SERNOVA CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED OCTOBER 31, 2013 AND 2012

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, 2013 and 2012 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, 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 auditors consider 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, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

February 26, 2014

NEXIA INTERNATIONAL

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

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

	Note	October 31, 2013	October 31, 2012
ASSETS			
Current assets			
Cash		$ 273,605	$ 255,557
Short-term investments		4,702,301	4,104,164
Amounts receivable	4	51,091	7,330
Prepaid expenses		131,348	89,458
Total current assets		5,158,345	4,456,509
Non-current assets			
Equipment and furniture, net	5	19,671	5,552
Intangible assets, net	6	1,065,755	1,740,578
Total non-current assets		1,085,426	1,746,130
Total assets		$ 6,243,771	$ 6,202,639
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 225,148	$ 133,950
Total current liabilities		225,148	133,950
EQUITY			
Common shares	8	26,314,323	24,761,758
Warrants	8	929,973	648,281
Contributed surplus	8	2,821,895	2,703,297
Deficit		(24,047,568)	(22,044,647)
Total equity		6,018,623	6,068,689
Total liabilities and equity		$ 6,243,771	$ 6,202,639

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 11)
Events after the balance sheet date (Note 16)

Approved and authorized by the Board on February 26, 2014:

"Dr. George Adams" Director
Dr. George Adams

"Dr. Philip Toleikis" Director
Dr. Philip Toleikis

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, 2013	October 31, 2012
EXPENSES			
Research and development	10	$ 1,574,614	$ 1,919,411
General and administrative	10	490,522	683,974
		2,065,136	2,603,385
OTHER ITEMS			
Finance income		(63,795)	(39,311)
Finance costs		1,580	3,954
		(62,215)	(35,357)
Loss and comprehensive loss for the year		$ 2,002,921	$ 2,568,028
Weighted average number of common shares		123,120,451	107,390,494
Basic and diluted loss per common share		$ (0.02)	$ (0.02)

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, 2013	October 31, 2012
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Loss for the year	$ (2,002,921)	$ (2,568,028)
Non-cash items:		
Depreciation of equipment and furniture	2,760	2,734
Patent licence and intellectual property amortization	710,503	696,231
Share-based compensation	118,598	345,501
Interest accrued on short-term investments	(48,137)	(29,164)
	(1,219,197)	(1,552,726)
Changes in non-cash working capital balances:		
Amounts receivable	(43,761)	50,278
Prepaid expenses	(41,890)	(74,569)
Accounts payable and accrued liabilities	99,802	7,977
Changes in working capital balances:	14,151	(16,314)
Net cash used in operating activities	(1,205,046)	(1,569,040)
INVESTING ACTIVITIES		
Short-term investments, net	(550,000)	(2,866,881)
Acquisition of equipment	(16,879)	(1,788)
Acquisition of patent rights	(44,284)	(51,117)
Net cash used in investing activities	(611,163)	(2,919,786)
FINANCING ACTIVITIES		
Issue of common shares	1,750,000	3,106,630
Issue of warrants	250,000	523,488
Share issue costs	(168,143)	(43,783)
Issue of common shares on exercise of warrants	-	811,582
Issue of common shares on exercise of stock options	2,400	36,475
Net cash provided by financing activities	1,834,257	4,434,392
Change in cash during the year	18,048	(54,434)
Cash, beginning of year	255,557	309,991
Cash, end of year	$ 273,605	$ 255,557
Supplemental disclosure with respect to cash flows		
Finders' warrants issued	$ 60,240	$ --

See accompanying notes to the consolidated financial statements.

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

	Common Shares	**(Note 8)**	**Warrants**	**(Note 8)**			
	Number	**Amount**	**Number**	**Amount**	**Contributed Surplus**	**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
Loss and comprehensive loss for the year	-	-	-	-	-	(2,002,921)	(2,002,921)
Transactions with owners of the Company, recognized directly in equity							
Issue of units under private placement	10,000,000	1,750,000	10,000,000	250,000	-	-	2,000,000
Share issue costs	-	(199,835)	-	(28,548)	-	-	(228,383)
Finder's warrants issued	-	-	985,931	60,240	-	-	60,240
Warrants expired	-	-	(8,994,610)	-	-	-	-
Issue of common shares on exercise of stock options	20,000	2,400	-	-	-	-	2,400
Share-based compensation (Note 8)	-	-	-	-	118,598	-	118,598
Balance, October 31, 2013	129,643,636	26,314,323	31,153,263	929,973	2,821,895	(24,047,568)	6,018,623
Balance, October 31, 2011	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)
Transactions with owners of the Company, recognized directly in equity							
Issue of common shares on exercise of warrants	4,075,277	818,580	(4,075,277)	(6,998)	-	-	811,582
Issue of units under offering memorandum	20,167,322	3,106,630	20,167,332	523,488	-	-	3,630,118
Common shares returned to treasury	(40,000)	(1,500)	-	-	-	-	(1,500)
Share issue costs	-	(38,108)	-	(5,675)	-	-	(43,783)
Warrants expired	-	-	(5,078,752)	-	-	-	-
Issue of common shares on exercise of stock options	273,750	64,441	-	-	(27,966)	-	36,475
Share-based compensation (Note 8)	-	-	-	-	345,501	-	345,501
Balance, October 31, 2012	119,623,626	$ 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 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 6) 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 placed into implanted prevascularized medical devices and protected from immune system attack. The Company is focused on the manufacture and clinical evaluation of the Cell Pouch™ for insulin-dependent diabetes, and research and development of the Cell Pouch™ to treat other chronic diseases. As at the date of this report 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 at least the next twelve months.

2. BASIS OF PRESENTATION

(a) Statement of compliance

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) Basis of measurement

The financial statements of the Company for the year ending October 31, 2013 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").

The policies applied in these consolidated financial statements are based on IFRS issued and in effect as of February 26, 2014, the date the Board of Directors approved these statements.

2. BASIS OF PRESENTATION (cont'd…)

(c) Use of estimates and judgements

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 loss 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 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 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.

Basis of consolidation

These consolidated financial statements include the accounts of 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 have Canadian dollars 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 assets at 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 an 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 and other assets

Equipment and other assets are stated at cost less accumulated depreciation. Cost includes expenditures that are 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.

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

Equipment and other assets (cont'd...)

The estimated useful lives and the methods of depreciation for the current and comparative years have been calculated as follows:

- Furniture and fixtures – 20% declining balance
- Computer equipment – 30% declining balance
- Laboratory equipment – 20% declining balance

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 April 30, 2015.

Impairment of long-lived assets

The Company's long-lived assets are 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.

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

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.

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-repayable 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 meeting 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.

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

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 the estimates.

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 surplus are 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.

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

Income taxes (cont'd...)

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.

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 investments are 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, 2013, 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

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 effective date is unknown due to postponement. 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.

(Expressed in Canadian dollars)

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

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

IFRS 10, *Consolidated Financial Statements*

This amendment provides a single model to be applied in the control analysis for all investees. The amendments issued in June 2012 simplify the process of adopting IFRS 10 and provide additional relief from certain disclosures. 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 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 November 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

4. AMOUNTS RECEIVABLE

	October 31, 2013	October 31, 2012
Government grant receivable	$ 29,537	$ -
Sales tax credit receivable	21,554	7,330
	$ 51,091	$ 7,330

(Expressed in Canadian dollars)

4. AMOUNTS RECEIVABLE (cont'd…)

The Company is eligible for both federal and provincial investment tax credits on its qualifying research activities. Federal investment tax credits are not refundable but can be used to reduce income taxes otherwise payable. Provincial investment tax credits are refundable and these amounts are recorded as an asset in the period in which there is reasonable assurance that such refunds will be received 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.

On March 25, 2013, the Company was awarded a third non-repayable financial contribution of up to $254,300 from the National Research Council of Canada Industrial Research Assistance Program, along with technical and business orientated advisory services, for the optimization of its Sertolin™ technology within its Cell Pouch™ for the treatment of chronic disease. The Company will be reimbursed for 80% of designated salary costs to a maximum of $184,300, and 50% of contractor fees to a maximum of $70,000. The contribution will be payable to the Company to a maximum of $111,500 in the period to March 31, 2013 and a further $100,000 in the year ending March 31, 2014, and the balance of $42,800 in the year ending March 31, 2015.

To the end of October 31, 2013, the Company had claimed $211,500 of the grant receivable, leaving the balance of $42,800 to be claimed in the period to October 30, 2014.

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

5. EQUIPMENT AND FURNITURE

	Computer Equipment	Office Furniture	Laboratory Equipment	Total
Cost				
Balance, October 31, 2011	$ 14,970	$ -	$ -	$ 14,970
Additions	1,788	-	-	1,788
Balance, October 31, 2012	16,758	-	-	16,758
Additions	3,565	735	12,579	16,879
Balance, October 31, 2013	$ 20,323	735	12,579	33,637
Accumulated depreciation				
Balance, October 31, 2011	$ 8,472	$ -	$ -	$ 8,472
Depreciation for the year	2,734	-	-	2,734
Balance, October 31, 2012	11,206	-	-	11,206
Depreciation for the year	2,020	111	629	2,760
Balance, October 31, 2012	$ 13,226	$ 111	$ 629	$ 13,966
Net carrying amounts				
October 31, 2012	$ 5,552	$ -	$ -	$ 5,552
October 31, 2013	7,097	624	11,950	19,671

(Expressed in Canadian dollars)

6. 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	35,680	-	35,680
Balance, October 31, 2013	$ 4,526,006	$ 2,191,856	$ 6,717,862
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 year	490,245	220,258	710,503
Balance, October 31, 2013	$ 3,790,639	$ 1,861,468	$ 5,652,107
Net carrying amounts			
October 31, 2012	$ 1,189,932	$ 550,646	$ 1,740,578
October 31, 2013	735,367	330,388	1,065,755

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31, 2013	October 31, 2012
Accounts payable	$ 110,952	$ 80,654
Accrued liabilities	114,196	53,296
	$ 225,148	$ 133,950

The Company’s exposure to credit and currency risks related to accounts payable and accrued liabilities is presented in Note 15.

8. COMMON SHARES, WARRANTS AND CONTRIBUTED SURPLUS

Authorized

Unlimited number of common shares, without par value

Summary of Financings – year ended October 31, 2013

On February 19, 2013 the Company completed a non-brokered private placement for gross proceeds of $2,000,000. The offering consisted of 10,000,000 units sold at a price of $0.20 per unit. Each unit consisted 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 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 warrants were ascribed a value of $250,000 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.

Costs associated with the private placement totaled $228,383 including cash fees of $168,143 and the issue of 985,931 finder's warrants valued at $60,240, which have been deducted from the gross proceeds. Each Finder's warrant entitles the holder to purchase one common share of the Company at a price of $0.20 for a period of 24 months from the date of issuance.

Summary of Financings – year ended October 31, 2012

In February 2012, the Company completed the first tranche of a non-brokered private placement of 19,395,100 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.

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.

There were no finders' fees due or payable on the private placements in February and March 2012 but other closing costs of $43,783 were incurred.

(Expressed in Canadian dollars)

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

Performance escrow shares

Included in issued common shares and representing escrow shares as at October 31, 2013 are 3,472,500 (2012 – 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 involving Sertolin^{TM};
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 involving Sertolin^{TM}.

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

Warrants

The following table summarizes information about the warrants outstanding as at October 31, 2013:

	Number of Warrants	Exercise Price	Expiry Date
Warrants			
	19,395,110	$0.35	February 28, 2015
	772,222	$0.35	March 30, 2015
	985,931	$0.20	February 19, 2015
	10,000,000	$0.35	February 19, 2015
		then at $0.40	February 19, 2016
	31,153,263		

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

Period Ended October 31	2013	2012
Dividend yield	0%	N/A
Expected volatility	83%	N/A
Risk free interest rate	1.2%	N/A
Expected life of warrants	2 years	N/A

(Expressed in Canadian dollars)

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

Warrants (cont'd…)

All warrants are exercisable on issuance. A summary of the status of warrants outstanding and exercisable as at October 31 and changes during the year 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 year	29,161,942	$0.23	18,148,639	$ 0.20
Issued	10,985,931	$0.34	20,167,332	$ 0.20
Exercised	-	-	(4,075,277)	$0.20
Warrants re-pricing	(20,167,332)	$0.20	(6,553,916)	$0.20
Warrants re-pricing	20,167,332	$0.35	6,553,916	$0.35
Expired	(8,994,610)	$0.31	(5,078,752)	$0.20
Balance outstanding, end of year	31,153,263	$0.35	29,161,942	$0.23

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 26, 2013, 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 preceding the date the option is granted.

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

During the year ended October 31, 2013, the Company granted 160,000 options to a consultant at an exercise price of $0.15 per share with an expiry date of September 11, 2015. The fair value of the options granted is based on the market price for the services provided and, if not determinable, fair value is estimated using a valuation technique to estimate what the value of the options would have been on the measurement date in an arm's length transaction between knowledgeable, willing parties. The weighted average grant-date fair value of the stock options granted in the year was $0.08.

During the year ended October 31, 2012, the Company granted 4,207,918 stock options to directors, officers, employees and consultants at exercise prices ranging from $0.14 per share to $0.19 per share, with expiry dates ranging from March 2014 to April 2017. The weighted average grant-date fair value of the stock options granted during the year ended October 31, 2012 was $0.10.

(Expressed in Canadian dollars)

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

Incentive stock option plan (cont'd…)

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

	Number of Options	Exercise Price	Expiry Date
Options	75,320	$ 0.18	March 6, 2014[1]
	700,000	0.10	April 28, 2014
	280,750	0.14	June 8, 2014
	471,875	0.14	June 8, 2014
	380,000	0.12	September 5, 2015[2]
	160,000	0.15	September 11, 2015
	250,000	0.20	October 28, 2015
	1,492,500	0.15	October 28, 2015[3]
	670,000	0.14	March 6, 2017[4]
	330,000	0.18	March 6, 2017[5]
	2,365,000	0.18	April 18, 2017
	500,000	0.18	April 19, 2017
	7,675,445		

(1) Subsequent to the year ended October 31, 2013, 10,500 of these options were cancelled unexercised.
(2) Subsequent to the year ended October 31, 2013, 50,000 of these options were cancelled unexercised.
(3) Subsequent to the year ended October 31, 2013, 68,750 of these options were cancelled unexercised.
(4) Subsequent to the year ended October 31, 2013, 105,000 of these options were cancelled unexercised.
(5) Subsequent to the year ended October 31, 2013, 60,000 of these options were cancelled unexercised.

As at October 31, 2013 there were 7,675,445 options outstanding representing 5.8% of the Company's issued and outstanding common shares (October 31, 2012 – 8,001,376 options outstanding representing 6.7%).

A summary of the status of the Plan as at October 31 and changes during the year 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 year	8,001,376	$0.16	4,597,208	$0.20
Granted	160,000	$0.15	4,207,918	$0.17
Expired	(180,000)	$0.25	(530,000)	$0.64
Cancelled	(285,931)	$0.18	-	-
Exercised	(20,000)	$0.12	(273,750)	$0.13
Balance outstanding, end of year	7,675,445	$0.16	8,001,376	$0.16
Options exercisable, end of year	7,054,195	$0.16	5,607,626	$0.15

(Expressed in Canadian dollars)

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

Incentive stock option plan (cont'd…)

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

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

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

Year Ended October 31	2013	2012
Dividend yield	0%	0%
Expected volatility	137%	89%
Risk free interest rate	1.2%	1.3%
Expected life of options	2 years	4.8 years

The expense recognized for employee services received during the year ended October 31, 2013, which is included in the consolidated statement of loss and comprehensive loss is $118,598 (2012- $345,501).

The weighted average remaining contractual life for the stock options outstanding as at October 31, 2013 was 2.1 years (2012 – 3.3 years).The range of exercise prices for the options outstanding as at October 31, 2013 was $0.10 to $0.20 (2012 - $0.10 to $0.30).

During the year ended October, 2013, 20,000 stock options were exercised at an average price of $0.12 per share for gross proceeds of $2,400. During the year ended October 31, 2012, 273,750 stock options were exercised at an average price of $0.13 per share for gross proceeds of $36,475.

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 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 October 31, 2013 and 2012.

(Expressed in Canadian dollars)

9. RELATED PARTY TRANSACTIONS (cont'd…)

The following transactions in which the directors had an interest were as follows:

	2013	2012
Consulting fees	$ -	$ -
Director fees	-	-
Share-based compensation	28,638	121,251
Total expense	$ 28,638	$ 121,251

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

	2013	2012
Salaries and consulting fees	$ 322,500	$ 390,000
Benefits	29,724	29,477
Share-based compensation	51,858	94,968
Total expense	$ 404,082	$ 514,445

Key management personnel, including the directors, control 2.0% of the issued common shares of the Company as at October 31, 2013.

Included in accounts payable and accrued liabilities at October 31, 2013 is $33,750 due to management personnel of the Company (2012 - $18,750).

10. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

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

	2013	2012
Salaries, supplies and contract payments	$ 943,249	$ 950,704
Patent fees and costs	141,590	157,056
Depreciation of equipment and furniture	2,484	2,461
Amortization of intangible assets	710,503	696,231
Share-based compensation	74,401	168,898
Contributions and tax credits	(297,613)	(55,939)
Total expense	$ 1,574,614	$ 1,919,411

(Expressed in Canadian dollars)

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

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

	2013	2012
Other costs	$ 200,845	$ 229,030
Investor relations	127,314	128,494
Consulting fees	117,890	149,574
Depreciation of equipment and furniture	276	273
Share-based compensation	44,197	176,603
Total expense	$ 490,522	$ 683,974

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 previous 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 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, and may include travel and a portion of drug-or procedure – related expenses or transplantation expenses not covered by insurance. The total commitment over the duration of the trial is expected to be approximately $2,000,000 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, 2014. Similar payments will be required for subsequent years.

The Company has an annual commitment of $40,000 for the rental of laboratory space which is short-term in nature but essentially subject to an annual renewal.

12. INCOME TAXES

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

	2013	2012
Loss for the year before income tax	$ (2,002,921)	$ (2,568,028)
Expected income tax recovery	$ (512,000)	$ (688,000)
Change in statutory, foreign tax and foreign exchange rates	(73,000)	(11,000)
Permanent differences	(10,000)	59,000
Share issue costs	(58,000)	(10,000)
Impact of tax credits and other	-	(195,000)
Change in unrecognized deductible temporary differences	653,000	845,000
Total income tax (recovery)	$ -	$ -

(Expressed in Canadian dollars)

12. INCOME TAXES (cont'd…)

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 unrecognized temporary differences and tax losses are as follows:

	2013	Expiry Date Range	2012
Temporary Differences	**$**		**$**
Equipment	102,000	No expiry date	8,000
Share issue costs	302,000	2034 to 2037	195,000
Research and development pools	3,632,000	No expiry date	3,057,000
Federal tax credit	810,000	No expiry date	708,000
Ontario tax credit	106,000	No expiry date	103,000
Non-capital losses available for future periods	9,878,000	2015 to 2033	8,505,000

13. 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 equipment and furniture located in Canada.

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

14. 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, 2012.

15. 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 amounts 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, 2013, the Company had cash and short-term investments of $4,975,906 (2012 - $4,359,721) which resources are available to settle current liabilities of $225,148 (2012 - $133,950). 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 and short-term investment balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The principal amount of short-term investments as at October 31, 2013 of $4,702,301 (2012 – $4,104,164) is held in interest-bearing guaranteed investment certificates with its bank. While the deposits have a maximum three year term, the liquidity of the short-term investments is restricted in the second and third years. The Company intends to manage such restrictions on liquidity and accordingly the deposits are classified as current assets. The investments are cashable with notice on their anniversary date in any month without penalty within the first year. A 1% change in interest rates would have an effect of $47,023 on interest income.

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

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 a foreign currency, which is currently only 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, 2013 are denominated in United States dollars. There are no active operations in the US, with the exception of patent prosecution and maintenance costs, which are estimated at approximately US$200,000 (2012 – US$200,000) annually in aggregate. A strengthening of the US dollar against the Canadian dollar by 1% would cost the Company approximately an additional $2,000.

16. EVENTS AFTER THE BALANCE SHEET DATE

The Company granted 300,000 options with an exercise price of $0.15 exercisable for a period of two years.

The Company granted 3,060,000 options with an exercise price of $0.15 exercisable for a period of five years.