cash expense from share- based compensation ($104,724 for the same period 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 approximately $4,079,000 in Canada and $3,500,000 operating losses in the United States as at October 31, 2011. In addition, the Company has significant Scientific and Research Expenditure pools of $2,495,000. In assessing the realizability of future income tax assets, management considers whether it is more probable that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income.

CASH FLOWS

Summary data with respect to the cash flows is presented below:

	Three Months Ended January 31, 2012 $	Three Months Ended January 31, 2011 $
Cash used by operating activities	(329,567)	(283,412)
Cash provided by (used by) investing activities	134,496	(874,775)
Cash provided by financing activities	-	640,995

Cash flows used by operations for the Three Months Ended January 31, 2012 were $399,877 compared with cash flows used by the operating loss of $341,445 for the same period in the prior year, representing an additional use of cash resources of $58,432 or 17% in the cash used by such operations. This change year over year is the result principally of increased product development expenditures and a reduction on the contributions and other credits received in the respective periods. During the Three Months Ended January 31, 2011 the Company recorded a contribution of $99,004 from the National Research Council and other parties compared to $245 of tax credits for the current year.

Cash provided by working capital balances for the Three Months Ended January 31, 2012 was $70,310 compared with cash provided by working capital of $58,033 for the prior year. The change in the Three Months Ended January 31, 2012 arose principally from the collection of the amounts receivable of $17,131 due under the contribution from the National Research Council, the collection of the sales tax and investment tax credit receivable, and an increase in accrued liabilities in the period of $11,765.

Regarding financing activities, the Company received $640,995 in net proceeds from the issuance of share capital and warrants in the Three Months Ended January 31, 2011. In the current fiscal year and as described in note 20 to the Condensed Consolidated Interim Financial Statements, the Company closed the first and second tranche of its non-brokered private placement after the quarter end and raised gross proceeds of $3,638,120.

With respect to investing activities, the principal use of cash was cash invested in patent licences which amounted to $19,595 for the Three Months Ended January 31, 2012 compared to $24,775 for the same period in the prior year. During the Three Months Ended January 31, 2012, net short-term investments of $155,878 matured compared to an investment of $850,000 in the Three Months Ended January 31, 2011.

Accordingly, as a result of all these activities, cash resources decreased by $195,071 for the Three Months Ended January 31, 2012 compared to cash resources that were reduced by a net $517,192 for the Three Months Ended January 31, 2011.

LIQUIDITY AND CAPITAL RESOURCES

In the Three Months Ended January 31, 2012, the Company has experienced a decrease in working capital of $420,850 compared to an increase of $344,051 for the Three Months Ended January 31, 2011, and accordingly as at January 31, 2012 had working capital of $1,052,190. Management will continue to explore opportunities to raise additional capital and other funds, and to find collaborative partners for the commercialization of its technologies.

On February 29, 2012 the Company closed the first tranche of a non-brokered private placement for gross proceeds of $3,491,120 which funds will be used to fund ongoing development of Sernova's proprietary Cell Pouch System™ and , in particular, to fund the upcoming first in man clinical trial for patients with diabetes receiving an islet transplant and for general working capital.

On March 30, 2012, the Company closed the second tranche of a non-brokered private placement for gross proceeds of $139,000.

There are no significant commitments for the acquisition of property and equipment. Management will manage the investing activities related to patent licences and in the Three Months Ended January 31, 2012 invested $22,081 USD but anticipates that the cost related to the prosecution of the patent portfolio will approximate $140,000 US dollars over the next fiscal year as the Company files patent applications for the therapeutic cell device in various countries.

Accounts payable and accrued liabilities are all current and management does not expect any unusual trends for the balance of the year.

The Company is committed to monthly payments of laboratory rental space of $2,400 per month on a short-term basis and had recorded $7,200 as an expense for the Three Months Ended January 31, 2012 compared $7,200 expense for the same period last year. There are no other operating lease commitments.

As at January 31, 2012, the Company had cash and short-term investments of $1,170,582 compared to $1,518,110 as at October 31, 2011. The Company may 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 fund the planned projects, and/or to actively search for collaborative partners for various projects.

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, 2012.

GOING CONCERN

These condensed consolidated interim financial statements have been prepared which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. 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 and sustain profitable operations and to continue to raise adequate financing. The Company reported a consolidated net loss of $625,833 for the Three Months Ended January 31, 2012 (2011 - $569,772) and has working capital of $1,052,190 and a deficit of $20,102,452 as at January 31, 2012. Management is actively targeting sources of additional financing and collaborative partners which would assure continuation of the Company's operations and research and product development 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. While the Company has been successful in obtaining the required financing in the past there can be no assurance that the Company will be able to continue to raise funds. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include adjustments to the carrying value and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going-concern and such adjustments could be material.

BALANCE SHEET

Selected financial data with respect to the balance sheet is as follows:

		January 31, 2012 $		October 31, 2011 $		November 1, 2010 $
Cash & short-term investments		1,170,582		1,518,110		735,142
Total assets		3,383,497		3,977,391		4,034,486
Current liabilities		139,755		119,067		143,997
Share capital & warrants		20,949,181		20,949,181		19,173,329
Deficit		(20,102,452)		(19,476,619)		(17,448,044)

Total assets as at January 31, 2012 were $3,383,497 compared with $3,977,391 at the end of the Company's last year end, representing a decrease of 15% or $593,894. Substantially all of the decrease is accounted for by the use of cash resources to meet research and development and general and administrative expenses in the period, and the amortization of the intangible assets.

Total current assets of $1,191,945 have decreased from the balance of $1,592,107 as at October 31, 2011, and reflect the use of cash resources to meet research and development and the general and administrative expenses in the period. Accounts receivables decreased by $48,897 based on collection of outstanding amounts, which funds were utilized for the same purposes as noted above.

The net carrying value of intangible assets as at January 31, 2012 declined to $2,183,792 from a net carrying value of $2,378,786 as at the end of the prior year. Additions in the Three Months Ended January 31, 2012 amounted to $22,606 ($44,975 in the prior year) and amortization of $217,601 for the same period accounted for the decrease in net carrying value. Amortization in the Three Months Ended January 31, 2011 amounted to $211,939.

Accounts payable and accrued liabilities were $139,755 at the January 31, 2012 compared to $119,067 as at October 31, 2011, an increase of $20,688. The increase is the result of timing of receipt and settlement of invoices for services, the cyclical nature of certain expenses and settlement payments with its trade creditors on a current basis. It is anticipated that substantially all accounts payable and accrued liabilities as at January 31, 2012 will be settled in the second quarter of the fiscal year.

There were no changes in share capital for the Three Months Ended January 31, 2012.

In the Three Months Ended January 31, 2012, 300,000 stock options expired. Accordingly, there are 4,297,208 options outstanding to employees, consultants, officers and directors as at January 31, 2012. There was no activity with stock options in the Three Months Ended January 31, 2011.

During the Three Months Ended January 31, 2012, 1,341,000 warrants expired.

During the Three Months Ended January 31, 2011 the Company issued a total of 2,133,334 common share purchase warrants, and 21,000 finder's warrants, valued at $1,450, as part of the offering of units noted above. In addition, 30,000 agents' warrants were exercised at an exercise price of $0.10 per common share for gross cash proceeds of $3,000.

Details of the warrants and stock options are detailed in Note 10 to the Condensed Consolidated Interim Financial Statements.

CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations as at April 18, 2012 which are consistent with those reflected in the Company's audited Consolidated Financial Statements as at October 31, 2011.

The Company is committed to short-term payments of approximately $100,000 for the completion of manufacturing of the Company's cell pouches for the upcoming clinical trial.

The Company is committed to the payment of certain costs under the clinical trial which is expected to commence in the third quarter of the current fiscal year and follow patients for a period of three years. The commitment under the agreement includes payments include the cost of clinical staff and overhead thereon, trial insurance, travel and a portion of drug-or procedure –related expenses or transplantation expenses not covered by insurance. The total commitment over the three years is expected to be in the range of $1,500,000 to $2,000,000 and the commitment will be impacted by such factors as the rate of enrollment, the province in which is the patient resides and the specifics of patient insurance.

The Company has exclusive rights to use certain patents and technologies utilized in the fertilite-OV business. Under the agreement, the Company is required to pay a royalty of 2% of cumulative royalties in excess of $1,500,000 to a maximum lifetime royalty of $570,000.

The Company has a monthly commitment of $2,400 for the rental of laboratory space which is short-term in nature but essentially subject to an annual renewal.

The Company is committed to an estimated $60,000 USD in fees to maintain its patent portfolio in good standing for the year ending October 31, 2012. It is anticipated that similar payments will be required subsequent years.

The Company is committed to a monthly payment of $8,000 USD for a contract for Investor Relations services but this contract is capable of cancellation with a 30 day notice period.

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

The Company has developed an approach to manage the issue of financial risks in the following manner:

Credit Risk

The Company's financial assets that are exposed to credit risk are cash, short-term investments and trade and other receivables. Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligation.

Cash and short-term investments consist of deposits with a major commercial bank and are therefore subject to minimal credit risk.

The Company, in the normal course of business, is exposed to credit risk on trade and other receivables. The majority of the other receivables are amounts due from government agencies for tax recoveries and grants and are therefore subject to minimal credit risk. The credit risk associated with any remaining receivables, predominantly related to the subscription amounts due under the issuance of equity is assessed through established monitoring activities.

The Company has no current trade receivables and does not therefore need to utilize an allowance account to assess the carrying value of the trade receivables and the underlying credit risk.

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. In the current market environment, these fluctuations may continue to be significant

Foreign currency exchange rate 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 foreign currencies, which is currently only United States dollars. However, management believes the risk is not currently significant as approximately $13,000 of these assets and none of its liabilities are denominated in United States dollars. There are no active operations in the US, with exception of the patent prosecution and maintenance which annual costs are estimated at approximately $200,000 USD for both activities. A strengthening of the US dollar against the Canadian dollar by 1% would cost the Company approximately an additional $2,020.

Interest rate risk

The Company has cash and short-term investment balances but no interest-bearing debt or financial assets. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company monitors the investments it makes and is satisfied with the credit ratings of its banks. As at January 31, 2012 the Company has approximately $1,050,000 held in interest-bearing deposits with banks. While these investments have a three year term, it is management's intention to utilize the resources within the next fiscal year and the investments are cashable with notice on the 15th of any month without penalty within the first year. A 1% change in the interest rates would have an effect of $10,500 per year on interest income and the value of the asset

Equity 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 and operations due to movements in individual equity prices or general movements in the level of the stock market. The Company monitors individual equity movements, and the stock market to determine the appropriate course of action to be followed by the Company. Fluctuations have been significant and may continue to be significant given the current market volatility.

Liquidity Risk

Liquidity risk represents the contingency that the Company is unable to gather funds required with respect to its financial obligations at the appropriate time and under reasonable conditions.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet current liabilities and future financial obligations when they become due under normal conditions. As at January 31, 2012 the Company had cash and short-term investments of $1,170,582 to settle current liabilities of $139,755. All of the Company's financial liabilities are subject to normal trade terms.

Financing strategies to manage this risk include resorting to the capital markets through the issuance of equity.

TRANSACTIONS WITH RELATED PARTIES

The key management personnel of the company are the Directors, Chief Executive Officer and President and the Chief Financial Officer.

The following transactions in which the directors had an interest occurred in the Three Months Ended January 31:

		2012		2011
		$		$
Consulting fees		0		0
Director fees		0		0
Share-based compensation		0		30,789
Total expense		0		30,789

Compensation for key management personnel of the company other than directors for the Three Months Ended January 31 is as follows:

		2012		2011
		$		$
Salaries		45,000		45,000
Consulting fees		18,750		18,750
Benefits		4,901		4,889
Share-based compensation		7,725		35,605
Total expense		76,376		104,244

Key management personnel, including the directors, control 2.7% of the issued common shares of the Company as at January 31, 2012.

During the Three Months Ended January 31, 2012 the Company paid $18,750 (2011- $18,750) in consulting fees for the services of the Chief Financial Officer, paid to a company controlled by the officer.

One of the Company's directors participated in the November 10, 2010 private placement purchasing 14,998 Units at $0.15 per Unit.

The Company's President and CEO, and one of the directors both participated in the June 23, 2011 private placement purchasing 78,947 and 85,000 Units respectively at $0.19 per Unit.

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, or transaction 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.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at date of this report, the Company has 115,314,599 common shares issued and outstanding.

The Company had a total of 4,297,208 outstanding stock options outstanding as at January 31, 2012. The details of the number of such options, the exercise price and the remaining contractual life are outlined in Note 10 to the Condensed Consolidated Interim Financial Statements. Of this total, 3,741,062 are exercisable as at January 31, 2012. On March 6, 2012 the Company granted employees and consultants an additional 1,342,918 stock options at exercise prices ranging from $0.14 to $0.19 per share and as of the date of this report, the Company had 5,640,126 outstanding stock options.

Details of the stock options outstanding are as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	80,000	$0.88	June 22, 2012
	150,000	$1.00	June 22, 2012
	130,000	$0.30	March 13, 2013
	134,038	$0.19	June 30, 2013
	50,000	$0.12	October 15, 2013
	208,880	$0.18	March 6, 2014
	700,000	$0.10	April 28, 2014
	349,500	$0.14	June 8, 2014
	471,875	$0.14	June 8, 2014
	530,000	$0.12	September 5, 2015
	250,000	$0.20	October 28, 2015
	1,585,833	$0.15	October 15, 2015
	670,000	$0.14	March 6, 2017
	330,000	$0.18	March 6, 2017
Total	5,640,126		

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The Company has 36,974,961 common share purchase warrants outstanding as at the date of this report as a result of the subsequent event, as outlined in note 20 to the Condensed Consolidated Interim Financial Statements. There were 16,807,639 warrants outstanding as at January 31, 2012.

The details of the warrants outstanding are as follows:

Number of Warrants	Exercise Price	Expiry Date
3,659,000	$0.20	April 30, 2012
1,350,833	$0.20	April 28, 2012
35,583	$0.15	April 28, 2012
502,400	$0.20	June 4, 2012
33,880	$0.15	June 4, 2012
1,900,000	$0.20	October 18, 2012
37,333	$0.20	October 18, 2012
1,433,334	$0.20	November 3, 2012
21,000	$0.20	November 3, 2012
700,000	$0.20	December 5, 2012
195,950	$0.19	December 24, 2012
90,410	$0.19	March 1, 2013
5,337,914	$0.20	June 24, 2012
	then at $0.35	June 24, 2013
1,510,002	$0.20	September 1, 2012
	then at $0.35	September 1, 2013
19,395,100	$0.20	February 28, 2013
	then at $0.35	February 28, 2015
772,222	$0.20	March 30,2013
	then at $0.35	March 30, 2015
36,974,961		

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, short-term investments, trade and other 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 19 in the Condensed Consolidated Interim Financial Statements).

RISKS AND UNCERTAINTIES

Investment Risk

Volatility of Share Price, Absence of Dividends and Fluctuation of Operating Results. Market prices for the securities of biotechnology companies, including the Company, have historically been highly volatile. Factors such as fluctuation of the Company's operating results, announcements of technological innovations, patents or new commercial products by the Company or competitors, results of clinical testing, regulatory actions, or public concern over the safety of biopharmaceutical products and other factors could have a significant effect on the share price or trading volumes for the common shares. The Company's common shares have been subject to significant price and volume fluctuations and may continue to be subject to significant price and volume fluctuations in the future. The Company has not paid dividends to date and does not expect to pay dividends in the foreseeable future.

Issuer Risk

Early Stage Development and Scientific Uncertainty. The Company's products are at an early stage of development. Significant additional investment in research and development, product validation, technology transfer to manufacturing, production scale-up, manufacturing, clinical testing, and regulatory submissions of such product candidates is required prior to commercialization. There can be no assurance that any such products will actually be developed. The development and regulatory processes may require access to raw materials and inputs which may not be available to the Company in sufficient amounts or in a timely fashion to allow the Company to complete the development or receive regulatory approval of any product or process. A commitment of substantial time and resources is required to conduct research and clinical trials if the Company is to complete the development of any product. It is not known whether any of these product or process candidates will meet applicable health regulatory standards and obtain required regulatory approvals, or whether such products can be produced in commercial quantities at reasonable costs and be successfully marketed, or if the Company's investment in any such products will be recovered through sales or royalties.

Additional Financing Requirements and Access to Capital. The Company will require substantial additional funds for further research and development, planned clinical testing, regulatory approvals, establishment of manufacturing capabilities and, if necessary, the marketing and sale of its products. The Company may attempt to raise additional funds for these purposes through public or private equity or debt financing, collaborations with other biopharmaceutical companies and/or from other sources. There can be no assurance that additional funding or partnership will be available on terms acceptable to the Company and which would foster successful commercialization of the Company's products.

Patents and Proprietary Technology. The Company's success will depend in part on its ability to obtain, maintain, and enforce patent rights, maintain trade secret protection and operate without

infringing the proprietary rights of third parties. There can be no assurance that pending patent applications will be allowed, that the Company will develop additional proprietary products that are patentable, that issued patents will provide the Issuer with any competitive advantage or will not be challenged by any third parties, or that patents of others will not have an adverse effect on the ability of the Company to do business.

Furthermore, there can be no assurance that others will not independently develop similar products, duplicate any of the Company's products, or design around the products patented by the Company. In addition, the Company may be required to obtain licenses under patents or other proprietary rights of third parties. No assurance can be given that any licenses required under such patents or proprietary rights will be available on terms acceptable to the Company. If the Company does not obtain such licenses it could encounter delays in introducing one or more of its products to the market, while it attempts to design around such patents, or could find that the development, manufacturing or sale of products requiring such licenses could be foreclosed. In addition, the Company could incur substantial costs in defending itself in suits brought against it on such patents or in suits where it attempts to enforce its own patents against other parties.

Until such time, if ever, that patent applications are filed, the ability of the Company to maintain the confidentiality of its technology may be crucial to its ultimate possible commercial success. While the Company has adopted procedures designed to protect the confidentiality of its technology, no assurance can be given that such arrangements will be effective, that third parties will not gain access to the Company's trade secrets or disclose the technology, or that the Company can meaningfully protect its rights to its trade secrets.

Dependence on Collaborative Partners, Licensors and Others. The Company currently utilizes technology which has been licensed to it and technology which has been developed by its own researchers. In particular, the Company is dependent upon the license to use certain technology provided under a sublicense agreement with Sertoli Technologies Inc. dated August 9, 2006 for the development of its product candidates. While the company's licenses are in good standing, they may be terminated by the licensor if there is a breach of the licensing agreement.

The Company's activities will require it to enter into various arrangements with corporate and academic collaborators, licensors, licensees and others for the research, development, clinical testing, manufacturing, marketing and commercialization of its products. The Company intends to attract corporate partners and enter into additional research collaborations. There can be no assurance, however, that the Company will be able to establish such additional collaborations on favourable terms, if at all, or that its current or future collaborations will be successful. Failure to attract commercial partners for its products may result in the Company incurring substantial clinical testing, manufacturing and commercialization costs prior to realizing any revenue from product sales or result in delays or program discontinuance if funds are not available in sufficient quantities.

Should any collaborative partner fail to develop, manufacture, or commercialize successfully any product to which it has rights, or any partner's product to which the Company will have rights, the Company's business may be adversely affected. Failure of a collaborative partner to continue to participate in any particular program could delay or halt the development or commercialization of products generated from such program. In addition, there can be no assurance that the collaborative partners will not pursue other technologies or develop alternative products either alone or in collaboration with others, including the Company's competitors, as a means for developing treatments for the diseases targeted by the Company's programs.

Furthermore, the Company will hold licenses for certain technologies and there can be no assurance that these licenses will not be terminated, or that they will be renewed on conditions acceptable to the Company. The Company intends to negotiate additional licenses in respect of technologies developed by other companies and academic institutions. Terms of license agreements to be negotiated may include, inter alia, a requirement to make milestone payments, which may be substantial. The Company will also be obligated to make royalty payments on the sales, if any, of products resulting

from licensed technology and, in some instances, may be responsible for the costs of filing and prosecuting patent applications.

Reliance on Key Personnel. The Company is dependent on certain members of its management and scientific staff as well as consultants and contractors, the loss of services of one or more of whom could adversely affect the Company. In addition, the Company's ability to manage growth effectively will require it to continue to implement and improve its management systems and to recruit and train new employees. There can be no assurance that the Company will be able to successfully attract and retain skilled and experienced personnel.

Lack of Product Revenues and History of Losses. To date, the Company has not recorded any revenues from the sale of cell therapy products. The Company expects to incur additional losses during the periods of research and development, clinical testing, and application for regulatory approval of its product candidates. The Company expects to incur losses unless and until such time as payments from corporate collaborations, product sales and/or royalty payments generate sufficient revenues to fund its continuing operations.

Conflict of Interest. Certain of the directors and senior officers of the Company may, from time to time, be employed by or affiliated with organizations which have entered into agreements with the Issuer. As disputes may arise between these organizations and the Company, or certain of these organizations may undertake or have undertaken research with competitors of the Company, there exists the possibility for such persons to be in a position of conflict. Any decision or recommendation made by these persons involving the Company will be made in accordance with his or her duties and obligations to deal fairly and in good faith with the Company and such other organizations. In addition, as applicable, such directors and officers will refrain from voting on any matter in which they have a conflict of interest.

Industry Risk

Government Regulations. Biotechnology and pharmaceutical companies operate in a high-risk regulatory environment. The manufacture and sale of animal and human diagnostic and therapeutic products is governed by numerous statutes and regulations in the United States, Canada and other countries where the Company intends to market its products. The subject matter of such legislation includes approval of manufacturing facilities, controlled research and testing procedures, review and approval of manufacturing, preclinical and clinical data prior to marketing approval, as well as regulation of marketing activities, notably advertising and labelling.

The process of completing clinical testing and obtaining required approvals is likely to take several years and require the expenditure of substantial resources. Furthermore, there can be no assurance that the regulators will not require modification to any submissions which may result in delays or failure to obtain regulatory approvals. Any delay or failure to obtain regulatory approvals could adversely affect the ability of the Company to utilize its technology, thereby adversely affecting operations. Further, there can be no assurance that the Company's diagnostic product candidates will achieve levels of sensitivity and specificity sufficient for regulatory approval or market acceptance, or that its therapeutic product candidates prove to be safe and effective in clinical trials, or receive the requisite regulatory approval. There is no assurance that the Company will be able to timely and profitably produce its products while complying with all the applicable regulatory requirements. Foreign markets, other than the United States and Canada, impose similar restrictions.

Hazardous Materials and Environmental Matters. Certain of the Company's research and development processes will involve the controlled use of hazardous materials. The Company is subject to federal, provincial and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although management of the Company believes that its procedures for handling and disposing of such materials comply with the standards prescribed, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for damages and such liability could exceed the resources of the Company. The Company is not specifically insured with

respect to this liability. Although management of the Company believes that it currently complies in all material respects with applicable environmental laws and regulations, the Issuer may be required to incur significant costs to comply with environmental laws and regulations in the future. Furthermore, there can be no assurance that the operations, business or assets of the Company will not be materially adversely affected by current or future environmental laws or regulations.

Rapid Technological Change. The biotechnology and pharmaceutical industries are characterized by rapid and substantial technological change. There can be no assurance that developments by others will not render the Company's proposed products or technologies non-competitive, or that the Company will keep pace with technological developments. Competitors have developed or are developing technologies that could be the basis for competitive products. Some of these products have an entirely different approach or means of accomplishing the desired diagnostic or therapeutic effect as compared with products to be developed by the Company, and could be more effective and less costly than the products to be developed by the Company. In addition, alternative forms of medical treatment may be competitive with the Company's products.

Competition. Technological competition from pharmaceutical companies, biopharmaceutical companies and universities is intense and is expected to increase. Potential competitors of the Company have or may develop product development capabilities or financial, scientific, marketing and human resources exceeding those of the Company. Competitors may develop products before the Company develops its own products, obtain regulatory approval for such products more rapidly than the Company, or develop products which are more effective than those which the Company intends to develop. Research and development by others may render the Company's proposed technology or products obsolete or non-competitive or produce treatments or cures superior to any therapy developed or to be developed by the Company, or otherwise preferred to any therapy developed by the Company.

Status of Healthcare Reimbursement. The Company's ability to successfully market certain diagnostic or therapeutic products may depend in part on the extent to which reimbursement for the cost of such products and related treatments will be available from government health administration authorities, private health insurers and other organizations. Significant uncertainty exists as to whether newly approved healthcare products will qualify for reimbursement. Furthermore, challenges to the price of medical products and services are becoming more frequent. There can be no assurance that adequate third-party coverage will be available to establish price levels, which would allow the Company to realize an acceptable return on its investment in product development.

Potential Product Liability. Pharmaceutical products involve an inherent risk of product liability claims and associated adverse publicity. Product liability insurance is costly, and availability is limited and may not be available on terms which would be acceptable to the Company, if at all. An inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's products. A product liability claim brought against the Company, or withdrawal of a product from the market, could have a material adverse effect upon the Company and its financial condition.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These Condensed Consolidated Interim Financial Statements have been prepared by management in accordance with IFRS, are unaudited, and have been approved by the Board of Directors. The integrity and objectivity of these Condensed Consolidated Interim Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that this information in the MD & A is consistent, where appropriate, with the information contained in the Condensed Consolidated Interim 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 Condensed Consolidated Interim Financial Statements may include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the Condensed Consolidated Interim Financial Statements are presented fairly in all material respects.

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 two financial experts, and those members are not 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 annual Consolidated Financial Statements with the external auditors.

The Committee reports its finding to the Board for consideration when approving the Condensed Consolidated Interim 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 January 31, 2012.

There have been no significant changes to the Company’s internal control environment during the Three Months Ended January 31, 2012 and subsequent to that date that would have materially affected the Company’s internal controls over financial reporting.