SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 2009

AUDITORS' REPORT

To the Shareholders of
Sernova Corp.

We have audited the consolidated balance sheets of Sernova Corp. as at October 31, 2009 and 2008 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 15, 2010

SERNOVA CORP.
CONSOLIDATED BALANCE SHEETS
AS AT OCTOBER 31

	2009	2008
ASSETS		
Current		
Cash	$ 396,963	$ 461,346
Receivables (Note 4)	114,847	17,355
Prepaid expenses	32,893	6,197
	544,703	484,898
Equipment (Note 5)	10,848	4,991
Intangible assets (Note 6)	3,936,467	4,659,441
	$ 4,492,018	$ 5,149,330
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 102,220	$ 120,841
Shareholders' equity		
Capital stock (Note 7)	17,942,879	17,232,859
Share purchase loan (Note 7)	(32,000)	-
Contributed surplus (Note 7)	2,042,559	1,890,909
Deficit	(15,563,640)	(14,095,279)
	4,389,798	5,028,489
	$ 4,492,018	$ 5,149,330

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 8)
Subsequent event (Note 15)

On behalf of the Board:

"Dr. George Adams" Director *"Dr. Philip Toleikis"* Director

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

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

	2009	2008
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization of equipment	$ 2,334	$ 3,316
Amortization of intangible assets	828,589	802,232
Consulting fees and wages	222,951	319,902
Office and miscellaneous	178,020	194,437
Professional fees	90,060	113,269
Research	20,084	816,799
Stock-based compensation (Note 7)	144,545	583,834
	(1,486,583)	(2,833,789)
OTHER ITEMS		
Foreign currency gain (loss)	(11,122)	312
Interest income	4,061	37,721
Royalty income	25,283	42,271
	18,222	80,304
Loss and comprehensive loss for the year	(1,468,361)	(2,753,485)
Deficit, beginning of year	(14,095,279)	(11,341,794)
Deficit, end of year	$ (15,563,640)	$ (14,095,279)
Basic and diluted loss per common share	$ (0.02)	$ (0.05)
Weighted average number of common shares outstanding	58,827,119	53,324,858

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

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

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,468,361)	$ (2,753,485)
Items not affecting cash:		
Accrual of government grant	(63,510)	-
Amortization of equipment	2,334	3,316
Amortization of intangible assets	828,589	802,232
Stock-based compensation	144,545	583,834
Changes in non-cash working capital items:		
(Increase) decrease in receivables	12,018	44,236
(Increase) decrease in prepaid expenses	(26,696)	11,228
Increase (decrease) in accounts payable and accrued liabilities	(3,115)	59,461
Net cash used in operating activities	(574,196)	(1,249,178)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of share capital	739,900	-
Share issuance costs	(49,605)	-
Share purchase loan	(32,000)	-
Net cash provided by financing activities	658,295	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Intangible assets	(140,291)	(89,681)
Equipment	(8,191)	-
Net cash used in investing activities	(148,482)	(89,681)
Decrease in cash during the year	(64,383)	(1,338,859)
Cash, beginning of year	461,346	1,800,205
Cash, end of year	$ 396,963	$ 461,346

Supplemental disclosure with respect to cash flows (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

In fiscal 2006, the Company acquired a sublicense to certain patents (Note 6) and a subsidiary, Sertonex Inc. ("Sertonex"), and became engaged in the research and development of a commercially viable treatment for Type 1 human diabetes using transplanted devices containing porcine cells. The Company has no products in commercial production or use and is in the development stage.

Going concern

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

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 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.

	2009	2008
Working capital	$ 442,483	$ 364,057
Deficit	(15,563,640)	(14,095,279)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Use of estimates

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

Financial instruments

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

The Company has classified its cash as held-for-trading. Receivables and related party loans are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

Computer equipment

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

Intangible assets

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

Impairment of long-lived assets

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Research and development

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

Investment tax credits and government grants

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

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

Escrow shares

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

Stock-based compensation

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

Future income taxes

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency translation

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

Loss per share

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

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The performance escrow shares outstanding and the shares purchased with the loan as of October 31, 2009 (Note 7) have been excluded from the weighted average number of shares because they are contingently returnable.

Change in accounting policies

Effective November 1, 2008, the Company adopted the following new standards issued by the CICA.

Goodwill and intangible assets

CICA Handbook Section 3064 replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs and amendments to Accounting Guidline (AcG) 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The adoption of this section did not have a material impact on the Company's financial statements.

Assessing going concern

CICA Handbook Section 1400 "General Standards on Financial Statement Presentation" to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The implementation did not have a significant impact on the Company's results of operations or financial position. The new disclosure is provided in Note 1.

3. NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

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

International financial reporting standards ("IFRS")

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

4. RECEIVABLES

	2009	2008
Government grant receivable	$ 63,510	$ -
Subscriptions receivable	46,000	-
Other	5,337	17,355
	$ 114,847	$ 17,355

5. EQUIPMENT

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 21,156	$ 10,308	$ 10,848	$ 12,695	$ 7,704	$ 4,991

6. INTANGIBLE ASSETS

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Patent licenses	$ 4,272,663	$ 1,667,760	$ 2,604,903	$ 4,167,048	$ 1,119,501	$ 3,047,547
Intellectual property	2,191,856	860,292	1,331,564	2,191,856	579,962	1,611,894
	$ 6,464,519	$ 2,528,052	$ 3,936,467	$ 6,358,904	$ 1,699,463	$ 4,659,441

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
An unlimited number of common shares, without par value			
Balance as at October 31, 2007	56,797,358	$ 17,232,859	$ 1,307,075
Stock-based compensation	-	-	583,834
Balance as at October 31, 2008	56,797,358	17,232,859	1,890,909
Stock-based compensation	-	-	144,545
Shares issued under private placement	14,000,000	420,000	-
Shares issued under offering memorandum	3,659,000	365,900	-
Share issuance costs	-	(75,880)	7,105
Balance as at October 31, 2009	74,456,358	$ 17,942,879	$ 2,042,559

In May 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.

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.

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

Share purchase loan

The Company advanced $32,000 to an officer in connection with the private placement completed in May, 2009 to purchase 1,066,667 common shares. The loan bears interest at 1% per annum and is repayable on the earlier of May 26, 2012 or the date the officer ceases employment.

Escrow shares

Included in issued capital stock at October 31, 2009 are 4,167,000 (2008 - 6,819,750) common shares held in escrow which were subject to time release escrow agreements and will not be released, transferred or assigned without the consent of the regulatory authorities.

Performance escrow shares

Included in issued capital stock and part of the escrow shares mentioned above at October 31, 2009 are 3,472,500 common shares also subject to a performance based release as follows:

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

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

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

Warrants and stock options

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

7. 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, 2007	4,714,500	$ 0.44	-	$ -
Granted	425,000	0.26	-	-
Cancelled/expired	(755,000)	0.54	-	-
Balance outstanding, October 31, 2008	4,384,500	0.41	-	-
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
Exercisable, October 31, 2009	2,312,505	$ 0.39	4,362,467	$ 0.18

The following table summarizes information about the stock options outstanding at October 31, 2009:

	Number of Shares	Exercise Price	Expiry Date
Options	150,000	$ 0.13	March 28, 2010
	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
	100,000	0.12	October 15, 2013
	700,000	0.10	April 28, 2014
	349,500	0.14	June 8, 2014
	534,375	0.14	June 8, 2014
Total	3,658,875		
Warrants	703,467	0.05	May 29, 2010
		then at 0.10	May 29, 2011
	3,659,000	0.20	October 30, 2011
Total	4,362,467		

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

Stock-based compensation

The Company used the Black-Scholes option pricing model to determine the fair value of options granted. During fiscal 2009, the Company granted 1,583,875 (2008 – 425,000) options with a weighted average fair value of $0.12 (2008 - $0.13) per option, which is being recognized over the vesting periods of the options. Total stock-based compensation expensed was $144,545 (2008 – $583,834). 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	2009	2008
Dividend yield	0.00%	0.00%
Expected volatility	110%	89.15%
Risk free interest rate	2.95%	2.86%
Expected life of options	5 years	5 years

8. COMMITMENTS AND CONTINGENCIES

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 royalties 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 orientated advisory services, to support a pre-clinical study to validate and optimize the Company's 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 the Company 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. As of October 31, 2009, the Company has claimed $63,510 of the financial contribution.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2009	2008
Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income taxes	$ -	$ -

Significant non-cash transactions for the year ended October 31, 2009 included:

a) accruing $63,570 (2008 - $Nil) in receivables for a government grant.

b) accruing $12,450 (2008 - $47,126) in patent costs.

c) issuing agents warrants valued at $7,105.

d) accruing share issuance costs of $19,170.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

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

10. RELATED PARTY TRANSACTIONS

During fiscal 2009 the Company paid or accrued $119,411 (2008 - $68,625) in consulting fees and wages to directors, an officer and former officer, and a company controlled by a director.

The Company advanced $32,000 to an officer, with interest due at a rate of 1% per annum. The loan is due on demand and repayable no later then May 26, 2012.

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

11. INCOME TAXES

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

	2009	2008
Loss before income taxes	$ (1,468,361)	$ (2,753,485)
Expected income tax recovery	$ 379,000	$ 870,000
Excess of amortization over capital cost allowance	(186,000)	(255,000)
Other items	(28,000)	(172,000)
Unrecognized benefits of losses	(165,000)	(443,000)
Income tax recovery	$ -	$ -

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

	2009	2008
Future income tax assets:		
Losses available for future periods	$ 2,065,000	$ 2,000,000
Share issuance costs	22,000	18,000
Research and development costs	491,000	511,000
Other items	640,000	476,000
	3,218,000	3,005,000
Less: valuation allowance	(3,218,000)	(3,005,000)
Net future income tax assets	$ -	$ -

11. INCOME TAXES (cont'd…)

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 statements and have been offset by a valuation allowance.

12. SEGMENTED INFORMATION

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

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

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Financial risk factors

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

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at October 31, 2009, the Company had a cash balance of $396,963 (2008 - $461,346) to settle current liabilities of $102,220 (2008 - $120,841). All of the Company's financial liabilities are subject to normal trade terms.

Market risk

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

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

Financial risk factors (cont'd…)

Market risk (cont'd…)

a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The cash balance as at October 31, 2009 of $396,963 includes $100,000 which is held on interest-bearing deposits with banks. A 1% change in interest rates would have an effect of $1,000 on interest income.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars. However management believes the risk is not currently significant as less than 0.1% of the Company's assets and none of its liabilities as at October 31, 2009 are denominated in United States Dollars,

c) Price risk

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

14. CAPITAL MANAGEMENT

The Company'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 as 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 research activities and the prosecution of its intangible assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, and cash.

The intellectual properties in which the Company currently has an interest are in the development stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new sources of financing available and to manage research and administrative expenditures to reflect current financial resources in the interest of sustaining long term viability.

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

15. SUBSEQUENT EVENT

Subsequent to October 31, 2009, the Company completed 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 on additional common share at an exercise price of $0.20 per share for a period of 24 months from the closing date. The Company paid finders' fees of $1,920.