

# **Immunovaccine Inc.**

Unaudited Interim Consolidated Financial Statements  
**June 30, 2010**

# Immunovaccine Inc.

## Unaudited Consolidated Balance Sheets As at June 30, 2010 and December 31, 2009

(Expressed in Canadian dollars)

	June 30, 2010 \$	December 31, 2009 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,717,827	7,777,303
Amounts receivable	421,050	595,436
Share subscription receivable	–	28,877
Prepaid expenses	213,748	183,441
Investment tax credits receivable	603,448	553,448
	<u>6,956,073</u>	<u>9,138,505</u>
<b>Intangible asset</b>	410,894	430,460
<b>Property and equipment</b>	<u>353,634</u>	<u>322,356</u>
	<u>7,720,601</u>	<u>9,891,321</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	565,494	720,861
Current portion of long-term debt (note 3)	67,821	67,821
Deferred revenues	12,000	24,000
	<u>645,315</u>	<u>812,682</u>
<b>Long-term debt (note 3)</b>	<u>6,618,193</u>	<u>5,782,959</u>
	<u>7,263,508</u>	<u>6,595,641</u>
<b>Shareholders' Equity</b>		
<b>Capital stock (note 4)</b>	18,839,243	18,730,299
<b>Contributed surplus and other (note 5)</b>	986,653	633,970
<b>Warrants (note 5)</b>	136,672	136,672
<b>Deficit</b>	<u>(19,505,475)</u>	<u>(16,205,261)</u>
	<u>457,093</u>	<u>3,295,680</u>
	<u>7,720,601</u>	<u>9,891,321</u>

*The accompanying notes form an integral part of these financial statements.*

**Approved on behalf of the Board of Directors**

(signed) "James W. Hall", Director

(signed) "Dr. Randal Chase", Director

# Immunovaccine Inc.

## Unaudited Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit For the three and six month periods ended June 30, 2010 and 2009

(Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Revenue</b>	6,000	–	64,105	–
<b>Expenses</b>				
General and administrative	500,447	310,414	888,571	596,892
Research and development	853,966	552,792	1,621,443	1,243,999
Business development	339,191	101,607	522,495	194,520
Stock-based compensation	143,850	28,817	381,810	39,867
	1,837,454	993,630	3,414,319	2,075,278
<b>Loss from operations</b>	(1,831,454)	(993,630)	(3,350,214)	(2,075,278)
<b>Investment tax credits</b>	(29,000)	(80,000)	(50,000)	(154,750)
<b>Net loss and comprehensive loss for the period</b>	(1,802,454)	(913,630)	(3,300,214)	(1,920,528)
<b>Deficit – Beginning of period</b>	(17,703,021)	(14,541,582)	(16,205,261)	(13,534,684)
<b>Deficit – End of period</b>	(19,505,475)	(15,455,212)	(19,505,475)	15,455,212
<b>Basic and diluted loss per share</b>	(0.04)	(0.03)	(0.07)	(0.06)
<b>Weighted-average shares outstanding</b>	45,400,343	30,599,628	45,348,167	30,597,797

*The accompanying notes form an integral part of these financial statements.*

# Immunovaccine Inc.

## Unaudited Interim Consolidated Statements of Cash Flows For the three and six month periods ended June 30, 2010 and 2009

(Expressed in Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net loss for the period	(1,802,454)	(913,630)	(3,300,214)	(1,920,528)
Charges to operations not involving cash				
Amortization of intangible asset	9,783	–	19,566	–
Amortization of property and equipment	19,979	18,791	37,812	45,586
Stock-based compensation	143,850	28,817	381,810	39,867
Shares issued for professional services	–	–	–	3,872
	(1,628,842)	(866,022)	(2,861,026)	(1,831,203)
Net change in non-cash working capital balances related to operations				
Decrease (increase) in amounts receivable	145,238	(51,018)	166,242	617,109
Decrease (increase) in prepaid expenses	149,454	(4,581)	(30,307)	27,075
Decrease (increase) in investment tax credits receivable	(29,000)	(80,000)	(50,000)	49,262
Increase (decrease) in accounts payable and accrued liabilities	(4,663)	26,181	(155,367)	95,338
Increase (decrease) in deferred revenues	(6,000)	–	(12,000)	–
	(1,373,813)	(975,440)	(2,942,458)	(1,042,419)
<b>Financing activities</b>				
Proceeds from long-term debt	257,653	535,616	862,734	688,105
Repayment of long-term debt	(9,678)	(9,678)	(19,356)	(19,356)
Proceeds from exercise of stock options	20,667	–	79,817	–
Proceeds from collection of share subscriptions receivable	–	–	28,877	–
	268,642	525,938	952,072	668,749
<b>Investing activities</b>				
Acquisition of property and equipment	(42,975)	(24,429)	(69,090)	(41,611)
<b>Net change in cash and cash equivalents during the period</b>				
	(1,148,146)	(473,931)	(2,059,476)	(415,281)
<b>Cash and cash equivalents – Beginning of period</b>				
	6,865,973	713,872	7,777,303	655,222
<b>Cash and cash equivalents – End of period</b>				
	5,717,827	239,941	5,717,827	239,941
Cash and cash equivalents are comprised of the following:				
Cash on hand and balances with banks	677,967	14,941	677,967	14,941
Short-term investments	5,039,860	225,000	5,039,860	225,000
	5,717,827	239,941	5,717,827	239,941
<b>Supplementary cash flow information</b>				
Interest received (paid)	7,105	(1,004)	13,683	17,763

*The accompanying notes form an integral part of these financial statements.*

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

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(Expressed in Canadian dollars)

### 1 Nature of operations

Immunovaccine Inc. (“Immunovaccine” or the “Company”) (formerly Rhino Resources Inc.) 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. Immunovaccine has patented vaccine delivery and enhancement technologies trade named VacciMax® and DepoVax™ and has a number of early stage infectious disease and cancer vaccine product candidates. The Company also partners with other companies to help them to develop human and animal vaccine candidates. Based in Halifax, Nova Scotia, the shares of Immunovaccine are listed on the TSX-V exchange – symbol IMV.

#### *Reverse take-over and private placement*

On June 8, 2009, ImmunoVaccine Technologies Inc. (“IVT”) and Rhino Resources Inc. (“Rhino”) announced that they had entered into a binding term sheet for Rhino’s non-arm’s length acquisition of IVT. The transaction closed on September 30, 2009 and took the form of a share exchange whereby Rhino acquired all of the issued and outstanding common shares of IVT in consideration for common shares of Rhino. Prior to closing, the Rhino shares were consolidated on the basis of one new share for each existing five Rhino shares, and then each existing share of IVT was exchanged for one new common share of Rhino. Upon closing, Rhino also changed its name to Immunovaccine Inc.

In connection with this transaction, 6,230,399 shares of IVT were issued as part of a brokered private placement at a price of \$0.70 per share for gross proceeds of \$4,361,279, and 5,582,614 shares of IVT were issued as part of a non-brokered private placement at a price of \$0.70 per share for gross proceeds of \$3,907,830. The agents received an 8% cash commission and agent warrants equal to 8% of the number of shares sold to individuals not currently shareholders of IVT, with each agent warrant entitling the holder to acquire one new common share of Immunovaccine at a price of \$0.70 per share for a period of 12 months from closing.

As the former shareholders of IVT owned approximately 95% of Rhino following the exchange of shares, the transaction was accounted for as a reverse take-over of Rhino by IVT. Following the transaction, no one individual held more than 10% of the common shares of the resulting issuer and the operations of the Company were not altered significantly based on this transaction.

#### *Basis of presentation*

Upon completion of the reverse take-over, as the former IVT shareholders owned the majority of the common shares of Rhino, the transaction has been accounted for as a reverse take-over by IVT and these financial statements represent a continuation for accounting purposes of the financial statements of IVT. For accounting purposes, the acquisition of Rhino was accounted for as an issuance of 2,400,000 common shares and 32,000 broker options by Immunovaccine for consideration equal to the net monetary assets of Rhino of \$127,511. The operations of Rhino as of September 30, 2009, the deemed reverse take-over date, have been consolidated in these interim financial statements.

Effective December 31, 2009, the Company changed its year-end from March 31<sup>st</sup> to December 31<sup>st</sup>. These interim financial statements therefore reflect the Company’s results from operations for the three and six month periods ended June 30, 2010, as compared to the three-month and six-month periods ended June 30, 2009.

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

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(Expressed in Canadian dollars)

### 1 Nature of operations (continued)

#### *Interim financial statements*

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”), using the same accounting policies as the audited consolidated financial statements for the nine-month period ended December 31, 2009. All disclosures required for annual financial statements have not been included in these financial statements. These consolidated financial statements should be read in conjunction with the Company’s most recent annual consolidated financial statements.

### 2 Significant accounting policies

#### **Future accounting changes**

#### *Business Combinations, Consolidated Financial Statements and Non-controlling Interests*

In January 2009, the CICA issued Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-controlling Interests” which replace Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Early adoption of this section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the entity’s interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. Early adoption of this section is permitted. If the entity chooses to early adopt any one of these sections, the other two sections must also be adopted at the same time. The Company is currently assessing the impact on its financial statements in connection with the conversion to IFRS.

#### *International Financial Reporting Standards (“IFRS”)*

In February 2008, the Canadian AcSB announced that Canadian GAAP for publically accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for fiscal years beginning on or after January 1, 2011. As such, the Company will commence reporting under the new standards January 1, 2011, including comparative information in compliance with IFRS. The Company is currently assessing the potential impact of the transition to IFRS on its financial statements, disclosure and broader financial reporting systems and controls.

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

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(Expressed in Canadian dollars)

### 3 Long-term debt

	June 30, 2010 \$	December 31, 2009 \$
Atlantic Canada Opportunities Agency (“ACOA”) Atlantic Innovation Fund interest-free loan with a maximum contribution of \$3,786,474. Annual principal 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	3,779,461	3,779,461
ACOA Marketing interest-free loan repayable in 60 equal monthly payments of \$3,226 beginning November 1, 2008	129,035	148,391
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of \$3,000,000. Annual principal repayments, commencing December 1, 2011, are calculated as a percentage of gross revenue, 5% for the first 5-year period and 10% thereafter	2,615,098	1,784,738
ACOA Business Development Program interest-free loan with a maximum contribution of \$245,625, payable in 72 equal monthly payments of \$3,411 beginning September 1, 2011	162,420	138,190
	<hr/> 6,686,014	<hr/> 5,850,780
Less: Current portion	67,821	67,821
	<hr/> 6,618,193	<hr/> 5,782,959

Certain ACOA loans require approval by ACOA before the Company can pay management fees, bonuses, dividends or other distributions.

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

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(Expressed in Canadian dollars)

### 4 Capital stock

#### Authorized

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

	Number of common shares	Consideration \$
<b>Issued and outstanding</b>		
Balance – March 31, 2009	30,598,862	10,770,437
Issued for cash consideration, net of issue costs	11,980,535	7,604,262
Issued in lieu of professional fees	2,248	–
Shares issued on the reverse take-over	2,400,000	127,511
Stock options exercised	240,750	228,089
	<hr/>	<hr/>
Balance – December 31, 2009	45,222,395	18,730,299
Stock options exercised	242,417	108,944
	<hr/>	<hr/>
Balance – June 30, 2010	45,464,812	18,839,243
	<hr/>	<hr/>

#### *Reverse take-over*

Pursuant to the reverse take-over referred to in note 1, the Company issued 2,400,000 common shares in exchange for all outstanding shares of Rhino at September 30, 2009. The shares issued were recorded at a value equal to the net monetary assets received from Rhino.

#### *Private placements*

In connection with the reverse take-over, 11,813,013 common shares were issued as part of brokered and non-brokered private placements at a price of \$0.70 per share, for total gross proceeds of \$8,269,109. After cash commissions as well as legal, regulatory and other share issuance costs, total net cash proceeds were \$7,623,668. Additionally, as part of the brokered private placement, 455,573 broker warrants were issued. As a result, the net cash proceeds have been allocated to the common shares and warrants issued based on their relative fair values of \$7,486,996 and \$136,672.

In November 2009, the Company entered into a Master Services Agreement with Cato Research Canada Inc. (“Cato”), a contract research organization, to assist the Company in managing the Phase I clinical trial for DPX-0907. As part of the Master Services Agreement, the Company had the option to pay a portion of Cato’s service fees through the issuance of common shares. The Company exercised this option, obtained approval from the TSX-Venture Exchange, and issued to Cato 167,522 common shares of its capital stock at a price of \$0.70 per share.



# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

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(Expressed in Canadian dollars)

### 5 Contributed surplus and other

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
Balance – Beginning of period	633,970	526,900
Stock-based compensation – stock options vested	381,810	143,634
Stock-based compensation – modification of existing options (note 5 (a))	–	11,000
Stock options exercised	(29,127)	(53,814)
Warrants expired (note 5 (b))	–	6,250
	<hr/>	<hr/>
<b>Total contributed surplus and other</b>	<b>986,653</b>	<b>633,970</b>

#### a) Stock options

The Board of Directors of the Company has established a stock option plan (the "Plan") under which options to acquire common shares of the Company are granted to directors, employees and other advisors of the Company. The maximum number of common shares issuable under the Plan shall not exceed 10 percent (10%) of the issued common shares of the Company, 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 Company shall not exceed 5% of the issued and outstanding common shares of the Company 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.

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

(Expressed in Canadian dollars)

### 5 Contributed surplus and other (continued)

#### a) Stock options (continued)

During the six months ended June 30, 2010, 160,000 stock options (nine months ended December 31, 2009 - 1,012,000) with a weighted average exercise price of \$1.26 (nine months ended December 31, 2009 - \$1.40) and a term of 5 years (nine months ended December 31, 2009 - 5.4 years), were granted to officers, directors, employees and consultants. The value of these stock-options has been estimated at \$143,700 (nine months ended December 31, 2009 - \$999,246), which is a weighted average grant date value per option of \$0.90 (nine months ended December 31, 2009 - \$0.99), using the Black-Scholes valuation model and the following weighted average assumptions:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
Risk-free interest rate	2.25%	1.7%
Expected volatility	92%	91%
Expected dividend yield	0%	0%
Expected life (years)	5	5.4

Option activity for the six months ended June 30, 2010 and the nine months ended December 31, 2009 was as follows:

	<b>June 30, 2010</b>		<b>December 31, 2009</b>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
<b>Outstanding – Beginning of period</b>	3,518,687	0.81	2,715,437	0.59
Granted	160,000	1.26	1,012,000	1.40
Exercised	(242,417)	0.33	(208,750)	0.83
Expired/forfeited	(169,916)	1.13	–	–
<b>Outstanding – End of period</b>	<u>3,266,354</u>	0.85	<u>3,518,687</u>	0.81

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

(Expressed in Canadian dollars)

### 5 Contributed surplus and other (continued)

#### a) Stock options (continued)

At June 30, 2010, the following options were outstanding:

Closing	Issued	Exercised	Expired/ forfeited	Closing	Exercisable	Exercise price per share \$	Expiry	Average years remaining
22,500	—	(11,250)	(11,250)	—	—	0.20	March 7, 2010	0.0
127,500	—	(127,500)	—	—	—	0.28	March 7, 2010	0.0
15,000	—	(15,000)	—	—	—	0.67	March 7, 2010	0.0
22,000	—	(17,000)	(5,000)	—	—	1.00	March 7, 2010	0.0
133,254	—	(7,500)	—	125,754	125,754	0.28	December 31, 2013	3.5
225,000	—	(30,000)	—	195,000	195,000	0.28	March 31, 2014	3.8
82,500	—	—	—	82,500	82,500	0.28	April 30, 2014	3.8
67,500	—	—	—	67,500	67,500	0.28	August 31, 2014	4.2
22,500	—	—	—	22,500	22,500	0.28	December 31, 2014	4.5
299,783	—	—	—	299,783	299,783	0.28	March 31, 2015	4.8
270,000	—	(30,000)	—	240,000	240,000	0.20	March 31, 2015	4.8
87,750	—	—	—	87,750	87,750	0.67	March 31, 2016	5.8
7,500	—	—	—	7,500	7,500	0.67	July 1, 2016	6.0
300,000	—	—	—	300,000	300,000	0.67	December 1, 2016	6.4
154,000	—	—	—	154,000	154,000	1.00	March 31, 2017	6.8
10,000	—	—	—	10,000	10,000	1.00	July 1, 2017	7.0
326,500	—	(3,500)	—	323,000	323,000	1.00	March 31, 2018	7.7
333,400	—	(667)	(3,666)	329,067	221,500	1.00	March 31, 2019	8.8
75,000	—	—	(50,000)	25,000	25,000	0.70	September 14, 2019	9.4
937,000	—	—	(100,000)	837,000	279,000	1.46	December 14, 2014	4.5
—	60,000	—	—	60,000	15,000	1.31	February 1, 2015	4.6
—	50,000	—	—	50,000	—	1.26	February 22, 2015	4.7
—	50,000	—	—	50,000	—	1.21	May 17, 2015	4.9
<b>3,518,687</b>	<b>160,000</b>	<b>(242,417)</b>	<b>(169,916)</b>	<b>3,266,354</b>	<b>2,455,787</b>	<b>0.85</b>		<b>5.5</b>

# Immunovaccine Inc.

## Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010

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(Expressed in Canadian dollars)

### 5 Contributed surplus and other (continued)

b) Warrants:

	Opening	Issued	Exercised	Expired	Closing	Exercise price per warrant \$	Expiry
Broker warrants	455,573	–	–	–	455,573	0.70	September 30, 2010
Total number	<u>455,573</u>	–	–	–	<u>455,573</u>		
Total value					<u>\$136,672</u>		

Pursuant to the private placement that closed on September 30, 2009, the Company issued 455,573 Immunovaccine warrants in connection with the brokered portion of the private placement. The broker warrants have an exercise price of \$0.70 per common share and expire on September 30, 2010. The fair value attributed to the broker warrants issued of \$136,672 was determined using the Black-Scholes option pricing model with the following assumptions:

Risk free interest rate	1.25%
Term	1 year
Expected volatility	112 %
Expected dividend yield	0%

### 6 Related party transactions

During the six-month period ended June 30, 2010, the Company paid technical consulting fees of \$12,000 to a non-executive Director.

### 7 Subsequent events

On August 11, 2010, the Company announced that it had filed a preliminary short form prospectus in connection with a marketing offering of Units of the Company (the "Offering"). Each Unit will consist of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to acquire one common share of the Company upon payment of the exercise price for a period of 36 months following the closing of the Offering. The price of the Units will be determined in the context of the market, with final pricing, determination of the number of Units to be sold pursuant to the Offering, and the exercise price and terms of the Warrants to be disclosed immediately prior to the filing of the final short form prospectus in respect of the Offering.

# **Immunovaccine Inc.**

## **Notes to Unaudited Interim Consolidated Financial Statements For the period ended June 30, 2010**

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(Expressed in Canadian dollars)

### **7 Subsequent events** (continued)

The Company will grant the agents an option to purchase additional Units in an amount up to 15% of the number of Units sold pursuant to the Offering, exercisable in whole or in part at any time up to 30 days after the Closing. The Company will pay an agent's commission of 6% of the gross proceeds in cash and issue compensation options equal to 6% of the aggregate number of Units issued by the Company pursuant to the financing. Each compensation option gives the holder the right to purchase one common share upon payment of the exercise price for a period of 24 months following the closing.

The Offering is expected to close in September 2010.