

SERNOVA CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED JANUARY 31, 2014 AND 2013

Dated March 28, 2014

700 Collip Circle
The Stiller Centre, Suite 114
London, ON N6G 4X8
www.sernova.com

INTRODUCTION

The following management's discussion and analysis ("MD&A") explains the variations in the consolidated operating results and financial position and cash flows of the Company for the three months ended January 31, 2014 and 2013. This analysis should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended January 31, 2014 and the audited consolidated financial statements of the Company and related notes as at and for the years ended October 31, 2013 and 2012, which have been prepared by management reflecting the adoption of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's IFRS accounting policies are set out in Note 3 of the consolidated financial statements for the year ended October 31, 2013.

The information in this report is dated as of March 28, 2014.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward looking statements" that reflect the Company's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "may", or by such words as "will", "intend", "believe", "estimate", "consider", "expect", "anticipate", and "objective" and similar expressions or variations of such words. Forward looking statements are, by their nature, not guarantees of the Company's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Company's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results, or that estimates or projections will be sustained.

The Company's statements of "belief" with respect to its product candidates are based primarily upon results derived to date from its preclinical and initial clinical research and development and the Company's research and development programs. The company also uses the term "demonstrated" in this MD&A to describe certain findings that it makes arising from its research and development including any preclinical and clinical studies that the Company has conducted to date.

Specifically, this MD&A may contain forward-looking statements which include, but are not limited to, statements regarding:

- The Company's corporate strategies and objectives;
- General business and economic events;
- The availability of various forms of financing;
- The initiation and completion of clinical trials of our Cell Pouch™ for the treatment of insulin-dependent diabetes and other diseases;
- The intention to protect therapeutic cells within the Cell Pouch™ from immune attack using either systemic antirejection regimens and/or local immune protection such as Sertolin™ or a combination thereof;
- The intention to use human donor cells, xenogeneic cells and stem cells in our Cell Pouch™ for the potential treatment of chronic diseases;
- The intention to receive regulatory approval and commercialize the Cell Pouch™ for the treatment of insulin-dependent diabetes and other potential indications;

- Expectations with respect to the cost of Sernova's products, clinical trials and commercialization of our products;
- Sales and marketing strategy;
- Sernova's intentions to secure academic and industrial collaborations and to develop and implement partnering strategies; and,
- Intentions regarding the protection of Sernova's intellectual property;

In developing the forward-looking statements in the MD&A, the Company has applied several material assumptions, including the availability of financing on reasonable terms, the Company's ability to form and maintain strategic alliances with other business entities and general business and economic conditions.

Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date of the MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties elsewhere in this MD&A, actual events may differ materially from current expectations. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

The MD&A has been prepared to help investors understand the financial performance of Sernova in the broader context of the Company's strategic direction, the risks and opportunities as understood by management, and some of the key metrics that are relevant to the Company's performance. This discussion and analysis has been reviewed and approved by the Audit Committee and the Board of Directors. The Audit Committee of the Company includes three Directors who are financially knowledgeable.

ABOUT SERNOVA

Sernova Corp. is a Canadian-based regenerative medicine company, focused on commercializing the proprietary Cell Pouch™, a scalable, implantable, medical device for the transplantation and survival of therapeutic cells, which then release proteins and/or hormones for the long-term treatment of a number of serious, chronic, debilitating diseases such as diabetes and haemophilia. Our patented Sertolin™ technology is being developed to create an immune privileged environment and protect the Cell Pouch™ transplant from rejection. Our initial studies have focused on the treatment of insulin-dependent diabetes through the transplantation of pancreatic islets, which control blood glucose levels. To date, we have successfully transplanted donor islets in our Cell Pouch™ to treat insulin-dependent diabetes in multiple animal models, and a clinical trial for the treatment of human subjects with diabetes receiving an islet transplant, protected by the standard of care antirejection drug regimen, is underway in Canada at the University of Alberta with Dr. James Shapiro as principal investigator.

Research and Development

Sernova has been a development stage company since inception. Our research and development efforts are focused principally on the development of the Cell Pouch™, our medical device for transplantation and treatment of chronic diseases, and on local immune protection technologies such as Sertolin™. We have not been profitable since inception, and we expect to continue to incur substantial losses as we continue our research and development efforts. We do not expect to realize material revenues until, if and when, our medical technologies become commercially viable.

Our objective is to advance our medical technologies through the various stages required to develop a commercial product. To achieve this goal, our primary activities include the following:

1. Conducting clinical trials required to gain marketing approval for the Cell Pouch™ device in countries that have a significant market opportunity. Our first clinical trial is currently underway in Canada, evaluating safety and efficacy of the Cell Pouch™ transplanted with human donor islets, protected using the standard of care antirejection drug regimen, in insulin-dependent diabetes. These programs may involve third party collaborations and corporate partnerships in addition to our internal clinical development activities;
2. Conducting preclinical and clinical research programs to examine a range of therapeutic indications for our platform Cell Pouch™ technology including, but not limited to: chronic pancreatitis, haemophilia, parathyroid gland replacement, and other chronic diseases that require a hormone or protein which is missing or in short supply in the body. These programs may involve third party collaborations in addition to our internal R&D efforts;
3. Identification and development of complementary technologies which may improve the efficacy of our Cell Pouch™, including local immune protection technologies such as Sertolin™. These programs may involve third party collaborations in addition to our internal R&D efforts;
4. Identification and development of alternative sources of therapeutic cells for transplantation within our Cell Pouch™, including autologous, allogeneic, donor, xenogeneic differentiated cells and stem cells. These programs may involve third party collaborations in addition to our internal R&D efforts;
5. Manufacturing and supply of Cell Pouches™; and,
6. Generation of Intellectual Property.

Corporate Update for the three months ended January 31, 2014 and to the date of this MD&A

In November 2013 we engaged Carson Seabolt and Network IR to work with us to develop and execute a comprehensive investor communications program to raise awareness of the Company within North America and international investment communities. Under the terms of our agreement with Network IR, Sernova is providing a cash payment of $6,000 per month for six months. In addition, we granted Network IR 300,000 incentive stock options to purchase common shares of the Company which, once vested, are exercisable at $0.15 for a period of two years.

In January 2014 we appointed Cathy Steiner, CPA, CA, MSc, MBA as Sernova's Chief Financial Officer. Ms. Steiner is an industry veteran with over 20 years of experience working with healthcare companies as an investment banker, financial and capital markets advisor, and management consultant. Previously she held the positions of Executive Director, Healthcare Investment Banking for CIBC World Markets, and Vice President, Healthcare Investment Banking for Yorkton Securities, where she was instrumental in raising over $1 billion in funding for Canadian-based companies, and in mergers and acquisitions worth in excess of $2 billion. Earlier, Ms. Steiner was Senior Tax Specialist at Deloitte. The Board of Directors also granted an aggregate of 2,910,000 incentive stock options to certain directors, officers, employees and consultants of the Company which, once vested, are exercisable at $0.15 for a period of five years.

In February 2014 we appointed Frank Holler to our Board of Directors. Mr. Holler brings 25 years of experience in the biopharma and technology sectors to Sernova's board. Mr. Holler previously served as President & CEO of Xenon Pharmaceuticals, Inc., President & CEO of ID Biomedical Corporation, and was a founding director of Angiotech Pharmaceuticals, a TSX/NASDAQ-listed biotechnology company. He was also an investment banker with Merrill Lynch Canada and Wood Gundy, Inc. (now CIBC World Markets) and former director of the British Columbia Biotechnology Association (now LifeSciences BC). Sernova also announced that it granted an aggregate of 150,000 incentive stock options to certain directors of the Company to purchase common shares in the capital stock of the Company. Each option entitles the holder to purchase one common share of the Company, once vested, at an exercise price of $0.15, for a period of 5 years.

Research and Development Outlook for the 2014 Calendar Year

Our product development program for 2014 includes the following:

- Anticipated interim results from a patient cohort in the Cell Pouch™ diabetes clinical trial with donor islets in patients with diabetes receiving an islet transplant;
- Anticipated preclinical results from our studies of local immune protection within the Cell Pouch™, based on the NRC-IRAP contribution agreement;
- Anticipated preclinical proof of concept results from the collaborative agreement with Medicyte GMBH evaluating feasibility of the use of Medicyte's upcyte® cells in Sernova's Cell Pouch™;
- Anticipated preparation for initiation of a clinical trial to assess the safety and efficacy of the Cell Pouch™ in another clinical indication; and,
- Ongoing assessment of complementary immune protection technologies and alternative sources of cells, which may result in additional academic and /or corporate relationships to further develop and expand Sernova's technologies towards commercialization.

We anticipate the cash requirements to fund our planned activities for 2014 will be in the range of $2 to $2.5 million. Our actual cash requirements for 2014 will depend on the actual clinical, pre-clinical, and collaborative activities that we ultimately undertake.

Cell Pouch™ Clinical Development

Sernova's lead program is the clinical development of the Cell Pouch™ for treatment of patients with insulin-dependent diabetes. In August 2012, the Company and the University of Alberta announced the treatment of the first patient with insulin-producing islets transplanted into the Cell Pouch™. Dr. James Shapiro, pioneer of the Edmonton Protocol, and his team at the University of Alberta are conducting this human clinical study to assess the safety and efficacy of the Cell Pouch™ with donor islets, in up to 20 insulin-dependent diabetic subjects who are receiving islet transplantation.

The Edmonton Protocol is a treatment for insulin-dependent diabetes that involves infusing donor pancreatic islets, often from multiple donors, into a patient's portal vein of the liver, followed by life-long administration of immunosuppressive drugs to prevent rejection of the transplant. Overall, benefits of the Edmonton Protocol may include a reduction in the incidence of hypoglycemia unawareness, a reduced requirement for exogenous insulin and reduced diabetes-induced microvascular damage. The Edmonton Protocol has been proven to reduce the incidence of hypoglycemia-unawareness and its devastating consequences and with enough islet transplants may lead to a period of insulin-independence. It is believed, however, following islet infusion, there is an initial significant reduction in surviving islets due to an immediate blood mediated inflammatory reaction, which may damage and destroy a significant proportion of the islets infused into the portal vein. In addition, the proportion of patients with insulin-independence decreases over time, likely due to continued islet destruction with multiple etiologies. There is a need for an improved environment in which to place therapeutic cells that more closely mimics the natural environment of cells which are in close proximity to microvessels but not actually bathed in blood. Furthermore, the portal vein is not a suitable location for alternative but virtually unlimited sources of cells such as insulin producing stem cells or xenogeneic cells that could be used to treat large numbers of patients.

We believe our Cell Pouch™ will offer significant benefits over the Edmonton Protocol, the current standard of care protocol for islet transplantation, to restore the body's insulin production and glucose control in

insulin-dependent diabetic patients. The Cell Pouch™ was designed to take into consideration the biological requirements of therapeutic cells. A tissue matrix rich in microvessels forms within the Cell Pouch™ when implanted subcutaneously prior to islet transplantation, providing an ideal environment for placement of therapeutic cells, including insulin-producing islets. We have demonstrated in a series of ISO10993 biocompatibility studies and multiple animal studies that the Cell Pouch™ is biocompatible and safe. Long-term studies in multiple animal models have demonstrated that the islets become well-supported with microvessels and even infiltrated with microvessels as in their natural pancreatic environment following islet transplantation into the Cell Pouch™.

Benefits of the Cell Pouch™ are anticipated to be enhanced long-term islet graft survival and function. It is important for islets to have close contact with microvessels to monitor blood glucose levels and produce the appropriate amount of insulin throughout the day and night and after meals. The Cell Pouch™ achieves this ideal islet/microvessel connection and should allow for improved glucose control. Our studies have shown that the Cell Pouch™ with islets can control glucose levels in small and large animal models of diabetes over extended periods.

We believe the immediate blood mediated inflammatory reaction will also be prevented, as the therapeutic cells are surrounded by microvessels similar to the islets' natural microenvironment in the pancreas rather than being bathed in a constant flow of blood. This reduced inflammatory response should enable improved islet survival and potentially lead to the need to implant fewer islets. In the case of donor islets, this could potentially enable patients with diabetes to be treated with fewer donor pancreata than are currently being used. Currently, it can take up to three pancreata to treat a single patient and achieve a reduction in insulin injections using the Edmonton Protocol.

The Cell Pouch™ enables islets to be transplanted in the subcutaneous space, which we believe will offer significant advantages over portal vein delivery as it can be monitored, imaged and if required, retrieved and replaced. Known side effects such as portal vein hypertension, thrombosis, and liver steatosis (fatty liver), along with the costs of treating them, should be eliminated.

The Cell Pouch™ may allow for local immunoprotection rather than the need for lifelong systemic antirejection drug treatment. Local immune protection of islets could result in a significant reduction in the need for antirejection drugs and their ongoing prohibitive costs, as well as associated healthcare costs related to side effects of these drugs. In addition, local immunoprotection may provide a safer environment for the transplanted islets.

Finally, the Cell Pouch™ could be used with a variety of sources of cells, such as insulin-producing stem cells and xenogeneic cells, addressing the limited availability of donors and allowing the widespread treatment of insulin-dependent diabetes. Thus, we believe our approach offers substantial benefit over the currently-used Edmonton Protocol, and its ease of use may provide an opportunity for the Cell Pouch™ to become the standard of care in islet transplantation, if it proves to be safe and effective in clinical trials.

In our human clinical trial, subjects who meet the entry criteria are implanted with the Cell Pouch™, which is allowed to incorporate with tissue and microvessels prior to transplantation of donor human islets. In this "first-in-human" study, to prevent islet graft rejection, patients are treated with the state of the art standard of care Alemtuzumab-induction protocol and provided maintenance immunosuppression. This regimen has been shown to be a substantial improvement over previous antirejection protocols.

In September, 2013, encouraging interim safety and biocompatibility results for the implanted Cell Pouch™ and proof of islet survival within the Cell Pouch™ following islet transplant in the first two patients was released. Dr. Shapiro presented these results in a podium session at the XIV World Congress of the

International Pancreas and Islet Transplantation Association in Monterey California. In this initial assessment, the Cell Pouches™ were shown to meet the primary endpoint of safety after implantation. The Cell Pouches™ were then transplanted with human donor islets, followed by removal up to 30 days post-transplant for assessment of islet survival and function. The Cell Pouches™ were prepared for comprehensive histological analysis and assessed by experts in an independent, blinded analysis for key features including device biocompatibility, tissue and microvessel development into the device, islet survival and the presence of important hormones produced by islets in the control of glucose (i.e. insulin, glucagon, and somatostatin) as well as protection of islets from immune attack.

The results showed device-tissue biocompatibility, tissue and microvessel development within the Cell Pouch™, proof of islet cell survival with microvessels at and within islets, and importantly, the presence of islet insulin, glucagon, and somatostatin. The identification of these three hormones indicates that the islets within the Cell Pouch™ are able to produce the required hormones that regulate blood sugar levels. There was also no evidence of immune cell attack of the islets within the Cell Pouch™. Based on these encouraging initial results, which support the positive results of our multiple preclinical models, we believe the Cell Pouch™ provides a safe and suitable environment for therapeutic cells, and the clinical study is ongoing.

Further interim safety and efficacy results will be released as the clinical trial advances and sufficient data have been accumulated to make definitive statements. It is anticipated that these results will be presented to the scientific community at relevant scientific conferences.

The Company is also committed to expanding clinical assessment of the Cell Pouch™ in additional disease indications and will provide updates as these preparations progress.

Collaborations to Advance the Cell Pouch™ for Therapeutic Cells

Collaboration with Medicyte GmbH: Cell Pouch™ for Haemophilia

As part of our strategy to develop the Cell Pouch™ for different therapeutic indications, in September 2013 we announced a material transfer agreement with Medicyte GmbH to jointly evaluate the use of Medicyte's upcyte® cell technology in Sernova's Cell Pouch™ for the treatment of patients with haemophilia A. Both parties have also entered into a non-binding term sheet describing the general terms of a collaboration, outlining the preclinical and clinical development of the novel Cell Pouch™/upcyte® product for the treatment of haemophilia A. The parties intend to complete negotiations of a definitive agreement while initial proof of concept research is being carried out under the terms of the material transfer agreement. Positive results in the proof of concept studies are anticipated to lead to initiation of a formal development program towards entry into clinical trials.

University of Alberta: Cell Pouch™ and Diabetes

In addition to the clinical evaluation of the Cell Pouch™ in subjects receiving an islet transplant, the Company has an ongoing preclinical collaboration with Dr. Shapiro of the University of Alberta with the goal to increase the number of subjects that can be treated with the Cell Pouch™ and associated technologies through approaches which provide improved health of islets prior to and after being placed into the Cell Pouch™.

Local Immune Protection & Other Complementary Technologies

When transplanted into a recipient, Sertoli cells ("Sertolin™") provide an immune privileged environment for therapeutic cells. Sernova is currently conducting preclinical investigations of Cell Pouch™ and Sertolin™ transplantation, with the goal to reduce or eliminate the need for anti-rejection medications.

In March 2013, we were awarded a third non-repayable financial contribution of up to $254,300 from the National Research Council of Canada for the optimization of our Sertolin™ technology within our Cell Pouch™ to treat chronic diseases. This financial contribution is being used for a series of studies to optimize the safety and efficacy of Sertolin™ with insulin-producing islets in the Cell Pouch™. Data derived from this research is anticipated to be used in a regulatory submission for potential future testing in human clinical trials.

Alternative Sources of Cells

Our transplantation technologies may incorporate autologous cells, donor cells or other sources of cells including xenogeneic or stem cells, depending on the clinical indication under evaluation and the need for expanded numbers of cells for treatment of larger populations. As such, we are working with academic collaborators and industry partners to identify and secure the required cells for our therapeutic indications.

Manufacturing

Our contract manufacturer has the required expertise to manufacture both our Cell Pouch™ and mini-Cell Pouch™ for preclinical and clinical evaluation in a number of clinical indications. Device specifications were set, a semi-automated manufacturing process developed and the product manufactured, packaged and sterilized under strict regulatory guidelines (ISO 13485:2003) suitable for testing in clinical trials in North America and Europe. Sterilization verification studies have been completed and the product has been released for assessment in human clinical trials by Health Canada and for potential clinical trials in other regulatory jurisdictions.

Intellectual Property

At January 31, 2014 our patent portfolio consisted of over 22 issued and pending patents in five families covering our enabling platforms. We strive to receive broad claims in our patents, to have exclusivity using our Cell Pouch™ and Sertolin™ in combination with a wide range of therapeutic cell types and to treat a number of chronic diseases. We intend to continue to expand our patent portfolio through proprietary internal inventions as well as strategic in-licensing, to maximize the commercial potential for our platform technologies.

Financing Activity

There was no financing activity conducted during the three months ended January 31, 2014 and 2013.

RESULTS OF OPERATIONS

Selected Annual Information

Selected financial information from the statements of loss and comprehensive loss for the three months ended January 31, 2014 and 2013 follows:

(all amounts in Cdn$)	Three Months Ended January 31, 2014	Three Months Ended January 31, 2013
Research and development costs	$ 435,710	$ 421,687
General and administrative costs	173,214	121,856
Loss and comprehensive loss for the period	594,105	543,543

For the three months ended January 31, 2014, the Company recorded a loss of 594,105 compared to $543,543 for the same period in the prior year. The increase in the current period loss of $56,562 was attributable mainly to an increase in general and administrative costs, as more fully described below.

Research and Development Expenses

Research and development expenditures for the three months ended January 31, 2014 and 2013 were as follows:

(all amounts in Cdn$)	Three Months Ended January 31, 2014	Three Months Ended January 31, 2013
Salaries, supplies and contract payments	$ 237,651	$ 181,974
Patent fees and costs	36,792	42,052
Depreciation of equipment and furniture	1,189	378
Amortization of intangible assets	181,399	174,565
Share-based compensation	2,979	31,712
Contributions and tax credits	(24,300)	(8,994)
Total research and development expense	$ 435,710	$ 421,687

Research and development expenses for the quarter were $435,710, an increase of $14,023 compared to expenses of $421,687 in the same quarter of the prior year. Our preclinical and clinical research efforts increased during this quarter, with salaries, supplies and contract payments increasing $55,677.

Share-based compensation decreased $28,733 because options were granted on January 27, 2014, just prior to the end of the quarter, resulting in only a small portion of the expense being recognized in this quarter.

The estimated refundable tax credits are $24,300 for this quarter. Our contribution agreement from the National Research Council of Canada Industrial Research Assistance Program to optimize our Sertolin™ technology

within the Cell Pouch™ and treat chronic disease, has a balance of $42,800 remaining to be claimed. We expect to make those claims between April 1 and October 31, 2014.

We are committed to the payment of certain costs under the Cell Pouch™ clinical trial with Dr. Shapiro, under a clinical trial agreement with the University of Alberta which includes but is not limited to clinical trial insurance, expenses typical of an ongoing clinical trial related to required procedures, patient care, regulatory filings, administrative costs and overhead. We anticipate our financial commitment through the duration of the trial to be approximately $2,000,000; however, this amount may be positively or negatively impacted by various factors related to the conduct of the clinical study.

General and administrative expenses

General and administrative costs for the three months ended January 31, 2014 and 2013 were as follows:

(all amounts in Cdn$)	Three Months Ended January 31, 2014	Three Months Ended January 31, 2013
Other costs	$ 88,867	$ 39,196
Investor relations	42,491	28,971
Consulting fees	21,059	27,190
Depreciation of equipment and furniture	31	42
Share-based compensation	20,766	26,457
Total general and administrative expense	$ 173,214	$ 121,856

General and administrative expenses consist mainly of professional fees, personnel costs related to corporate activities, costs for shareholder-related activities including investor relations, stock exchange fees and share-based compensation. Total general and administrative expenses for the three months ended January 31, 2014 were $173,214 compared to $121,856 for the same period in the prior year. The year-over-year increase of $51,358 was attributable to an increase of $49,671 in other general and administrative costs, including conferences and related travel expenses.

Investor relations expense increased $13,520 in the current quarter, compared to last year. We believe that investor relations are important for the Company to continue to be able to access capital and we outsource this work to specialized firms. At this time, we have retained appropriate firms to assist us with the development and execution of a comprehensive investor communications program to raise awareness of the Company in the capital markets.

Share-based compensation decreased $5,691 because options were granted on January 27, 2014, just prior to the end of the quarter, resulting in a small portion of the expense being recognized in the period.

Finance Income

Finance income, representing mainly interest income earned on the Company's term deposits, was $15,461 during the three months ended January 31, 2014, compared to $12,476 for the same quarter in the prior year. This increase of $2,985 was due to the larger average holdings of cash and short-term investments resulting from the additional capital secured in the current year through completion of a financing and the exercise of warrants.

LIQUIDITY AND CAPITAL RESOURCES

Selected financial information from the statements of financial position as at January 31, 2014 and October 31, 2013 follows:

	January 31, 2014	October 31, 2013
Cash and short-term investments	$ 4,632,332	$ 4,975,906
Total assets	5,636,320	6,243,771
Current liabilities	188,057	225,148
Share capital and warrants	27,244,296	27,244,296
Deficit	(24,641,673)	(24,047,568)

As at January 31, 2014, the Company had cash and short-term investments of $4,632,332 compared to $4,975,906 at the prior year end date. Management believes working capital is sufficient to meet the cost of our research and development programs for at least the next twelve months.

The Company does not have any debt or credit facilities.

There was no financing activity in the three months ended January 31, 2014 and 2013.

Historically, funding requirements have been met through the issuance of common shares from treasury and common share purchase warrants that are converted to common shares upon exercise. Management regularly monitors the capital markets and attempts to balance timing of new equity issues with the progress of our research and clinical development plan, general market conditions, and availability of capital. In addition, management actively targets additional sources of financing such as grants and contributions, as well as collaborative partners which would assist in progressing our operations and research and clinical development programs.

The interim condensed consolidated financial statements have been prepared using IFRS that are applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company has experienced operating losses and cash outflows from operations since inception, it will require ongoing financing in order to continue its research and development activities, and it has not earned significant revenue or reached successful commercialization of its products. The company will seek new funding from additional equity financings and/or licensing agreements and collaboration arrangements with development partners; however, there is no assurance that these funding initiatives will be successful.

Common Shares

Changes in the number of issued common shares from the most recent year ended October 31, 2013 to the date of this report are as follows:

	Number of Common Shares
Balance as at October 31, 2013 and January 31, 2014	**129,643,636**
Shares issued under warrant exercise	100,000
Shares issued under stock option exercise	84,820
Balance as at March 28, 2014	**129,828,456**

Performance Escrow Shares

Included in the number of issued common shares as at January 31, 2014 are 3,472,500 (2013 – 3,472,500) performance escrow shares related to the licensing of the Sertolin technology. These common shares will not be released, transferred or assigned without the consent of the regulatory authorities, and are subject to performance-based release terms as follows:

a) 1,736,250 common shares on the date the Company receives approval from authorities for the initiation of human trials for a licensed product involving Sertolin™;

b) 1,736,250 common shares on the date the Company enrolls the first patient in a Phase 3 human clinical efficacy trial for a licensed product involving Sertolin™.

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

Warrants

The following table reflects the activity of the warrants from the most recent year ended October 31, 2013 to the date of this report:

	Number of Warrants	Weighted Average Exercise Price
Balance outstanding October 31, 2013 and January 31, 2014	31,153,263	$0.35
Exercised	(100,000)	$0.20
Balance outstanding March 28, 2014	**31,053,263**	**$0.35**

The warrants outstanding as at January 31, 2014 are detailed in note 8 to the interim condensed consolidated financial statements.

Incentive Stock Options

The Company has an incentive stock option plan, the current terms of which were approved by shareholders of the Company on April 26, 2013. There have been no cancellations or modifications to the plan during the year. Details of the incentive stock option plan are provided in note 8 to the interim condensed consolidated financial statements.

The following table reflects the activity from the most recent year ended October 31, 2013 to the date of this Management Discussion and Analysis:

	Number of Options	Weighted Average Exercise Price
Balance outstanding October 31, 2013	7,675,445	$0.16
Granted	3,210,000	$0.15
Cancelled	(294,250)	$0.15
Balance outstanding January 31, 2014	**10,591,195**	**$0.16**
Granted	150,000	$0.15
Exercised	(84,820)	$0.17
Balance outstanding March 28, 2014	**10,656,375**	**$0.16**

COMMITMENTS AND CONTINGENCIES

The Company is committed to the payment of certain costs under the clinical trial which commenced in the third quarter of the previous fiscal year. The study is a Phase I/II study with a primary endpoint of safety and a secondary endpoint of efficacy. The study is designed to allow for interim analyses at various points as sufficient data are collected. In this study patients will also be followed for a minimum of three years to assess longer-term safety and efficacy of the Cell Pouch™ with transplanted islets. The commitment under the agreement includes the cost of clinical staff and overhead thereon, trial insurance, and may include travel and a portion of drug-or procedure –related expenses or transplantation expenses not covered by insurance. The total commitment over the duration of the trial is expected to be approximately $2,000,000 but will be impacted by such factors as the rate of enrollment, the province in which the patient resides and the specifics of patient insurance.

The Company has an annual commitment of $40,000 for the rental of laboratory space.

TRANSACTIONS WITH RELATED PARTIES

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

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

The following transactions in which the directors had an interest occurred in the three months ended January 31:

	2014	2013
Consulting fees	-	
Director fees	-	
Share-based compensation	2,334	20,426
Total expenses	2,334	20,426

Compensation for key management personnel of the company other than directors for the three months ended January 31 was as follows:

	2014	2013
Salaries and consulting fees	81,059	134,746
Benefits	10,923	16,672
Share-based compensation	6,559	28,571
Total expenses	98,541	179,989

Executive officers and directors participate in the stock option plan and officers participate in the Company's health plan. Key management personnel control 2.0% of the issued common shares of the Company as at January 31, 2014.

During the quarter ended January 31, 2014 the Company paid $21,059 (2013- $20,625) in consulting fees for the services of the then chief financial officer, to a company controlled by the officer.

SUMMARY OF QUARTERLY RESULTS

Selected quarterly data with respect to the statement of loss and comprehensive loss is set out below:

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2014	Net loss	$590,905			
	Net loss per share	0.00			
2013	Net loss	$531,380	$551,705	$382,393	$537,443
	Net loss per share	0.01	0.01	0.01	0.00
2012	Net loss	$625,833	$677,974	$574,489	689,732
	Net loss per share	0.01	0.00	0.01	0.00

It is important to note that historical patterns of expenditures cannot be taken as an indication of future expenditures. The amount and timing of expenditures, and therefore liquidity and capital resources, may vary substantially from period to period depending on the business and research activities being undertaken at any one time and the availability of funding from investors and prospective collaborative partners.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the Company to select from possible alternative accounting principles and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date, and reported costs and expenditures during the reporting period. Management believes that the estimates and assumptions upon which the Company relies are reasonable based upon information available at the time these estimates and assumptions are made. Estimates and assumptions may be revised as new information is acquired, and are subject to change. A summary of the Company's significant accounting policies and estimates under IFRS is found in Note 3 of the Company's audited consolidated financial statements for the year ended October 31, 2013.

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

i. Intangible assets – impairment

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

ii. Intangible assets – useful lives

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

iii. Share-based compensation

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation

model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 8 of the interim condensed consolidated financial statements for the three months ended January 31, 2014.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

As a result of the Company's limited administrative staffing levels, internal controls which rely on segregation of duties in many cases are not possible. Due to resource constraints and the present stage of the Company's development, the Company does not have sufficient size and scale to warrant the hiring of additional staff to address this potential weakness at this time. To help mitigate the impact of this, the Company is highly reliant on the performance of compensating procedures and senior management's review and approval.

As a venture issuer, the Company is not required to certify the design and evaluation of the Company's disclosure controls and procedure ("DC&P") and internal controls over financial reporting ("ICFR"), and as such has not completed such an evaluation. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

CHANGES IN ACCOUNTING POLICIES

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, 2012 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 9, Financial Instruments: Classification and Measurement

IFRS 9 (2010) reflects the first phase of the IASB's work on the replacement of IAS 39, Financial instruments: Recognition and Measurement and deals with the classification and measurement of financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held to maturity, available for sale, and loans and receivables. The new classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard effective date is unknown due to postponement. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it holds.

IFRS 10, Consolidated Financial Statements

This amendment provides a single model to be applied in the control analysis for all investees. The amendments issued in June 2012 simplify the process of adopting IFRS 10 and provide additional relief from certain disclosures. The standard is effective for annual periods beginning on or after January 1, 2013. The Company is currently assessing the impact of the standard on the consolidated financial statements.

IFRS 12, Disclosure of involvement with Other Entities

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

IFRS 13, Fair Value Measurement

In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on November 1, 2013. The Company does not expect IFRS 13 to have a material impact on the financial statements.

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com.