SERNOVA CORP.
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended October 31, 2008

The following discussion and analysis explains the variations in the consolidated operating results and financial position and cash flows of the Corporation for the years ended October 31, 2008 and 2007. This analysis should be read in conjunction with the audited Consolidated Financial Statements of the Corporation and related notes enclosed herein as at October 31, 2008. Such Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. All dollar figures are in Canadian dollars unless otherwise indicated. In this report where we say "we", "us", our", or "the Corporation", we mean Sernova Corp., unless otherwise indicated.

The information in this report is dated as of January 14, 2009.

This MD&A contains "forward looking statements" that reflect the Corporation'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", "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 Corporation's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause the Corporation'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.

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 Corporation disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

This discussion and analysis has been reviewed and approved by the Audit Committee and Board of Directors. The Audit Committee of the Corporation includes two financial experts.

PERORMANCE SUMMARY AND UPDATE

On May 25, 2006 the Company announced it had received TSX Venture Exchange approval for the joint venture and financing agreement with Sertonex Inc. (Sertonex) of London, Ontario and Sertoli Technologies, Inc. (STI) of Tucson, Arizona ("Joint Venture"). The purpose of the Joint Venture is to develop a commercially viable treatment for Type 1 human diabetes using transplanted devices containing porcine cells. The technology is branded as "Sertolin" and is the Company's primary focus.

The Company's efforts and expenditures have been centered around building animal model data through research to support regulatory approval of clinical (human) trials of Sernova's Sertoli cell technology. The Company is planning to file an Investigational New Drug (IND) application with the United States Food and Drug Administration (FDA), or other relevant regulatory agency, once management believes it has enough preclinical safety and efficacy data. Sernova's management, in conjunction with its Scientific Advisory Committee and regulatory consultants, periodically reviews and revises its regulatory approval strategy as needed.

On April 25, 2008 the Company met with the U.S. Food and Drug Administration (FDA) to establish definitive requirements for the filing of an Investigational New Drug (IND) application, which is required for the Company to commence human Clinical Trials. After review of Sernova's pre-clinical testing data in rodents to date, the FDA specified the next stage to be a pivotal pre-clinical trial consisting of a single 12 month large-animal trial with clear endpoints, leading to a Phase I/II human Clinical Trial ("Pivotal Trial"). Including trial planning and

chamber manufacturing time, the Pivotal Trial is expected to take about 18 months in total to complete and will assess the long-term safety and durable activity of Sertolin.
Prior to commencement of the Pivotal Trial, Sernova has been focusing on required preparations, including the scale-up and design of the chamber for the trial, sourcing and contracting with FDA-GLP contract research facilities ("CRO's") to perform the trial, and finalizing arrangements to secure porcine cells for this trial and future human trials. The Company is also actively seeking additional financing to fund the Pivotal Trial, which will be conducted by outside CRO's at an estimated cost of US $1.4 million to US $3.5 million. The Pivotal Trial has not yet commenced.

Subsequent to year end, Justin Leushner, President of the Corporation since 2006, resigned for personal reasons, effective January 31, 2009. Prior to beginning the search for a new President, the Board of Directors formed a subcommittee of the Board to conduct an internal review of the Corporation's research and development, financing and partnering activities and strategies. This subcommittee is chaired by Mr. Jeffrey Bacha, an independent Director of the Corporation, who is presently Executive Vice President, Corporate Affairs and Chief Operating Officer of Clera Inc. of Vancouver, British Columbia. It is anticipated that this review will be completed in advance of the Corporation's Annual General Meeting which will be held in the spring of 2009.

On July 26, 2007, the Company exercised its right to acquire the final one-third of the shares of Sertonex as part of the Joint Venture, and issued the final tranche of 2,315,000 common shares to Dr. White and Mr. Leushner. These common shares are subject to timed escrow release as shown in the table below, and the same earn out escrow provisions described below.

The escrow terms of the timed escrow agreement with White and Leushner is shown below.

Release Dates	Total Number of Escrowed Securities to be Released
Aug. 9, 2006	463,000
February 9, 2007	694,500
July 26, 2007	231,500
Aug. 9, 2007	694,500*
January 26, 2008	347,250
February 9, 2008	694,500*
July 26, 2008	347,250
Aug. 9, 2008	694,500*
January 26, 2009	347,250
February 9, 2009	694,500*
Aug. 9, 2009	694,500*
July 26, 2009	347,250
January 26, 2010	347,250

July 26, 2010	347,250
Total	6,945,000

* In the above table, share releases with an asterisk are further restricted in escrow by earn out provisions as follows:

The common shares will be released from escrow on the following basis:

(i) 1,736,250 common shares on the date that Sernova or an affiliate receives approval from the United States FDA (or its foreign equivalent in Canada, Europe or Japan) of an investigational new drug application or other appropriate regulatory application, as applicable, (or its foreign equivalent in Canada, Europe or Japan) for the initiation of human clinical trials for a Licensed Product;

(ii) the balance of 1,736,250 common shares on the date that Sernova or an affiliate enrolls the first patient in a Phase 3 human clinical efficacy trial (or its foreign equivalent in Canada, Europe or Japan) for a Licensed Product;

provided the Escrow Agent receives a declaration of the Company, in each instance that the conditions for the release have been met.

As part of the Joint Venture agreement, STI exclusively licensed to Sernova all patents, and patent applications for the therapeutic use of Sertoli cell technology, the key component of Sertolin. In exchange, Sernova issued to STI 6,527,500 common shares and a licensing fee of $1,142,312, and certain other future royalties on income related to the patents. The payment shares are subject to a 3 year timed escrow agreement. STI is controlled by Research Corporation Technologies, Inc. The escrow terms of the timed escrow agreement with STI are shown below.

Release Dates	Total Number of Escrowed Securities to be Released
August 9, 2006	652,750
February 9, 2007	979,125
Aug. 9, 2007	979,125
February 9, 2008	979,125
August 9, 2008	979,125
February 9, 2009	979,125
August 9, 2009	979,125
Total	6,527,500

To help guide the diabetes research efforts, the Company has a Scientific Advisory Board chaired by Dr. David White. Dr. White is Sernova's principal researcher on its diabetes project. He is a noted immunologist,

formerly a professor at Cambridge University in England and now Professor of Xenotransplantation at the University of Western Ontario.

Also on the Scientific Advisory Board are Dr. Norman Wong, co-founder of Resverlogix and a Professor in the Departments of Medicine and Biochemistry & Molecular Biology at the University of Calgary, Dr. Jannette Dufour, an expert in Sertoli cells and Assistant Professor in the Department of Cell Biology and Biochemistry at Texas Tech University Health Sciences Center, Dr. Clive Patience a leading expert on biological safety of xenotransplants and currently Associate Director of Bioanalytical Quality Control at Biogen Idec. Inc., Dr. George King, an award winning diabetologist who is the Director of Research and Head of the Vascular Cell Biology Section at Joslin Diabetes Center, and a Professor of Medicine at Harvard Medical School, and Dr. Shinichi Matsumoto, a pancreatic islet transplant expert and Director of the Baylor All Saints Islet Cell Laboratory at the Baylor Research Institute.

The Company is also receiving cash royalty payments from the July 2004 sale of its fertility monitor technology to HealthWatchSystems Inc. The product is branded as OV-Watch™, and is sold on the Internet and in selected markets in the USA. Further details of the transaction are contained in the October 31st, 2004 Year-End Financial Statement Footnotes, Note Number 12.

Results of Operations

The Company continues to focus on research and development and has no products in commercial operations (other than the OV-Watch™ noted above) and accordingly the Company has incurred losses since its inception. For the year ended October 31, 2008 the company recorded a loss of $2,753,485 or $0.05 per share versus a loss of $3,592,220 or $0.07 per share for the year ended October 31, 2007.

Revenue for the year ended October 31, 2008 was $80,304 compared to $125,031 for the prior year, a decrease of $44,727 or 36%. The decrease in revenues is principally the result of lower interest income of $37,721 compared to $91,449 for the prior year arising from reduced cash and term deposit balance year over year as the cash resources were utilized to meet research and administrative costs in the year. Royalty income amounted to $42,271 compared to $39,808 for the same period last year, an increase of 6%.

Office, General and Administrative expenses for the year ended October 31, 2008 were $194,437 compared to $218,460 for the same period in the prior year representing a decrease of $24,023 or 11%. This reduction reflects the decision of management to reduce corporate overheads in light of the Company's cash resources. Significant operating costs for the year ended October 31, 2008 (defined as individual expense categories of approximately 10% of the total costs) included office and miscellaneous costs of $79,709 and business development and conference costs of $58,299. Significant operating costs for the prior year included business development and conference costs of $71,974.

Amortization of the capital assets and patent assets amounted to $805,548 compared to $795,465 for the year ended October 31, 2007.

Of the loss recorded for the year ended October 31, 2008, $583,834 is related to the non-cash expense from stock based compensation ($614,452 for the year ended October 31, 2007) which is explained in Note Number 7 to the Consolidated Financial Statements.

Research costs for the year ended October 31, 2008 were $816,799 compared to $1,603,292 for the year ended October 31, 2007, a decrease of $786,493 or 49%. This decrease reflects the reduced scientific activity as the Company prepares for the Pivotal Trial.

No provision for income taxes or income tax recovery on either the current year or prior year earnings has been recorded in the Statement of Operations due to the existence of non-capital losses of $4,152,000 in Canada and $3,709,000 operating losses in the United States as at October 31, 2008. In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependant upon the generation of future taxable income.

Net loss for the year ended October 31, 2008 was $2,753,485 compared to a net loss of $3,592,220 for the prior year, a decrease of $838,735 or 23% in the level of the loss. The significant portion of this change in the loss can be attributed to the reduction in the research costs. Basic and fully diluted loss per share for the year was $0.05, compared with the basic and fully diluted loss per share of $0.07 for the year ended October 31, 2007.

Selected summary data with respect to the statement of operations is set out below:

SUMMARY OF QUARTERLY RESULTS

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2006	Net loss	(98,315)	(451,772)	(107,385)	(585,228)
	Net loss per share	(0.01)	(0.01)	(0.01)	(0.01)
2007	Net loss	(413,308)	(1,119,456)	(1,055,777)	(1,003,679)
	Net loss per share	(0.01)	(0.02)	(0.02)	(0.01)
2008	Net loss	(623,179)	(1,077,250)	(488,993)	(564,063)
	Net loss per share	(0.01)	(0.02)	(0.01)	(0.01)

SELECTED ANNUAL INFORMATION

	2008	2007	2006
Loss for the year	$ (2,753,485)	$ (3,592,220)	$ (1,242,700)
Total assets	5,149,330	7,232,426	6,248,234
Total liabilities	120,841	34,286	122,151
Shareholders' equity	5,028,489	7,198,140	6,126,083
Basic and diluted loss per share	$ (0.05)	$ (0.07)	$ (0.04)

All financial information is expressed in Canadian dollars, and has been prepared in accordance with Canadian GAAP.

It is anticipated that in the current economic and financial market volatility, management will continue to explore the opportunities to evaluate all committed programs and expenditures especially in light of the limited cash resources. The Company is faced with a significant number of fixed expenditures that will be managed with a focus on the management of available resources and the success in securing new working capital funds.

CASH FLOWS

Cash flows used by the operating loss for the year ended October 31, 2008 were $1,364,103 compared with cash flows used by the operating loss of $2,182,303 for the prior year, representing an improvement of $818,200 or 38% in the cash used by such operations. This change year over year is the result principally of lower administrative costs and lower research expenditures.

Cash provided by working capital balances for the year ended October 31, 2008 was $114,925 compared with cash used by working capital of $43,019 for the prior year. The change in the year ended October 31, 2008 arose from both a decrease in accounts receivable of $44,236 and increase in accrued liabilities in the fiscal period of $59,461 as management tried to maximize its cash resources. In the prior year ended October 31, 2007, the use of cash for working capital was attributed principally to a reduction in the level of accounts payable and accrued liabilities of $58,436.

Regarding financing activities, there were no cash generated from such sources in the year ended October 31, 2008 compared to $2,475,625 in the prior year. The financing activities in the year ended October 31, 2007 resulted from the issue of share capital of $2,475,625, net of issuance costs as explained in Note 7 to the Consolidated Financial Statements.

With respect to investing activities, cash invested in patents and trademarks amounted to $89,681 for the year ended October 31, 2008 compared to $1,324,834 for the year ended October 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Over the past fiscal year, management implemented a plan to reduce the operating and research costs and has made further cuts in the costs of operating from the former year. Notwithstanding such reduced costs, the Company has experienced a reduction in working capital of $1,480,878 for the year ended October 31, 2008. Management will continue to explore opportunities to cut its operating costs and to raise additional capital.

There are no significant commitments for equipment. Management will manage the investing activities related to patent and trademarks in light of the current cash resources and in the year ended October 31, 2008 invested $89,681 compared to $1,324,834 for the prior year.

The Company is committed to monthly payments of rental space but such amounts are not significant and totaled $7,134 for the year ended October 31, 2008.

As at October 31, 2008, the Company had cash of $461,346 compared to $1,800,205 as at October 31, 2007. However, the Company may face significant uncertainty relating to liquidity and intends to continue to search for additional sources of capital and working funds for research and administrative costs, to fund the planned Pivotal Trial, and to actively search for collaborative partners for various projects.

The current economic and financial market uncertainty is expected to have an impact on the Company liquidity position. While the Company does not have available credit facilities, and will not be impacted by the changing environment, it will require cash to fund continuing operations likely in the form of new capital or debt. It is expected that the current market conditions will negatively impact the ability to raise new capital or debt, and the cost of any new capital or debt that may be raised. The Company has a number of fixed costs and management will be reviewing and assessing all committed capital and operating expenditures to assess whether such programs can be curtailed or cancelled.

There are no defaults under operating agreements and management does not anticipate any significant risks that there will be such a default in the next year ending October 31, 2009.

GOING CONCERN

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles assuming the Company will continue as a going-concern basis. 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 profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and research programs. In order for the Company to meet its liabilities as they come due and to continue operations, the Company remains solely dependant upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheet. The Consolidated Financial Statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The current market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows, and needs to invest in the continued prosecution of patents and trademarks which cannot be met from existing cash balances. The Company will continue to search for new funds and for new collaborative partners for the research but anticipates that the current market conditions may impact the ability to source such funds.

BALANCE SHEET

Total assets as at October 31, 2008 were $5,149,330 compared with $7,232,426 at the end of the Company's last year end, representing a decrease of 29% or $2,083,096. Substantially all of the decrease is accounted for by the use of cash resources to fund operations and the amortization of the intangible assets.

Total current assets of $484,898 are substantially reduced from the balance of $1,879,221as at October 31, 2007, and reflect the use of such resources to cover operations.

The net book value of equipment of $4,991 in the Company remains relatively unchanged from the balance as at October 31, 2007 and reflects the decision of management not to invest in new additions, and the change in value can be attributed to the amortization of such assets.

The net book value of patents and trademarks as at October 31, 2008 declined to $4,659,441 from $5,344,898 as at the end of the prior year. Additions in the year amounted to $116,775 (cash additions of $89,681) and amortization of $802,232 accounted for the decrease in net book value.

Accounts payable and accrued liabilities were $120,841 at the year end compared to $34,286 as at the prior year end, an increase of $86,555. The increase is the result of management's attempt to control its cash resources and to secure arrangements with its trade creditors to extend payment terms. It is anticipated that all current liabilities will be settled in the first quarter.

There were no changes in capital stock during the year ended October 31, 2008. During the year ended October 31, 2007 the company received net proceeds of $2,475,625 resulting from the exercise of both warrants and options as explained in Note 7 to the Consolidated Financial Statements.

During the year ended October 31, 2008 the Company granted 325,000 stock options to directors, officers, employees and consultants at an exercise price of $0.30 per share and 100,000 stock options to directors and officers at an exercise price of $0.12 per share (785,000 for the year ended October 31, 2007). In addition, during the year ended October 31, 2008 755,000 stock options expired. During the year no stock options were exercised compared to 140,500 in the year ended October 31, 2007.

Accordingly, there are 4,384,500 options outstanding to employees, consultants, officers and directors as at October 31, 2008, compared to 4,714,500 as at October 31, 2007.

There were no changes in Common Share Purchase Warrants during the year ended October 31, 2008. During the year ended October 31, 2007 a total of 4,036,375 Common Share Purchase Warrants were exercised at an average price of $0.60 per warrant for net proceeds of $2,421,825. There are no outstanding warrants as at October 31, 2008 or October 31, 2007.

OFF-BALANCE SHEET ARRANGEMENTS

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

FOURTH QUARTER

No significant fourth quarter events or items affected the Company's financial conditions, cash flows or results of operations.

TRANSACTIONS WITH RELATED PARTIES

During the year ended October 31, 2008, the Company paid $20,000 (2007 - $30,000) to Patrick Groening, for his services during part of the fiscal year as the Chief Financial Officer of the Company for his services. Consulting fees in the amount of $40,625 (2007 - $69,800) were paid to a company controlled by Phil Morehouse, the Executive Vice President of the Company for part of the same period. Both of these arrangements were terminated during the year as part of an overall reduction of overhead.

During the year ended October 31, 2008 the Company paid $8,000 (2007 - nil) in consulting fees for the services of the new Chief Financial Officer, paid to a company controlled by the officer.

During the year ended October 31, 2007, the Company paid management consulting fees in the amount of $30,000 to a company controlled by Devinder Randhawa, the former Chief Executive Officer of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties. Amounts due to related parties are non-interest bearing, unsecured and have no specific repayment terms.

PROPOSED TRANSACTIONS

There is no proposed asset or business acquisition or disposition that the Corporation's Board of Directors has decided to proceed with, or that senior management believes will be probably confirmed by the Board of Directors.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

The Company adopted the following new accounting policies for its fiscal year beginning November 1, 2007. The adoption of these pronouncements did not effect the Company's financial position or results of operations.

Accounting Changes

CICA Handbook Section 1506: "Accounting Changes" ("Section 1506"), which is effective for fiscal years beginning on or after January 1, 2007, establishes standards and new disclosure requirements for the reporting of changes in accounting policies and estimates and the reporting of error corrections. Section 1506 clarifies that a change in accounting policy can be made only if it is a requirement under Canadian GAAP or if it provides reliable and more relevant financial statement information. Voluntary changes in accounting policies require retrospective application of prior period financial statements, unless the retrospective effects of the changes are impracticable to determine, in which case the retrospective application may be limited to the assets and liabilities of the earliest period practicable, with a corresponding adjustment made to opening retained earnings.

Financial Instruments

The Accounting Standards Board of the CICA (the "AcSB") issued CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges* (see Note Number 13 of the Consolidated Financial Statements).

AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset (see Note Number 13 of the Consolidated Financial Statements).

Capital Management

AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed (see Note Number 14 of the Consolidated Financial Statements).

Accounting Pronouncements

The Company will be required to adopt the following accounting policies commencing November 1, 2008:

Goodwill and Intangible Assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs and amendments to Accounting

Guideline (AcG) 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

Assessing Going Concern

AcSB amended CICA Handbook Section 1400 "General Standards on Financial Statement Presentation", to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be November 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended October 31, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at October 31, 2008, the Company has 56,797,358 common shares issued and outstanding.

The Company also has a total of 4,384,500 outstanding stock options outstanding as at October 31 2008 (2007 – 4,714,500). Details of the number of such options, the exercise price and the expiry dates are outlined in Note 7 to the Consolidated Financial Statements. Of this total, 3,764,500 are exercisable as at October 31, 2008 compared to 3,017,417 as at October 31, 2007.

There are no outstanding warrants.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, short term investments, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted. The Company is subject to financial risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

RISKS AND UNCERTAINTIES

The Corporation has a technology that is in the research and development stage and has not yet been approved for commercialization by regulatory authorities in any jurisdiction or marketed commercially. Our business entails significant risks, including the costs and time involved in obtaining the required regulatory approvals, the adequacy of patent protection, the uncertainties involved in clinical testing, the availability of capital to continue commercialization of our products, and competition from pharmaceutical and other biotechnology companies.

Product research and commercialization involves a high degree of risk and returns to investors are dependent upon successful development and commercialization of our products. There can be no assurance that commercialization of any product will be successfully completed or that regulatory approval of any of our products under development will be obtained. Furthermore, there can be no assurance that existing products or new products commercialized by competitors will not be more effective, or more effectively marketed and sold, than any that may be developed by us.

In light of the length of time and expense associated with bringing new products through commercialization, obtaining regulatory approval and bringing products to market, the Corporation places considerable importance on patent protection for significant discoveries. There can be no assurance that any pending patent application filed by any subcontractor to the Corporation will mature into issued patents. Furthermore, there can be no assurance that existing or pending patent claims will offer protection against competition, or will not be designed around or infringed upon by others. In addition to this fact, the commercial success will also depend in part on not infringing patents or proprietary rights of others.

Significant funding is required for the ongoing research and development, clinical trials, commercial manufacturing of products and establishment of sales and marketing teams necessary for the launch and on going sales of new products. In addition, major financial resources are necessary until such time as the products are commercialized and sold successfully, and sales are sufficient to generate earnings. We intend to raise additional financing, as required, through research, partnering and licensing arrangements, the exercise of warrants and options, and through equity and/or debt financing. However, there can be no assurance that these financings efforts will be successful or that we will continue to be able to meet our ongoing cash requirements. It is possible that financing will not be available or, if available, may not be on favorable terms. The availability of financing will be affected by the results of our scientific and clinical research, our ability to attain regulatory approvals, the market acceptance of our products, and the state of the capital markets generally (with particular reference to pharmaceutical, biotechnology and medical companies), the status of strategic alliance agreements, and other relevant commercial considerations.

There can also be no assurance that we will be successful in marketing and distributing our products, or that we will be able to make adequate arrangements with third parties for such purposes. There can be no assurance that we will generate revenue or achieve profitability.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

These Consolidated Financial Statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and have been approved by the Board of Directors. The integrity and objectivity of these Consolidated Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that this information is consistent, where appropriate, with the information contained in the Consolidated Financial Statements.

In support of this responsibility, Sernova's management maintains systems of internal accounting and administrative controls to provide reasonable assurance that the financial information is relevant,

reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. These Consolidated Financial Statements may include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the Consolidated Financial Statements are presented fairly in all material respects.

The Company maintains a set of disclosure controls and procedures designed to ensure that the information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company's President and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of October 31, 2008 and concluded that the current disclosure controls and procedures are effective.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and has at least one financial expert, and one of its members is involved in the daily operations of the Corporation. The Audit Committee meets periodically with management and the external auditor to discuss controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Consolidated Financial Statements with the external auditors.

The Committee reports its finding to the Board for consideration when approving the Consolidated Financial Statements for issuance to shareholders. The Committee also considers, for recommendation by the Board and approval by the shareholders, the reappointment of the external auditors.

Due to the limited number of appropriately qualified staff, there is little segregation of duties within the financial internal control environment of the Corporation. Functions that would normally be segregated within a typical control environment are performed by one individual and the preparation and authorization of certain activities that would normally be separated are not as only one member of staff is responsible for substantially all of the day-to-day finance functions and the financial reporting of the Company. Due to the lack of segregation of duties, management has identified certain control weaknesses. The Company relies on certain compensating controls, including substantive periodic review of the financial statements, to ensure that disclosure controls and procedures are effective. The President and Chief Financial Officer have concluded that disclosure controls and procedures are effective to provide reasonable assurance that all material or potentially material information about the activities of the Corporation is made known to them by others within the Corporation.

There are no changes to the critical accounting estimates as a result of the current market conditions that require any special disclosure at this time. Amounts included in the current assets are deemed collectible and do not require adjustment and management is comfortable as to the recoverability of the long term assets as at October 31, 2008.

There have been no significant changes to the Company's internal control environment during the year ended October 31, 2008 and subsequent to that date that would have materially effected the Company's internal controls over financial reporting.

The external auditor has full and free access to the Audit Committee with respect to his findings concerning the fairness of the financial reporting and the adequacy of internal controls.