

Sernova Corp.

Condensed Consolidated Interim Financial Statements
For the Three Months Ended January 31, 2012
(Unaudited)

To the Shareholders of Sernova Corp.

Three Months Ended January 31, 2012

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.

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

| | Note | As at January 31, 2012 | As at October 31, 2011 | As at November 1, 2010 |
|--|------|------------------------------|------------------------------|------------------------------|
| <u>ASSETS</u> | | | | |
| | | \$ | \$ | \$ |
| CURRENT ASSETS | | | | |
| Cash | | 114,920 | 309,991 | 735,142 |
| Short-term investments | 4 | 1,055,662 | 1,208,119 | - |
| Accounts receivable | 5 | 10,211 | 59,108 | 113,521 |
| Prepaid expenses | | 11,152 | 14,889 | 30,996 |
| Total current assets | | <u>1,191,945</u> | <u>1,592,107</u> | <u>879,659</u> |
| NON-CURRENT ASSETS | | | | |
| Property and equipment, net | 6 | 7,760 | 6,498 | 5,461 |
| Intangible assets, net | 7 | 2,183,792 | 2,378,786 | 3,149,366 |
| Total non-current assets | | <u>2,191,552</u> | <u>2,385,284</u> | <u>3,154,827</u> |
| Total assets | | <u>3,383,497</u> | <u>3,977,391</u> | <u>4,034,486</u> |
| <u>LIABILITIES</u> | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued liabilities | 8 | 139,755 | 119,067 | 143,997 |
| Total current liabilities | | <u>139,755</u> | <u>119,067</u> | <u>143,997</u> |
| <u>EQUITY</u> | | | | |
| Share capital | 9 | 20,811,715 | 20,811,715 | 19,160,911 |
| Warrants | 9 | 137,466 | 137,466 | 12,418 |
| Contributed surplus | | 2,397,013 | 2,385,762 | 2,165,204 |
| Deficit | | (20,102,452) | (19,476,619) | (17,448,044) |
| Total equity | | <u>3,243,742</u> | <u>3,858,324</u> | <u>3,890,489</u> |
| Total liabilities and equity | | <u>3,383,497</u> | <u>3,977,391</u> | <u>4,034,486</u> |

Nature and continuance of operations (Note 2)

Approved by the Board and authorized for issue on April 18, 2012

Signed "Dr. George Adams", Director

Signed "Dr. Philip Toleikis", Director

See accompanying notes to the unaudited condensed consolidated interim financial statements

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

| | Share Capital Shares # | (note 9) Amount \$ | Warrants Number # | (note 9) Amount \$ | Contributed Surplus \$ | Deficit \$ | Total \$ |
|--|------------------------------|--------------------------|-------------------------|--------------------------|------------------------------|---------------|-------------|
| Balance, October 31, 2011 | 95,147,277 | 20,811,715 | 18,148,639 | 137,466 | 2,385,762 | (19,476,619) | 3,858,324 |
| Net loss and comprehensive loss for the period | - | - | - | - | - | (625,833) | (625,833) |
| Warrants expired | - | - | (1,341,000) | - | - | - | - |
| Share-based compensation | - | - | - | - | 11,251 | - | 11,251 |
| Balance, January 31, 2012 | 95,147,277 | 20,811,715 | 16,807,639 | 137,466 | 2,397,013 | (20,102,452) | 3,243,742 |

| | Share Capital Shares # | (note 9) Amount \$ | Warrants Number # | (note 9) Amount \$ | Contributed Surplus \$ | Deficit \$ | Total \$ |
|--|------------------------------|--------------------------|-------------------------|--------------------------|------------------------------|---------------|-------------|
| Balance, November 1, 2010 | 83,753,824 | 19,160,911 | 9,124,836 | 12,418 | 2,165,204 | (17,448,044) | 3,890,489 |
| Net loss and comprehensive loss for the period | - | - | - | - | - | (569,772) | (569,772) |
| Exercise of warrants | 30,000 | 3,302 | (30,000) | (302) | - | - | 3,000 |
| Shares issued under offering memorandum | 4,266,667 | 654,000 | 2,133,334 | - | - | - | 654,000 |
| Share Issuance costs | - | (17,455) | 21,000 | 1,450 | - | - | (16,005) |
| Share-based compensation | - | - | - | - | 105,181 | - | 105,181 |
| Balance, January 31, 2011 | 88,050,491 | 19,800,758 | 11,249,170 | 13,566 | 2,270,385 | (18,017,816) | 4,066,893 |

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, 2012 \$ (unaudited) | Three Months Ended January 31, 2011 \$ (unaudited) |
|---|------|--|--|
| EXPENSES | | | |
| Research and development | 11 | 501,348 | 430,398 |
| General and administrative | 11 | 126,363 | 142,713 |
| | | <u>627,711</u> | <u>573,111</u> |
| Finance income | 12 | (3,421) | (3,672) |
| Finance costs | 12 | 1,543 | 333 |
| | | <u>(1,878)</u> | <u>(3,339)</u> |
| Loss and comprehensive loss for the period | | <u><u>625,833</u></u> | <u><u>569,772</u></u> |
| Weighted average number of shares | | <u><u>91,674,777</u></u> | <u><u>83,901,324</u></u> |
| Basic and Diluted Loss per Common Share | | <u><u>(0.01)</u></u> | <u><u>(0.01)</u></u> |

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, 2012 | Three Months Ended January 31, 2011 |
|---|----------|---|---|
| | | \$ (unaudited) | \$ (unaudited) |
| CASH PROVIDED BY (USED FOR) | | | |
| OPERATING ACTIVITIES | | | |
| Net loss for the period | | (625,833) | (569,772) |
| Items Not Requiring a Current Outlay of Cash: | | | |
| Depreciation of equipment | | 525 | 683 |
| Accrual of government contribution | 15 | - | (88,004) |
| Patent licence and intellectual property amortization | | 217,601 | 211,939 |
| Share-based compensation | | 11,251 | 105,181 |
| Interest accrued on short-term investments | | (3,421) | (1,472) |
| | | <u>(399,877)</u> | <u>(341,445)</u> |
| Changes in Non-Cash Working Capital Balances | | | |
| Accounts receivable | | 48,897 | 76,609 |
| Prepaid expenses | | 3,737 | 8,862 |
| Accounts payable and accrued liabilities | | 17,676 | (27,438) |
| Changes in Working Capital Balances | | <u>70,310</u> | <u>58,033</u> |
| Net Cash Used by Operating Activities | | <u>(329,567)</u> | <u>(283,412)</u> |
| INVESTING ACTIVITIES | | | |
| Short-term investments | | 155,878 | (850,000) |
| Property and equipment | | (1,787) | - |
| Patent licences | 15 | (19,595) | (24,775) |
| Net Cash Provided By (Used by) Investing Activities | | <u>134,496</u> | <u>(874,775)</u> |
| FINANCING ACTIVITIES | | | |
| Issue of share capital (net of issuance costs) | 9 and 15 | - | 637,995 |
| Issue of share capital on exercise of warrants | 9 | - | 3,000 |
| Net Cash Provided by Financing Activities | | <u>-</u> | <u>640,995</u> |
| (DECREASE) IN CASH DURING THE PERIOD | | | |
| Cash, Beginning of Period | | (195,071) | (517,192) |
| Cash, End of Period | | <u>309,991</u> | <u>735,142</u> |
| | | <u>114,920</u> | <u>217,950</u> |
| Income taxes paid | | Nil | Nil |
| Interest Paid | | Nil | Nil |

See accompanying notes to the unaudited condensed consolidated interim financial statements

SERNOVA CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

For The Three Months Ended January 31, 2012

(Expressed in Canadian Dollars unless otherwise noted)

1. CORPORATE PROFILE

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

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

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

In fiscal 2006, the Company acquired a sublicense to certain patent licences and intellectual property (note 7) and a subsidiary, Sertonex Inc. ("Sertonex"), and became engaged in the research and development of a commercially-viable treatment for insulin-dependent human diabetes and other metabolic, blood and neurological diseases with therapeutic cells placed into implanted prevascularized medical devices. The Company is focused on the manufacture and near-term clinical evaluation of the Cell Pouch™ for insulin-dependent diabetes. As at April 18, 2012 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) Basis of measurement and going concern**

These condensed consolidated interim financial statements have been prepared which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop and sustain profitable operations and to continue to raise adequate financing. The Company reported a consolidated net loss of \$625,833 for the Three Months Ended January 31, 2012 (2011 - \$569,772) and has working capital of \$1,052,190 and a deficit of \$20,102,452 as at January 31, 2012. Management is actively targeting sources of additional financing and collaborative partners which would assure continuation of the Company's operations and research and product development programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. While the Company has been successful in obtaining the required financing in the past there can be no assurance that the Company will be able to continue to raise funds. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include adjustments to the carrying value and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going-concern and such adjustments could be material.

SERNOVA CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three Months Ended January 31, 2012

(Expressed in Canadian Dollars unless otherwise noted)

(b) Statement of compliance

For all periods up to and including the year ended October 31, 2011, the Company presented its consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). These condensed consolidated interim financial statements for the Three Months Ended January 31, 2012 are the first the Company has prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Accordingly, the Company has prepared consolidated financial statements which comply with IFRS applicable for periods beginning on or after November 1, 2011 as described in the accounting policies in note 3. In preparing these condensed consolidated interim financial statements, the opening consolidated statement of financial position was prepared as at November 1, 2010, the Company's date of transition to IFRS. Note 21 explains the principal adjustments made by the Company in restating its Canadian GAAP consolidated statement of financial position as at November 1, 2010 and its previously published Canadian GAAP consolidated financial statements for the Year Ended October 31, 2011, to be in compliance with IFRS.

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

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and in effect as of April 18, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS or their interpretation, that are given effect in the Company's annual consolidated financial statements for the year ended October 31, 2012 could result in restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on change-over to IFRS.

(c) Use of estimates and judgements

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

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 accounts that require estimates as the basis for determining the stated amounts include accounting for investment tax credits recoverable, intangible assets, property and equipment, share-based compensation and income taxes, as more fully described in note 3.

SERNOVA CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three Months Ended January 31, 2012

(Expressed in Canadian Dollars unless otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost basis, except for the fair valuation of certain financial instruments. The Company's principal accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS consolidated statement of financial position at November 1, 2010, the date of transition to IFRS.

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Sernova Corp. and Sertocell Biotechnology (US) Corp. and Sertonex Inc., 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

The presentation currency of the Company and the functional currency of the Company and its subsidiaries is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at rates approximating those in effect at the time of the transactions. Monetary items are translated at the exchange rate in effect at the statement of financial position date and non-monetary items are translated at historical exchange rates.

Translation gains and losses are reflected in the consolidated statement of loss and comprehensive loss for the period.

Cash

Cash includes balances with banks and highly liquid investments with a maturity of three months or less.

Short-term investments

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

SERNOVA CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three Months Ended January 31, 2012

(Expressed in Canadian Dollars unless otherwise noted)

Property and equipment, net

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

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

Impairment of long-lived assets

The Company's long-lived assets, net are reviewed for an indication 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.

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 an intangible asset 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 expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

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

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

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use to October 31, 2015.

SERNOVA CORP.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

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Government assistance

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

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

Research and development costs

Expenditure on research and development activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is 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 expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. These criteria will be deemed by the Company to have been met when revenue is received by the Company and a determination that it has sufficient resources to market and sell its product offerings. Upon a determination that the criteria to capitalize development expenditures, the expenditure capitalized will include the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditures will be expensed as incurred.

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

Share-based compensation

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

SERNOVA CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three Months Ended January 31, 2012

(Expressed in Canadian Dollars unless otherwise noted)

Share-based compensation (cont'd)

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

The fair value of the stock options is measured at 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 comprehensive loss in the respective function line.

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

Operating Leases

Operating lease payments are recognized as an expense in the consolidated statement of net loss and comprehensive loss on a straight-line basis over the lease term.

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.

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

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

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

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.

SERNOVA CORP.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three Months Ended January 31, 2012

(Expressed in Canadian Dollars unless otherwise noted)

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. Consequently, there is no difference between basic loss per share and diluted loss per share.

Comprehensive loss

Comprehensive loss is the change in the Company's net assets that result from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit or loss.

Financial assets

The Company classifies its financial assets as either:

Financial assets at fair value through profit or loss ("FVTPL"), or
Loans and receivables

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

(i) Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading when:

- a) It has been acquired principally for the purpose of selling in the near future;
- b) It is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking;
- c) It is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of comprehensive loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

The Company has classified cash and short-term investments as fair value through profit or loss.

(ii) Effective interest method

The effective interest method calculates the amortized cost of the financial asset and allocates interest income over the corresponding period. The effective interest rate is that rate that discounts estimated future cash receipts over the expected life of the financial asset, or where appropriate, a shorter period.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognized at the transaction value and subsequently carried at cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the period in which they are recognized. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Company has classified its trade and other receivables and investment tax credits recoverable as loans and receivables.

(iv) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in profit or loss.

Objective evidence of impairment could include the following:

- a) Significant financial difficulty of the issuer or counterparty;
- b) Default or delinquency in interest or principal payments; or
- c) It has become probable that the borrower will enter bankruptcy or financial reorganization.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net profit or loss and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account.

(v) Derecognition of financial assets

A financial asset is derecognized when:

- a) The contractual right to the asset's cash flow expires; or
- b) If the Company transfers the financial asset and all risks and rewards of ownership to another entity.

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(Expressed in Canadian Dollars unless otherwise noted)

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct costs.

The Company has classified accounts payable and accrued liabilities and provisions as other financial liabilities.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period. The effective interest expense is included in finance cost in the consolidated statement of comprehensive loss.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Finance income and costs

Finance income comprises interest income on funds invested and net gains on foreign exchange. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings, bank charges, and net losses on foreign exchange.

Significant accounting estimates and assumptions

As explained in note 2, Basis of Presentation, the preparation of the consolidated financial statements requires the use of estimates and assumptions to be made in applying the accounting principles that affect the application of accounting policies and reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities.

The estimates and underlying assumptions are reviewed on an on-going basis. Judgements made by management in the application of IFRS that have a significant effect on the financial statements relate to the following:

Useful lives of key property and equipment and intangible assets

The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefit to be consumed by the Company.

Impairment of non-financial assets

The Company's impairment test is based upon value-in-use calculations that use a discounted cash flow model. The cash flows are derived from the projections for the period of the economic life of the asset and are sensitive to the discount rate used as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Share-based payments

The Company measures the cost of equity-settled transactions with officers, directors, employees and consultants by reference to the fair value of equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of these instruments, which is dependent upon the terms and conditions of the grant. This also requires determining the most appropriate inputs for the valuation model, including the expected life of the option, volatility, dividend yield and forfeiture rates.

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New standards and interpretations not yet effective

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

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

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

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

IFRS 9, Financial Instruments: 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.

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.

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4. SHORT-TERM INVESTMENTS

As at January 31, 2012 the Company held cash reserves which have been placed in four short-term investments in the principal amount of \$1,050,000 with maturity dates ranging from July 2014 to December 2014, together with accrued interest to date of \$5,662. 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.

5. ACCOUNTS RECEIVABLE

| | January 31, 2012 | October 31, 2011 | November 1, 2010 |
|--|---------------------|---------------------|---------------------|
| Government Contribution Receivable | - | \$17,131 | \$61,287 |
| Subscription Receivable | \$1,500 | \$1,500 | \$40,500 |
| Sales Tax and Investment Tax Credit Receivable | \$8,711 | \$40,477 | \$11,734 |
| | \$10,211 | \$59,108 | \$113,521 |

The Company's exposure to credit and currency risks related to trade and other receivables is presented in note 19.

To the end of January 31, 2012, the Company had received the final balance of \$17,131 of the contribution receivable from the National Research Council pursuant to the non-repayable financial contribution of \$275,000 awarded in September 2010.

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

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6. PROPERTY AND EQUIPMENT

| | Computer Equipment \$ |
|---------------------------------|-----------------------------|
| Cost | |
| Balance, November 1, 2010 | 10,732 |
| Additions | 4,238 |
| Balance, October 31, 2011 | 14,970 |
| Additions | 1,787 |
| Balance, January 31, 2012 | 16,757 |
| Accumulated depreciation | |
| Balance, November 1, 2010 | 5,271 |
| Depreciation for the year | 3,201 |
| Balance, October 31, 2011 | 8,472 |
| Depreciation for the period | 525 |
| Balance, January 31, 2012 | 8,997 |
| Net carrying amounts | |
| November 1, 2010 | 5,461 |
| October 31, 2011 | 6,498 |
| January 31, 2012 | 7,760 |

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7. INTANGIBLE ASSETS

| | Patent licenses | Intellectual property | Total |
|---------------------------------|--------------------|--------------------------|-----------|
| | \$ | \$ | \$ |
| Cost | | | |
| Balance, November 1, 2010 | 4,332,480 | 2,191,856 | 6,524,336 |
| Additions | 99,823 | - | 99,823 |
| Balance, October 31, 2011 | 4,432,303 | 2,191,856 | 6,624,159 |
| Additions | 22,606 | - | 22,606 |
| Balance, January 31, 2012 | 4,454,909 | 2,191,856 | 6,646,765 |
| Accumulated depreciation | | | |
| Balance, November 1, 2010 | 2,234,348 | 1,140,622 | 3,374,970 |
| Depreciation for the year | 590,073 | 280,330 | 870,403 |
| Balance, October 31, 2011 | 2,824,421 | 1,420,952 | 4,245,373 |
| Depreciation for the period | 147,518 | 70,082 | 217,600 |
| Balance, January 31, 2012 | 2,971,939 | 1,491,034 | 4,462,973 |
| Net carrying amounts | | | |
| November 1, 2010 | 2,098,132 | 1,051,234 | 3,149,366 |
| October 31, 2011 | 1,607,882 | 770,904 | 2,378,786 |
| January 31, 2012 | 1,482,970 | 700,822 | 2,183,792 |

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | As at January 31, 2012 | As at October 31, 2011 | As at November 1, 2010 |
|--------------------------------------|------------------------------|------------------------------|------------------------------|
| | \$ | \$ | \$ |
| Accounts Payable | 69,829 | 40,089 | 108,497 |
| Accrued Liabilities | 69,926 | 56,515 | 35,500 |
| Investment Tax Credit Refund Payable | - | 22,463 | - |
| | 139,755 | 119,067 | 143,997 |

The Company's exposure to credit and currency risks related to accounts payable and accrued liabilities is presented in note 19.

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9. SHARE CAPITAL

Authorized

Unlimited number of common shares, without par value

Summary of financings

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

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

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

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

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.

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

Warrants

In November 2010, the Company closed a financing for gross proceeds of \$430,000 under a private placement resulting in the sale of Units whereby 1,433,333 warrants were issued. Each whole warrant entitles the holder to acquire one common share for a period of two year at an exercise price of \$0.20 per share. The Company also granted 21,000 warrants, valued at \$1,450, which entitles the holder to purchase one common share at \$0.20 per share for a period of two years from closing.

In December 2010, the Company closed a financing for gross proceeds of \$224,000 under a private placement resulting in the sale of Units whereby 700,000 warrants were issued. Each whole warrant entitles the holder to acquire one common share for a period of two years at an exercise price of \$0.20 per share from closing.

In June 2011 the Company closed a financing for gross proceeds of \$1,014,204 under a brokered private placement resulting in the sale of Units whereby 5,337,914 warrants were issued. Each whole warrant entitles the holder to acquire one common share for a period of two years, at an exercise price of \$0.20 per share in the first year and at a price of \$0.35 per share in the second year. The Company also granted 195,950 broker warrants, valued at \$14,500, which entitles the holder to purchase one common share at \$0.19 per share for a period of 18 months from closing.

In September 2011 the Company closed a financing for gross proceeds of \$286,900 under a non-brokered private placement resulting in the sale of Units whereby 1,510,002 warrants were issued. Each whole warrant entitles the holder to acquire one common share for a period of two years, at an exercise price of \$0.20 per share in the first year and at a price of \$0.35 per share in the second year. The Company also granted 90,410 warrants, valued at \$4,900, which entitles the holder to purchase one common share at \$0.19 per share for a period of 18 months from closing.

During the Three Months Ended January 31, 2011, 30,000 agents' warrants were exercised at an exercise price of \$0.10 per common share for gross proceeds of \$3,000. During the year ended October 31, 2011, 264,807 agents' warrants were exercised at exercise prices ranging from \$0.10 to \$0.15 per common share for gross proceeds of \$27,048. No warrants were exercised in the Three Months Ended January 31, 2012.

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

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

| | Number of Warrants | Exercise Price | Expiry Date |
|-----------------|-----------------------|-------------------|-------------------|
| Warrants | 3,659,000 | \$0.20 | April 30, 2012 |
| | 1,350,833 | \$0.20 | April 28, 2012 |
| | 35,583 | \$0.15 | April 28, 2012 |
| | 502,400 | \$0.20 | June 4, 2012 |
| | 33,880 | \$0.15 | June 4, 2012 |
| | 1,900,000 | \$0.20 | October 18, 2012 |
| | 37,333 | \$0.20 | October 18, 2012 |
| | 1,433,334 | \$0.20 | November 3, 2012 |
| | 21,000 | \$0.20 | November 3, 2012 |
| | 700,000 | \$0.20 | December 5, 2012 |
| | 195,950 | \$0.19 | December 24, 2012 |
| | 90,410 | \$0.19 | March 1, 2013 |
| | 5,337,914 | \$0.20 | June 24, 2012 |
| | | then at \$0.35 | June 24, 2013 |
| | 1,510,002 | \$0.20 | September 1, 2012 |
| | | then at \$0.35 | September 1, 2013 |
| | <u>16,807,639</u> | | |

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

During the Year Ended October 31, 2011, the Company issued 307,360 brokers and agent warrants as part of the private placements.

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

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

No warrants were granted in the Three Months Ended January 31, 2012.

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

A summary of the status of warrants outstanding and exercisable as at January 31 and changes during the three month periods then ended is summarized below

| | 2012 | | 2011 | |
|--|--------------------|---------------------------------------|--------------------|---------------------------------------|
| | Number of warrants | Weighted Average Exercise Price \$ | Number of warrants | Weighted Average Exercise Price \$ |
| Balance outstanding, beginning of period | 18,148,639 | \$0.20 | 9,124,836 | \$0.20 |
| Granted | - | - | 2,154,334 | \$0.20 |
| Exercised | - | - | (30,000) | \$0.10 |
| Expired | (1,341,000) | \$0.20 | - | - |
| Balance outstanding, end of period | 16,807,639 | \$0.20 | 11,249,170 | \$0.20 |

Employee stock option plan

The company has adopted a Stock Option Plan (the "Plan") pursuant to which the Board of Directors may grant stock options to directors, officers, employees or consultants of the Company. The current terms of the Plan, approved by the Company shareholders on April 28, 2011, 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 periods presented.

As at January 31, 2012 there were 4,297,208 options outstanding representing 4.5% of the Company's issued common shares. As at October 31, 2011 there were 4,597,208 options outstanding representing 4.8% of the issued common shares.

No options were granted in the Three Months Ended January 31, 2012 or 2011.

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.

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

The risk-free interest rate is based on the implicit yield on a Canadian Government zero-coupon issued with a remaining term equal to the expected term of the option. The 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 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.

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

| | 2012 | | 2011 | |
|--|-----------|----------|-----------|----------|
| | Number of | Weighted | Number of | Weighted |
| | Options | Average | Options | Average |
| | | Exercise | | Exercise |
| | | Price | | Price |
| | | \$ | | \$ |
| Balance outstanding, beginning of period | 4,597,208 | \$0.20 | 5,983,458 | \$0.29 |
| Expired | (300,000) | \$0.40 | - | - |
| Balance outstanding, end of period | 4,297,208 | \$0.19 | 5,983,458 | \$0.29 |
| Options Exercisable, end of period | 3,741,062 | \$0.19 | 3,664,916 | \$0.30 |

The expense recognized for employee services received during the Three Months Ended January 31, 2012, which is included in the respective function line within the consolidated statement of net loss and comprehensive loss is \$11,251 (2011- \$105,181). The Company has assumed a zero forfeiture rate and adjustments for actual forfeitures are recorded in the period they occur.

The weighted average remaining contractual life for the stock options outstanding as at January 31, 2012 was 2.95 years (2011- 3.15 years). The range of exercise prices for the options outstanding as at January 31, 2012 was \$0.10 to \$1.00 (2011 - \$0.10 to \$1.00).

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10. RELATED PARTY TRANSACTIONS

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

These transactions have been measured at their respective exchange amounts, being the consideration established and agreed to by the parties.

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

| | 2012 | 2011 |
|--------------------------|------|--------|
| | \$ | \$ |
| Consulting fees | 0 | 0 |
| Director fees | 0 | 0 |
| Share-based compensation | 0 | 30,789 |
| Total expense | 0 | 30,789 |

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

| | 2012 | 2011 |
|--------------------------|--------|---------|
| | \$ | \$ |
| Salaries | 45,000 | 45,000 |
| Consulting fees | 18,750 | 18,750 |
| Benefits | 4,901 | 4,889 |
| Share-based compensation | 7,725 | 35,605 |
| Total expense | 76,376 | 104,244 |

Key management personnel, including the directors, control 2.7% of the issued common shares of the Company as at January 31, 2012.

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

| Issue Date | Expiry Date | Exercise price | January 31, | October 31, | November 1, |
|------------|-------------|----------------|--------------------|--------------------|--------------------|
| | | | 2012 | 2011 | 2010 |
| | | | Number outstanding | Number outstanding | Number outstanding |
| 2006 | 2011 | \$0.40 | - | - | 120,000 |
| 2008 | 2013 | \$0.12-\$0.30 | 80,000 | 80,000 | 80,000 |
| 2009 | 2014 | \$0.10-\$0.14 | 1,390,625 | 1,390,625 | 1,390,625 |
| 2010 | 2015 | \$0.12-\$0.20 | 1,610,000 | 1,610,000 | 1,610,000 |
| | | | 3,080,625 | 3,080,625 | 3,200,625 |

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11. STATEMENT OF LOSS AND COMPREHENSIVE LOSS SUPPLEMENTARY INFORMATION

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

| | 2012 | 2011 |
|--------------------------------------|---------|----------|
| | \$ | \$ |
| Research and development | 239,927 | 247,569 |
| Depreciation of property & equipment | 472 | 570 |
| Amortization of intangible assets | 217,601 | 211,939 |
| Share-based compensation | 8,603 | 38,849 |
| Patent Fees | 34,990 | 30,475 |
| Contributions and tax credits | (245) | (99,004) |
| Total expense | 501,348 | 430,398 |

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

| | 2012 | 2011 |
|--------------------------------------|---------|---------|
| | \$ | \$ |
| General & administrative | 47,294 | 41,116 |
| Depreciation of property & equipment | 53 | 112 |
| Share-based compensation | 2,647 | 66,332 |
| Investor relations | 49,860 | 1,839 |
| Consulting fees | 26,509 | 33,314 |
| Total expense | 126,363 | 142,713 |

12. FINANCE COSTS AND INCOME

Finance costs consist of bank charges amounting to \$297 and exchange loss of \$1,246 in Three Months Ended January 31, 2012 (2011- bank charges of \$333) and finance income comprises interest income amounting to \$3,421 in Three Months Ended January 31, 2012 (2011- \$2,228 of interest income and exchange gain of \$1,444).

13. PERSONNEL EXPENSES

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

| | 2012 | 2011 |
|--------------------------|---------|---------|
| | \$ | \$ |
| Salaries | 101,465 | 93,709 |
| Consulting fees | 18,750 | 18,750 |
| Benefits | 14,778 | 16,398 |
| Share-based compensation | 11,251 | 50,388 |
| Total personnel expenses | 146,244 | 179,245 |

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14. COMMITMENTS AND CONTINGENCIES

The Company is committed to short-term payments of approximately \$100,000 for the completion of manufacturing of the Company's cell pouches for the upcoming clinical trial.

The Company is committed to the payment of certain costs under the clinical trial which is expected to commence in the third quarter of the current fiscal year and follow patients for a period of three years. The commitment under the agreement includes payments include the cost of clinical staff and overhead thereon, trial insurance, travel and a portion of drug-or procedure –related expenses or transplantation expenses not covered by insurance. The total commitment over the three years is expected to be in the range of \$1,500,000 to \$2,000,000 and the commitment will be impacted by such factors as the rate of enrollment, the province in which is the patient resides and the specifics of patient insurance.

The Company has exclusive rights to use certain patents and technology utilized in the Fertilité-OV™ business. Under the purchase agreement, the Company is required to pay a royalty of 2% of cumulative revenues in excess of \$1.5 million to a maximum lifetime royalty of \$570,000.

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

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

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

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

Significant non-cash transactions for the Three Months Ended January 31 included:

- a) accruing nil (2011 - \$88,004) in receivables from a government contribution agreement.
- b) accruing \$8,262 (2011 – \$20,200) in patent costs.
- c) issuing finders' warrants valued at nil (2011 – \$1,450).

16. INCOME TAXES

As at October 31, 2011, the Company has Canadian non-capital losses of approximately \$4,105,000 and United States operating losses of approximately \$2,725,000 available to reduce future years' taxable income. In addition, the Company has investment tax credits available of approximately \$379,000 and a Scientific and Research Expenditure pool available of approximately \$2,350,000. These losses, if not utilized, will expire through to 2030. Future tax benefits, which may arise as a result of these non-capital losses and other items have not been recognized in these condensed consolidated interim financial statements and have been offset by a valuation allowance.

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17. SEGMENTED INFORMATION

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

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

18. 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 capital structure of the Company consists of equity issues of common shares and warrants and totalled \$20,949,181 as at January 31, 2012 (October 31, 2011 - \$20,949,181)

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 share capital, warrants, options and cash.

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 manage research and administrative expenditures to reflect current financial resources in the interest of sustaining a long-term viability.

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

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

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Day to day purchases and sales of financial assets are accounted for at settlement date. All financial liabilities are classified as other financial liabilities. After initial recognition, financial instruments are measured at their fair values, except for loans and receivables and other financial liabilities, which are measured at amortized cost using the effective interest rate method. All transaction costs are included in the initial carrying value of the corresponding financial assets and liabilities. Gains and losses on the company's financial instruments are recognized in the statement of net loss and comprehensive loss.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, foreign exchange, interest rate and price risks, the management of which is overseen by the Company's senior management. The Company, may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

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

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific 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 Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1- inputs to the valuation methodology are quoted prices (unadjusted) for identical assets and liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3-inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Financial instruments

The Company has classified its financial instrument's as summarized below:

| Financial Instrument | Designation | Measurement | Fair Value Level | January 31, | October 31, | November 1, |
|--|-----------------------------------|----------------|------------------|-------------|-------------|-------------|
| | | | | 2012 | 2011 | 2010 |
| | | | | \$ | \$ | \$ |
| Cash | Fair value through profit or loss | Fair value | 1 | 114,920 | 309,991 | 735,142 |
| Short-term investments | Fair value through profit or loss | Fair value | 1 | 1,055,662 | 1,208,119 | - |
| Accounts receivable | Loans and receivables | Amortized cost | n/a | 10,211 | 59,108 | 113,521 |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost | n/a | 97,129 | 82,352 | 121,497 |

The Company has no available-for-sale financial instruments or embedded derivatives as at January 31, 2012.

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

Fair value of financial instruments

Cash, short-term investments, trade and other receivables, investment tax credit receivables and accounts payable and accrued liabilities.

Due to the short period to maturity of these financial instruments, the carrying value as presented in the consolidated statement of financial position are reasonable estimates of their fair values. The Company has classified the determination of fair value of these investments as level 1, as the valuation methodology used by the company includes quoted prices for identical assets in active markets.

Foreign exchange gains or losses recorded on these financial instruments, if any, are recorded in the consolidated statement of comprehensive loss.

As at January 31, 2012, the Company's cash and short-term investments were the financial instruments carried on the consolidated statement of financial position at fair value.

Liquidity Risk

Liquidity risk represents the contingency that the Company is unable to gather funds required with respect to its financial obligations at the appropriate time and under reasonable conditions.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet current liabilities and future financial obligations when they become due under normal conditions. As at January 31, 2012 the Company had cash and short-term investments balances of \$1,170,582 to settle current liabilities of \$139,755. All of the Company's financial liabilities are subject to normal trade terms.

Financing strategies to manage this risk include resorting to the capital markets through the issuance of equity. (Refer to note 20)

Credit Risk

The Company's financial assets that are exposed to credit risk are cash, short-term investments and trade and other receivables. Credit risk is the risk of loss associated with a counter party's inability to fulfil its payment obligation.

Cash and short-term investments consist of deposits with a major commercial bank and are therefore subject to minimal credit risk.

The Company, in the normal course of business, is exposed to credit risk on trade and other receivables. The majority of the other receivables are amounts due from government agencies for tax recoveries and grants and are therefore subject to minimal credit risk. The credit risk associated with any remaining receivables, predominantly related to the subscription amounts due under the issuance of equity is assessed through established monitoring activities.

The Company has no current trade receivables and does not therefore need to utilize an allowance account to assess the carrying value of the trade receivables and the underlying credit risk.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and commodity and equity prices. In the current market environment, these fluctuations may continue to be significant.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)**Foreign currency exchange rate 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 foreign currencies, which is currently only United States dollars. However, management believes the risk is not currently significant as approximately \$13,000 of these assets and none of its liabilities are denominated in United States dollars. There are no active operations in the US, with exception of the patent prosecution and patent maintenance which annual costs are estimated at approximately \$200,000 USD for both activities. A strengthening of the US dollar against the Canadian dollar by 1% would cost the Company approximately an additional \$2,020.

Interest rate risk

The Company has cash and short-term investment balances but no interest-bearing debt or financial assets. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company monitors the investments it makes and is satisfied with the credit ratings of its banks. As at January 31, 2012 the Company has approximately \$1,050,000 held in interest-bearing deposits with banks. While these investments have a three year term, it is management's intention to utilize the resources within the next fiscal year and the investments are cashable with notice on the 15th of any month without penalty within the first year. A 1% change in the interest rates would have an effect of \$10,500 per year on interest income and the value of the asset

Equity price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings and operations due to movements in individual equity prices or general movements in the level of the stock market. The Company monitors individual equity movements, and the stock market to determine the appropriate course of action to be followed by the Company. Fluctuations have been significant and may continue to be significant given the current market volatility.

20. EVENTS AFTER THE REPORTING PERIOD

Subsequent to January 31, 2012, the Company completed a first tranche of a non-brokered private placement (the "Offering") and raised gross proceeds of \$3,491,120 through the issuance of 19,395,100 Units. The Offering is anticipated to be up to 19,444,444 units of the Company at a price of \$0.18 per unit for gross proceeds of approximately \$3,600,000. Each unit will consist of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one share (a "Warrant Share") for a period of three years at an exercise price of \$0.20 per share for the first year and at a price of \$0.35 per Warrant Share in the second and third year. The Company paid no finders' fees in connection with this offering.

On March 30, 2012, the Company completed a second tranche of a non-brokered private placement and raised gross proceeds of \$139,000 through the issuance of 772,222 Units at a price of \$0.18 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to acquire one share (a "Warrant Share") for a period of three years at an exercise price of \$0.20 per share for the first year and at a price of \$0.35 per Warrant Share in the second and third year. The Company paid no finders' fees in connection with this offering.

On March 6, 2012, the company granted 1,342,918 incentive stock options to employees and consultants at option prices ranging from \$0.14 to \$0.19 per share, with expiry dates ranging from June 2013 to March 2017.

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21. TRANSITION TO IFRS

The condensed consolidated interim financial statements for the Three Months Ended January 31, 2012 are the first quarterly consolidated financial statements that comply with IFRS as expected to be in effect as at October 31, 2012, as detailed in the accounting policies described in note 3. In preparing these condensed consolidated interim financial statements, the Company's opening consolidated statement of financial position was prepared as at November 1, 2010, the Company's date of transition to IFRS. This note explains the principal adjustments made by the company in restating its Canadian GAAP consolidated statement of financial position and consolidated statement of net loss and comprehensive loss as at and for the Three Months Ended January 31, 2011 and its previously published Canadian GAAP consolidated financial statements as at and for the Year Ended October 31, 2011. The transition from Canadian GAAP to IFRS has not had a material impact on the statements of cash flow. The reconciling items between Canadian GAAP and IFRS presentation have no net effect on the cash flows generated.

Estimates

As required by IFRS 1, estimates made under IFRS at the date of transition must be consistent with the estimates made for the same date under previous Canadian GAAP, unless there is evidence that this estimates were in error.

Elected exemptions from full retroactive application

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

In preparing these condensed consolidated interim financial statements in accordance with IFRS 1, the Company has applied the following optional exemptions from full retroactive application of IFRS to its opening statement of financial position as at November 1, 2010 as described below:

Business combinations

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

Share-based payment transactions

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

Statement of financial position as at transition date

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

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| | Notes | Canadian GAAP | Effect of transition to IFRS Measurement | Effect of transition to IFRS Reclassification | IFRS |
|--|---------|------------------|---|--|------------------|
| <u>ASSETS</u> | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash | | 735,142 | - | - | 735,142 |
| Short-Term Investments | | - | - | - | - |
| Accounts Receivable | | 113,521 | - | - | 113,521 |
| Prepaid Expenses | | 30,996 | - | - | 30,996 |
| Total current assets | | 879,659 | - | - | 879,659 |
| NON-CURRENT ASSETS | | | | | |
| Property and Equipment, net | | 5,461 | - | - | 5,461 |
| Intangible Assets, net | | 3,149,366 | - | - | 3,149,366 |
| Total non-current assets | | 3,154,827 | - | - | 3,154,827 |
| Total assets | | 4,034,486 | - | - | 4,034,486 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable and Accrued Liabilities | | 143,997 | - | - | 143,997 |
| Total current liabilities | | 143,997 | - | - | 143,997 |
| EQUITY | | | | | |
| Share Capital | | 19,160,911 | - | - | 19,160,911 |
| Warrants | A | - | - | 12,418 | 12,418 |
| Contributed Surplus | A and B | 2,139,589 | 38,330 | (12,418) | 2,165,501 |
| Deficit | B | (17,410,011) | (38,330) | - | (17,448,341) |
| Total equity | | 3,890,489 | - | - | 3,890,489 |
| Total liabilities and equity | | 4,034,486 | - | - | 4,034,486 |
| Reclassification | | | | | |

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

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

| | Notes | Canadian GAAP (Restated) | Effect of transition to IFRS Measurement | Effect of transition to IFRS Reclassification | IFRS |
|--|---------|--------------------------------|---|--|------------------|
| | | \$ | \$ | \$ | \$ |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash | C | 217,950 | - | - | 217,950 |
| Short-Term Investments | C | 851,472 | - | - | 851,472 |
| Accounts Receivable | | 124,916 | - | - | 124,916 |
| Prepaid Expenses | | 22,134 | - | - | 22,134 |
| Total current assets | | 1,216,472 | - | - | 1,216,472 |
| NON-CURRENT ASSETS | | | | | |
| Property and Equipment, net | | 4,778 | - | - | 4,778 |
| Intangible Assets, net | | 2,982,402 | - | - | 2,982,402 |
| Total non-current assets | | 2,987,180 | - | - | 2,987,180 |
| Total assets | | 4,203,652 | - | - | 4,203,652 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable and Accrued Liabilities | | 136,759 | - | - | 136,759 |
| Total current liabilities | | 136,759 | - | - | 136,759 |
| EQUITY | | | | | |
| Share Capital | | 19,800,758 | - | - | 19,800,758 |
| Warrants | A | - | - | 13,566 | 13,566 |
| Contributed Surplus | A and B | 2,197,802 | 86,446 | (13,566) | 2,270,682 |
| Deficit | B | (17,931,667) | (86,446) | - | (18,018,113) |
| Total equity | | 4,066,893 | - | - | 4,066,893 |
| Total liabilities and equity | | 4,203,652 | - | - | 4,203,652 |

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A Reclassification

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

B. Share-based payments

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

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

As at November 1, 2010 the combined effect of these differences is \$38,330. An adjustment of \$48,116 was made to share-based compensation expense for the Three Months Ended January 31, 2011 and \$11,534 for the Year Ended October 31, 2011 under IFRS for the combined effect of these differences with a corresponding adjustment to contributed surplus.

C. Short-term investments

The Company has reclassified short-term investments of \$851,422 which are transitional or current in nature, with a maturity greater than three months from cash to short-term investments as at January 31, 2011 for purposes of presentation under Canadian GAAP. These interest bearing deposits have certain terms and conditions that differentiate the asset from cash and accordingly these assets are disclosed separately.

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Statement of financial position as at the fiscal year end

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

| | Notes | Canadian GAAP | Effect of transition to IFRS Measurement | Effect of transition to IFRS Reclassification | IFRS |
|--|---------|------------------|---|--|------------------|
| | | \$ | \$ | \$ | \$ |
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash | | 309,991 | - | - | 309,991 |
| Short-Term Investments | | 1,208,119 | - | - | 1,208,119 |
| Accounts Receivable | | 59,108 | - | - | 59,108 |
| Prepaid Expenses | | 14,889 | - | - | 14,889 |
| Total current assets | | 1,592,107 | - | - | 1,592,107 |
| NON-CURRENT ASSETS | | | | | |
| Property and Equipment, net | | 6,498 | - | - | 6,498 |
| Intangible Assets, net | | 2,378,786 | - | - | 2,378,786 |
| Total non-current assets | | 2,385,284 | - | - | 2,385,284 |
| Total assets | | 3,977,391 | - | - | 3,977,391 |
| LIABILITIES | | | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable and Accrued Liabilities | | 119,067 | - | - | 119,067 |
| Total current liabilities | | 119,067 | - | - | 119,067 |
| EQUITY | | | | | |
| Share Capital | | 20,811,715 | - | - | 20,811,715 |
| Warrants | A | - | - | 137,466 | 137,466 |
| Contributed Surplus | A and B | 2,473,364 | 49,864 | (137,466) | 2,385,762 |
| Deficit | B | (19,426,755) | (49,864) | - | (19,476,619) |
| Total equity | | 3,858,324 | - | - | 3,858,324 |
| Total liabilities and equity | | 3,977,391 | - | - | 3,977,391 |

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

| | Note | Canadian GAAP | Effect of transition to IFRS Measurement | Effect of transition to IFRS Reclassification | IFRS |
|---|---------|-------------------|---|--|-------------------|
| | | \$ (unaudited) | \$ (unaudited) | \$ (unaudited) | \$ (unaudited) |
| OTHER INCOME | | | | | |
| Interest and other income | 1 | 2,228 | - | (2,228) | - |
| Foreign currency gain | 6 | 1,444 | - | (1,444) | - |
| | | 3,672 | - | (3,672) | - |
| EXPENSES | | | | | |
| Amortization of property and equipment | 2 | 683 | - | (683) | - |
| Consulting fees and salaries | | 32,132 | - | (32,132) | - |
| Salaries & benefits | | 16,399 | - | (16,399) | - |
| Patent licence and intellectual property amortization | 3 | 211,939 | - | (211,939) | - |
| Patent Fees | 3 | 30,475 | - | (30,475) | - |
| Professional fees | | 11,563 | - | (11,563) | - |
| Research and development | | 113,016 | - | 317,382 | 430,398 |
| General and administrative | 4 | 52,056 | - | 90,657 | 142,713 |
| Share-based compensation | 5 and 6 | 57,065 | 48,116 | (105,181) | - |
| | | 525,328 | 48,116 | (333) | 573,111 |
| Finance income | 1 | - | - | 3,672 | 3,672 |
| Finance costs | 4 | - | - | (333) | (333) |
| | | - | - | 3,339 | 3,339 |
| Loss and comprehensive loss for the period | | 521,656 | 48,116 | - | 569,772 |

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Reclassification

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

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

Note 1: interest income earned on short-term investments was reclassified to finance income.

Note 2: amortization of property and equipment of \$682 was reclassified to research and development in the amount of \$570 and to general and administrative in the amount of \$112.

Note 3: patent licence and intellectual property amortization, patent maintenance fees and costs related to the development of internally generated patents of \$242,414 were classified to research and development.

Note 4: bank fees and charges of \$333 were reclassified from general and administrative expenses to finance costs.

Measurement

Note 5: share-based compensation of \$105,181 was reclassified to research and development in the amount of \$38,849 and to general and administrative expenses of \$66,332.

Note 6: Under Canadian GAAP, awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes. IFRS requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has different vesting date.

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

An adjustment of \$48,116 was made to share-based compensation expense for the Three Months Ended January 31, 2011 under IFRS for the combined effect of these changes, with a corresponding adjustment to contributed surplus.

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Canadian GAAP consolidated statement of loss and comprehensive loss for the year ended October 31, 2011 has been reconciled as follows:

| | | | Effect of | Effect of | |
|---|---------|------------------|---------------|------------------|------------------|
| | | Canadian | transition to | transition to | |
| | Note | GAAP | IFRS | IFRS | IFRS |
| | | \$ | \$ | \$ | \$ |
| | | (audited) | (unaudited) | (unaudited) | (unaudited) |
| | | | Measurement | Reclassification | |
| OTHER INCOME | | | | | |
| Interest and other income | 1 | 13,040 | - | (13,040) | - |
| Foreign currency gain | | 3,927 | - | (3,927) | - |
| | | 16,967 | - | (16,967) | - |
| EXPENSES | | | | | |
| Amortization of property and equipment | 2 | 3,201 | - | (3,201) | - |
| Consulting fees and salaries | | 136,803 | - | (136,803) | - |
| Salaries & benefits | | 57,673 | - | (57,673) | - |
| Patent licence and intellectual property amortization | 3 | 870,403 | - | (870,403) | - |
| Patent Fees | 3 | 67,797 | - | (67,797) | - |
| Professional fees | | 70,091 | - | (70,091) | - |
| Research and development | | 415,250 | - | 1,135,957 | 1,551,207 |
| General and administrative | 4 | 202,753 | - | 289,408 | 492,161 |
| Share-based compensation | 5 and 6 | 209,740 | 11,534 | (221,274) | - |
| | | 2,033,711 | 11,534 | (1,877) | 2,043,368 |
| Finance income | 1 | - | - | 16,967 | 16,967 |
| Finance costs | 4 | - | - | (1,877) | (1,877) |
| | | - | - | 15,090 | 15,090 |
| Loss and comprehensive loss for the period | | 2,016,744 | 11,534 | - | 2,028,278 |

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Reclassification

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

For the Year Ended October 31, 2011, the following reclassifications were made:

Note 1: interest income earned on short-term investments was reclassified to finance income.

Note 2: amortization of property and equipment of \$3,201 was reclassified to research and development in the amount of \$2,881 and to general and administrative in the amount of \$320.

Note 3: patent licence and intellectual property amortization, patent maintenance fees and costs related to the development of internally generated patents of \$938,200 were classified to research and development.

Note 4: bank fees and charges of \$1,877 were reclassified from general and administrative expenses to finance costs.

Measurement

Note 5: share-based compensation of \$221,274 was reclassified to research and development in the amount of \$92,190 and to general and administrative expenses of \$129,084.

Note 6: Under Canadian GAAP, awards with graded vesting provisions are treated as a single award for both measurement and recognition purposes. IFRS requires such awards to be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has different vesting date.

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

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