Sernova Corp.

Condensed Consolidated Interim Financial Statements
For the Three and Nine Months Ended July 31, 2012

TO OUR SHAREHOLDERS

The accompanying unaudited Condensed Consolidated Interim Financial Statements of Sernova Corp. (The "Company") have been prepared by, and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of this interim consolidated financial report in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Sernova Corp.
Condensed Consolidated Interim Statement of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Note	As at July 31, 2012	As at October 31, 2011
ASSETS		$	$
CURRENT ASSETS			
Cash		163,519	309,991
Short-term investments	4	4,596,911	1,208,119
Accounts receivable	5	38,633	59,108
Prepaid expenses		82,385	14,889
Total current assets		4,881,448	1,592,107
NON-CURRENT ASSETS			
Property and equipment, net	6	6,421	6,498
Intangible assets, net	7	1,901,468	2,378,786
Total non-current assets		1,907,889	2,385,284
Total assets		6,789,337	3,977,391
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	128,592	119,067
Total current liabilities		128,592	119,067
EQUITY			
Share capital	9	24,761,758	20,811,715
Warrants	9	648,281	137,466
Contributed surplus		2,605,621	2,385,762
Deficit		(21,354,915)	(19,476,619)
Total equity		6,660,745	3,858,324
Total liabilities and equity		6,789,337	3,977,391

Basis of measurement and going concern (Note 2 (a))

Approved by the Board and authorized for issue on September 20, 2012

Signed "Dr. George Adams", Director   Signed "Dr. Philip Toleikis", Director

See accompanying notes to the unaudited condensed consolidated interim financial statements

Sernova Corp.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Note	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	Nine Months Ended July 31, 2012	Nine Months Ended July 31, 2011
		$	$	$	$
EXPENSES					
Research and development	11	388,501	317,154	1,369,301	1,208,743
General and administrative	11	200,266	105,921	533,669	359,360
		588,767	423,075	1,902,970	1,568,103
Finance income	12	(14,802)	(297)	(26,881)	(6,275)
Finance costs	12	524	442	2,207	1,448
		(14,278)	145	(24,674)	(4,827)
Loss and comprehensive loss for the period		574,489	423,220	1,878,296	1,563,276
Weighted average number of common shares		115,944,876	86,957,472	104,255,363	85,183,543
Basic and Diluted Loss per Common Share		(0.00)	(0.00)	(0.02)	(0.02)

See accompanying notes to the unaudited condensed consolidated interim financial statements

Sernova Corp.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Note	Nine Months Ended July 31 2012	Nine Months Ended July 31, 2011
		$	$
CASH PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES			
Net loss for the period		(1,878,296)	(1,563,276)
Items Not Requiring a Current Outlay of Cash:			
Depreciation of property & equipment		1,864	2,014
Accrual of government contribution	15	-	(51,719)
Patent licence and intellectual property amortization		516,860	646,645
Share-based compensation		247,825	199,925
Interest accrued on short-term investments		(26,881)	(3,007)
		(1,138,628)	(769,418)
Changes in Non-Cash Working Capital Balances			
Accounts receivable		20,475	80,819
Prepaid expenses		(67,496)	24,216
Accounts payable and accrued liabilities		8,575	(61,048)
Changes in Working Capital Balances		(38,446)	43,987
Net Cash Used by Operating Activities		(1,177,074)	(725,431)
INVESTING ACTIVITIES			
Short-term investments, net		(3,361,911)	(1,398,465)
Property and equipment		(1,787)	(2,250)
Patent licences	7 and 15	(38,592)	(77,890)
Net Cash Used by Investing Activities		(3,402,290)	(1,478,605)
FINANCING ACTIVITIES			
Issue of share capital (net of share issuance costs)	9 and 15	3,061,347	1,495,884
Issue of warrants	9	523,488	-
Issue of share capital on exercise of warrants	9	811,582	27,048
Issue of share capital on exercise of stock options	9	36,475	-
Net Cash Provided by Financing Activities		4,432,892	1,522,932
(DECREASE) IN CASH DURING THE PERIOD		(146,472)	(681,104)
Cash, Beginning of Period		309,991	735,142
Cash, End of Period		163,519	54,038
Income taxes paid		Nil	Nil
Interest Paid		Nil	Nil

See accompanying notes to the unaudited condensed consolidated interim financial statements

Sernova Corp.
Condensed Consolidated Interim Statements of Changes In Equity
(Unaudited)
(Expressed in Canadian dollars)

	Share Capital	(note 9)	Warrants	(note 9)	Contributed		
	Shares	Amount	Number	Amount	Surplus	Deficit	Total
	#	$	#	$	$	$	$
Balance, October 31, 2011	95,147,277	20,811,715	18,148,639	137,466	2,385,762	(19,476,619)	3,858,324
Net loss and comprehensive loss for the period	-	-	-	-	-	(1,878,296)	(1,878,296)
Issue of share capital on exercise of warrants	4,075,277	818,580	(4,075,277)	(6,998)	-	-	811,582
Expiry of warrants	-	-	(3,101,419)	-	-	-	-
Issue of share capital	20,127,322	3,100,630	20,127,332	523,488	-	-	3,624,118
Share issuance costs	-	(33,608)	-	(5,675)	-	-	(39,283)
Issue of share capital on exercise of stock options	273,750	64,441	-	-	(27,966)	-	36,475
Share-based compensation	-	-	-	-	247,825	-	247,825
Balance, July 31, 2012	119,623,626	24,761,758	31,099,275	648,281	2,605,621	(21,354,915)	6,660,745

	Share Capital	(note 9)	Warrants	(note 9)	Contributed		
	Shares	Amount	Number	Amount	Surplus	Deficit	Total
	#	$	#	$	$	$	$
Balance, November 1, 2010	83,753,824	19,160,911	9,124,836	12,418	2,165,501	(17,448,341)	3,890,489
Net loss and comprehensive loss for the period	-	-		-	-	(1,563,276)	(1,563,276)
Issue of share capital on exercise of warrants	264,807	29,607	(264,807)	(2,559)	-	-	27,048
Issue of share capital	9,604,581	1,668,204	7,471,248	-	-	-	1,668,204
Share issuance costs	-	(188,270)	216,950	15,950	-	-	(172,320)
Share-based compensation	-	-	-	-	199,924	-	199,924
Balance, July 31, 2011	93,623,212	20,670,452	16,548,227	25,809	2,365,425	(19,011,617)	4,050,069

See accompanying notes to the unaudited condensed consolidated interim financial statements

1. CORPORATE PROFILE

Sernova Corp. (formerly Pheromone Sciences 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.

On September 20, 2006, Pheromone Sciences Corp. changed its name to Sernova Corp.

The Company's head office is located at 700 Collip Circle, Suite 114, London, Ontario, N6G 4X8. The Company's registered address is located at Suite 1500 – 1055 West Georgia Street, Vancouver, British Columbia, V6E 2N7.

In fiscal 2006, the Company acquired a sublicense to certain patent licences and intellectual property (note 7) and a subsidiary, Sertonex Inc. ("Sertonex"), and became engaged in the research and development of a treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells placed into implanted prevascularized medical devices. The Company is currently focused on the clinical evaluation of the Cell Pouch™ for insulin-dependent diabetes.

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

2. BASIS OF PRESENTATION

(a) Basis of measurement and going concern

These condensed consolidated interim financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop and sustain profitable operations and to continue to raise adequate financing. The Company reported a consolidated net loss of $1,878,296 for the Nine Months Ended July 31, 2012 and has working capital of $4,752,856 and an accumulated deficit of $21,354,915 as at July 31, 2012. Management is actively targeting sources of additional financing and collaborative partners which would assure continuation of the Company's operations and research and product development programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. While the Company has been successful in obtaining the required financing in the past there can be no assurance that the Company will be able to continue to raise funds. These material uncertainties may cast significant doubt about the Company's ability to continue as a going-concern. These condensed consolidated interim financial statements do not include adjustments to the carrying value and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going-concern and such adjustments could be material.

(b) **Statement of compliance**

For all periods up to and including the year ended October 31, 2011, the Company presented its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The condensed consolidated interim financial statements for the Three Months Ended January 31, 2012 were the first the Company has prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 18. This note includes reconciliations of equity and total comprehensive loss to IFRS for comparative periods previously reported under Canadian GAAP.

These condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting and IFRS 1 First-time Adoption of IFRS. The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since our last fiscal year end and are not fully inclusive of all matters required to be disclosed in our annual audited consolidated financial statements. Accordingly, these consolidated financial statements should be read in conjunction with our most recent annual audited consolidated financial statements.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and in effect as of September 20, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS or their interpretation, that are given effect in the Company's annual consolidated financial statements for the year ended October 31, 2012 could result in restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on change-over to IFRS.

(c) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. The estimates and related assumptions are based upon previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making the assumptions about carrying value of assets and liabilities that are not readily apparent from other sources.

Information about critical judgments in applying accounting policies and assumption and estimation uncertainties that have the most significant effect on the amounts recognized in the consolidated financial statements includes the assumptions and model used to estimate share-based compensation and the valuation of warrants (note 9), the measurement and period of use of intangible assets (note 7), the estimation of accruals for research and development contracts, and the measurement of the amount and assessment of the recoverability of income tax assets.

Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's principal accounting policies were outlined in the Company's consolidated financial statements for the Three Months Ended January 31, 2012 and have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position as at November 1, 2010, for the purposes of transition. These statements should be read in conjunction with the consolidated financial statements for the Three Months Ended January 31, 2012.

New standards and interpretations not yet effective

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

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

IAS 12 *Income Taxes*

In December 2010, the IASB amended IAS 12 for the recovery of underlying assets measured at fair value and the impact on deferred taxes. The amendments provide a solution to the problem of assessing whether recovery would be through use or through sale when the asset is measured at fair value under IAS 40 *Investment Property,* by adding the presumption that the recovery would normally be through sale. The amendment also incorporates the remaining guidance in SIC-*21 Income Taxes – Recovery of revalued Non-depreciable Assets*, as SIC-21 has been withdrawn. The effective date of the amendment is for annual periods beginning on or after January 1, 2012. The Company does not expect the amendment to have a material impact on the financial statements.

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

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

IFRS 9, *Financial Instruments*

Financial Instruments' is the first of three phases of the IASB's wider project to replace IAS 39, *Financial instruments: Recognition and Measurement.* IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets, amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on November 1, 2015. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it currently holds.

IFRS 10, *Consolidated Financial Statements*

The amendment establishes a single control model that applies to all entities. IFRS 10 replaces the consolidation requirements in SIC-12, *Consolidation – Special Purposes Entities, and IAS 27, Consolidated and Separate Financial Statements.* These changes will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated by a parent, as compared with the former requirements. The amendment becomes effective for annual periods beginning on or after January 1, 2013, and is required to be applied retroactively.

(Expressed in Canadian Dollars unless otherwise noted)

New standards and interpretations not yet effective (cont'd)

IFRS 12, *Disclosure of involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27, *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31, *Investment in Associates.* These disclosures requirements relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 13, *Fair Value Measurement*

In May 2011, the IASB published IFRS 13 *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual periods beginning on November 1, 2013 and does not expect IFRS 13 to have a material impact on its financial statements.

4. SHORT-TERM INVESTMENTS

As at July 31, 2012 the Company held cash reserves which have been placed in a number of short-term investments in the principal amount of $4,575,000 with maturity dates ranging from July 2014 to July 2015, together with accrued interest to date of $21,911. While the deposits have a maximum three year term, the liquidity of the short-term investments is restricted in the second and third years, and the Company intends to manage such restrictions on liquidity and accordingly the deposits are classified as current assets. These deposits are cashable with 1 day of notice on the 15th of each month, bear interest at 1.15% per annum for the first year, with interest compounding annually.

5. ACCOUNTS RECEIVABLE

	As at July 31, 2012 $	As at October 31, 2011 $
Government Contribution Receivable	-	17,131
Subscription Receivable	-	1,500
Sales Tax and Investment Tax Credit Receivable	38,633	40,477
	38,633	59,108

(Expressed in Canadian Dollars unless otherwise noted)

5. ACCOUNTS RECEIVABLE (cont'd...)

The Company is eligible for both federal and provincial investment tax credits on its qualifying research activities. Federal investment tax credits are not refundable but can be used to reduce income taxes otherwise payable. Provincial investment tax credits are refundable as cash refunds and these amounts are recorded as an asset in the period in which the related expenditures are incurred, with a corresponding credit to research and development expense. The amounts are recorded as receivable when the income tax returns are filed but are subject to a government tax audit and the final amounts received may differ from those recorded. There are no unfulfilled conditions or contingencies associated with the government assistance received.

6. PROPERTY AND EQUIPMENT

	Computer Equipment $
Cost	
Balance, November 1, 2010	10,732
Additions	4,238
Balance , October 31, 2011	14,970
Additions	1,787
Balance, July 31, 2012	16,757
Accumulated depreciation	
Balance, November 1, 2010	5,271
Depreciation for the year	3,201
Balance, October 31, 2011	8,472
Depreciation for the period	1,864
Balance, July 31, 2012	10,336
Net carrying amounts	
November 1, 2010	5,461
October 31, 2011	6,498
July 31, 2012	6,421

(Expressed in Canadian Dollars unless otherwise noted)

7. INTANGIBLE ASSETS

	Patent licenses $	Intellectual property $	Total $
Cost			
Balance, November 1, 2010	4,332,480	2,191,856	6,524,336
Additions	99,823	-	99,823
Balance , October 31, 2011	4,432,303	2,191,856	6,624,159
Additions	39,542	-	39,542
Balance, July 31, 2012	4,471,845	2,191,856	6,663,701
Accumulated amortization			
Balance, November 1, 2010	2,234,348	1,140,622	3,374,970
Amortization for the year	590,073	280,330	870,403
Balance, October 31, 2011	2,824,421	1,420,952	4,245,373
Amortization for the period	351,666	165,194	516,860
Balance, July 31, 2012	3,176,087	1,586,146	4,762,233
Net carrying amounts			
November 1, 2010	2,098,132	1,051,234	3,149,366
October 31, 2011	1,607,882	770,904	2,378,786
July 31, 2012	1,295,758	605,710	1,901,468

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at July 31, 2012 $	As at October 31, 2011 $
Accounts Payable	42,618	40,089
Accrued Liabilities	85,974	56,515
Investment Tax Credit Refund Payable	-	22,463
	128,592	119,067

9. SHARE CAPITAL

Authorized

Unlimited number of common shares, without par value

Summary of financings and warrant activity

In November, 2010, the Company completed a private placement of 2,866,667 units at a price of $0.15 per unit for gross proceeds of $430,000. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share for a period of two years at an exercise price of $0.20 per share. The Company granted 21,000 warrants valued at $1,450 and paid $11,150 as finders' fees. Each warrant entitles the holder to purchase one common share at $0.20 per share for a period of two years from closing. The Company also paid other closing costs of $10,340 in connection with the private placement.

In December, 2010, the Company completed a private placement of 1,400,000 units at a price of $0.16 per unit for gross proceeds of $224,000. Each unit consisted of one common share of the Company and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share for a period of two years at an exercise price of $0.20 per share.

In June, 2011, the Company completed a brokered private placement of 5,337,914 units at a price of $0.19 per unit for gross proceeds of $1,014,204. 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 for a period of two years, at an exercise price of $0.20 per share in the first year and at a price of $0.35 per share in the second year. The Company granted 195,950 broker warrants valued at $14,500 and paid $54,693 as finders' fees. Each warrant entitles the holder to purchase one common share at $0.19 per share for a period of 18 months from closing. The Company also paid other closing costs of $125,915 in connection with the private placement.

As part of the brokered private placement in June 2011, the Company issued 5,337,914 warrants which warrants were ascribed a value of $106,758 representing the difference between the issue price of the Unit and the fair market value of the shares at that time received as part of the offering.

In September, 2011, the Company completed a non-brokered private placement of 1,510,002 units of the Company at a price of $0.19 per unit for gross proceeds of $286,900. Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of two years at a price of $0.20 per share in the first year and at a price of $0.35 per share in the second year. The Company granted 90,410 warrants valued at $4,900 and paid $17,328 as finders' fees. Each warrant entitles the holder to purchase one common share at $0.19 per share for a period of 18 months from the date of closing.

In February 2012, the Company completed the first tranche of a non-brokered private placement of 19,395,110 units of the Company at a price of $0.18 per unit for gross proceeds of $3,491,118. Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share for a period of three years, at a price of $0.20 per share in the first year and at a price of $0.35 per share in the second and third years. The warrants were ascribed a value of $484,877 representing the difference between the issue price of the Unit and the fair market value of the shares at that time received as part of the offering.

9. SHARE CAPITAL (cont'd...)

In March 2012, the Company completed the second tranche of a non-brokered private placement of 772,222 units of the Company at a price of $0.18 per unit for gross proceeds of $139,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for a period of three years, at a price of $0.20 per share in the first year and at a price of $0.35 per share in the second and third years. The warrants were ascribed a value of $38,611 representing the difference between the issue price of the Unit and the fair market value of the shares at that time received as part of the offering.

The Company paid no finders' fees on the private placements in February and March 2012 but incurred other closing costs of $39,283 in connection with these closings.

Performance escrow shares

Included in issued capital stock and representing escrow shares as at July 31, 2012 are 3,472,500 common shares which will not be released, transferred or assigned without the consent of the regulatory authorities, and which shares are subject to performance-based release terms as follows:

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

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

Warrants

During the Nine Months Ended July 31, 2012, the Company issued 20,127,332 common share purchase warrants with an ascribed value of $523,488.

During the Nine Months Ended July 31, 2012, 4,005,814 warrants were exercised at an exercise price of $0.20 per share together with 69,463 finders' warrants at an exercise price of $0.15 per share for gross proceeds of $811,582. A total of 5,005,416 common share purchase and finders' warrants were due to expire by April 30, 2012 of which 3,505,397 were exercised and accordingly the balance of 1,500,019 warrants expired. An additional 1,341,000 common share purchase warrants expired in December 2011. A total of 536,280 common share purchase and finders' warrants were due to expire by June 4, 2012 of which 275,880 were exercised and the balance of 260,400 expired.

During the Nine Months Ended July 31, 2011, the Company issued 7,471,248 common share purchase warrants valued at $0, 195,950 Broker warrants, valued at $14,500, and 21,000 finder's warrants, valued at $1,450.

During the Nine Months Ended July 31, 2011, 264,807 agents' and finder's warrants were exercised at an average exercise price of $0.10 per common share for gross proceeds of $27,048.

(Expressed in Canadian Dollars unless otherwise noted)

9. SHARE CAPITAL (cont'd...)

The following table summarizes information about the warrants outstanding as at July 31, 2012:

Number of Warrants	Exercise Price	Expiry Date
1,900,000	$0.20	October 18, 2012
37,333	$0.20	October 18, 2012
1,433,334	$0.20	November 3, 2012
21,000	$0.20	November 3, 2012
700,000	$0.20	December 5, 2012
195,950	$0.19	December 24, 2012
90,410	$0.19	March 1, 2013
5,043,914	$0.35	June 24, 2013
1,510,002	$0.20	September 1, 2012
	then at $0.35	September 1, 2013
19,395,110	$0.20	February 28, 2013
	then at $0.35	February 28, 2015
772,222	$0.20	March 30,2013
	then at $0.35	March 30, 2015
31,099,275		

The fair value of all of the compensatory warrants was determined using the Black- Scholes option pricing model with the following weighted-average assumptions:

Period Ended July 31	2012	2011
Dividend yield	n/a	0%
Expected volatility	n/a	90%
Risk free interest rate	n/a	2.5%
Expected life of warrants	n/a	2 years

(Expressed in Canadian Dollars unless otherwise noted)

9. SHARE CAPITAL (cont'd...)

All warrants are exercisable on issuance. A summary of the status of warrants outstanding as at July 31 and changes during the nine month periods then ended is summarized below:

	2012		2011	
	Number of warrants	Weighted Average Exercise Price $	Number of warrants	Weighted Average Exercise Price $
Balance outstanding, beginning of period	18,148,639	$0.20	9,124,836	$0.20
Issued	20,127,332	$0.20	7,688,198	$0.20
Exercised	(4,075,277)	$0.20	(264,807)	$0.10
Expired	(3,101,419)	$0.20	-	-
Balance outstanding, end of period	31,099,275	$0.20	16,548,227	$0.20

Employee stock option plan

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company. The current terms of the Plan, approved by the Company shareholders on April 19, 2012, provides that the maximum number of common shares available for issuance under the plan does not exceed 10% of the Company's issued and outstanding shares at any time. Most options granted have lives of five years from the date of the grant. The vesting schedule of all granted options is determined at the discretion of the Board. The exercise price of the option must not be less than the closing price of the Company's common shares on the TSX Venture exchange on the trading day immediately proceeding the date the option is granted.

There have been no cancellations or modifications to the Plan during the periods presented.

During the Nine Months Ended July 31, 2012, the Company granted 4,207,918 stock options to directors, officers, employees and consultants at exercise prices ranging from $0.14 per share to $0.19 per share, with expiry dates ranging from March 2014 to April 2017. The weighted average grant-date fair value of the stock options granted during the Nine Months Ended July 31, 2012 was $0.10 (2011- N/A).

Share-based compensation expense was determined based on the fair value of the options at the date of measurement using the Black-Scholes option pricing model with the following weighted-average assumptions:

Period Ended July 31	2012	2011
Dividend yield	0%	n/a
Expected volatility	89%	n/a
Risk free interest rate	1.30%	n/a
Expected forfeiture rate	nil	n/a
Expected option life	4.75 years	n/a

(Expressed in Canadian Dollars unless otherwise noted)

9. SHARE CAPITAL (cont'd...)

The Black-Scholes model used by the Company to calculate option values was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock options awards. This model also requires highly subjective assumptions, including future stock price volatility, average option life and forfeiture rates which greatly impact the calculated values.

The risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon issued with a remaining term equal to the expected term of the option. The volatility is based solely on historical volatility equal to the expected life of the option. The life of the option is estimated considering the vesting period at the grant date, the life of the option and the average length of time similar grants have remained outstanding in the past. The forfeiture rate has been assigned a zero rate and is an estimate based on history of the Company stock options. The dividend yield has been assigned a zero value since it is the present policy of the Company to retain all earnings to finance operations and future growth.

As at July 31, 2012 there were 8,001,376 options outstanding representing 6.7% of the Company's issued common shares.

The expense recognized for employee services received during the Three and Nine Months Ended July 31, 2012, which is included in the respective function line within the consolidated statement of net loss and comprehensive loss is $176,194 and $247,825 respectively ($36,767 and $199,924 for the Three and Nine Months Ended July 31, 2011). The Company has assumed a zero percent forfeiture rate and adjustments for actual forfeitures are recorded in the period they occur.

The weighted average remaining contractual life for the stock options outstanding as at July 31, 2012 was 3.52 years (2011- 2.45 years).The range of exercise prices for the options outstanding as at July 31, 2012 was $0.10 to $0.30 (2011 - $0.10 to $1.00).

During the Nine Months Ended July 31, 2012, 273,750 stock options were exercised at an average price of $0.13 per share for gross proceeds of $36,475. No stock options were exercised in the same period for the prior year.

A summary of the status of the Plan as at July 31 and changes during the nine month periods then ended is summarized below:

	2012		2011	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance outstanding, beginning of period	4,597,208	$0.20	5,983,458	$0.29
Granted	4,207,918	$0.17	-	-
Exercised	(273,750)	$0.13	-	-
Expired	(530,000)	$0.64	(585,000)	$0.40
Balance outstanding, end of period	8,001,376	$0.16	5,398,458	$0.22
Options Exercisable, end of period	4,921,311	$0.15	4,145,905	$0.24

(Expressed in Canadian Dollars unless otherwise noted)

10. RELATED PARTY TRANSACTIONS

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

Amounts due to related parties, including amounts due to key management personnel, at the period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

The following transactions in which the directors had an interest occurred for the periods noted below:

	Three Months Ended July 31, 2012 $	Three Months Ended July 31, 2011 $	Nine Months Ended July 31, 2012 $	Nine Months Ended July 31, 2011 $
Consulting fees	0	0	0	0
Director fees	0	0	0	0
Share-based compensation	72,868	8,312	82,946	54,167
Total expense	72,868	8,312	82,946	54,167

Compensation for key management personnel of the Company, other than directors, for the periods noted below was as follows:

	Three Months Ended July 31, 2012 $	Three Months Ended July 31, 2011 $	Nine Months Ended July 31, 2012 $	Nine Months Ended July 31, 2011 $
Salaries and fees	79,125	70,625	226,625	198,125
Benefits	8,791	8,539	27,394	28,881
Share-based compensation	46,680	15,014	65,501	72,453
Total expense	134,596	94,178	319,520	299,459

(Expressed in Canadian Dollars unless otherwise noted)

10. RELATED PARTY TRANSACTIONS (Cont'd)

Key management personnel control 2.4% of the issued common shares of the Company as at July 31, 2012.

Stock options held by key management personnel have the following expiry dates and exercise prices:

Issue Date	Expiry Date	Exercise price	July 31, 2012 Number outstanding
2008	2013	$0.12-$0.30	80,000
2009	2014	$0.10-$0.14	1,390,625
2010	2015	$0.15-$0.20	1,250,000
2012	2017	$0.18	2,475,000
			5,195,625

There are no amounts due to or due from related parties as at July 31, 2012 or October 31, 2011.

11. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the periods noted below are as follows:

	Three Months Ended July 31, 2012	Three Months Ended July 31, 2011	Nine Months Ended July 31, 2012	Nine Months Ended July 31, 2011
	$	$	$	$
Salaries, supplies and contract payments	161,419	176,095	654,292	679,428
Depreciation of property & equipment	559	541	1,677	1,690
Amortization of intangible assets	167,328	220,177	516,860	646,645
Share-based compensation	83,735	20,837	119,943	99,422
Patent fees and patent costs	31,154	24,827	132,468	65,933
Contributions and tax credits	(55,694)	(125,323)	(55,939)	(284,375)
Total expense	388,501	317,154	1,369,301	1,208,743

(Expressed in Canadian Dollars unless otherwise noted)

11. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION (cont'd)

Components of the general and administrative expenses for the periods noted below are as follows:

	Three Months Ended July 31, 2012 $	Three Months Ended July 31, 2011 $	Nine Months Ended July 31, 2012 $	Nine Months Ended July 31, 2011 $
Other costs	41,106	31,449	176,014	131,631
Depreciation of property & equipment	63	108	187	324
Share-based compensation	92,459	15,929	127,882	100,502
Investor relations	28,704	8,458	104,841	11,850
Consulting fees	37,934	49,977	124,745	115,053
Total expense	200,266	105,921	533,669	359,360

12. FINANCE INCOME AND COSTS

Finance income comprises interest income amounting to $13,255 and $26,881 for the Three and Nine Months Ended July 31, 2012 respectively, and an exchange gain of $1,547 for the Three Months Ended July 31, 2012. (Interest income of $202 and $3,209 and exchange gains of $95 and $3,066 for the Three and Nine Months Ended July 31, 2011).

Finance costs consist of bank charges amounting to $524 and $1,533 for the Three and Nine Months Ended July 31, 2012 respectively and an exchange loss of $674 for the Nine Months Ended July 31, 2012 (bank charges of $442 and $1,448 for the Three and Nine Months Ended July 31, 2011).

13. PERSONNEL EXPENSES

Personnel expenses for the periods noted are as follows:

	Three Months Ended July 31, 2012 $	Three Months Ended July 31, 2011 $	Nine Months Ended July 31, 2012 $	Nine Months Ended July 31, 2011 $
Salaries and fees	129,838	120,661	386,528	361,783
Benefits	15,370	15,184	45,946	48,445
Share-based compensation	65,521	22,733	103,351	104,296
Total personnel expenses	210,729	158,578	535,825	514,524

14. COMMITMENTS AND CONTINGENCIES

The Company is committed to the payment of certain costs under the clinical trial which commenced in the third quarter of the current fiscal year. The study allows for interim analysis at different points during the study. For each patient, while the initial primary and secondary endpoints will be reached relatively early in the study, the patients will be followed for a minimum of three years to assess longer-term safety and efficacy of the Cell Pouch™ with transplanted islets. The commitment under the agreement includes the cost of clinical staff and overhead thereon, trial insurance, travel and a portion of drug-or procedure –related expenses or transplantation expenses not covered by insurance. The total commitment over the three years is expected to be in the range of $1,500,000 to $2,000,000 and the commitment will be impacted by such factors as the rate of enrollment, the province in which is the patient resides and the specifics of patient insurance.

The Company has exclusive rights to use certain patents and technology utilized in the Fertilité-OV ™ business. Under the purchase agreement, the Company is required to pay a royalty of 2% of cumulative revenues in excess of $1.5 million to a maximum lifetime royalty of $570,000. No royalties have been paid to date.

The Company had been receiving royalty payments arising from the sale of its Fertilité-OV ™ fertility monitor technology to HealthWatch Systems Inc. in 2004. These graduated royalty payments continue until the earlier of the expiration of the patents or 2014. However, such royalty payments were suspended in the fiscal 2010 due to financial difficulties of HealthWatch Systems Inc. which at that time were in arrears in the amount of approximately $10,000USD. No further information on royalty payments due the Company for subsequent periods has been made available to the Company.

The Company is committed to rental payments for the laboratory premises of $2,400 per month but with no fixed long-term agreement.

The Company is committed to an estimated payment of approximately $60,000 USD in fees to maintain the patents in good standing for the year ending October 31, 2012. Similar payments will be required for subsequent years.

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

Significant non-cash transactions for the Nine Months Ended July 31 included:

a) accruing nil (2011 - $51,719) in receivables from a government contribution agreement.
b) accruing $6,200 (2011 – $19,000) in patent costs.
c) issuing broker's and finders' warrants valued at nil (2011 – $15,950).

16. INCOME TAXES

The Company recognized no income taxes in the statement of loss and comprehensive loss, as it has been incurring losses since inception, and it is not probable that future taxable profits will be available against which the accumulated tax losses can be utilized.

17. SEGMENTED INFORMATION

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

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

18. TRANSITION TO IFRS

These are the Company's third condensed consolidated interim financial statements prepared in accordance with IFRS. The accounting policies set out in Note 3 of the condensed consolidated interim financial statements for the Three Months Ended January 31, 2012 have been applied in preparing the consolidated financial statements for the Three and Nine Months Ended July 31, 2012, the Three and Nine Months Ended July 31, 2011 and the year ended October 31, 2011, and in the preparation of an opening IFRS statement of financial position as at November 1, 2010 (the Company's date of transition) and as at October 31, 2011.

In preparing these consolidated financial statements in accordance with IFRS 1, First time Adoption of International Financial Reporting Standards, the Company has applied the mandatory exceptions of IFRS.

Set forth below are the applicable mandatory exceptions in IFRS 1 applied in the conversion from Canadian GAAP to IFRS:

Estimates

As required by IFRS 1, estimates made under IFRS at the date of transition must be consistent with the estimates made for the same date under previous Canadian GAAP, unless there is evidence that this estimates were in error. The Company's IFRS estimates as of November 1, 2010 are consistent with its Canadian GAAP estimates as of the same date.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in the consolidated financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has impacted the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables. The transition from Canadian GAAP to IFRS has not had a material impact on the statement of cash flows. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.

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

Business combinations

The Company has applied the business combination exemption in IFRS 1 to not apply IFRS 3, *Business Combinations* retrospectively to past business combinations. Accordingly the Company has not restated the business combination that took place prior to the transition date.

Share-based payment transactions

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

(Expressed in Canadian Dollars unless otherwise noted)

18. Transition to IFRS (cont'd)

The Canadian GAAP consolidated statement of financial position and equity as at July 31, 2011 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP (Restated)	Effect of transition to IFRS Measurement	Effect of transition to IFRS Reclassification	IFRS
ASSETS		$	$	$	$
CURRENT ASSETS					
Cash	3	54,037	-	-	54,037
Short-term investments	3	1,401,472	-	-	1,401,472
Accounts receivable		84,421	-	-	84,421
Prepaid expenses		6,780	-	-	6,780
Total current assets		1,546,710	-	-	1,546,710
NON-CURRENT ASSETS					
Property and equipment, net		5,697	-	-	5,697
Intangible assets, net		2,589,011	-	-	2,589,011
Total non-current assets		2,594,708	-	-	2,594,708
Total assets		4,141,418	-	-	4,141,418
LIABILITIES					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities		91,349	-	-	91,349
Total current liabilities		91,349	-	-	91,349
EQUITY					
Share capital		20,670,452	-	-	20,670,452
Warrants	1	-	-	25,809	25,809
Contributed surplus	1 and 2	2,318,554	72,680	(25,809)	2,365,425
Deficit	2	(18,938,937)	(72,680)	-	(19,011,617)
Total equity		4,050,069	-	-	4,050,069
Total liabilities and equity		4,141,418	-	-	4,141,418

18. Transition to IFRS (cont'd)

1. Reclassification

Under IFRS certain corresponding figures under Canadian GAAP such as the disclosure of warrants as at July 31, 2011 have been reclassified to conform to the new presentation under IFRS.

2. Share-based payments

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

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

As at November 1, 2010 the combined effect of these differences is $38,330 resulting in an increase to the deficit and corresponding increase to contributed surplus as at this date. A decrease of $17,488 and an increase of $34,350 were made to share-based compensation expense for the Three and Nine Months Ended July 31, 2011 respectively under IFRS for the combined effect of these differences with a corresponding adjustment to contributed surplus.

3. Short-term investments

The Company has reclassified short-term investments of $1,401,472, which are transitional or current in nature, with a maturity greater than three months from cash to short-term investments as at July 31, 2011 for purposes of presentation under Canadian GAAP. These interest-bearing deposits have certain terms and conditions that differentiate the asset from cash and accordingly these assets are disclosed separately.

(Expressed in Canadian Dollars unless otherwise noted)

18. Transition to IFRS (cont'd)

Canadian GAAP interim consolidated statement of loss and comprehensive loss for the Three Months Ended July 31, 2011 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS Measurement	Effect of transition to IFRS Reclassification	IFRS
		$ (unaudited)	$ (unaudited)	$ (unaudited)	$ (unaudited)
OTHER INCOME					
Interest and other income	1	202	-	(202)	-
Foreign currency gain	1	95	-	(95)	-
		297	-	(297)	-
EXPENSES					
Amortization of property and equipment	2	649	-	(649)	-
Consulting fees and salaries		46,431	-	(46,431)	-
Salaries & benefits	3	15,186	-	(15,186)	-
Patent licence and intellectual property amortization	4	220,177	-	(220,177)	-
Patent fees and costs	4	24,827	-	(24,827)	-
Professional fees		14,422	-	(14,422)	-
Research and development		20,419	-	296,735	317,154
General and administrative	5 and 6	44,639	-	61,282	105,921
Share-based compensation	6 and 7	54,255	(17,488)	(36,767)	-
		441,005	(17,488)	(442)	423,075
Finance income	1	-	-	297	297
Finance costs	5	-	-	(442)	(442)
		-	-	(145)	(145)
Loss and comprehensive loss for the period		440,708	(17,488)	-	423,220

18. Transition to IFRS (cont'd)

Reclassification

Under Canadian GAAP, the statement of loss and comprehensive loss was presented by a combination of function and nature of expenses. The Company elected to present its items in the consolidated statement of loss and comprehensive loss by function under IFRS. Depreciation and amortization expense related to property and equipment, intellectual property assets and share-based compensation have been allocated to the related function.

For the Three Months Ended July 31, 2011, the following reclassifications were made:

Note 1: interest income earned on short-term investments and foreign currency gains were reclassified to finance income.

Note 2: amortization of property and equipment of $649 was reclassified to research and development in the amount of $541 and to general and administrative in the amount of $108.

Note 3: salaries & benefits of $15,186 were reclassified to research and development in the amount of $14,004 and to general and administrative in the amount of $1,182.

Note 4: patent licence and intellectual property amortization, patent maintenance fees and patent costs related to the development of internally generated patents of $245,004 were classified to research and development.

Note 5: bank fees and charges of $673 were reclassified from general and administrative expenses to finance costs.

Note 6: certain costs and charges of $16,349 were reclassified from general and administrative expenses to research and development.

Measurement

Note 7: share-based compensation of $36,767 was reclassified to research and development in the amount of $20,837 and to general and administrative expenses of $15,929.

Note 8: Under Canadian GAAP, awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes. IFRS requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has different vesting date.

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

A decrease of $17,488 was made to share-based compensation expense for the Three Months Ended July 31, 2011 under IFRS for the combined effect of these changes, with a corresponding adjustment to contributed surplus.

(Expressed in Canadian Dollars unless otherwise noted)

18. **Transition to IFRS** (cont'd)

Canadian GAAP consolidated statement of loss and comprehensive loss for the Nine Months Ended July 31, 2011 has been reconciled as follows:

	Note	Canadian GAAP	Effect of transition to IFRS Measurement	Effect of transition to IFRS Reclassification	IFRS
		$ (unaudited)	$ (unaudited)	$ (unaudited)	$ (unaudited)
OTHER INCOME					
Interest and other income	1	3,209	-	(3,209)	-
Foreign currency gain	1	3,066	-	(3,066)	-
		6,275	-	(6,275)	-
EXPENSES					
Amortization of property and equipment	2	2,014	-	(2,014)	-
Consulting fees and salaries		111,507	-	(111,507)	-
Salaries & benefits	3	48,445	-	(48,445)	-
Patent licence and intellectual property amortization	4	646,645	-	(646,645)	-
Patent Fees	4	65,933	-	(65,933)	-
Professional fees		45,565	-	(45,565)	-
Research and development		288,206	-	920,537	1,208,743
General and administrative	5 and 6	161,312	-	198,048	359,360
Share-based compensation	7 and 8	165,574	34,350	(199,924)	-
		1,535,201	34,350	(1,448)	1,568,103
Finance income	1	-	-	6,275	6,275
Finance costs	5	-	-	(1,448)	(1,448)
		-	-	4,827	4,827
Loss and comprehensive loss for the period		1,528,926	34,350	-	1,563,276

18. Transition to IFRS (cont'd)

Reclassification

Under Canadian GAAP, the statement of loss and comprehensive loss was presented by a combination of function and nature of expenses. The Company elected to present its items in the consolidated statement of loss and comprehensive loss by function under IFRS. Depreciation and amortization expense related to property and equipment, intellectual property assets and share-based compensation have been allocated to the related function.

For the Nine Months Ended July 31, 2011, the following reclassifications were made:

Note 1: interest income earned on short-term investments and foreign currency gains were reclassified to finance income.

Note 2: amortization of property and equipment of $2,014 was reclassified to research and development in the amount of $1,690 and to general and administrative in the amount of $324.

Note 3: salaries & benefits of $48,445 were reclassified to research and development in the amount of $44,899 and to general and administrative in the amount of $3,546.

Note 4: patent licence and intellectual property amortization, patent maintenance fees and patent costs related to the development of internally generated patents of $712,578 were classified to research and development.

Note 5: bank fees and charges of $1,448 were reclassified from general and administrative expenses to finance costs.

Note 6: certain costs and charges of $61,948 were reclassified from general and administrative expenses to research and development.

Measurement

Note 7: share-based compensation of $199,924 was reclassified to research and development in the amount of $99,422 and to general and administrative expenses of $100,502.

Note 8: Under Canadian GAAP, awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes. IFRS requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has different vesting date.

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

An increase of $34,350 was made to share-based compensation expense for the Nine Months Ended July 31, 2011 under IFRS for combined effect of these changes, with a corresponding adjustment to contributed surplus.