SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED OCTOBER 31, 2012 AND 2011

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sernova Corp.

We have audited the accompanying consolidated financial statements of Sernova Corp., which comprise the consolidated statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended October 31, 2012 and October 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Sernova Corp. as at October 31, 2012, October 31, 2011 and November 1, 2010, and its financial performance and its cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 26, 2013

NEXIA INTERNATIONAL

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SERNOVA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
AS AT

	Note	October 31, 2012	October 31, 2011 (Note 18)	November 1, 2010 (Note 18)
ASSETS				
Current assets				
Cash		$ 255,557	$ 309,991	$ 735,142
Short-term investments		4,104,164	1,208,119	-
Accounts receivable	4	7,330	59,108	113,521
Prepaid expenses		89,458	14,889	30,996
Total current assets		4,456,509	1,592,107	879,659
Non-current assets				
Equipment	5	5,552	6,498	5,461
Intangible assets	6	1,740,578	2,378,786	3,149,366
Total non-current assets		1,746,130	2,385,284	3,154,827
Total assets		$ 6,202,639	$ 3,977,391	$ 4,034,486
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	7	$ 133,950	$ 119,067	$ 143,997
Total current liabilities		133,950	119,067	143,997
Shareholders' equity				
Common shares	8	24,761,758	20,811,715	19,160,911
Warrants	8	648,281	137,466	12,418
Contributed surplus	8	2,703,297	2,385,762	2,165,501
Deficit		(22,044,647)	(19,476,619)	(17,448,341)
Total equity		6,068,689	3,858,324	3,890,489
Total liabilities and equity		$ 6,202,639	$ 3,977,391	$ 4,034,486

Nature of continuance of operations(Note 1)
Commitments and contingencies (Note 11)
Subsequent event (Note 17)

Approved and authorized by the Board on February 26, 2013:

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

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
FOR THE YEARS ENDED

	Note	October 31, 2012	October 31, 2011 (Note 18)
EXPENSES			
Research and development	10	$ 1,919,411	$ 1,551,207
General and administrative	10	683,974	492,161
		2,603,385	2,043,368
OTHER ITEMS			
Finance income		(39,311)	(16,967)
Finance costs		3,954	1,877
Loss and comprehensive loss for the year		$ 2,568,028	$ 2,028,278
Basic and diluted loss per common share		$ (0.02)	$ (0.02)
Weighted average number of common shares		107,390,494	86,675,816

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
FOR THE YEARS ENDED

	October 31, 2012	October 31, 2011 (Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (2,568,028)	$ (2,028,278)
Non-cash items:		
Depreciation of equipment	2,734	3,201
Accrual of government contribution	-	(17,131)
Patent licence and intellectual property amortization	696,231	870,403
Share-based compensation	345,501	221,274
Interest accrued on short-term investments	(29,164)	(8,119)
Changes in non-cash working capital balances:		
Accounts receivable	50,278	71,544
Prepaid expenses	(74,569)	16,107
Accounts payable and accrued liabilities	7,977	(30,180)
Net cash used in operating activities	(1,569,040)	(901,179)
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments, net	(2,866,881)	(1,200,000)
Purchase of equipment	(1,788)	(4,238)
Acquisition of patent rights	(51,117)	(94,573)
Net cash used in investing activities	(2,919,786)	(1,298,811)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on issue of common shares and warrants and exercise of warrants and options	4,478,175	1,983,925
Share issue costs	(43,783)	(209,086)
Net cash provided by financing activities	4,434,392	1,774,839
Decrease in cash during the year	(54,434)	(425,151)
Cash, beginning of year	309,991	735,142
Cash, end of year	$ 255,557	$ 309,991
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

Supplementary disclosure with respect to cash flows (Note 12)

See accompanying notes to the consolidated financial statements.

SERNOVA CORP.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

	Common Shares		Warrants				
	Shares	Amount	Number	Amount	Contributed Surplus	Deficit	Total
Balance, November 1, 2010 (Note 18)	83,753,824	$ 19,160,911	9,124,836	$ 12,418	$ 2,165,501	$ (17,448,341)	$ 3,890,489
Loss and comprehensive loss for the year	-	-	-	-	-	(2,028,278)	(2,028,278)
Issue of common shares on exercise of warrants	264,807	29,607	(264,807)	(2,560)	-	-	27,047
Issue of units (Note 8)	11,114,583	1,848,346	8,981,250	106,758	-	-	1,955,104
Share issue costs	-	(229,936)	307,360	20,850	-	-	(209,086)
Issue of common shares on exercise of stock options	14,063	2,787	-	-	(1,013)	-	1,774
Share-based compensation	-	-	-	-	221,274	-	221,274
Balance, October 31, 2011 (Note 18)	95,147,277	20,811,715	18,148,639	137,466	2,385,762	(19,476,619)	3,858,324
Loss and comprehensive loss for the year	-	-	-	-	-	(2,568,028)	(2,568,028)
Issue of common shares on exercise of warrants	4,075,277	818,580	(4,075,277)	(6,998)	-	-	811,582
Common shares returned to treasury	(40,000)	(1,500)	-	-	-	-	(1,500)
Expiry of warrants	-	-	(5,078,752)	-	-	-	-
Issue of units (Note 8)	20,167,332	3,106,630	20,167,332	523,488	-	-	3,630,118
Share issue costs	-	(38,108)	-	(5,675)	-	-	(43,783)
Issue of common shares on exercise of stock options	273,750	64,441	-	-	(27,966)	-	36,475
Share-based compensation	-	-	-	-	345,501	-	345,501
Balance, October 31, 2012	119,623,636	$ 24,761,758	29,161,942	$ 648,281	$ 2,703,297	$ (22,044,647)	$ 6,068,689

See accompanying notes to the consolidated financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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.

The Company acquired a sublicense to certain patent licences and intellectual property (Note6) and a subsidiary, Sertonex Inc. ("Sertonex"), and became engaged in the research and development of a commercially-viable treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells transplanted into implanted prevascularized medical devices. The Company is focused on the manufacture and near-term clinical evaluation of the Cell Pouch™ for insulin-dependent diabetes. As at October 31, 2012 no products are in commercial production or use.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS")assuming the Company will continue on a going-concern basis. The Company has incurred losses and negative operating cash flows since inception. The ability of the Company to continue as a going-concern in the long-term 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. Management believes that the Company has sufficient working capital to maintain its operations for the next fiscal year.

2. BASIS OF PRESENTATION

(a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

(b) Statement of compliance

The financial statements of the Company for the year ending October 31, 2012 have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("GAAP").

These consolidated financial statements are the Company's first annual financial statements prepared under IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") with a transition date to IFRS of November 1, 2010. Consequently, the comparative figures for fiscal 2011 and the Company's statement of financial position as at November 1, 2010, have been restated from GAAP to comply with IFRS. The reconciliations to IFRS from the previously published GAAP financial statements are summarized in Note 18.

2. BASIS OF PRESENTATION (cont'd…)

(c) Critical accounting estimates and judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions that have been made that relate to the following key estimates:

i. Intangible Assets – impairment

The application of the Company's accounting policy for intangible assets expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

ii. Intangible Assets – useful lives

Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on a straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

During fiscal 2012, the Company reevaluated the anticipated useful life of intangible assets from 3 years to 3.5 years on the grant of additional patents, resulting in a decrease to amortization expense.

ii. Share-based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 8.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's principal accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position at November 1, 2010, the date of transition to IFRS.

Basis of consolidation

These consolidatedfinancial statements include the accounts of the Sernova Corp., Sertocell Biotechnology (US) Inc. ("Sertocell") and Sertonex, its wholly-owned and controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries, including entities which the Company controls, are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All significant intercompany transactions and balances have been eliminated.

Foreign currency translation

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is Sernova Corp's functional currency.

The financial statements of Sertocell and Sertonex, which haveCanadiandollars as their functional currency, are translated into Canadian dollars as follows: monetary assets and liabilities at the closing rate at the date of the statement of financial position, non-monetary assetsat historical rates, and income and expenses at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of loss and comprehensive loss.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If an entity disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

Short-term investments

Short-term investments consist of highly liquid investments which are current in nature with original maturity greater than three months and less than one year. The Company's policy is to invest its cash on hand in fully liquid government or bank securities.

Equipment

Equipmentis stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary and, where relevant, the present value of all dismantling and removal costs.

The estimated useful lives and the methods of depreciation of computer equipment for the current and comparative periodshave been calculated using a 30% declining balance method.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Intangible assets

The Company owns intangible assets consisting of patent licences and non-patented intellectual property. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

The Company does not hold any intangible assets with indefinite lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization method and amortization period of an intangible asset with a finite life is reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in research and development expenses.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use to October 31, 2014.

Impairment of long-lived assets

The Company's long-lived assetsare reviewed for indications of impairment at the date of preparing each statement of financial position. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying value of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or group of assets. For the purpose of impairment testing, the Company determined it has one cash-generating unit.

The recoverable amount is the greater of the asset's fair value less cost to sell and value in use. In assessing fair value less cost to sell for the cash-generating unit, the Company's market capitalization is considered.

Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statements of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as deferred revenue and released to income in equal amounts over the expected useful life of the related asset.

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

Research and development costs

Expenditures on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Investment tax credits related to current expenditures are included in the determination of net income as the expenditures are incurred when there is reasonable assurance they will be realized.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures, the expenditures capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

Capitalized development expenditures will be measured at cost less accumulated amortization and accumulated impairment losses. No development costs have been capitalized to date.

Share-based compensation

The Company grants stock options to buy common shares of the company to directors, officers, employees and consultants. The Company records share-based compensation related to stock options using the fair value method using the Black-Scholes option pricing model.

Estimating fair value for share-based compensation requires management to estimate the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield and forfeiture rates. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share-based compensation (cont'd...)

The fair value of the stock options is measured at the grant date, and is recognized, together with a corresponding increase in contributed surplus in equity, over the period that the performance and/or service conditions are fulfilled. The cumulative expense recognized for stock options at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of shares that will ultimately vest. The expense or credit recognized for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and is recognized in the consolidated statement of loss and comprehensive loss in the respective function line.

For equity-settled share-based transactions, the Company measures the goods and services rendered, and the corresponding increase in contributed surplus, directly, at the fair value of goods and services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services received, it measures their value by reference to the fair value of the equity instrument granted. Transactions measured by reference to the fair value of the equity instrument granted, have their fair values re-measured each vesting and reporting date until fully vested.

When stock option awards are exercised or exchanged, the amounts previously credited to contributed surplusare reversed and credited to common shares. The amount of cash, if any, received from participants is also credited to common shares.

Common shares

The Company may issue units, comprised of common shares and common share purchase warrants in connection with equity financings. The warrants are valued in accordance with the residual value method whereby the premium paid in excess of the market value of the shares at the time of the issue is allocated to the warrants.

Income taxes

Income tax expense comprises current and deferred tax which is recognized in net loss except to the extent that they relate to items recognized directly in other comprehensive income or in equity.

Income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities and any adjustment to tax payable in respect of previous years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, at the reporting date in the countries where the company operates and generates taxable income. Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

A deferred tax liability is generally recognized for all taxable temporary differences.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes (cont'd...)

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Management also periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where applicable.

Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and therefore, they have been excluded from the calculation of diluted loss per share.

Financial instruments

<u>Financial assets</u>

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. The Company's cash and short-term investmentsare classified as FVTPL. Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. At October 31, 2012, the Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. The Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial instrument disclosures

The Company provides disclosures that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the date of the statement of financial position, and how the entity manages these risks.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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:

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New standards not yet adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective during the year ended October 31, 2012:

- IFRS 9 — New financial instruments standard that replaces IAS 39 for classification and measurement of financial assets[(iii)]
- IFRS 10 — New standard to establish principles for the presentation and preparation of consolidated financial statements when an entity controls multiple entities[(i)]
- IFRS 12 — New standard for the disclosure of interests in other entities not within the scope of IFRS 9/IAS 39[(i)]
- IFRS 13 — New standard on the measurement and disclosure of fair value[(i)]
- IAS 1 (Amendment) — Presentation of other comprehensive income[(ii)]
- IAS 28 (Amendment) — New standard issued that supersedes IAS 28 (2003) to prescribe the accounting for investments in associates and joint ventures[(i)]

(i) Effective for annual periods beginning on or after January 1, 2013
(ii) Effective for annual periods beginning on or after July 1, 2012
(iii) Effective for annual periods beginning on or after January 1, 2015

The Company anticipates that the application of these standards, amendments and interpretations will not have a material impact on the results and financial position of the Company.

4. ACCOUNTS RECEIVABLE

	October 31, 2012	October 31, 2011	November 1, 2010
Government contribution receivable	$ -	$ 17,131	$ 61,287
Subscription receivable	-	1,500	40,500
Sales tax and investment tax credit receivable	7,330	40,477	11,734
	$ 7,330	$ 59,108	$ 113,521

The Company's exposure to credit and currency risks related to trade and other receivables is presented in Note 16.

(Expressed in Canadian dollars)

5. EQUIPMENT

		Computer Equipment
Cost		
Balance, November 1, 2010	$	10,732
Additions		4,238
Balance, October 31, 2011		14,970
Additions		1,788
Balance, October 31, 2012	$	16,758
Accumulated depreciation		
Balance, November 1, 2010	$	5,271
Depreciation for the year		3,201
Balance, October 31, 2011		8,472
Depreciation for the year		2,734
Balance, October 31, 2012	$	11,206
Net carrying amounts		
November 1, 2010	$	5,461
October 31, 2011	$	6,498
October 31, 2012	$	5,552

6. 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		58,023		-		58,023
Balance, October 31, 2012	$	4,490,326	$	2,191,856	$	6,682,182
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 year		475,973		220,258		696,231
Balance, October 31, 2012	$	3,300,394	$	1,641,210	$	4,941,604
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
October 31, 2012	$	1,189,932	$	550,646	$	1,740,578

(Expressed in Canadian dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2012	October 31, 2011	November 1, 2010
Accounts payable	$ 80,654	$ 40,089	$ 108,497
Accrued liabilities	53,296	56,515	35,500
Investment tax credit refund payable	-	22,463	-
	$ 133,950	$ 119,067	$ 143,997

The Company's exposure to credit and currency risks related to accounts payable and accrued liabilities is presented in Note 16.

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS

Authorized

Unlimited number of common shares, without par value

Summary of financings – year ended October 31, 2011

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 agents' 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.

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 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.

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS (cont'd…)

Summary of financings – year ended October 31, 2012

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 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 agents' 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. There were no finder's warrants issued or finder's fees paid for this transaction.

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 $43,783 in connection with these financings.

Performance escrow shares

Included in issued capital stock and representing escrow shares as at October 31, 2012 are 3,472,500 (2011 – 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 for a licensed product;
b) 1,736,250 common shares on the date the Company enrolls the first patient in a Phase 3 human clinical efficacy trial for a licensed product.

Any remaining performance-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.

(Expressed in Canadian dollars)

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS (cont'd…)

Warrants

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

	Number of Warrants	Exercise Price	Expiry Date
Warrants			
	1,433,334	$0.20	November 3, 2012(i)
	21,000	$0.20	November 3, 2012(i)
	700,000	$0.20	December 5, 2012(i)
	195,950	$0.19	December 24, 2012(i)
	90,410	$0.19	March 1, 2013
	5,043,914	$0.35	June 24, 2013
	1,510,002	$0.35	September 1, 2013
	19,395,110	$0.20 then at	February 28, 2013
		$0.35	February 28, 2015
	772,222	$0.20 then at	March 30, 2013
		$0.35	March 30, 2015
	29,161,942		

(i) Subsequent to October 31, 2012 these warrants expired unexercised.

The fair value agent's and broker warrants were determined using the Black- Scholes option pricing model with the following weighted average assumptions:

Years Ended October 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

All warrants are exercisable on issuance. A summary of the status of warrants outstanding and exercisable as at October 31 and changes during the years ended are summarized below:

	2012		2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance outstanding, beginning of year	18,148,639	$ 0.20	9,124,836	$ 0.20
Granted	20,167,332	0.20	9,288,610	0.20
Warrants re-pricing	(6,553,916)	0.20	-	-
Warrants re-pricing	6,553,916	0.35	-	-
Exercised	(4,075,277)	0.20	(264,807)	0.10
Expired	(5,078,752)	0.20	-	-
Balance outstanding, end of year	29,161,942	$ 0.23	18,148,639	$ 0.20

(Expressed in Canadian dollars)

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS (cont'd…)

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 and 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 a maximum term 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 preceding the date the option is granted.

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

During the year ended October 31, 2012, the Company granted 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 year was $0.10 (2011- n/a).

The following table summarizes information about the options outstanding as at October 31, 2012:

	Number of Options	Exercise Price	Expiry Date
Options	130,000	$ 0.30	March 13, 2013
	134,038	0.19	June 30, 2013
	50,000	0.12	October 15, 2013
	208,880	0.18	March 6, 2014
	700,000	0.10	April 28, 2014
	280,750	0.14	June 8, 2014
	471,875	0.14	June 8, 2014
	400,000	0.12	September 5, 2015
	250,000	0.20	October 28, 2015
	1,510,833	0.15	October 28, 2015
	670,000	0.14	March 6, 2017
	330,000	0.18	March 6, 2017
	2,865,000	0.18	April 18, 2017
	8,001,376		

(Expressed in Canadian dollars)

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS (cont'd…)

Employee stock option plan (cont'd…)

A summary of the status of the Plan as at October 31 and changes during the years 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 year	4,597,208	$ 0.20	5,983,458	$ 0.24
Granted	4,207,918	0.17	-	-
Exercised	(273,750)	0.13	(14,063)	0.13
Expired	(530,000)	0.64	(1,372,187)	0.36
Balance outstanding, end of year	8,001,376	$ 0.16	4,597,208	$ 0.20
Balance exercisable, end of year	5,607,626	$ 0.15	3,816,791	$ 0.21

The expense recognized for employee services received during the year ended October 31, 2012, which is included in the consolidated statement of loss and comprehensive loss is $345,501 (2011- $221,274).

The weighted average remaining contractual life for the stock options outstanding as at October 31, 2012 was 3.3 years (2011-2.2 years).The range of exercise prices for the options outstanding as at October 31, 2012was $0.10 to $0.30 (2011 - $0.10 to $0.88).

The share-based compensation expense was determined based on the fair value of all of optionsat the date of measurement using the Black- Scholes option pricing model with the following weighted-average assumptions:

Year Ended October 31	2012	2011
Dividend yield	0%	0%
Expected volatility	89%	90%
Risk free interest rate	1.30%	2.50%
Expected life of options	4.8 years	5.0 years
Forfeiture rate	0%	0%

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 differ from the Company's stock option 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.

(Expressed in Canadian dollars)

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS (cont'd…)

Employee stock option plan (cont'd…)

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

9. 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 period-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received from related party receivables or payables. There are no amounts due to or due from related parties at October 31, 2012 and 2011.

The following transactions in which the directors had an interest occurred in the year ended October 31:

	2012	2011
Consulting fees	$ -	$ -
Director fees	-	-
Share-based compensation	121,251	57,641
Total expense	$ 121,251	$ 57,641

Compensation for key management personnel of the company other than directors for the year ended October 31 is as follows:

	2012	2011
Salaries and consulting fees	$ 390,000	$ 255,000
Director fees	-	-
Benefits	29,477	29,157
Share-based compensation	94,968	83,634
Total expense	$ 514,445	$ 367,791

Key management personnel control2.4% of the issued common shares of the Company as at October 31, 2012.

(Expressed in Canadian dollars)

10. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

Components of the research and development expenses for the years ended October 31 are as follows:

	2012	2011
Salaries, supplies and contract payments	$ 950,704	$ 795,574
Patent fees and costs	157,056	67,797
Depreciation of equipment	2,461	2,881
Amortization of intangible assets	696,231	870,403
Share-based compensation	168,898	92,190
Contributions and tax credits	(55,939)	(277,638)
Total expense	$ 1,919,411	$ 1,551,207

Components of the general and administrative expenses for the years ended October 31 are as follows:

	2012	2011
Other costs	$ 229,030	$ 208,427
Investor relations	128,494	17,527
Consulting fees	149,574	136,803
Depreciation of equipment	273	320
Share-based compensation	176,603	129,084
Total expense	$ 683,974	$ 492,161

11. 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 is a Phase I/II study with a primary endpoint of safety and a secondary endpoint of efficacy. The study is designed to allow for interim analyses at variouspoints during the study as sufficient data are collected. In this study patients will also 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 approximately $2,000,000-$3,000,000 but will be impacted by such factors as the rate of enrollment, the province in which the patient resides and the specifics of patient insurance.

The Company is committed to an estimated payment of approximately $66,000 USD in fees to maintain the patents in good standing for the year ending October 31, 2013. Similar payments will be required for subsequent years.

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

Significant non-cash transactions for the year ended October 31, 2012 included:

a) accruing nil (2011 - $17,131) in receivables from a government contribution agreement.
b) accruing $12,156 (2011 – $5,250) in patent costs.
c) issuing finders' warrants valued at nil (2011 – $20,850).

(Expressed in Canadian dollars)

13. INCOME TAXES

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

	2012	2011
Loss for the year before income tax	$ (2,568,028)	$ (2,028,278)
Expected income tax recovery	$ (688,000)	$ (580,000)
Change in statutory, foreign tax and foreign exchange rates	(11,000)	4,000
Permanent differences	59,000	33,000
Share issue costs	(10,000)	(60,000)
Impact of tax credits and other	(195,000)	39,000
Change in unrecognized deductible temporary differences	845,000	564,000
Total income tax (recovery)	$ -	$ -

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

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

	2012	2011
Deferred tax assets (liabilities)		
Intangible assets	$ (151,000)	$ (296,000)
Non-capital losses	151,000	296,000

The significant components of the Company's unrecorded deferred tax assets are as follows:

	2012	2011
Equipment	$ 2,000	$ 1,000
Share issue costs	52,000	61,000
Research and development pool	810,000	648,000
Federal tax credit	521,000	346,000
Ontario tax credit	103,000	47,000
Non-capital losses available for future periods	2,522,000	2,062,000
	$ 4,010,000	$ 3,165,000
Unrecognized deferred tax assets	(4,010,000)	(3,165,000)
Total income tax expense (recovery)	$ -	$ -

(Expressed in Canadian dollars)

13. INCOME TAXES (cont'd...)

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2012	Expiry Date Range	2011	Expiry Date Range
Temporary Differences	**$**		**$**	
Equipment	8,000	No expiry date	5,000	No expiry date
Share issue costs	195,000	2033 to 2036	232,000	2032 to 2035
Research and Development pools	3,057,000	No expiry date	2,447,000	No expiry date
Federal tax credit	708,000	No expiry date	471,000	No expiry date
Ontario tax credit	103,000	No expiry date	101,000	No expiry date
Non-capital losses Available for Future periods	8,505,000	2014 to 2032	6,974,000	2014-2031

14. 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 and Canada.

15. CAPITAL RISK MANAGEMENT

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

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

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

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

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended October 31, 2011.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The fair value of cash and short-term investments is measured using level 1 of the fair value hierarchy.

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value because of the short term nature of these instruments.

Financial risk factors

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

Credit risk

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

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at October 31, 2012, the Company had cash and short term investments of $4,359,721 (2011 - $1,518,110) which resources are available to settle current liabilities of $133,950 (2011 - $119,067). All of the Company's financial liabilities are subject to normal trade terms.

Market risk

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

a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Theshort term investments as at October 31, 2012 of $4,104,164 are held on interest-bearing guaranteed investment certificates with banks. A 1% change in interest rates would have an effect of $41,042 on interest income.

b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States dollars. However, management believes the risk is not currently significant as less than 0.1% of the Company's financial assets and none of its liabilities as at October 31, 2012 are denominated in United States dollars.

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

Financial risk factors (cont'd…)

Market risk (cont'd…)

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

17. SUBSEQUENT EVENT

In January 2013, the Company completed a non- brokered private placement of 10,000,000 units each sold at a price of $0.20 per unit for gross proceeds of $2,000,000. Each unit will consist of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company for a period of 36 months at a price of $0.35 per warrant share for the first 24 months and at a price of $0.40 per warrant share for the last 12 months. The Company paid a finder's fee equal to 7% of the proceeds and issued 700,000 finder's warrants. The finder's warrants are exercisable for a period of 18 months at a price of $0.20 per warrant.

18. TRANSITION TO IFRS

As stated in Note 2, these financial statements are the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the financial statements for the years ended October 31, 2012 and October 31, 2011, and the opening IFRS statement of financial position on November 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the year ended October 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1.

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

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 these estimates were made in error. The Company's IFRS estimates as of November 1, 2010 are consistent with its GAAP estimates for the same date.

Elected exemptions from full retroactive application

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

18. TRANSITION TO IFRS (cont'd...)

Elected exemptions from full retroactive application (cont'd…)

The Company has applied the following exemptions to its opening statement of financial position dated November 1, 2010:

(a) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. Accordingly, the Company has not restated the business combination that took place prior to the transition date.

(b) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payments to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to November 1, 2010.

Measurement

(a) Share-based compensation

Under Canadian GAAP, the Company measured share-based compensation related to stock options at fair value of the share purchase options granted using the Black-Scholes option pricing model and recognized this expense over the vesting period of the options. Forfeitures are recognized as they occur.

IFRS 2, similar to Canadian GAAP, requires the Company to measure share-based compensation related to stock options granted to employees at the fair value of the stock options on the date of grant and to recognize such expense over the vesting period of the options. However, for stock options granted to non-employees, IFRS requires that share-based compensation be measured at the fair value of the services received unless the fair value cannot be reliably measured.

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 IFRS 2, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches.

Prior to transition, the Company used the straight-line method of calculating vested options. The fair value of stock-based awards with a graded vesting feature was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. As such, on transition, adjustments are calculated for unvested share purchase options as at November 1, 2010 and October 31, 2011.

(Expressed in Canadian dollars)

18. TRANSITION TO IFRS (cont'd...)

Statement of financial position as at transition date

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

		November 1, 2010			
		Canadian GAAP	Effect of Transition to IFRS Measurement	Effect of Transition to IFRS Reclassification	IFRS
Assets					
Current Assets					
Cash		$ 735,142	$ -	$ -	$ 735,142
Accounts receivable		113,521	-	-	113,521
Prepaid expenses		30,996	-	-	30,996
		879,659	-	-	879,659
Equipment		5,461	-	-	5,461
Intangible assets		3,149,366	-	-	3,149,366
		$ 4,034,486	$ -	$ -	$ 4,034,486
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$ 143,977	$ -	$ -	$ 143,977
Shareholders' equity					
Common shares		19,160,911	-	-	19,160,911
Warrants	(b)	-	-	12,418	12,418
Contributed surplus	(a)(b)	2,139,589	38,330	(12,418)	2,165,501
Deficit	(a)	(17,410,011)	(38,330)	-	(17,448,341)
		3,890,489	-	-	3,890,489
		$ 4,034,486	$ -	$ -	$ 4,034,486

(a) Share- based payments

As a result of the changes in the measurement of the share-based payments, as at November 1, 2010 the combined effect of the differences is $38,330. A further adjustment of $11,534 was made to share-based compensation expense for the year ended October 31, 2011 under IFRS for the combined effect of the differences with a corresponding increase to contributed surplus. Accordingly, as at October 31, 2011 the cumulative change in the measurement of the share-based payments amounted to $49,864.

(b) Warrants

On transition to IFRS, the Company elected to present warrants separate from contributed surplus.

(Expressed in Canadian dollars)

18. TRANSITION TO IFRS (cont'd...)

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

		October 31, 2011			
		Canadian GAAP	Effect of Transition to IFRS Measurement	Effect of Transition to IFRS Reclassification	IFRS
Assets					
Current Assets					
Cash		$ 309,991	$ -	$ -	$ 309,991
Short- term investments		1,208,119	-	-	1,208,119
Accounts receivable		59,108	-	-	59,108
Prepaid expenses		14,889	-	-	14,889
		1,592,107	-	-	1,592,107
Equipment		6,498	-	-	6,498
Intangible assets		2,378,786	-	-	2,378,786
		$ 3,977,391	$ -	$ -	$ 3,977,391
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$ 119,067	$ -	$ -	$ 119,067
Shareholders' equity					
Common shares		20,811,715	-	-	20,811,715
Warrants	(b)	-	-	137,466	137,466
Contributed surplus	(a)(b)	2,473,364	49,864	(137,466)	2,385,762
Deficit	(a)	(19,426,755)	(49,864)	-	(19,476,619)
		3,858,324	-	-	3,858,324
		$ 3,977,391	$ -	$ -	$ 3,977,391

Reclassification of statement of financial position

Under IFRS certain corresponding figures under Canadian GAAP as at November 1, 2010 and October 31, 2011 have been reclassified to conform to the new presentation under IFRS.

Short-term investments

The Company as classified short-term investments of $1,208,119, which are current in nature, with a maturity greater than three months from cash to short-term investments as at October 31, 2011 for the purposes of presentation under Canadian GAAP. These interest bearing deposits have certain terms and conditions that differentiate the asset from cash and accordingly these assets are disclosed separately.

(Expressed in Canadian dollars)

18. TRANSITION TO IFRS (cont'd...)

The reconciliation between GAAP and IFRS total comprehensive loss for the year ended October 31, 2011 is provided below:

		Year ended October 31, 2011			
		Canadian GAAP	Effect of Transition toIFRS Measurement	Effect of Transition to IFRS Reclassification	IFRS
Expenses					
Depreciation of equipment	(c)	$ 3,201	$ -	$ (3,201)	$ -
Consulting fees and salaries		136,803	-	(136,803)	-
Salaries and benefits		57,673	-	(57,673)	-
Patent licence and intellectual property amortization	(d)	870,403	-	(870,403)	-
Patent fees		67,797	-	(67,797)	-
Professional fees		70,091	-	(70,091)	-
Research and development		415,250	-	1,135,957	1,551,207
General and administrative	(b)	202,753	-	289,408	492,161
Share-based compensation	(e)	209,740	11,534	(221,274)	-
		2,033,711	11,534	(1,877)	2,043,368
Interest income	(a)	(13,040)	-	13,040	-
Foreign currency gain		(3,927)	-	3,927	-
Finance income		-	-	(16,967)	(16,967)
Finance costs		-	-	1,877	1,877
Loss and comprehensive loss for the year		$ 2,016,744	$ 11,534	$ -	$ 2,028,278

Reclassification of statement of loss and comprehensive loss

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 equipment and intellectual assets and share-based compensation have been allocated to the related function.

For the year ended October 31, 2011, the following reclassifications were made:

(a) Interest income earned on short-term investments was reclassified to finance income.

(b) Amortization of equipment of $3,201 was reclassified to research and development in the amount of $2,881 and to general and administrative in the amount of $320.

(c) Patent licence and intellectual property amortization, patent maintenance fees and costs related to the development of internally-generated patents of $938,200 were classified to research and development.

18. TRANSITION TO IFRS (cont'd...)

Reclassification of statement of loss and comprehensive loss (cont`d...)

(d) Bank fees and charges of $1,877 were reclassified from general and administrative expenses to finance costs.

(e) Share-based compensation of $221,274 was reclassified to research and development in the amount of $92,190 and to general and administrative expenses of $129,084.

Measurement

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.

An adjustment of $11,534 was made to share-based compensation expense for the year ended October 31, 2011 under IFRS for the combined effect of these differences with a corresponding adjustment to contributed surplus.