Immunovaccine Inc.

Unaudited Interim Condensed Consolidated
Financial Statements
March 31, 2014

May 28, 2014

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed consolidated financial statements of Immunovaccine Inc. (the "Corporation") are the responsibility of management and have been approved by the Board of Directors. The unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The unaudited interim condensed consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgement.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the unaudited interim condensed consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Corporation's unaudited interim condensed consolidated financial statements, and recommended their approval by the Board of Directors.

(signed) "*Marc Mansour*"
Chief Operating Officer

(signed) "*Kimberly Stephens*"
Chief Financial Officer

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Financial Position

As at March 31, 2014 and December 31, 2013

(Expressed in Canadian dollars)

	March 31, 2014 $	December 31, 2013 $
Assets		
Current assets		
Cash and cash equivalents	2,047,134	3,535,997
Amounts receivable	298,828	246,957
Prepaid expenses	239,912	170,249
Investment tax credits receivable	608,155	595,503
	3,194,029	4,548,706
Intangible asset	264,146	273,929
Property and equipment (note 4)	271,529	273,650
	3,729,704	5,096,285
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,156,557	1,111,313
Amounts due to directors	42,070	63,238
Current portion of long-term debt (note 5)	58,948	56,809
	1,257,575	1,231,360
Long-term debt (note 5)	1,305,024	1,274,160
	2,562,599	2,505,520
Equity	1,167,105	2,590,765
	3,729,704	5,096,285

Nature of operations and going concern (note 1)

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

Approved on behalf of the Board of Directors

(signed) *"James W. Hall"*, Director

(signed) *"Wayne Pisano"*, Director

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity

For the period ended March 31, 2014 and December 31, 2013

(Expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Warrants $	Deficit $	Total $
Balance, January 1, 2013	27,452,763	2,804,809	1,424,350	(29,872,657)	1,809,265
Comprehensive loss for the period	–	–	–	(1,584,844)	(1,584,844)
Issuance of share capital in private placement	1,603,880	–	–	–	1,603,880
Issuance of share capital in lieu of professional fees	15,708	–	–	–	15,708
Less share issuance costs	(50,881)	–	–	–	(50,881)
Employee share options:					
Value of services recognized	–	62,858	–	–	62,858
Balance, March 31, 2013	29,021,470	2,867,667	1,424,350	(31,457,501)	1,855,986
Comprehensive loss for the period	–	–	–	(3,096,589)	(3,096,589)
Issuance of share capital in private placement	4,204,484	–	–	–	4,204,484
Issuance of share capital in lieu of professional fees	66,887	–	–	–	66,887
Less share issuance costs	(200,266)	–	–	–	(200,266)
Expiration of warrants	–	1,192,850	(1,424,350)	–	(231,500)
Issuance of broker warrants	–	–	15,787	–	15,787
Employee share options:					
Value of services recognized	–	(26,124)	–	–	(26,124)
Exercise of options	10,125	(8,025)	–	–	2,100
Balance, December 31, 2013	33,102,700	4,026,368	15,787	(34,554,090)	2,590,765
Comprehensive loss for the period	–	–	–	(1,942,756)	(1,942,756)
Exercise of warrants	8,200	–	(3,580)	–	4,620
Employee share options:					
Value of services recognized	–	402,049	–	–	402,049
Exercise of options	447,127	(334,700)	–	–	112,427
Balance, March 31,2014	33,558,027	4,093,717	12,207	(36,496,846)	1,167,105

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

	Three months ended March 31, 2014 $	Three months ended March 31, 2013 $
Expenses		
General and administrative	683,709	613,756
Research and development	912,688	728,265
Business development	298,623	221,437
Accreted interest and adjustments	47,736	21,386
	1,942,756	1,584,844
Net loss and comprehensive loss for the period	(1,942,756)	(1,584,844)
Basic and diluted loss per share	(0.02)	(0.02)
Weighted-average shares outstanding	79,127,047	64,977,505

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2014 and 2013

(Expressed in Canadian dollars)

	Three months ended March 31, 2014 $	Three months ended March 31, 2013 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,942,756)	(1,584,844)
Charges to operations not involving cash		
Amortization of intangible asset	9,783	9,783
Depreciation of property and equipment	14,777	18,859
Accretion of long-term debt	47,736	21,386
Stock-based compensation	402,049	62,858
	(1,468,411)	(1,471,958)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in amounts receivable	(51,871)	283,104
Decrease (increase) in prepaid expenses	(69,663)	123,809
Increase in investment tax credits receivable	(12,652)	(70,000)
Increase in accounts payable and accrued liabilities	45,244	41,183
Increase (decrease) in amounts due to directors	(21,168)	24,036
	(1,578,521)	(1,069,826)
Financing activities		
Proceeds from issuance of capital stock	–	1,603,880
Share issuance costs	–	(35,173)
Repayment of long-term debt	(14,733)	(22,910)
Proceeds from the exercise of stock options	112,427	–
Proceeds from the exercise of warrants	4,620	–
	102,314	1,545,797
Investing activities		
Acquisition of property and equipment	(12,656)	(3,165)
Net change in cash and cash equivalents during the period	(1,488,863)	472,806
Cash and cash equivalents – Beginning of period	3,535,997	2,001,931
Cash and cash equivalents – End of period	2,047,134	2,474,737
Cash and cash equivalents are comprised of the following:		
Cash on hand and balances with banks	2,047,134	1,474,737
Short-term investments	–	1,000,000
	2,047,134	2,474,737
Supplementary cash flow information		
Income taxes paid	–	–
Interest received	8,699	9,602

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

(Expressed in Canadian dollars)

1 Nature of operations and going concern

Immunovaccine Inc. ("Immunovaccine" or the "Corporation") is, through its 100% owned subsidiary ImmunoVaccine Technologies Inc., a clinical stage biotechnology company dedicated to the development of premium vaccines for therapeutic cancer and infectious diseases. To date, the Corporation has not earned significant revenues and is considered to be a development stage enterprise. Immunovaccine has patented vaccine delivery and enhancement technologies trade named VacciMax® and DepoVax™ and has a number of early stage infectious diseases and cancer vaccine product candidates. The Corporation also partners with other companies to help them develop human and animal vaccine candidates. Incorporated and domiciled in Halifax, Nova Scotia, the shares of Immunovaccine are listed on the TSX-Venture Exchange ("TSX-V") with the symbol IMV. The address of its principal place of business is 1344 Summer Street, Suite 412, Halifax, Nova Scotia, Canada.

Since the Corporation's inception, the Corporation's operations have been financed through the sale of shares, issuance of debt, revenue from animal health licenses, interest income on funds available for investment, and government assistance and income tax credits. The Corporation has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of $36,496,846 as at March 31, 2014.

The ability of the Corporation to continue as a going concern is dependent upon raising additional financing through equity and non-dilutive funding and partnerships. There can be no assurance that the Corporation will have sufficient capital to fund its ongoing operations, develop or commercialize any products without future financings. These material uncertainties cast significant doubt as to the Corporation's ability to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Corporation is currently pursuing financing alternatives that may include equity, debt, and non-dilutive financing alternatives including co-development with partners and strategic investments from major pharmaceutical companies. There can be no assurance, especially considering the current economic environment, that additional financing will be available on acceptable terms or at all. If the Corporation is unable to obtain additional financing when required, the Corporation may have to substantially reduce or eliminate planned expenditures or the Corporation may be unable to continue operations.

The Corporation's ability to continue as a going concern is dependent upon its ability to fund its research and development programs and defend its patent rights. These unaudited interim condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and the statement of financial position classifications that would be necessary if the Corporation were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Basis of presentation

The Corporation prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(Expressed in Canadian dollars)

2 Basis of presentation (continued)

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, International Accounting Standards 34 "*Interim Financial Reporting*". Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation's annual audited consolidated financial statements for the year ended December 31, 2013.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of May 28, 2014, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2014 could result in restatement of these unaudited interim condensed consolidated financial statements.

3 Significant accounting policies, judgments and estimation uncertainty

The significant accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are described below.

Basis of measurement

The unaudited interim condensed consolidated financial statements have been prepared under the historical cost convention.

Consolidation

The financial statements of the Corporation consolidate the accounts of Immunovaccine Inc. and its subsidiary. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. There are no non-controlling interests, therefore all loss and comprehensive loss is attributable to the shareholders of the Corporation.

Foreign currency translation

i) Functional and presentation currency

Items included in the unaudited interim condensed consolidated financial statements of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is Immunovaccine Inc.'s functional currency.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgements and estimation uncertainty (continued)

Foreign currency translation (continued)

ii) Transactions and balances

Foreign currency translation of monetary assets and liabilities denominated in currencies other than the Corporation's functional currency is converted at the rate of exchange in effect at the statement of financial position date. Income and expense items are translated at the rate of exchange in effect at the translation date. Translation gains or losses are included in determining income or loss for the period. Foreign exchange loss of $18,433 for the three months ended March 31, 2014 (three months ended March 31, 2013- $4,825) is included in general and administrative expenses.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, and highly liquid temporary investments that are readily convertible to known amounts of cash.

Financial instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Corporation recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net loss or comprehensive loss.

The Corporation has implemented the following classifications:

- Cash and cash equivalents and amounts receivable are classified as loans and receivables. After their initial fair value measurement, they are measured at amortized cost using the effective interest method; and

- Accounts payable and accrued liabilities, amounts due to directors and long-term debt are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Impairment of financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss for financial assets carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss during the period in which they are incurred.

Depreciation of property and equipment is calculated using the declining-balance method at the following annual rates:

Computer equipment	30%
Furniture and fixtures	20%
Laboratory equipment	20%

Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains and losses in the statement of loss.

Intangible assets

The intangible asset, consisting of a license with a finite life, is carried at its cost, net of accumulated amortization. Amortization is provided over its estimated useful life of 10.5 years on a straight-line basis.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset's fair value less the costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Corporation evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Income tax

Income tax is comprised of current and deferred income tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred income tax is recognized in respect of temporary differences including non-refundable investment tax credits, arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax on income in interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

Deferred income tax assets and liabilities are presented as non-current.

Research and development

All research costs are expensed in the period incurred. Development costs are expensed in the period incurred, unless they meet the criteria for capitalization, in which case they are capitalized and then amortized over the useful life. Development costs are written off when there is no longer an expectation of future benefits.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Revenue recognition

In general, revenues are recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the amount can be measured reliably. Revenues comprise the fair value of the consideration received or receivable for services in the ordinary course of the Corporation's activities.

Revenues related to research agreements are bound to milestone agreements and are recorded as the milestones are reached and upon customer acceptance. Under these agreements, the payments received in advance are recognized as deferred revenue in the statement of financial position and then, as revenue when milestones are reached and upon customer acceptance. Revenues from research agreements are recognized using the percentage-of-completion method.

The existing licensing agreements usually foresee one-time payment (upfront payment) and milestone payments. Revenues associated with those multiple-element arrangements are allocated to the various elements based on their relative fair value. The consideration received is allocated among the separate units based on each unit's fair value or using the residual method, and the applicable revenue recognition criteria are applied to each of the separate units.

License fees representing non-refundable payments received upon the execution of license agreements are recognized as revenue upon execution of the license agreements when the Corporation has no significant future performance obligations and collectability of the fees is assured. Upfront payments received at the beginning of licensing agreements are not recorded as revenue when received but are amortized based on the progress of the related research and development work. This progress is based on estimates of total expected time or duration to complete the work which is compared to the period of time incurred to date in order to arrive at an estimate of the percentage or revenue earned to date.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Loss per share

Basic loss per share ("LPS") is calculated by dividing the net loss for the year attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted LPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Diluted LPS is equal to the LPS as the Corporation is in a loss position and all securities would be anti-dilutive.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Stock-based compensation plan

The Corporation grants stock options to certain employees and non-employees. Stock options vest over 18 months (33 1/3% per six months) and expire after five years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Government assistance

Non-repayable government assistance is recorded in the period earned as a reduction in the related qualifying expenditure. During the three months ended March 31, 2014, the Corporation recorded $152,106 of non-repayable government grants, from a number of government agencies, as a reduction in related research salaries (three months ended March 31, 2013 - $40,828). At March 31, 2014, $148,972 (December 31, 2013 - $67,658) of government assistance, including government loans, is included in amounts receivable.

Repayable government loans are recorded at fair value, with the difference between the book value and fair value recorded as a reduction of research and development expenditures.

Research and development tax credits

Refundable investment tax credits relating to scientific research and experimental development expenditures are recorded in the accounts in the fiscal period in which the qualifying expenditures are incurred provided there is reasonable assurance that the tax credits will be realized. Refundable investment tax credits, in connection with research and development activities, are accounted for using the cost reduction method which recognizes the credits as a reduction of the cost of the related property and equipment or expenses.

Amounts recorded for refundable investment tax credits are calculated based on the expected eligibility and tax treatment of qualifying scientific research and experimental development expenditures recorded in the Corporation's unaudited interim condensed consolidated financial statements.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Critical accounting estimates and judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's consolidated financial statements. The following estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Calculation of initial fair value and carrying amount of long-term debt:

Atlantic Innovation Fund ("AIF") loans

The initial fair value of the AIF loans is determined by using a discounted cash flow analysis for each of the loans, which require a number of assumptions. The difference between the face value and the initial fair value of the AIF loans is recorded in the statement of loss as government assistance. The carrying amount of the AIF loans requires management to adjust the long-term debt to reflect actual and revised estimated cash flows whenever revised cash flow estimates are made or new information related to market conditions is made available. Management recalculates the carrying amount by computing the present value of the estimated future cash flows at the original effective interest rate. Any adjustments are recognized in the consolidated statement of loss as accreted interest and adjustments after initial recognition.

The significant assumptions used in determining the discounted cash flows include estimating the amount and timing of future revenue for the Corporation and the discount rate. As the AIF loans are repayable based on a percentage of gross revenue, if any, the determination of the amount and timing of future revenue significantly impacts the initial fair value of the loan, as well as the carrying value of the AIF loans at each reporting date. The Corporation is in the early stages of research for its infectious diseases and cancer vaccine product candidates; accordingly, determination of the amount and timing of revenue, if any, requires significant judgment by management. If the Corporation expected no future revenues, no repayments would be required on the AIF loans and the amounts recorded for the AIF loans would be $nil. Management's estimates of future revenues assume no significant revenue in the near future. The discount rate determined on initial recognition of the AIF loans is used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rates, the Corporation considered the interest rates of similar long-term debt arrangements, with similar terms. The AIF loans are repayable based on a percentage of gross revenue, if any; accordingly, finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used discount rates ranging from 35% to 50% to discount the AIF loans.

If the weighted average discount rate used in determining the initial fair value and the carrying value at each reporting date of all AIF loans, with repayment terms based on future revenue, had been determined to be higher by 10% (resulting in discount rates ranging from 45% to 60%), or lower by 10% (resulting in discount rates ranging from 25% to 40%), the carrying value of the long-term debt at December 31, 2013 would have been an estimated $180,000 lower or $400,000 higher, respectively. As there is no significant revenue forecasted in the near future, a 10% increase or decrease in the total forecasted revenue would not have a significant impact on the amount recorded for the AIF loans. If the total forecasted revenue were reduced to $nil, no amounts would be forecast to be repaid on the AIF loans, and the AIF loans payable at December 31, 2013 would be recorded at $nil, which would be a reduction in the AIF loans payable of $372,700. If the timing of the receipt of forecasted future revenue was earlier or later by 2 years, the carrying value of the long-term debt at December 31, 2013 would have been an estimated $287,000 higher or $95,000 lower, respectively.

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty (continued)

Critical accounting estimates and judgments (continued)

Province of Nova Scotia, Economic and Rural Development and Tourism ("ERDT") loan

The initial fair value of the ERDT loan is determined by using a discounted cash flow analysis for the loan. The interest rate on the loan is below the market rate for a loan with similar terms. The significant assumption used in determining the discounted cash flows is the discount rate. Any changes in the discount rate would impact the amount recorded as initial fair value of the long-term debt and the carrying value of the long-term debt at each reporting date. In determining the appropriate discount rate, the Corporation considers the interest rates of similar long-term debt arrangements, with similar terms. The ERDT loan is a government loan with principal payments only required at the end of five years; accordingly, finding financing arrangements with similar terms is difficult and management was required to use significant judgment in determining the appropriate discount rates. Management used a discount rate of 15% to discount the ERDT loan.

If the discount rate used in for the ERDT loan had been determined to be higher or lower by 5% (resulting in discount rates of 20% or 10%, respectively), the carrying value of the long-term debt at December 31, 2013 would have been an estimated $142,000 lower or $178,000 higher, respectively. The difference between the book value and the initial fair value of the ERDT loan is recorded in the statement of loss as government assistance on initial recognition. Any changes in the amounts recorded on the statement of financial position for the ERDT loan result in an offsetting charge in the statement of loss accreted interest and adjustments after initial recognition.

4 Property and equipment

	Computer equipment $	Furniture and equipment $	Laboratory equipment $	Total $
Year January 1, 2013				
Opening net book value	36,438	34,279	272,065	342,782
Additions	1,470	1,390	3,791	6,651
Depreciation for the year	(13,998)	(6,993)	(54,792)	(75,783)
Closing net book value	23,910	28,676	221,064	273,650
At December 31, 2013				
Cost	162,626	65,413	717,408	945,447
Accumulated depreciation	(138,716)	(36,737)	(496,344)	(671,797)
Net book value	23,910	28,676	221,064	273,650
Period ended March 31, 2014				
Opening net book value	23,910	28,676	221,064	273,650
Additions	1,440	–	11,216	12,656
Depreciation for the period	(2,103)	(1,434)	(11,240)	(14,777)
Closing net book value	23,247	27,242	221,040	271,529
At March 31, 2014				
Cost	164,066	65,413	728,624	958,103
Accumulated depreciation	(140,819)	(38,171)	(507,584)	(686,574)
Net book value	23,247	27,242	221,040	271,529

(Expressed in Canadian dollars)

5 Long-term debt

	March 31, 2014 $	December 31, 2013 $
Atlantic Canada Opportunities Agency ("ACOA") Atlantic Innovation Fund interest-free loan with a maximum contribution of $3,786,474. Annual repayments, commencing December 1, 2008, are calculated as a percentage of gross revenue for the preceding fiscal year, at 2% when gross revenues are less than $5,000,000 and 10% when gross revenues are greater than $5,000,000. As at March 31, 2014, the amount drawn down on the loan is $3,749,531.	243,900	228,000
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of $3,000,000. Annual repayments, commencing December 1, 2011, are calculated as a percentage of gross revenue from specific product(s), 5% for the first 5-year period and 10%, thereafter. As at March 31, 2014, the amount drawn down on the loan is $3,000,000.	4,625	5,300
ACOA Business Development Program interest-free loan with a maximum contribution of $245,625, repayable in 72 equal monthly payments of $3,411 beginning September 1, 2011. As at March 31, 2014, the amount drawn down on the loan is $139,884.	128,240	137,006
ACOA Business Development Program interest-free loan with a maximum contribution of $75,000, repayable in monthly payments beginning October 1, 2011 of $500 until April 2012, $1,000 until April 2013, $1,500 until April 2014, $2,000 until April 2015 and $3,333 until August 2015. As at March 31, 2014, the amount drawn down on the loan is $39,477.	36,888	40,963
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of $2,944,000, annual repayments commencing September 1, 2014, are calculated as a percentage of gross revenue from specific product(s), 5% for the first 5 year period and 10%, thereafter. As at March 31, 2014, the amount drawn down on the loan is $2,944,000.	151,550	139,400
Province of Nova Scotia, Economic and Rural Development and Tourism ("ERDT") department secured loan with a maximum contribution of $5,000,000, interest bearing at a rate equal to ERDT's cost of funds plus 1%, compounded semi-annually and payable monthly. The loan is made available in four equal installments based on the Corporation meeting certain milestones, and is repayable on the fifth anniversary date of the first disbursement. The Corporation and its subsidiary have provided a general security agreement granting a first security interest in favour of the Province of Nova Scotia in and to all the assets of the Corporation and its subsidiary, including the intellectual property. The Corporation received the first disbursement of $1,250,000 on August 9, 2013, and this is the amount drawn down on the loan at March 31, 2014.	798,769	780,300
	1,363,972	1,330,969
Less: Current portion	58,948	56,809
	1,305,024	1,274,160

(Expressed in Canadian dollars)

5 Long-term debt (continued)

Total contributions received less amounts that have been repaid as at March 31, 2014 is $11,122,892.

Certain ACOA loans and the ERDT loan require approval by ACOA or the Minister for ERDT before the Corporation can pay management fees, bonuses, dividends or other distributions, or before there is any change of ownership of the Corporation. The ERDT loan requires the Corporation to obtain the written consent of the Province of Nova Scotia prior to the sale, disposal or abandon of possession of the intellectual property of the Corporation or its subsidiary. If during the term of the ERDT loan, the head office, research and development facilities, or production facilities of the Corporation are moved from the Province of Nova Scotia, the Corporation is required to repay 40% of the outstanding principal of the loan.

The ERDT loan requires certain early repayments if the Corporation's subsidiary, or the Corporation on a consolidated basis, has cash flow from operations in excess of $1,500,000. The ERDT loan also requires repayment of the loan under certain circumstances, such as changes of control, sale or liquidation of the Corporation or the sale of substantially all of the assets of the Corporation.

	March 31, 2014 $	December 31, 2013 $
Balance – Beginning of period	1,330,969	990,288
New debt	–	753,000
Accreted interest and adjustments	47,736	70,644
Adjustments	–	(393,276)
Repayment of debt	(14,733)	(89,687)
Balance – End of period	1,363,972	1,330,969
Less: Current portion	58,948	56,809
Non-current portion	1,305,024	1,274,160

(Expressed in Canadian dollars)

6 Share capital

Authorized

Unlimited number of common shares and preferred shares, issuable in series, all without par value.

	Number of common shares	Amount $
Issued and outstanding		
Balance – January 1, 2013	63,505,152	27,452,763
Issued in lieu of professional fees	214,818	82,595
Stock options exercised	7,500	10,125
Issued for cash consideration, net of issue costs	15,371,453	5,557,217
Balance – December 31, 2013	79,098,923	33,102,700
Stock options exercised	377,953	447,127
Warrants exercised	11,550	8,200
Issued in lieu of professional fees	–	–
Balance – March 31, 2014	79,488,426	33,558,027

On March 5, 2013, the Corporation completed a private placement of 4,860,244 common shares at a price of $0.33 per share for aggregate gross proceeds of $1,603,880. Total costs associated with the offering were $50,881, including finder's fees of $15,708, paid by the issuance of common shares. The 47,600 common shares issued to satisfy payment of the finder's fee were at a deemed price of $0.33 per common share. The remaining costs were associated with professional and regulatory fees.

On November 21, 2013, the Corporation completed a private placement of 10,511,209 shares at a price of $0.40 per common share for aggregate gross proceeds of $4,204,484. In connection with the private placement, the Corporation agreed to pay finders' fees representing an aggregate of $82,562 in cash, along with $66,887 of finders' fees paid by the issuance of 167,218 common shares, and $15,787 of finders' fees paid by the issuance of 50,925 compensation options, each compensation option entitling its holder to purchase one common share at a price of $0.40 per share until May 21, 2015. The remaining costs of $35,030 were associated with professional and regulatory fees.

As at March 31, 2014, a total of 5,052,374 shares (March 31, 2013 – 8,962,200) are reserved to meet outstanding stock options and warrants.

(Expressed in Canadian dollars)

7 Contributed surplus

	Amount $
Contributed surplus	
Balance – January 1, 2013	2,804,809
Warrants expired, net of tax effect of 231,500	1,192,850
Stock options exercised	(8,025)
Share-based compensation – stock options vested	36,734
Balance – December 31, 2013	4,026,368
Share-based compensation – stock options vested	402,049
Stock options exercised	(334,700)
Balance – March 31, 2014	4,093,717

Stock options

The Board of Directors of the Corporation has established a stock option plan (the "Plan") under which options to acquire common shares of the Corporation are granted to directors, employees and other advisors of the Corporation. The maximum number of common shares issuable under the Plan shall not exceed 6,250,000, inclusive of all shares presently reserved for issuance pursuant to previously granted stock options. The total number of options awarded to all consultants for the Corporation shall not exceed 5% of the issued and outstanding common shares of the Corporation at the award date. If any option expires or otherwise terminates for any reason without having been exercised in full, or if any option is exercised in whole or in part, the number of shares in respect of which option expired, terminated or was exercised shall again be available for the purposes of the Plan.

(Expressed in Canadian dollars)

7 Contributed surplus (continued)

Stock options (continued)

Stock options are granted with an exercise price determined by the Board of Directors, which is not less than the market price of the shares on the day preceding the award. The term of the option is determined by the Board of Directors, not to exceed ten years from the date of grant. The vesting of the options is determined by the Board and is typically 33 1/3% every six months after the date of grant.

In the event that the option holder should die while he or she is still a director, employee or other advisor of the Corporation, the expiry date shall be 12 months from the date of death of the option holder, not to exceed the original expiry date of the option. In the event that the option holder ceases to be a director, employee or other advisor, of the Corporation other than by reason of death, the expiry date of the option shall be the 90th day following the date the option holder ceases to be a director, employee or other advisor of the Corporation, not to exceed the original expiry date of the option.

During the three months ended March 31, 2014, 1,781,500 stock options were granted to employees and consultants. During the three months ended March 31, 2013, no stock options were granted to employees and consultants. The value of these stock options has been estimated at $1,122,345, which is a weighted average grant date value per option of $0.63, using the Black-Scholes valuation model and the following weighted average assumptions:

	March 31, 2014	December 31, 2013
Risk-free interest rate	3.00%	3.00%
Expected volatility	122%	116%
Expected dividend yield	–	-
Expected life (years)	4.5	4.4
Forfeiture rate	4%	4%

Option activity for the three months ended March 31, 2014 and the year ended December 31, 2013 was as follows:

	March 31, 2014		December 31, 2013	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding - Beginning of period	3,793,685	0.67	5,229,650	0.60
Granted	1,781,500	0.74	514,070	0.28
Exercised	(377,953)	0.30	(7,500)	0.28
Forfeited	(11,233)	0.48	(1,312,500)	0.38
Expired	(173,000)	0.52	(630,035)	0.38
Outstanding - End of period	5,012,999	0.73	3,793,685	0.67

(Expressed in Canadian dollars)

8 Related party transaction

During the three months ended March 31, 2014, the Corporation was charged $105,590 (three months ended March 31, 2013 - $nil) for business development consulting fees by a non-executive director.

9 Expenses by nature

	Three months ended March 31, 2014 $	Three months ended March 31, 2013 $
Salaries, wages and benefits	437,588	520,404
Other research and development expenditures, including clinical costs	428,924	380,364
Professional and consulting fees	539,514	383,262
Travel	34,437	86,621
Office, rent and telecommunications	75,247	77,313
Insurance	20,005	18,947
Marketing, communications and investor relations	107,941	94,029
Amortization	9,783	9,783
Depreciation	14,777	18,859
Stock-based compensation	402,049	62,858
Accreted interest	47,736	21,386
Other	43,861	21,846
Research and development tax credits and income tax recovery	(67,000)	(70,000)
Government assistance	(152,106)	(40,828)
	1,942,756	1,584,844

10 Capital management

The Corporation manages its capital to attempt to maximize the return to shareholders through the optimization of a reasonable debt and equity balance commensurate with current operating requirements. The capital structure consists of debt, cash and cash equivalents and shareholders' equity. The Corporation raises capital, as necessary, to meet its needs and, therefore, does not have a numeric target for its capital structure.

	March 31, 2014 $	December 31, 2013 $
Total debt	1,363,972	1,330,969
Less: Cash and cash equivalents	(2,047,134)	(3,535,997)
Net debt	(683,162)	(2,205,028)
Shareholders' equity	1,167,105	2,590,765
Total capital	483,943	385,737

The Corporation is in compliance with its debt covenants.

(Expressed in Canadian dollars)

11 Financial instruments

Fair value of financial instruments

Financial instruments are defined as a contractual right on obligation to receive or deliver cash on another financial asset. The following table sets out the approximate fair values of financial instruments as at the statement of financial position date with relevant comparatives:

	March 31, 2014		December 31, 2013	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	2,047,134	2,047,134	3,535,997	3,535,997
Amounts receivable	224,554	224,554	125,142	125,142
Accounts payable and accrued liabilities	1,141,455	1,141,455	1,101,001	1,101,001
Amounts due to directors	42,070	42,070	63,238	63,238
Long-term debt	1,363,972	1,363,972	1,330,969	1,330,969

Assets and liabilities, such as commodity taxes, that are not contractual and that arise as a result of statutory requirements imposed by governments, do not meet the definition of financial assets or financial liabilities and are therefore excluded from amounts receivable and accounts payable.

Fair value of items, which are short-term in nature, have been deemed to approximate their carrying value. The above noted fair values, presented for information only, reflect conditions that existed only at March 31, 2014 and December 31, 2013 and do not necessarily reflect future value or amounts which the Corporation might receive if it were to sell some or all of its assets to a willing buyer in a free and open market.

Risk management

The Corporation, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk; credit risk; liquidity risk; and currency risk. Management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

a) Interest rate risk

The Corporation has no exposure to interest rate risk on its lending and borrowing activities. All outstanding debt as at March 31, 2014 and December 31, 2013 is interest-free, with the vast majority only becoming repayable when revenues are earned. The remaining portion is repayable over either 60 or 72 month periods, resulting in required principal debt payments in fiscal 2014 of $63,432.

b) Credit risk

The Corporation invests excess cash in highly liquid temporary investments of Schedule 1 Banks. The credit risk of cash and cash equivalents is limited because the counter-parties are banks with high credit-ratings assigned by international credit-rating agencies.

(Expressed in Canadian dollars)

11 Financial instruments (continued)

Risk management (continued)

b) Credit risk (continued)

The total of amounts receivable disclosed in the statement of financial position as at March 31, 2014 of $298,828 (December 31, 2013 - $246,957) is comprised mainly of non-repayable government assistance, as well as sales taxes recoverable. If required, the balance is shown net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. Historically, there have been no collection issues and the Corporation does not believe it is subject to any significant concentration of credit risk.

c) Liquidity risk

Liquidity risk represents the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

While the Corporation has $2,047,134 in cash and cash equivalents at March 31, 2014, it continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Corporation is currently not yet receiving a significant ongoing revenue stream from its animal health license agreements, nor can it be certain that it will receive significant revenue from these agreements before additional cash is required. As a result, there can be no assurance that the Corporation will have sufficient capital to fund its ongoing operations, develop or commercialize any of its products without future financing. See note 1 for further details.

The following table outlines the contractual maturities for the Corporation's financial liabilities. The long-term debt is comprised of the contributions received described in note 5, less amounts that have been repaid as at March 31, 2014:

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Accounts payable and accrued liabilities	1,141,455	1,141,455	–	–	–
Amounts due to directors	42,070	42,070	–	–	–
Long-term debt	11,322,231	79,215	220,198	1,329,287	9,693,531
Operating leases	272,719	205,477	67,242	–	–
	12,778,475	1,468,217	287,440	1,329,287	9,693,531

d) Currency risk

The Corporation incurs some revenue and expenses in US dollars, and as such, is subject to some fluctuations as a result of foreign exchange rate variation. The Corporation does not have in place any tools to manage its foreign exchange risk, as these US dollars transactions are not significant to overall operations.