Sernova Corp.

Condensed Consolidated Interim Financial Statements
For the Three Months Ended January 31, 2013
(Unaudited)

The accompanying Unaudited Condensed Consolidated Interim Financial Statements of Sernova Corp. (the Company) has 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 January 31, 2013	As at October 31, 2012
ASSETS		$	$
CURRENT ASSETS			
Cash		**524,876**	255,557
Short-term investments	4	**5,512,268**	4,104,164
Amounts receivable	5	**10,005**	7,330
Prepaid expenses		**99,081**	89,458
Total current assets		**6,146,230**	4,456,509
NON-CURRENT ASSETS			
Equipment, net	6	**5,132**	5,552
Intangible assets, net	7	**1,568,006**	1,740,578
Total non-current assets		**1,573,138**	1,746,130
Total assets		**7,719,368**	6,202,639
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	8	**143,838**	133,950
Total current liabilities		**143,838**	133,950
EQUITY			
Common shares	9	**24,761,758**	24,761,758
Warrants	9	**648,281**	648,281
Contributed surplus		**2,761,466**	2,703,297
Subscription received in advance	9	**1,980,052**	-
Deficit		**(22,576,027)**	(22,044,647)
Total equity		**7,575,530**	6,068,689
Total liabilities and equity		**7,719,368**	6,202,639

Approved by the Board and authorized for issue on March 26, 2013

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 January 31, 2013**	Three Months Ended January 31, 2012
		$	$
EXPENSES			
Research and development	11	**421,687**	501,348
General and administrative	11	**121,856**	126,363
		543,543	627,711
Finance income	12	**(12,476)**	(3,421)
Finance costs	12	**313**	1,543
		(12,163)	(1,878)
Loss and comprehensive loss for the period		**531,380**	625,833
Weighted average number of shares		**119,623,636**	91,674,777
Basic and Diluted Loss per Common Share		**(0.01)**	(0.01)

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	**Three Months Ended January 31, 2013**	Three Months Ended January 31, 2012
		$	**$**
CASH PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES			
Net loss for the period		**(531,380)**	(625,833)
Items Not Requiring a Current Outlay of Cash:			
Depreciation of equipment	6	**420**	525
Patent licence and intellectual property amortization	7	**174,565**	217,601
Share-based compensation	9	**58,169**	11,251
Interest accrued on short-term investments		**(12,476)**	(3,421)
		(310,702)	(399,877)
Changes in Non-Cash Working Capital Balances			
Amounts receivable		**(2,675)**	48,897
Prepaid expenses		**(9,623)**	3,737
Accounts payable and accrued liabilities		**11,444**	17,676
Changes in Working Capital Balances		**(854)**	70,310
Net Cash Used by Operating Activities		**(311,556)**	(329,567)
INVESTING ACTIVITIES			
Short-term investments		**(1,395,628)**	155,878
Property and equipment		**-**	(1,787)
Acquisition of patent rights	15	**(3,549)**	(19,595)
Net Cash Provided By (Used by) Investing Activities		**(1,399,177)**	134,496
FINANCING ACTIVITIES			
Subscription received in advance (net of costs)	9	**1,980,052**	-
Net Cash Provided by Financing Activities		**1,980,052**	-
CHANGE IN CASH DURING THE PERIOD		**269,319**	(195,071)
Cash, Beginning of Period		**255,557**	309,991
Cash, End of Period		**524,876**	114,920
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)

	Common Shares	(note 9)	Warrants	(note 9)	Contributed	Subscriptions received in		
	Number	Amount	Number	Amount	Surplus	advance	Deficit	Total
	#	$	#	$	$	$	$	$
Balance, October 31, 2012	119,623,636	24,761,758	29,161,942	648,281	2,703,297	-	(22,044,647)	6,068,689
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(531,380)	(531,380)
Transactions with owners of the Company, recognized directly in equity								
Subscriptions received in advance (note 9)	-	-	-	-	-	1,980,052	-	1,980,052
Warrants expired	-	-	(2,350,284)	-	-	-	-	-
Share-based compensation (note 9)	-	-	-	-	58,169	-	-	58,169
Balance, January 31, 2013	119,623,636	24,761,758	26,811,658	648,281	2,761,466	1,980,052	(22,576,027)	7,575,530

	Common Shares	(note 9)	Warrants	(note 9)	Contributed	Subscriptions received in		
	Shares	Amount	Number	Amount	Surplus	advance	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	-	-	-	-	-	-	(625,833)	(625,833)
Transactions with owners of the Company, recognized directly in equity								
Warrants expired	-	-	(1,341,000)	-	-	-	-	-
Share-based compensation (note 9)	-	-	-	-	11,251	-	-	11,251
Balance, January 31, 2011	95,147,277	20,811,715	16,807,639	137,466	2,397,013	-	(20,102,452)	3,243,742

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 and on September 20, 2006, the Company 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 commercially-viable treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells places 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 March 26, 2013 no products are in commercial production or use.

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

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed consolidated interim financial statements for the Three Months Ended January 31, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements have been prepared in compliance with International Accounting Standard 34 ("IAS 34") Interim Financial Reporting. 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.

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and in effect as of March 25, 2013, 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, 2013 could result in restatement of these condensed consolidated interim financial statements.

(b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the fair valuation of certain financial instruments.

These condensed consolidated interim 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.

(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. We have applied significant estimates and assumptions to the measurement and timing of period of use of intangible assets and to valuing share-based compensation and warrants. These unaudited condensed consolidated interim financial statements are based on the accounting policies and estimates consistent with those used and described in note 2(c) and 3 of the consolidated financial statements for the year ended October 31, 2012.

The estimates and underlying assumptions are reviewed on an ongoing basis. Actual results could differ from these estimates. 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.

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.

iii 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 9.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's principal accounting policies were outlined in the Company's annual audited consolidated financial statements for the year ended October 31, 2012 and have been applied consistently to all periods presented in these condensed consolidated interim financial statements. These statements should be read in conjunction with the annual audited consolidated financial statements for the year ended October 31, 2012.

New standards and interpretations

The adoption of the following two policies was effective for annual periods commencing after January 2012 which for the Company was November 1, 2012.

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 assessed that the amendment did not have a material impact on the consolidated 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 assessed that the amendment did not have a material impact on the consolidated financial statements.

New standards and interpretations not yet effective

IFRS 9, *Financial Instruments: Classification and Measurement*

IFRS 9 (2010) reflects the first phase of the IASB's work on the replacement of IAS 39, *Financial instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held to maturity, available for sale, and loans and receivables. The new classification will depend 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 holds.

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 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. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

Annual Improvements to IFRSs 2009-2011 Cycle

In May 2012, the IASB published Annual Improvements to IFRS – 2009-2011 Cycle as part of its annual improvements process to make non-urgent but necessary amendments to IFRS. These amendments are effective for annual periods beginning on or after January 1, 2013 with retrospective application. The Company intends to adopt the amendments to the standards in its financial statements for the annual period beginning on November 1, 2013. The extent of the impact of the adoption of the amendments has not yet been determined.

4. SHORT-TERM INVESTMENTS

As at January 31, 2013 the Company held cash reserves which have been placed in short-term investments in the principal amount of $5,475,000 with maturity dates ranging from July 2015 to January 2016, together with accrued interest to date of $37,268. While the deposits have a maximum three year term, the Company intends to utilize these funds within the year 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 rates varying from 1.15% to 1.25% per annum for the first year, with interest compounding annually.

Amounts in Canadian Dollars

5. AMOUNTS RECEIVABLE

	January 31, 2013	October 31, 2012
Sales Tax Credit Receivable	$10,005	$7,330

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 income tax returns are filed with a corresponding credit to research and development expense. The amounts 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. EQUIPMENT

	Computer Equipment $
Cost	
Balance, October 31, 2011	14,970
Additions	1,788
Balance , October 31, 2012 and January 31, 2013	16,758
Accumulated depreciation	
Balance, October 31, 2011	8,472
Depreciation for the year	2,734
Balance, October 31, 2012	11,206
Depreciation for the period	420
Balance, January 31, 2013	11,626
Net carrying amounts	
October 31, 2011	6,498
October 31, 2012	5,552
January 31, 2013	5,132

Amounts in Canadian Dollars

7. INTANGIBLE ASSETS

	Patent licenses $	Intellectual property $	Total $
Cost			
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
Additions	1,993	-	1,993
Balance, January 31, 2013	4,492,319	2,191,856	6,684,175
Accumulated amortization			
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
Amortization for the period	119,500	55,065	174,565
Balance, January 31, 2013	3,419,894	1,696,275	5,116,169
Net carrying amounts			
October 31, 2011	1,607,882	770,904	2,378,786
October 31, 2012	1,189,932	550,646	1,740,578
January 31, 2013	1,072,425	495,581	1,568,006

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at January 31, 2013 $	As at October 31, 2012 $
Accounts Payable	78,887	80,654
Accrued Liabilities	64,951	53,296
	143,838	133,950

9. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS

Authorized

Unlimited number of common shares, without par value

Common shares issued – three months ended January 31, 2013

On January 21, 2013 the Company announced that it had arranged a non-brokered private placement in the amount of` $2,000,000. The offering consisted of 10 million units each sold at a price of $0.20 per unit.

Each unit will consist of one common share and one common share purchase warrant, with each warrant entitling the holder thereto to purchase one common share of the Company for a period of 36 months from closing of the offering at a price of $0.35 per share for the first 24 months and at a price of $0.40 per share for the last 12 months.

The Company received gross proceeds of $2,000,000 before the end of the quarter, which has been classified as subscription received in advance on the statement of financial position. Costs associated with the subscription including exchange fees and legal costs of $19,948 have been deducted from the gross proceeds.

Common shares issued – three months ended January 31, 2012

There were no common shares issued in the three months ended January 31, 2012.

Performance escrow shares

Included in issued capital stock and representing escrow shares as at January 31, 2011 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 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.

Amounts in Canadian Dollars

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

Warrants

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

	Number of Warrants	Exercise Price	Expiry Date
Warrants	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	February 28, 2013
		then at $0.35	February 28, 2015
	772,222	$0.20	March 28, 2013
		then at $0.35	March 30, 2015
	26,811,658		

Subsequent to January 31, 2013, the 90,410 warrants expired unexercised.

All warrants are exercisable on issuance. A summary of the status of warrants outstanding and exercisable as at January 31 and changes in the three month period then ended are summarized below:

	2013		2012	
	Number of warrants	Weighted Average Exercise Price	Number of warrants	Weighted Average Exercise Price
Balance outstanding, beginning of period	29,161,942	$0.23	18,148,369	$0.20
Expired	(2,350,284)	$0.20	(1,341,000)	$0.20
Balance outstanding, end of period	26,811,658	$0.24	16,807,369	$0.20

Amounts in Canadian Dollars

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

Incentive stock option plan

The Company has adopted an Incentive 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.

As at January 31, 2013 and October 31, 2012 there were 8,001,376 options outstanding representing 6.7% of the Company's issued and outstanding common shares.

No options were granted in the Three Months Ended January 31, 2013 or January 31, 2012

The following table summarizes information about the options outstanding as at January 31, 2013:

	Number of Options	Exercise Price	Expiry Date
	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
Total	8,001,376		

Subsequent to January 31, 2013, 130,000 options expired and 285,931 were surrendered and cancelled (note 17).

Amounts in Canadian Dollars

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

A summary of the status of the Plan as at January 31 and changes during the three month period then ended is as follows:

	2013		2012	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Balance outstanding, beginning of period	8,001,376	$0.16	4,597,208	$0.20
Expired	-	-	(300,000)	$0.40
Balance outstanding, end of period	8,001,376	$0.16	4,297,208	$0.19
Options Exercisable, end of period	5,764,876	$0.16	3,741,062	$0.19

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.

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.

The expense recognized for services received during the Three Months Ended January 31, 2013 is $58,169 (2012- $11,251)

The weighted average remaining contractual life for the stock options outstanding as at January 31, 2013 was 3.05 years (as at October 31, 2012- 3.3 years).The range of exercise prices for the options outstanding as at January 31, 2013 was $0.10 to $0.30 (as at October 31, 2012 - $0.10 to $0.30).

Amounts in Canadian Dollars

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. There are no amounts due to or due from related parties as at January 31, 2013 and October 31, 2012.

The following transactions in which the directors had an interest occurred in the Three Months Ended January 31:

	2013 $	2012 $
Consulting fees	0	0
Director fees	0	0
Share-based compensation	20,426	0
Total expense	20,426	0

Compensation for key management personnel of the company other than directors for the Three Months Ended January 31 is as follows:

	2013 $	2012 $
Salaries and fees	80,625	63,750
Benefits	10,233	4,901
Share-based compensation	20,060	7,725
Total personnel expenses	110,918	76,376

Key management personnel, including the directors, control 2.4% of the issued common shares of the Company as at January 31, 2013.

Amounts in Canadian Dollars

11. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLIMENTARY INFORMATION

Components of the research and development expenses for the Three Months Ended January 31 are as follows:

	2013 $	2012 $
Supplies and contract payments	51,182	123,685
Salaries, and benefits	130,792	116,242
Patent Fees	42,052	34,990
Depreciation of property & equipment	378	472
Amortization of intangible assets	174,565	217,601
Share-based compensation	31,712	8,603
Contributions and tax credits	(8,994)	(245)
Total expense	421,687	501,348

Components of the general and administrative expenses for the Three Months Ended January 31 are as follows:

	2013 $	2012 $
Other costs	39,196	47,293
Investor relations	28,971	49,860
Consulting fees	27,190	26,509
Depreciation of property & equipment	42	53
Share-based compensation	26,457	2,648
Total expense	121,856	126,363

12. FINANCE INCOME AND FINANCE COSTS

Finance costs consist of bank charges amounting to $313 in Three Months Ended January 31, 2013 (2012- bank charges of $297 and exchange loss of $1,246) and finance income comprises interest income amounting to $12,313 and an exchange gain of $163 in Three Months Ended January 31, 2013 (2012- $3,421 of interest income).

Amounts in Canadian Dollars

13. PERSONNEL EXPENSES

Personnel expenses for the Three Months Ended January 31 are as follows:

	2013	2012
	$	$
Salaries	114,121	101,465
Consulting fees	20,625	18,750
Benefits	16,672	14,778
Share-based compensation	28,571	11,251
Total expense	179,989	146,244

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 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 various points 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.

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

Significant non-cash transactions for the Three Months Ended January 31 included accruing $10,600 (October 31, 2012 – $12,156) in patent costs.

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. EVENTS AFTER THE REPORTING PERIOD

On February 19, 2013 the Company closed its non-brokered private placement that was announced on January 21, 2013, consisting of 10,000,000 units at a price of $0.20 per unit for gross proceeds of $2,000,000. Each unit comprises one common share and one common share purchase warrant, with each warrant entitling the holder thereof to purchase one common share of the Company for 36 months at a price of $0.35 per share for the first 24 months and at a price of $0.40 per share for the last 12 months.

In connection with the closing of the offering, the Company paid a commission of $140,000 and issued 700,000 finder's warrants. Each warrant entitles the holder to purchase one common share of the Company at a price of $0.20 for a period of 24 months.

On March 19, 2013 a total of 285,931 stock options were surrendered and consent given by the optionee's to the cancellation of such options. The stock options had exercise prices ranging from $0.15 to $0.19 per share. As a result of this cancellation and the expiry of 130,000 stock options in March 2013, the total number of stock options outstanding as of the date of this report is 7,585,445.

On March 19, 2013, the Company granted an additional 285,931 finder's warrants in connection with the offering, with regulatory approval received March 22, 2013. Such warrants entitle the holder to purchase one common share of the Company at a price of $0.20 for a period of 24 months.