Sernova Corp.

Interim Consolidated Financial Statements
For the Three and Nine Months Ended July 31, 2010
(Unaudited)

Management Comments on Unaudited Interim Consolidated Financial Statements

The accompanying Unaudited Interim Consolidated Financial Statements of Sernova Corp. for the Three and Nine Months Ended July 31, 2010 have been prepared by management and approved by the Audit Committee of the Board of Directors of the Corporation. These Unaudited Interim Consolidated Financial Statements have not been reviewed by the Corporation's external auditor.

Dated: September 29, 2010

Sernova Corp.
Consolidated Balance Sheets as at July 31, 2010 and October 31, 2009

ASSETS

	July 31, 2010	October 31, 2009
	$ (unaudited)	$ audited
CURRENT ASSETS		
Cash	**461,803**	396,963
Accounts Receivable (Note 3)	**86,482**	114,847
Prepaid Expenses	**2,934**	32,893
	551,219	544,703
OTHER		
Equipment at cost less amortization	**6,784**	10,848
Intangible Assets (Note 4)	**3,356,417**	3,936,467
	3,363,201	3,947,315
	3,914,420	4,492,018

LIABILITIES

	July 31, 2010	October 31, 2009
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities	**111,729**	102,220

SHAREHOLDERS' EQUITY

	July 31, 2010	October 31, 2009
Capital Stock (Note 5)	**18,612,757**	17,942,879
Share Purchase Loan (Note 5)	-	(32,000)
Contributed Surplus (Note 5)	**2,106,041**	2,042,559
	20,718,798	19,953,438
Deficit	**(16,916,107)**	(15,563,640)
	3,802,691	4,389,798
	3,914,420	4,492,018

Nature and continuance of operations (Note 1)

On behalf of the Board

"Dr. George Adams", Director

"Dr. Philip Toleikis", Director

Sernova Corp.
Consolidated Statements of Operations and Deficit

	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009	**Nine Months Ended Juy 31, 2010**	Nine Months Ended July 31, 2009
	$	$	**$**	$
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
OTHER INCOME				
Royalty Income	**-**	10,029	**-**	24,398
Interest and Other Income	**222**	2,856	**558**	3,096
	222	12,885	**558**	27,494
OPERATING EXPENSES				
Amortization of Capital Assets	**1,400**	-	**4,064**	1,900
Consulting Fees and Salaries	**144,324**	69,453	**245,037**	168,193
Foreign Currency Loss	**(153)**	3,906	**849**	4,397
Patent Amortization	**211,863**	209,933	**627,852**	622,971
Patent Fees	**20,339**	8,450	**61,100**	35,022
Professional Fees	**13,017**	16,198	**47,211**	34,354
Research Costs	**18,244**	-	**169,302**	388
Office, General and Administration	**49,178**	36,458	**129,583**	82,104
Stock-Based Compensation (Note 5)	**20,507**	11,164	**68,027**	83,151
	478,719	355,562	**1,353,025**	1,032,480
NET LOSS FOR THE PERIOD	**(478,497)**	(342,677)	**(1,352,467)**	(1,004,986)
(Deficit), Beginning of Period	**(16,437,610)**	(14,757,588)	**(15,563,640)**	(14,095,279)
(Deficit), End of Period	**(16,916,107)**	(15,100,265)	**(16,916,107)**	(15,100,265)
Basic and Diluted Loss per Common Share	**(0.01)**	(0.01)	**(0.02)**	(0.02)
Weighted Average Number of Common Shares Outstanding	**76,099,063**	61,994,455	**76,481,324**	56,214,724

Sernova Corp.
Consolidated Statements of Cash Flows

	Three Months Ended July 31, 2010	Three Months Ended July 31, 2009	**Nine Months Ended July 31, 2010**	Nine Months Ended July 31, 2009
	$	$	**$**	$
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
CASH PROVIDED BY (USED FOR)				
OPERATING ACTIVITIES				
Net Loss for the Period	**(478,497)**	(342,677)	**(1,352,467)**	(1,004,986)
Items Not Requiring a Current Outlay of Cash:				
Amortization of Equipment	**1,400**	0	**4,064**	1,900
Patent Amortization	**211,863**	209,933	**627,852**	622,971
Stock-Based Compensation	**20,507**	11,164	**68,027**	83,151
	(244,727)	(121,580)	**(652,524)**	(296,964)
Changes in Non-Cash Working Capital Balances				
Accounts Receivable	**134,433**	(796)	**28,365**	4,311
Prepaid Expenses	**4,710**	5,220	**29,959**	518
Accounts Payable and Accrued Liabilities	**47,692**	(7,505)	**9,509**	(87,058)
Changes in Working Capital Balances	**186,835**	(3,081)	**67,833**	(82,229)
(Used by) Operating Activities	**(57,892)**	(124,661)	**(584,691)**	(379,193)
INVESTING ACTIVITIES				
Patent and Trademarks	**(22,015)**	(16,467)	**(47,802)**	(72,976)
(Used by) Investing Activities	**(22,015)**	(16,467)	**(47,802)**	(72,976)
FINANCING ACTIVITIES				
Issue of Capital Stock (Net of Issuance Costs)	**168,587**	364,044	**697,333**	364,044
Provided by Financing Activities	**168,587**	364,044	**697,333**	364,044
(DECREASE) IN CASH DURING THE PERIOD	**88,680**	222,916	**64,840**	(88,125)
Cash, Beginning of Period	**373,123**	150,305	**396,963**	461,346
Cash, End of Period	**461,803**	373,221	**461,803**	373,221

Supplemental disclosure with respect to cash flows (Note 7)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

These unaudited interim consolidated financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These unaudited interim consolidated financial statements should be read together with the audited financial statements and the accompanying notes included in the Corporation's latest annual filing. In the opinion of the Corporation, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

Going Concern

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, 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 profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and research 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.

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

The Company is experiencing, and has experienced, negative operating cash flows, and needs to invest in the research and development program and continued prosecution of patents and trademarks which cannot be met from existing cash balances. The Company will continue to search for new funds and for new collaborative partners for the research and product development initiatives but anticipates that the current market conditions may impact the ability to source such funds.

	July 31, 2010	October 31, 2009
Working capital	$ 439,490	$ 442,483
Deficit	(16,916,107)	(15,563,640)

2. NEW ACCOUNTING PRONOUNCEMENTS

Change in accounting policies

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

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

International financial reporting standards ("IFRS")

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

3. ACCOUNTS RECEIVABLE

	July 31, 2010	October 31, 2009
Government Grant Receivable	$72,859	$63,510
Subscription Receivable	$9,000	$46,000
Other	$4,603	$5,337
	$86,462	$114,847

To the end of July 31, 2010, the Company had received or accrued $480,799 of the grant receivable, leaving the balance of $5,201 to be claimed in the period to September 19, 2010 as described in Note 6 to the unaudited interim Consolidated Financial Statements.

4. INTANGIBLE ASSETS

	July 31, 2010			October 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patent Licences	$ 4,320,465	$ 2,085,364	$ 2,235,101	$ 4,272,663	$ 1,667,760	$ 2,604,903
Intellectual Property	2,191,856	1,070,540	1,121,316	2,191,856	860,292	1,331,564
	$ 6,512,321	$ 3,155,904	$ 3,356,417	$ 6,464,519	$ 2,528,052	$ 3,936,467

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of of Shares	Capital Stock	Contributed Surplus
Authorized			
An unlimited number of common shares, without par value			
Balance as at October 31, 2008	56,797,358	$17,232,859	$1,890,909
Shares Issued under private placement	14,000,000	420,000	-
Shares Issued under offering memorandum	3,659,000	365,900	-
Shares Issuance Costs	-	(75,880)	7,105
Stock-based compensation	-	-	144,545
Balance as at October 31, 2009	74,456,358	17,942,879	2,042,559
Shares Issued under offering memorandum	4,042,666	539,350	-
Shares Issuance Costs	-	(33,104)	-
Shares Issued under warrant exercise	450,000	27,045	(4,545)
Stock-based compensation	-	-	47,520
Balance as at April 30, 2010	78,949,024	18,476,170	2,085,534
Shares Issued under offering memorandum	1,004,800	150,720	-
Shares Issuance Costs	-	(14,133)	-
Stock-based compensation	-	-	20,507
Balance as at July 31, 2010	79,953,824	$18,612,757	$2,106,041

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

On June 4, 2010, the Company completed the second closing of a non-brokered private placement offering through the issuance of 1,004,800 Units at $0.15 per unit for gross proceeds of $150,720. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole Warrant entitles the holder thereof to acquire one common share at a price of $0.20 for a period of 24 months from closing. In connection with the second closing, the Company issued 33,880 finders' warrants and approximately $5,082 was paid to the finders. Each Finder's warrant entitles the holder thereof to purchase one common share at $0.15 per share for a period of 24 months from closing. Share issue costs under the private placement totaled $9,051.

On April 28, 2010, the Company completed the first closing of a non-brokered private placement offering through the issuance of 2,701,666 Units at $0.15 per unit for gross proceeds of $405,250. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole Warrant entitles the holder thereof to acquire one common share at a price of $0.20 for a period of 24 months from closing. The offering is for a maximum of 8.0 million units at a price of $0.15 per unit to raise proceeds of up to $1.2 million. In connection with the first closing, the Company issued 46,923 finders' warrants and approximately $7,000 was paid to the finders. Each Finder's warrant entitles the holder thereof to purchase one common share at $0.15 per share for a period of 24 months from closing.

In December 2009, the Company completed the second tranche involving of an offering of 1,341,000 units at $0.10 per unit for gross proceeds of $134,100. Each unit consisted of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $0.20 per share for a period of 24 months from the closing date. Share issue costs totaled $6,167 including agents' fees of $1,920. This offering, combined with the 3,659,000 units issued October, 30, 2009, raised gross proceeds of $500,000.

In October 2009 the Company completed an offering of 3,659,000 units at $0.10 per unit for gross proceeds of $365,900 of which $46,000 was received subsequent to year end. Each unit consisted of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $0.20 per share for a period of 24 months from the closing date. Share issue costs totaled $44,820 including agents' fees of $18,592.

In the prior year, on May 29, 2009 the Company completed a private placement of 14,000,000 common shares at $0.03 per common share for gross proceeds of $420,000. The Company paid an agents fee of $21,204 and issued 703,467 agents' warrants with a two year term, exercisable into one common share per warrant at an exercise price of $0.05 in the first year and $0.10 in the second year. The warrants were valued at $7,105 using the Black-Scholes option pricing model with a weighted average expected volatility of 125%, risk free interest rate of 1.27%, life of one year and dividend yield of 0%. Share issue costs under the private placement totaled $31,059.

Share purchase loan

The Company advanced $32,000 to an officer in connection with the private placement in May 2009 to purchase 1,066,667 common shares. The loan bore interest at 1% per annum and was fully repaid with interest on July 19, 2010.

Escrow shares

Included in the escrow shares at July 31, 2010 are 3,472,500 (July 31, 2009 – 5,146,125) common shares which were subject to time release escrow agreements and will not be released, transferred or assigned without the consent of the regulatory authorities.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Performance escrow shares

Included in issued capital stock and part of the escrow shares mentioned above at July 31, 2010 are 3,472,500 common shares subject to a performance based release as follows:

a) 1,736,250 common shares on the date the Company receives approval from authorities for the initiation of human trials for a licensed product;
b) 1,736,250 common shares on the date the Company enrolls the first patient in a Phase 3 human clinical efficacy trial for a licensed product.

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

Warrants and stock options

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

During the Three Months Ended July 31, 2010, the Company issued 502,400 share purchase warrants as part of the offering of units on June 4, 2010, and in connection with this offering issued 33,880 finders' warrants. During the Three Months Ended April 30, 2010, the Company issued 1,350,833 share purchase warrants as part of the offering of units on April 28, 2010, and in connection with this offering issued 46,923 finders' warrants, and in the Three Months Ended January 31, 2010 the Company issued 1,341,000 common share purchase warrants as part of the offering of units in December 2009, noted above. In the Nine months ended July 31, 2010 a total of 450,000 common shares were issued in exchange for an equal number of warrants at an exercise price of $0.05 per warrant for gross proceeds of $22,500.

On May 29, 2009 the Company issued 703,467 agents' warrants with a two year term, and 3,659,00 common share purchase warrants with a two year term in October 2009 as part of the offering as detailed in the annual consolidated financial statement.

During the Three and Nine Months Ended July 31, 2010, the Company granted no stock options. During the Three and Nine Months Ended July 31, 2010, 262, 500 stock options expired or were cancelled.

During the Three Months Ended July 31, 2009, the Company granted incentive stock options to Directors, Officers and to members of its scientific Advisory Board to purchase up to 883,875 common shares at $0.14 per share for a period of 5 years, expiring June 8, 2014. During the Nine Months Ended July 31, 2009, the Company granted incentive stock options to a senior officer to purchase up to 700,000 common shares at $0.10 per share for a period of 5 years, expiring April 28, 2014. These options with weighted average fair values of $0.14 and $0.10 per option respectively are being recognized over the vesting period of the options.

During the Three and Nine Months Ended July 31, 2009, a total of 700,000 and 2,274,500 options were cancelled or expired.

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Warrants and stock options (cont'd)

Stock option and warrant transactions are summarized as follows:

	Stock Options		Warrants	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance outstanding, October 31, 2008	4,384,500	$0.41	-	-
Granted	1,583,875	$0.12	4,362,467	$0.18
Cancelled /Expired	(2,309,500)	$0.40	-	-
Balance outstanding, October 31, 2009	3,658,875	$0.29	4,362,467	$0.18
Granted	-	-	2,691,833	$0.20
Granted	-		46,923	$0.15
Exercised	(262,500)	$0.13	(450,000)	$0.05
Balance outstanding, April 30, 2010	3,396,375	$0.31	6,651,223	$0.19
Granted	-		502,400	$0.20
Granted	-		33,880	$0.15
Balance outstanding, July 31, 2010	3,396,375	$0.31	7,187,503	$0.20
Exercisable, July 31, 2010	2,752,105	$0.35		

Stock-based Compensation

The Company used the Black-Scholes option pricing model to determine the fair value of options granted.

Total stock-based compensation recognized in the Statement of Operations and Deficit for the Three and Nine Months Ended July 31, 2010 was $20,507 and $68,027 respectively (2009 – $11,164 and $83,151 respectively). This amount represents the value of vested options.

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

Year Ended October 31	2010	2009
Dividend yield	$0.00	$0.00
Expected volatility	110.00%	89.15%
Risk free interest rate	2.95%	2.86%
Expected life of options	5 years	5 years

5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

The following table summarizes information about the stock options and warrants outstanding at July 31, 2010:

	Number of Shares	Exercise Price	Expiry Date
Options	585,000	$0.40	March 20, 2011
	580,000	$0.40	September 11, 2011
	300,000	$0.40	November 22, 2011
	80,000	$0.88	June 22, 2012
	150,000	$1.00	June 22, 2012
	130,000	$0.30	March 13, 2013
	50,000	$0.12	October 15, 2013
	700,000	$0.10	April 28, 2014
	349,500	$0.14	June 8, 2014
	471,875	$0.14	June 8, 2014
Total	3,396,375		
Warrants	253,467	$0.10	May 29, 2011
	3,659,000	$0.20	October 30, 2011
	1,341,000	$0.20	December 23, 2011
	1,350,833	$0.20	April 28, 2012
	46,923	$0.15	April 28, 2012
	502,400	$0.20	June 4, 2012
	33,880	$0.15	June 4, 2012
	7,187,503		

6. COMMITMENTS

The Company has exclusive rights to use certain patents and technology utilized in the Fertilité-OV ™. Under the agreement, the Company is required to pay a royalty of 2% of cumulative revenues in excess of $1.5 million to a maximum lifetime royalty of $570,000.

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

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO THE STATEMENTS OF CASH FLOWS

During the Three and Nine Months Ended July 31, 2010 the Company paid no income taxes or interest (2009 – no interest or income taxes were paid).

8. INCOME TAXES

The Company has Canadian non-capital losses of approximately $4,600,000 and United States operating losses of approximately $2,709,000 available to reduce future years' taxable income. In addition, the Company has investment tax credits available of approximately $249,000 and a Scientific and Research Expenditure pool available of approximately $1,964,000. These losses, if not utilized, will expire through to 2029. Future tax benefits, which may arise as a result of these non-capital losses and other items have not been recognized in these financial statement and have been offset by a valuation allowance.

During the Three and Nine Months Ended July 31, 2010, the Company received $20,329 under the Scientific and Research Expenditure claim for the year ended October 31, 2009. This amount has been netted from the research costs in the Consolidated Statement of Operations. There was no such claim for the prior year.

9. RELATED PARTY TRANSACTIONS

During the Three and Nine Months Ended July 31, 2010, the Company paid or accrued $20,587 and $60,024 respectively (2009 - $29,423 and $87,516 respectively) in consulting fees and wages to a director and an officer.

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

10. SEGMENTED INFORMATION

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

The Company's intangible assets are located in the United States.

11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development and commercialization of its technologies. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development and commercialization of the business. The Company defines capital that it manages as share capital and cash.

The intellectual properties in which the Company currently has an interest are in the development stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess sources of financing available and to assess the potential for collaboration with one or more interested partners with a view to manage research and administrative expenditures to reflect current financial resources in the interest of sustaining a long term viability.

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

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, foreign exchange, interest rate and price risks. The Company, may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

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

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

Credit Risk

Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligation. The Company's credit risk is primarily attributable to short-term investments included in cash. Management believes that the credit risk concentration with respect to financial instruments included in cash is remote. Receivables are due from a government agency and the credit risk of other receivables is assessed through established credit monitoring activities. The Company concentrates cash management through its Canadian banking relationships.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at July 31, 2010 the Company had cash balances of $461,803 to settle current liabilities of $111,729. All of the Company's financial liabilities are subject to normal trade terms. As mentioned in Note 6 to the unaudited interim consolidated financial statement, the Company was awarded a non-repayable grant from the National Research Council, and as at July 31, 2010, $5,201 of this grant remains to be claimed in the period to August 31, 2010.

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.

a) Interest rate risk

The Company has cash 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 periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at July 31, 2010 the Company has approximately $12,000 held in interest-bearing deposits with banks. A 1% change in the interest rates would have an effect of $120 per year on interest income and the value of the asset.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in foreign currencies, which is currently only United States dollars. However, management believes the risk is not currently significant as approximately $11,000 of its assets and none of its liabilities are denominated in United States dollars.

c) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings 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.