SERNOVA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Three Months Ended January 31, 2011

The following discussion and analysis explains the variations in the consolidated operating results and financial position and cash flows of the Company for the Three Months Ended January 31, 2011 and 2010. This analysis should be read in conjunction with the interim unaudited Consolidated Financial Statements of the Company and related notes enclosed herein as at January 31, 2011. Such interim unaudited Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures are in Canadian dollars unless otherwise indicated. In this report where we say "we", "us", our", or "the Company", we mean Sernova Corp., unless otherwise indicated.

The information in this report is dated as of March 29, 2011.

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.

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.

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.

PERFORMANCE SUMMARY AND UPDATE

In May, 2006 the Company entered into a Joint Venture. The purpose of the Joint Venture is 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 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 on the use of human rather than porcine cells. The Company is also developing an implantable medical device for the effective transplantation and long term survival of therapeutic cells for multiple diseases.

As part of the joint venture agreement, 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. The payment shares

were subject to a 3 year timed escrow agreement. As of the date of this MD&A, all payment shares have been released from escrow.

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.

The Company's efforts and expenditures have been focused on obtaining preclinical data through research to support regulatory approval of clinical (human) trials of the Company's cell and implantable device technologies. The Company is planning to file an Investigational New Drug ("**IND**") or an Investigational Device Exemption ("**IDE**") application with the United States Food and Drug Administration ("**FDA**"), or other relevant regulatory agency once management believes it has enough preclinical safety and efficacy data. The Company's management, in conjunction with its Scientific Advisory Committee and regulatory consultants, periodically review and revises its regulatory approval strategy as needed.

As such, in the meantime, the Company focused on development of its proprietary Cell Pouch™ device for human cell transplantation. If the Company were to undertake clinical study of the Cell Pouch System™ in steps involving assessment of the device using human autografts from patients with chronic pancreatitis who are having a pancreatectomy without the need for immunosuppression agents and/or human islets from donor allografts using the standard care immunosuppression therapy, it is expected that the regulatory requirements may be less onerous from that required for clinical testing of the Sertolin™ technology with porcine tissues. The Company, with input from transplantation scientists and device engineers, has thus focused on the design of this cellular implantation device (Cell Pouch System™) that would be suitable for humans. In addition, the Company manufactured a number of prototypes of the Cell Pouch System™ for preclinical assessment in small and large animal models of diabetes.

The Company is thus evaluating various options involving a tiered entry of its technologies into the clinic and eventual marketplace with additional focus on the use of human islets using the Cell Pouch System™ as a platform technology. To provide more detail, the Cell Pouch™ is a medical device placed under the skin with chambers for therapeutic cell implantation. Plugs fill the chambers while tissue and microvessels fill in around the plug creating a natural tissue environment for cell transplantation. While the Cell Pouch™ may be used for company from a clinical perspective 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 may 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 untreated chronic pain. When the pancreas is removed, the patients will become insulin dependent diabetic because the insulin producing islets which are found in the pancreas are also lost. The Company proposes that the islets from the removed pancreas could be isolated and placed into the Cell Pouch System™ which has been previously placed under the skin of the patient. In this autograft clinical indication, no immunosuppressant drugs or Sertolin™ would be required. The Company has identified a clinical site in the United States where such islets are being infused into the portal vein of the liver as a first cell therapy attempt to treat these patients. Sernova has presented its Cell Pouch™ preclinical data to this investigator who has subsequently joined Sernova's scientific advisory board and a strategy for entry into the clinic has been developed.

To further expand the clinical indications for the Company's technologies the Cell Pouch System™ may be used in patients who are planning on having an allograft transplant as an alternative to injecting islets into the portal vein of the liver which has been hypothesized to result in the death of up to 75% of islets due to an instant blood-mediated inflammatory reaction (IBMIR) and thrombosis among other issues. Such patients would also normally be treated with a cocktail of immunosuppressant drugs to prevent islet rejection. The patients with the Cell Pouch System™ who have had an allograft transplant may be given either immunosuppressant drugs or could be given Sertolin™ from a human source to reduce or eliminate the need for immunosuppressant drugs. Due to the expectation that the Cell Pouch System™ 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 less islet cells per patient than the conventional procedure and thus may be "islet-sparing". All of these options could serve to eventually increase the market share of the Cell Pouch System™.

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 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 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 and stem cells within the Cell Pouch System™.

In addition to the internal research and development activities, the Company plans to seek 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. 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 current immunosuppressive agent protocols including the potential to assess islet health through imaging. It is expected that the Cell Pouch System™ 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™. One or more of these options are expected to be explored under academic collaborations.

The Company has initiated discussions with several key transplant centres in North America with a view to establishing scientific and potential future clinical collaborations to demonstrate proof of concept and commercialize its proprietary technology. One such collaboration with the University of Illinois has been announced. 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 ensuring the highest quality of work to meet the standards of the FDA, Health Canada and the

international scientific community. The Company may also choose to conduct these studies within its research and development department. The Company 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 based on the first indication, transplantation of insulin producing islets to prove the concept of cellular transplantation using the Cell Pouch™.

The small and large animal model studies, and the subsequent proposed Phase I/II human clinical study, may assess the Cell Pouch System™ in an autograft or allograft model of diabetes. The allograft model may involve use of immunosuppressive agents or an immune protective cell type to protect the islets.

On March 2, 2010 the Company entered into a research agreement with the University of Illinois to conduct a study with its proprietary Cell Pouch System™ in non-human primates. The study evaluated the Cell Pouches™ sized for humans which were originally shown to form "organ-like" networks of microvessels and tissue incorporation in small animal and porcine models and represents a key evaluation step towards the initiation of future human clinical trials. Establishing this first collaboration represents a key milestone in the Company's strategy to work closely with leading transplant centers worldwide in assessing the safety and efficacy and eventual proposed commercialization of the Cell Pouch System™.

On March 16, 2010, the Company announced the interim results from the large animal porcine diabetes study. From an efficacy perspective, transplant recipients showed graft function, demonstrated by a reduction in blood glucose and glycemic control (intravenous glucose tolerance test and glucose area under curve ("**AUC**") measures). Following the removal of the transplanted Cell Pouch System™, up to the 72 day time point there was a significant reduction in glucose disappearance rate and glucose AUC indicating the Cell Pouch System™ had been functioning to modulate glucose levels. Importantly a number of animals were insulin-independent following placement of the Cell Pouch™ and islets, meaning that they did not require any insulin injections through the length of the study. Also, functionality was achieved using approximately 5% to 10% of the equivalent number of functional adult islets normally transplanted using the Edmonton Protocol procedure suggesting that the islets are well preserved in the Cell Pouch™. From a safety perspective, no adverse events occurred related to the Cell Pouch System™ throughout the study following implantation of the device. The devices were well-incorporated with collagen and microvessels at all-time points and were not visible under the skin. Quantitative blinded analysis of blood vessel growth showed significant microvasculature development in the pouches at all-time points assessed. Specific differences identified between the device configurations have enabled selection of the final device design.

On April 28, 2010 the Company announced an offering on a non-brokered private placement basis up to 8.0 million units ("The Units") at a price of $0.15 per Unit to raise proceeds of up to $1.2 million. The Company completed the first closing of the offering on April 28, 2010, raising gross proceeds of $405,250 through the issuance of 2,701,666 Units. Proceeds of the offering will be used to fund on-going development, including pre-clinical studies required to support a future Phase I/II clinical study of insulin-dependent diabetes, and for general working capital. Each of the Units 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 first closing, the Company issued 46,923 finders' warrants, valued at $4,064 and paid $7,038 to the finders. Each Finders warrant entitles the holder thereof to purchase one common share at $0.15 per share for a period of 24 months from closing.

On May 26, 2010, the Company announced the appointment of Mr. Stephen Nagler, LLB to the Company's Business Advisory Board. Mr. Nagler is a partner with Eaton Van Winkle LLC of New York, and is a venture partner in Frontier Ventures, an emerging venture capital fund focused on Canadian life sciences companies. Mr. Nagler is also Chair of Tristate Ventures LLC, a leading New York City based angel investor group focused on investments in microcap companies, mostly in healthcare sector.

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, valued at $2,934 and paid $5,082 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 $8,016.

In August 2010 the long-term results of the porcine diabetes study were presented at the XXII International Congress of the Transplant Society in Vancouver, Canada. In addition to the above findings, long-term results were as follows:

1. A number of diabetic animals implanted with the Cell Pouch System™ were insulin independent (did not require insulin injections) for 72 days, the duration of the study, because their blood glucose levels were being controlled by the islets in the Cell Pouch™. The degree of control was related to the quality of the islets placed into the Cell Pouch™ as measured by proprietary means. Thus, the Cell Pouch System™ showed reversal of diabetes in these animals.

2. Devices that were removed at the end of the study were demonstrated to have robust microvessel development into the device and surrounding the islets. Of significant importance, the islet clusters were also embedded in a matrix. These two conditions are very important because they show that the Cell Pouch System™ is creating a natural environment for the islets to survive, long-term.

3. Following removal of the Cell Pouch System™ it was demonstrated that the islets in the device were still producing insulin, indicating that the islets were healthy at the 72 days within the device.

4. Following removal of the Cell Pouches™ with islets, as expected, the animals became diabetic again. This validated that it was the islets in the Cell Pouches™ that controlled the blood glucose levels in the animals making them insulin-dependent.

By the end of October, 2010, the Issuer completed the autograft study of the human-scaled device in preparation for future manufacture, formal preclinical testing and eventual clinical evaluation. This porcine study has helped to define and expand the range of time the device could be placed in the body prior to insertion of cells. It also determined the degree of efficacy and safety of the device in the porcine diabetes model following islet transplant.

Following identification of the ideal parameters of the device, device specifications are set and the product is manufactured under regulatory guidelines (ISO 13485) in preparation for formal preclinical testing including biocompatibility testing, and other tests required prior to entry into clinical trials.

Sernova plans to conduct clinical evaluation of the Cell Pouch™ in a proposed Phase I/II human clinical study, which may assess the safety and efficacy of the Cell Pouch System™ in an autograft

and/or allograft diabetes clinical indication. The allograft study may involve use of immunosuppressive agents and eventually an immune protective cell type as a means to protect the islets within the Cell Pouch™. Evaluation in patients is expected to begin once the Company has completed sufficient preclinical safety and efficacy assessment, contract manufactured the device and received approval from the appropriate hospital ethics review board(s) and government regulatory authorities.

In August 2010, the Company reached an agreement with the National Research Council of Canada Industrial Research Assistance Program under which the Company will receive a non-repayable financial contribution of up to $275,000, along with technical and business oriented advisory services, to support a pre-clinical study to test increasing doses of adult islets (allograft) transplanted into Sernova's cell Pouch System™ in different group of-pigs. The Company is being reimbursed for 97 % of designated salary costs to a maximum of $182,000 and 75% of contractor fees to a maximum of $93,000. This study commenced in August 2010 and is expected to be completed in approximately 12 months.

On October 18, 2010, the Company completed the first closing of a non-brokered private placement offering through the issuance of 3,800,000 units at $0.15 per unit for gross proceeds of $570,000. 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 closing, the Company issued 37,333 finders' warrants, valued at $2,860 and paid $2,800 to the finders. Each Finder's warrant entitles the holder thereof to purchase one common share at $0.20 per share for a period of 24 months from closing.

On November 4, 2010, the Company completed the second closing of 2,866,667 units at $0.15 per unit for gross proceeds of $430,000. 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 21,000 finders' warrants and paid $11,150 to the finders. Each Finder's warrant entitles the holder thereof to purchase one common share at $0.20 per share for a period of 24 months from closing.

Proceeds of the offering in October and November are expected to be used to fund ongoing development of Sernova's proprietary Cell Pouch System™, including cGMP manufacturing, pre-clinical studies required by regulatory authorities to support a future Phase I/II human clinical study of insulin-dependent diabetes, and for general working capital.

On December 7, 2010 completed a non-brokered private placement of 1,400,000 units at a price of $0.16 per unit for gross proceeds of $224,000. Each Unit issued consisted of one common share of the Company and one-half of a 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. There were no share issue costs.

The private placements position the Company with the financial resources to meet several milestones in the coming year as the Company intends to advance the Cell Pouch System™ into human clinical trials. Important milestones include:

Establishing a relationship with an ISO 13485 compliant manufacturer to manufacture the Cell Pouch™

Prepare documentation to support regulatory filings required to begin human clinical trials

Continue to establish relationships with leaders in the medical community by presenting at transplantation conferences

Presenting key results from on-going large animal studies of the Cell Pouch System™ in porcine and non-human primates

Continue establishing collaborative relationships with companies working in the cell therapy field, whereby the Cell Pouch System™ has the potential for a wide range of uses in cell, therapy including the treatment of diabetes, hemophilia, spinal cord injury, Parkinson's disease and other chronic debilitating diseases.

On February 28, 2011 the Company announced positive performance of its proprietary Cell Pouch System™ in a non-human primate study. As a precursor to planned human trials with the device, the study was designed to further investigate the safety profile of the Company's Cell Pouch System™ and its ability to develop a natural environment for therapeutic cells in the primate. In previous large animal studies, the Cell Pouch System™ was demonstrated to become rapidly vascularized and form a hospitable environment for therapeutic cells.

In the current study, a number of Cell Pouches were implanted under the skin of the Cynomolgus monkey in a minimally invasive procedure mimicking the technique to be used in upcoming human trials. In summary:

The Cell Pouches were virtually undetectable under the skin following implantation, which is an important aesthetic characteristic for human use.

The safety profile of the Cell Pouch™ was exemplary throughout the eight week study with no skin irritation, no inflammation and no infections.

At the time of removal, the Cell Pouches™ at all assessment time points (2, 4 and 8 weeks) were well-incorporated with collagen and tissue, had well-established blood supplies and formed intra-pouch cavities suitable for therapeutic cell transplantation.

These key features of the Cell Pouch™ are believed to provide for long-term survival of therapeutic cells demonstrated in the Company's efficacy studies.

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 at the University of Western Ontario. Concurrent with the completion of the private placements, Dr. Toleikis initiated a program to recruit additional members for the Advisory Board in preparation for evolving the Company to a clinical stage company and the following announcements resulted:

On September 21, 2010, Dr. James Shapiro was appointed to the Company's Scientific Advisory Board. Dr. Shapiro is a world renowned transplantation scientist and clinician, and 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.

On October 19, 2010, Dr. David Sutherland was appointed to the Company's Scientific Advisory Board. 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.

On December 16, 2010, Dr. Steven Paraskevas was appointed to the Company's Scientific Advisory Board. 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., Dr. George King, an award winning diabetologist who is the Director of Research and Head of the Vascular Cell Biology Section at Joslin Diabetes Center, and a Professor of Medicine at Harvard Medical School, and Dr. Shinichi Matsumoto, a pancreatic islet transplant expert and Director of the Baylor All Saints Islet Cell Laboratory at the Baylor Research Institute.

Results of Operations

For the Three Months Ended January 31, 2011 the company recorded a loss of $521,656 or $0.01 per share versus a loss of $448,361 or $0.01 per share for the corresponding period last year. During the Three Months Ended January 31, 2011, the company recorded a contribution of $88,004 from the National Research Council towards the costs of its product development, which amount was netted from the research costs, compared to $153,443 for the same period in the prior year.

Other Income for the Three Months Ended January 31, 2011 was $3,672 compared to $256 for the same period in the prior year, an increase of $3,416. The increase in other revenues is principally the result of increase in interest income on the term deposits, following the successful financing activities of the past year and a foreign currency gain of $1,444 compared to a foreign currency loss of $325 in the same period in the prior year.

Amortization of the capital assets and patent assets for the Three Months Ended January 31, 2011 was relatively unchanged year over year and amounted to $212,622 compared to $209,165 for the Three Months Ended January 31, 2010.

Patent fees for the Three Months Ended January 31, 2011 were $30,475 compared to $32,828 for the same period in the prior year. This expense was relatively unchanged year over year.

Research costs for the Three Months Ended January 31, 2011 amounted to a net $113,016 compared to $98,571 for the Three Months Ended January 31, 2010, after recording a contribution of $88,004 from the National Research Council ($153,443 for the Three Months Ended January 31, 2010). This represents an increase of $14,445 or 15%. During this time a revised strategy was put in place 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.

Consulting fees for the Three Months Ended January 31, 2011 were relatively unchanged at $32,132 compared to $30,965 for the same period in the prior year, an increase of $1,167. These fees relate to the provision of investor relations and financial services in both years.

Office, General and Administration expenses for the Three Months Ended January 31, 2011 were $52,056 compared to $30,608 for the same period in the prior year representing an increase of $21,448 or 70%. Significant operating costs for the Three Months Ended January 31, 2011 (defined as individual expense categories of approximately 10% of the total costs) included rent of $7,200, travel expenses of $8,957, and scientific and financial conferences of $13,422. Significant operating costs for the Three Months Ended January 31, 2010 (defined as individual expense categories of

approximately 10% of the total costs) included rent of $7,200, travel expenses of $8,590, shareholder costs of $4,868 and insurance cost of $4,500. The increased costs for the current year reflect the current research and product development activity, investor presentations, building the scientific and product credibility of the Company in the transplantation scientific and medical community and general activity within the Company.

Of the loss recorded for the Three Months Ended January 31, 2011, $57,065 is related to the non-cash expense from stock based compensation ($20,507 for the same period in the prior year) which is explained in Note 5 to the interim unaudited Consolidated Financial Statements. The increase in the expense can be attributed to the additional stock options issued in fiscal 2010.

No provision for income taxes or income tax recovery on either the current year or prior year earnings has been recorded in the Statement of Operations due to the existence of non-capital losses of $4,105,000 in Canada and $2,725,000 operating losses in the United States as at October 31, 2010. In addition, the Company has significant Scientific and Research Expenditure pools of $2,350,000. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependant upon the generation of future taxable income.

Net loss for the Three Months Ended January 31, 2011 was $521,656 compared to a net loss of $448,361 for the same period in the prior year, an increase of $73,295 or 16% in the level of the loss. The significant portion of this change in the loss can be attributed to the increased research and development costs of $14,445, an increase in the office, general and administration costs of $21,448 and the increase in the stock compensation expense of $36,558. Basic and fully diluted loss per share for the Three Months Ended January 31, 2011 was $0.01, compared with the basic and fully diluted loss per share of $0.01 for the Three Months Ended January 31, 2010.

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

SUMMARY OF QUARTERLY RESULTS

		Ist Quarter	2nd Quarter	3rd Quarter	4th Quarter
2009	Net Loss	($278,226)	($384,083)	($342,677)	($463,375)
	Net Loss Per Share	$0.00	($0.01)	($0.01)	$0.00
2010	Net Loss	($448,361)	($425,609)	($478,497)	($493,904)
	Net Loss Per Share	($0.01)	$0.00	($0.01)	($0.01)
2011	Net Loss	($521,656)			
	Net Loss Per Share	($0.01)			

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

CASH FLOWS

Cash flows used by the operating loss for the Three Months Ended January 31, 2011 were $251,969 compared with cash flows used by the operating loss of $218,689 for the same period in the prior year, representing an additional use of cash resources of $33,280 or 15% in the cash used by such operations. This change year over year is the result principally of product development expenditures and an

increase in the office, general and administration costs. It should be noted that that during the Three Months Ended January 31, 2011 the Company recorded a contribution of $88,004 from the National Research Council ($153,443 – 2010), which non-repayable contribution is paying for a significant portion of the product development program, and supplementing the cash resources of the Company.

Cash used by working capital balances for the Three Months Ended January 31, 2010 was $29,971 compared with cash used by working capital of 93,793 for the prior year. The change in the Three Months Ended January 31, 2011 arose principally from an increase in amounts receivable of $31,925 due under the grant from the National Research Council, a reduction of $24,000 in subscription receivables and a reduction in accrued liabilities in the period of $7,238 as management settled the current liabilities as at October 31, 2010. The change in the Three Months Ended January 31, 2010 arose principally from an increase in amounts receivable of $46,316 due under the grant from the National Research Council and a reduction in accrued liabilities in the period of $51,964as management settled the current liabilities as at October 31, 2009.

Regarding financing activities, the company received $640,995 in net proceeds from the issuance of share capital in the Three Months Ended January 31, 2011 as fully described under the balance sheet section. Regarding financing activities, the company received $127,933 in net proceeds from the issuance of 1,341,000 units at $0.10 per unit in the Three Months Ended January 31, 2010.

With respect to investing activities, the only activity was cash invested in patents and trademarks which amounted to $24,775 for the Three Months Ended January 31, 2011 compared to $15,549 for the same period in the prior year.

Accordingly, as a result of all these activities, cash resources increased by $334,280 for the Three Months Ended January 31, 2011 compared to cash resources that were reduced by a net $200,098 for the Three Months Ended January 31, 2010.

LIQUIDITY AND CAPITAL RESOURCES

In the Three Months Ended January 31, 2011, the Company has experienced an increase in working capital of $344,051 compared to a reduction of $106,305 for the Three Months Ended January 31, 2010, and accordingly as at January 31, 2011 had working capital of $1,079,713. Management will continue to explore opportunities to raise additional capital and other funds, and to find collaborative partners for the commercialization of its technologies. Proceeds of the offering in November and December will be used to fund ongoing development of Sernova's proprietary Cell Pouch System™, including cGMP manufacturing, pre-clinical studies required by regulatory authorities to support a future Phase I/II human clinical study of insulin-dependent diabetes, and for general working capital.

As at January 31, 2011, the Company had recorded a cumulative contribution of $144,083 of the non-repayable grant of $275,000, leaving the balance of $130,917 to be claimed in the period to August 15, 2011. The Company will be reimbursed for 97% of designated salary costs and 75% of contractor fees.

There are no significant commitments for equipment. Management will manage the investing activities related to patent and trademarks in light of the current cash resources and in the Three Months Ended January 31, 2011 invested $24,775 compared to $15,549 for the same period in the prior year.

The Company is committed to monthly payments of 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, 2010 compared $7,200 expense for the same period last year.

As at January 31, 2011, the Company had cash of $1,069,422 compared to $735,142 as at October 31, 2010. However, the Company has grants receivable of $93,212 as at January 31, 2011 which will provide additional cash resources to meet the cost of its programs in the near future. 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, 2011.

GOING CONCERN

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

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

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

BALANCE SHEET

Total assets as at January 31, 2011 were $4,203,652 compared with $4,034,486 at the end of the Company's last year end, representing an increase of 4% or $169,166. Substantially all of the increase is accounted for by the additional cash resources on hand following the issue of share capital in the Three Months Ended January 31, 2011, which increase was offset by the amortization of the intangible assets.

Total current assets of $1,216,472 have increased from the balance of $879,659 as at October 31, 2010, and reflect the additional cash resources secured from financing activities in the three months offset by the use of such resources to cover operations and to invest in intangible assets.

The net book value of equipment of $4,778 in the Company remains relatively unchanged from the balance as at October 31, 2010 and reflects the decision of management not to invest in new additions, and the change in value can be attributed to the amortization of such assets.

The net book value of patents and trademarks as at January 31, 2011 declined to $2,982,402 from $3,149,366 as at the end of the prior year. Additions in the Three Months Ended January 31, 2011 amounted to $44,975 ($15,549 in the prior year) and amortization of $211,939 for the same period

accounted for the decrease in net book value. Amortization in the Three Months Ended January 31, 2010 amounted to $207,183.

Accounts payable and accrued liabilities were $136,759 at the January 31, 2011 compared to $143,997 as at October 31, 2010, a decrease of $7,238. The decrease is the result of timing of receipt and settlement of contractor 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, 2011 will be settled in the second quarter of the fiscal year.

In the Three Months ended January 31, 2010, the Company completed a private placement of units, raising gross proceeds of $134,100 through the issuance of 1,341,000 units at a price of $0.10 per unit, with each unit consisting of one common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share at a price of $0.20 per share for a period of two years from the date of issuance. Net proceeds received amount to $127,933.

On November 4, 2010, the Company completed a second closing of a non-brokered private placement of 2,866,667 units at $0.15 per unit for gross proceeds of $430,000. Each unit consisted of one common share of the Company and one-half of a 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 $11,150 to finders and issued 21,000 finder warrants, valued at $1,450.

On December 7, 2010, the Company completed a non-brokered private placement of 1,400,000 units at a price of $0.16 per unit raising gross proceeds of $224,000. Each unit consisted of one common share of the Company and one-half of a 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.

There were no changes in stock options for the Three Months Ended January 31, 2011 and 2010.

Accordingly, there are 5,983,458 options outstanding to employees, consultants, officers and directors as at January 31, 2011 and October 31, 2010. 585,000 stock options expired on March 20, 2011, leaving a balance of 5,398,458 options as of the date of this report.

During the Three Months Ended January 31, 2010, the Company issued 1,341,000 share purchase warrants in connection with the private placement. Accordingly the Company had 5,703,467 outstanding warrants as at January 31, 2010 compared to 4,362,467 as at October 31, 2009.

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 proceeds of $3,000.

Details of the warrants and stock options are detailed in Note 5 to the interim unaudited Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

During the Three Months Ended January 31, 2011 the Company paid $18,750 (2010- $18,750) in consulting fees for the services of the Chief Financial Officer, paid to a company controlled by the officer.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Amounts due to related parties are non-interest bearing, unsecured and have no specific repayment terms.

PROPOSED TRANSACTIONS

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

NEW ACCOUNTING PRONOUNCEMENTS

Changes 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 for the year Ended October 31, 2011.

Management has completed phase one, IFRS Scoping phase, and is now advancing through phase two, the Planning stage. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position. Management is working towards policy choices by quarter three of the current 2011 fiscal year.

Management will also consider the impact of IFRS on the following aspects of its business:

. Adequacy of information systems
. Impact on internal controls
. Financial reporting expertise

The Company intends to take the following steps to prepare for the transition:

. Implement employee training on the new IFRS standards. Training efforts will primarily focus on educating those individuals, whose roles and responsibilities will be directly impacted by the changes. The Company will also be working with the audit committee of the board of directors to provide awareness of IFRS and guidance as to the potential impact of the changes on its consolidated financial statement and accounting practices.

. Assessing the accounting and reporting differences between IFRS and GAAP, selecting the appropriate IFRS accounting policies and development of IFRS financial formats. Management will develop a checklist of financial and reporting items which will be affected by IFRS reporting standards.

. Assessing the implications of IFRS on its internal systems and processes including documentation and internal controls.

. Assessing the implications of IFRS on all other areas of its business, including contractual arrangements with its consultants, collaborations and third party contracts.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time.

IFRS 1, “First-Time Adoption of International Financial Reporting Standards”, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. During the second quarter of 2011, management will prepare a presentation to the Audit Committee and the Board of Directors which will focus on the key issues and transitional choices under IFRS 1 applicable to the Company.

Our adoption of IFRS will be impacted by our IFRS 1 elections and by ongoing policy choices. IFRS 1 sets out procedures that we must follow when we prepare our consolidated financial statements for the first time after adopting IFRS. The IFRS 1 elections we expect to make upon transition are summarized below; these elections may change pending further development in IFRS during our transition year.

We have also determined that our critical accounting policies under IFRS will be the same as those under Canadian GAAP.

Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company’s consolidated financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company’s consolidated financial statements can only be measured once all the IFRS accounting

standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

Impairment of Assets

Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with discounted cash flows. International Accounting Standard (IAS) 36, "Impairment of Assets" uses a one-step approach for both testing and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in write downs where the carrying value of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.

Share Based Payments

IFRS and Canadian GAAP largely converge on the accounting treatment for share – based transactions with only a few differences.

Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the straight line method. IFRS 2, on the other hand, allows only the accelerated method.

Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized was they occur.

Upon adoption of IFRS, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition.

Future Income Taxes

Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

IFRS prohibits recognition where deferred income taxes arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting nor taxable net earnings. The Company expects the impact of implementing IAS 12, Income Taxes to not have an impact on the financial statements. However, as events and circumstances of the Company's operations change that give rise to future income taxes, IAS 12 will be applied.

As the Company elects and approves the IFRS accounting policy for each of the areas above, management will determine and disclose impact of the IFRS adoption at the transition date on our financial statements. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable accounting standards at the conversion date are known.

In the period leading up to the changeover in 2011, the AcSB has ongoing projects and intends to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the IFRS accounting standards at the conversion date are known. Management will continue to review new standards, as well as the impact of the new accounting standards, between now and the conversion date to ensure all relevant changes are addressed.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at date of this report, the Company has 88,050,491 common shares issued and outstanding.

The Company also has a total of 5,983,458 outstanding stock options outstanding as at January 31, 2011 (January 31, 2010 – 3,658,875). Details of the number of such options, the exercise price and the expiry dates are outlined in Note 5 to the interim unaudited Consolidated Financial Statements. Of this total, 3,664,916 are exercisable as at January 31, 2011 compared to 3,101,922 as at October 31, 2010. On March 20, 2011, 585,000 stock options expired and as of the date of this report, the Company had 5,398,458 outstanding stock options.

The Company has 11,249,170 common share purchase warrants outstanding as at January 31, 2011 compared to 9,124,836 as at October 31, 2010. There were 5,703,467 outstanding warrants as at January 31, 2010. Subsequent to January 31, 2011, 223,467 agents' warrants were exercised although the common shares have not yet been issued as of the date of this report. After such shares have been issued, there will be 11,205,703 common share purchase warrants outstanding.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, short term investments, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted. The Company is subject to any significant financial risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates. (refer to Note 12 in the interim unaudited Consolidated Financial Statements).

RISKS AND UNCERTAINTIES

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

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

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

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

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

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

The Company maintains a set of disclosure controls and procedures designed to ensure that the information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of October 31, 2010 and in the Three Months Ended January 31, 2011, and concluded that the current disclosure controls and procedures are effective.

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

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

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

There are no changes to the critical accounting estimates as a result of the current market conditions that require any special disclosure at this time. Amounts included in the current assets are deemed collectible and do not require adjustment and management is comfortable as to the recoverability of the long term assets as at January 31, 2011.

There have been no significant changes to the Company’s internal control environment during the Three Months Ended January 31, 2011 and subsequent to that date that would have materially effected the Company’s internal controls over financial reporting.