Management's Report on Financial Position and Operating Results

For the year ended December 31, 2011

LETTERS TO SHAREHOLDERS

Dear Fellow Shareholder,

You should be very pleased with the transformation Immunovaccine has accomplished in the last year.

Starting at the top, our recruitment during the year of John Trizzino as chief executive was the most notable addition. John joined the team in September and has since made a significant impact not only in Halifax but also in the rest of Canada, the US and Europe. Importantly, his experience in government-funded vaccine work has opened numerous opportunities for us in the fields of bio-terrorism, cocaine addiction and infectious diseases.

We rebuilt the board into a cohesive, ambitious and experienced team, adding Brad Thompson, the chief executive of Oncolytics, and Wayne Pisano, formerly chief executive of Sanofi Pasteur. They join the small core of independent directors who have worked hard to steer Immunovaccine through a turbulent period. The success achieved by Brad and Wayne at their companies has earned them industry-wide acknowledgement. It's no surprise that their decision to join the Immunovaccine team has generated considerable excitement within the biotech community. Since their appointments, they have been hard at work on your behalf and have already made considerable impact in our strategic focus and our execution.

We thank you for your support through our most recent share placement, which served to strengthen our balance sheet and reinforce our operational efforts. Along with our talented and dedicated staff, you share in the awards, the successes and the expectations for the future. With so many people contributing so much toward our future, it has been a pleasure serving as your chairman.

Albert Scardino

Chairman

LETTERS TO SHAREHOLDERS

Dear Fellow Shareholder,

It's official. We're the Best Early Stage Vaccine Biotech Company. That's what our industry colleagues said about us last month in naming Immunovaccine the Best Early Stage Vaccine Biotech at the 2012 World Vaccine Congress in Washington, DC. The criteria used to judge this Vaccine Industry Excellence Award amounted to a checklist for all we have accomplished this year.

- Ability to move the business from early stage to a more mature company
- Quality and diversity of the vaccine pipeline and candidates
- Advancements in taking a new product to market or through clinical stages
- Meaningful licensing or partnership deals
- Securing significant new funds for growth

The move into clinical trials for any company is a milestone event and for IMV the past year saw us take this achievement to another level. We not only successfully completed our first Phase I trial for DPX-0907, but also initiated a Phase I trial for DPX-Survivac, both of which are therapeutic cancer vaccines leveraging the Company's DepoVax™ adjuvanting technology platform. DPX-0907 successfully completed its Phase I clinical trial, demonstrating the importance of antigen specific T-cell responses for effective immunotherapy.

With these results in hand, we received approval from the US FDA and Health Canada for both Phase I and II clinical trials of DPX-Survivac in women with ovarian cancer. DPX-0907 and DPX-Survivac have laid the foundation for our immunotherapy strategy, illustrating the potential of combining clinically-validated antigens with DepoVax, our novel and differentiated adjuvanting technology platform.

For some companies this internal product development work alone would have made for a successful year. However at IMV, these successes were just the first layer. We worked to broaden our use of the DepoVax platform in infectious diseases as well. Multiple preclinical animal studies have demonstrated that DepoVax can provide protective immunity in as little as one dose. Based on this data, we have undertaken a study funded by the National Institutes of Health (NIH) using DepoVax as a component of several bio-defense candidates including anthrax. This non-human primate challenge study is intended to evaluate the performance of DepoVax in improving efficacy and reducing the number of doses required for adequate protection. These features would be particularly important during a national crisis, protecting both military and civilian populations much more quickly than with current vaccine delivery technology.

DepoVax is also being evaluated as an enhancement for a vaccine to treat cocaine addiction. Our technology may provide a more robust anti-cocaine antibody response and fewer required doses. This study is being performed at the Weill Cornell Medical College and builds on earlier cocaine vaccine work conducted at Weill Cornell in 2010 supported by NIH.

To support our range of activities spanning internal product development and collaborative expansion of the DepoVax technology, it is essential that IMV efficiently uses a variety of funding resources. This past year, we received C$2.9 million in funding from Atlantic Canada Opportunities Agency (ACOA) and raised C$2.8 million in a non-brokered private placement. This capital complements the multiple NIH-funded studies discussed above. Moving forward the Company intends to exploit all strategic avenues for the development of its vaccine candidates, including but not limited to, strategic partnerships, non-dilutive government and non-government funding and additional equity investment in Immunovaccine.

While we are pleased with the work done this past year, we are looking forward with confidence to the coming year. Here is a summary of our goals.

- Advance the development of DPX-0907
- Announce final data from the DPX-Survivac Phase I trial
- Expand our animal health business into new indications
- Announce data from our NIH-funded bio-defense vaccine study
- Expand our infectious diseases vaccine pipeline
- Plan a Phase I clinical trial for one of our infectious diseases candidates
- Identify partners and funding opportunities to take DPX-Survivac into a Phase II clinical trial

With all this positive news and strategic focus in mind we remain on track for developing life-saving and industry-changing vaccines. Thank you for your support.

John Trizzino

CEO

MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A")

The following analysis provides a review of the audited annual consolidated results of operations, financial condition and cash flows for the year ended December 31, 2011 ("Fiscal 2011"), with information compared to the year ended December 31, 2010 for Immunovaccine Inc. ("Immunovaccine" or the "Company").

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these audited annual consolidated financial statements. In the financial statements, the term ("Canadian GAAP") refers to Canadian GAAP before the adoption of IFRS, and the term "GAAP" or "IFRS" refers to generally accepted accounting principles in Canada after the adoption of IFRS.

The audited annual consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IFRS 1, "*First-time Adoption of International Financial Reporting Standards*". Subject to certain transition elections disclosed in the audited annual consolidated financial statements, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

Additional information regarding the business of the Company, including the Annual Information Form, is available on SEDAR at www.sedar.com.

Amounts presented in this MD&A are approximate and have been rounded to the nearest thousand except for per share data. All amounts are presented in Canadian dollars.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements, which reflect Management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities. Statements about the Company's future plans, intentions, results, levels of activity, performance, goals, achievements or other future events constitute forward-looking statements. Wherever possible, words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential" or the negative or other variations of these words, or other similar words or phrases, have been used to identify these forward-looking statements.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements. Although the forward-looking statements contained in this MD&A are based upon what Management believes to be reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward-looking statements.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) general business and economic conditions; (ii) the Company's ability to successfully develop new products; (iii) positive results of pre-clinical and clinical tests; (iv) the availability of financing on reasonable terms; (v) the Company's ability to attract and retain skilled staff; (vi) market competition; (vii) the products and technology offered by the Company's competitors; (viii) the Company's ability to protect patents and proprietary rights; (ix) the Company's ability to manufacture its products and to meet demand; and (x) regulatory approvals.

These statements reflect Management's current beliefs and are based on information currently available to Management. The information contained herein is dated as of April 19, 2012; the date of the Board's approval of the MD&A and the Fiscal 2011 audited annual consolidated financial statements. A more detailed assessment of the

risks that could cause actual results to materially differ from current expectations is contained in the section entitled "Risk Assessment" of this MD&A.

COMPANY OVERVIEW

Immunovaccine is a biotechnology company focused on the development and advancement of its patented DepoVax™ vaccine-adjuvanting platform through therapeutic cancer and infectious diseases vaccine candidates. The DepoVax™ platform produces a strong, high-quality immune response that has a specific and sustained immune effect, which enables the Company to pursue vaccine candidates in cancer, infectious diseases and animal health. The Company's adjuvanting technology platform is being used in multiple vaccine candidates, including two cancer vaccine candidates in Phase I clinical trials. Immunovaccine has research collaborations for infectious diseases and other cancer vaccine candidates with several leading biotechnology companies and research organizations, including the National Institutes of Health and the National Cancer Institute. In addition to the Company's human health vaccine strategy, it continues to capture value from animal health vaccine applications. Pfizer Animal Health has licensed the Company's delivery technology platform to develop vaccines for livestock.

Based in Halifax, Nova Scotia, the Company has 20 full-time and part-time employees and five part-time consultants. Being involved in a scientific and technical business, the Company requires staff with significant education, training and scientific knowledge that cannot be recruited or replaced easily. As a result, the Company recruits talented expertise locally, nationally and internationally. In addition to the core team, the Company has also assembled a Scientific Advisory Board ("SAB") of experienced and internationally recognized scientific advisors to assist Management in dealing with industry-related issues and how these issues may affect the Company's scientific research and product development. The common shares of the Company are listed on the TSX Venture Exchange ("TSX-V") under the symbol "IMV" (see www.sedar.com).

HISTORY AND STRATEGY

History

The Company commenced operations in 2000, based on animal health research pioneered at Dalhousie University in Halifax, Nova Scotia, when it was contracted by the Department of Fisheries and Oceans (Canada) to develop a contraceptive vaccine to control the seal population. The Company developed a vaccine delivery system that demonstrated effectiveness such that 90% of seals were still contracepted 10 years after receiving the novel single-dose vaccine.

From 2000 to 2004 the Company concentrated its research efforts on animal contraception for both wildlife and companion animals, while also working on vaccines for infectious diseases in livestock with CSL Animal Health, a division of CSL Limited, which was subsequently acquired by Pfizer Animal Health ("Pfizer"). In 2004 and continuing through 2008, the Company began establishing its VacciMax® platform for various human applications, while simultaneously developing a scalable manufacturing process for the VacciMax® platform.

By 2008 the Company had developed a lipid depot-based vaccine delivery and enhancement technology called the DepoVax™ platform, an improvement on the Company's original VacciMax® platform. The patented DepoVax™ platform is a combination of antigens and immune enhancers formulated in liposomes and then in oil. The DepoVax™ platform creates a "depot effect" that holds the vaccine at the site of injection, prolonging the immune system's exposure to the vaccine, resulting in rapid, potent and long-lasting cellular and/or humoral immune responses.

The DepoVax™ platform is easy to use, chemically stable, scalable and has broad applications. The Company has also tested the platform with several commercial vaccines such as for H5N1 pandemic influenza and hepatitis B, as well as other research collaborations with anthrax, meningitis and melioidosis. In all cases, the pre-clinical studies in animals demonstrated significantly higher immune responses after a single dose with the DepoVax™ platform when compared to two or three doses of a control vaccine or other commercially available vaccines.

Operating Strategy

The DepoVax™ vaccine delivery platform drives the operating strategy for the Company. All of the Company's vaccines in human and animal health utilize this adjuvanting platform to improve their effectiveness against cancer and infectious disease and for drug addiction and animal health.

The Company currently has two cancer vaccine candidates in human trials: DPX-Survivac and DPX-0907. Immunovaccine believes the principles behind a successful anti-cancer vaccine will include the right antigen, the right vaccine delivery technology and the right therapeutic strategy. Antigens used in both DPX-Survivac and DPX-0907 specifically target tumor cells without harming normal, healthy cells. These antigens are combined with the Company's DepoVax™ platform to optimize the presentation of these antigens in the body, resulting in an enhanced immune response. To be successful against cancer, the vaccine must be administered at the right moment in the treatment cycle, which the Company believes to be soon after a tumor has been identified. Immunovaccine also believes that the effect of the vaccine may be enhanced if an immune modulator is used simultaneously to prevent a patient's immune system from overriding the positive response to the vaccine.

Using the same DepoVax™ adjuvanting platform and working with partners in North America and Europe, the Company is also developing vaccines for infectious diseases, including a bio-defense vaccine that will protect against anthrax and multi-filoviruses. Another vaccine in development will be used to treat cocaine addiction. Pre-clinical studies have indicated that the platform may allow the development of single-dose vaccines for a wide range of infectious diseases by generating a stronger immune response more quickly than is possible with existing delivery methods. The Company's goal will be to advance at least one of these collaborations into human clinical trials in the next two years.

Partnering Strategy

Having used its own resources to bring its two cancer vaccines to human clinical trials, the Company is involved in various partnerships and collaborations to accelerate development of its products.

Programs announced thus far include a research partnership with the US National Institutes of Health for vaccines against bio-terrorism threats and with Weill Cornell Medical College for a vaccine designed to counteract cocaine abuse. The goal is to convert these partnerships into licensing agreements, either to allow the use of the DepoVax™ technology by others or to acquire infectious disease antigens to develop into new vaccines using DepoVax™.

Financial Strategy

Immunovaccine relies on equity financing, along with private and public partnerships to fund its development programs. Applying this strategy, the Company has raised more than $9 million in government funding, including interest-free loans and government grants. Most recently, the Company has been drawing down on the $2.9 million government loan it was awarded in March 2011 from the Atlantic Canada Opportunities Agency ("ACOA"), and closed a $2.8 million equity private placement. This support has enabled the Company to accelerate its research activities in cancer vaccines and improve its DepoVax™ technology.

Immunovaccine has developed research partnerships with various government organizations, including the Department of Research and Development Canada, the US National Institutes of Health, National Cancer Institute and the Department of Defense in the US, which have funded pre-clinical collaborations. The Company provides its DepoVax™ technology and preliminary studies for these partnerships, but they are otherwise non-dilutive in financial terms.

The Company intends to exploit every strategic avenue in the development of its products, including co-development with partners and exploring opportunities with the venture arms of major pharmaceutical companies. The Company may also seek additional equity - together with non-dilutive funding and partnerships - to advance the development of the vaccine candidates.

Manufacturing

The Company has developed and implemented a commercial scale manufacturing process for the DepoVax™ platform, which is applicable to all of the Company's subsequent human health vaccines. The scale-up methods have been transferred and manufacturing has been contracted out to a reputable contract Good Manufacturing Practice ("GMP") development and manufacturing facility licensed by Health Canada to manufacture sterile products for clinical and commercial purposes. Immunovaccine has purchased and installed dedicated equipment at the site.

The Company has manufactured commercial scale pilot vaccine batches including 50 liters (200,000 doses) of a hepatitis B vaccine at the contract manufacturing facility. Historically, large-scale production of liposomes has been a challenge. The Company has confirmed the stability of the vaccine manufactured there and also confirmed that the biological activity of the batch is equivalent to the Company's laboratory batches.

Immunovaccine has also completed the lyophilization process for its vaccines. Lyophilization (freeze-drying) is the final step in manufacturing of the product, making it easily reconstituted for injection. The lyophilization parameters have been established and transferred to a GMP filling and lyophilization facility.

The product-specific manufacturing process for both DPX-Survivac and DPX-0907 was successfully implemented at a GMP contract manufacturing formulation and the fill/lyophilization facility. In preparing for Phase I clinical trials, the Company has successfully produced clinical batches for both therapeutic cancer vaccine candidates. The Company is also ready to develop and implement manufacturing processes for other DepoVax™-based vaccine products.

PRODUCTS IN DEVELOPMENT

DPX-Survivac

DPX-Survivac uses Survivin-based antigens licensed from Merck KGaA, on a world-wide exclusive basis, and formulated in the DepoVax™ vaccine delivery platform. Survivin is a major tumor-associated antigen over-expressed in several cancers including ovarian cancer cells, making it a viable target for immunotherapy. DepoVax™ will deliver the Survivin-based antigens in a lipid depot-based format designed to generate a strong and prolonged immune response.

Survivin is essential for the survival of cancer cells and is an inhibitor of cancer cell death, known as apoptosis. A vaccine that disrupts Survivin would lead to an increase in apoptosis and a decrease in tumor growth. The National Cancer Institute recently recognized Survivin as a promising antigen for cancer treatment based on its specificity, over-expression in cancer cells and immunogenicity potential.

DPX-Survivac could have broad commercial potential as a therapeutic cancer vaccine because it may be applicable for the treatment of multiple solid tumors and hematological cancers, including ovarian, prostate, breast, pancreatic, multiple myeloma, B-cell lymphoma, glioblastoma and melanoma. The Company intends to proceed with pre-clinical testing of DPX-Survivac in a broader range of cancer indications to evaluate additional opportunities.

Immunovaccine initiated the Phase I clinical trial of DPX-Survivac in December 2011 and vaccinated the first patient in December 2011. The Phase I clinical trial is being conducted in eight clinical sites in the US and Canada, having received clearance for both Phase I and Phase II clinical trials by regulators in both countries. The Phase I trial is an open label clinical trial designed to evaluate sequentially the safety of two DPX-Survivac dosing regimens in approximately 15 patients. The goal of the Phase I clinical trial is to establish the safety and immune activity of DPX-Survivac in patients with advanced ovarian cancer.

The existing clinical data from both DPX-0907 and Survivin antigens facilitated the approval of a combined Phase I and Phase II protocol for testing DPX-Survivac in patients with advanced ovarian cancer. The US Food and Drug Administration ("FDA") allowed the Company to accelerate the pre-clinical research and development of DPX-Survivac by filing an Investigational New Drug ("IND") application for DPX-Survivac months ahead of normal expectations.

The Phase II clinical trial will be a randomized, placebo-controlled, double-blinded trial conducted in approximately 80 sites in North America and designed to enroll approximately 250 patients. The vaccine will be administered to patients who will also receive an immune modulating drug to enhance the effect of the vaccine on cancer cells. The primary aim of the Phase II trial will be progression-free survival.

The Company expects interim results on safety and immunogenicity from the Phase I study in the third quarter of 2012 and final safety and immunogenicity data in the fourth quarter of 2012. Various financing options that may include dilutive and non-dilutive sources to support this Phase II research are under consideration by the Company.

DPX-0907

DPX-0907 combines the Company's DepoVax™ delivery technology with seven HLA-A2-restricted cancer specific antigens licensed from Immunotope. The vaccine is designed to stimulate an immune response specific to cancer antigens which are believed to be involved in critical tumor cell processes. It is expected to kill tumor cells without injury to normal, healthy cells. The seven peptide antigens in DPX-0907 are believed to be present on the surface of breast, ovarian and prostate cancer cells. In pre-clinical studies, the seven antigens could not be found on the surface of normal cells.

The Company completed a Phase I clinical trial of DPX-0907 and the results of the trial were released in June 2011. The Phase I trial was conducted at five centers in the U.S. In this open-label, dose-escalating trial, patients received three injections (0.25 mL or 1 mL doses) of the active immune therapy DPX-0907, three weeks apart.

The Phase I trial met the primary objective of safety with overall results demonstrating that DPX-0907 is generally well-tolerated by all patients and is considered safe at both dose levels. There were no vaccine related serious adverse events reported. Final safety was assessed in 11 patients in the 0.25 mL dose group and 11 patients in the 1 mL dose group.

The secondary objective was to assess whether administration of DPX-0907 could generate an immune response specific to the seven cancer antigens. Immunovaccine performed a detailed analysis of patients' blood samples that showed cell mediated immunity (CMI) to vaccine targets in all 3 breast cancer patients, 5 of 6 ovarian cancer patients, and 3 of 9 prostate cancer patients. Both dose levels produced a targeted immune response in vaccinated patients. The immunogenicity results were based on an analysis of 9 evaluable patients in the 0.25 mL dose group and 9 evaluable patients in the 1 mL dose group.

The further clinical development of DPX-0907 into Phase II clinical trials will be evaluated based on safety, immunogenicity and commercial potential. The Company is exploring opportunities for commercialization of DPX-0907 and is considering investigator funded trials or partnership opportunities at various stages of clinical development, including at the Phase I and Phase II clinical trial stages.

Infectious and Other Diseases

A significant component of the Company's business strategy is leveraging the DepoVax™ platform within infectious and other diseases. The DepoVax™ adjuvanting platform has the potential to generate a rapid and robust immune response, often in a single dose. The unique vaccine enhancement and single-dose capability could prove to be beneficial in targeting difficult infectious and other disease candidates.

Bio-terrorism

The Company has entered into a research collaboration to advance the development of next generation bio-defense vaccines against the most threatening biological agents. These novel vaccine candidates will be evaluated as part of a study funded by the US National Institutes of Health (NIH) starting in the first quarter of 2012.

The study combines the Company's DepoVax™ adjuvanting technology platform with four bio-defense vaccine candidates, developed in collaboration with an undisclosed commercial partner. Earlier results from initial studies warranted further development of the vaccine candidates. These novel vaccine candidates will now be tested in a non-human primate challenge model by the NIH's National Institute of Allergy and Infectious Diseases (NIAID).

The study will evaluate the potential for these novel vaccine candidates to protect against anthrax and multi-filoviruses (e.g., Marburg). These bio-terrorism agents are classified as Category A by the US Centers for Disease Control and Prevention. Category A agents have the greatest potential for adverse public health impact with mass casualties because they are easily transmittable and have high fatality rates.

Immunovaccine's preliminary research with an anthrax antigen demonstrated that the DepoVax™-based vaccine was able to raise higher antibody levels, as compared to three doses of an alum-adjuvanted control vaccine. Persisting high antibody levels were induced within four weeks following a single dose of anthrax antigen with DepoVax™.

Data generated from these research studies is expected to facilitate access to various funding mechanisms to move the vaccine candidate into Phase I clinical trials.

Other Diseases

The Company signed a research agreement with Weill Cornell Medical College to advance a vaccine for treating cocaine addiction. The project will combine Cornell's novel cocaine antigen with Immunovaccine's DepoVax™ adjuvanting platform to strengthen the immune response shown in research animals in previous studies at the College.

This research project builds on earlier cocaine vaccine work at Weill Cornell in 2010, funded by the National Institute on Drug Abuse (NIDA) of the National Institutes of Health (NIH). The previous studies used a viral vector platform linked to a cocaine analog to formulate the vaccine candidate. These results showed the anti-cocaine vaccine raised antibody levels high enough to sequester the cocaine molecules before the drug reached the brains of the mice and prevented cocaine-related hyperactivity. The new study will determine if the addition of the DepoVax™ adjuvanting technology will trigger an even stronger and longer-lasting immune response. By blocking the effects of the drug, the vaccine could become one of several methods of intervention intended to help people in rehabilitation programs.

Data generated from these research studies is expected to facilitate access to various funding mechanisms that are focused on developing treatments for addictions.

Animal Health

While the Company's main focus is now on the human health market and activities, the animal health market is still an important section of the Company's strategy. In 2008, the Company signed its first license agreement with Pfizer Animal Health ("Pfizer"), which represents the Company's first step in validating the DepoVax™ platform technology. The Company now has four licensing agreements with Pfizer for the use of the Company's delivery technology in cattle and other livestock vaccine applications. These license agreements include upfront signing fees, milestone payments and royalties from future vaccine sales.

Immunovaccine intends to pursue additional licensing and revenue opportunities within the animal health market to help fund the research and development of its human health vaccine candidates.

MARKET OVERVIEW

The market outlook for the Company's products and platform technology remains positive, backed by the growing public awareness of new, safer and more effective vaccines, and the adoption of novel vaccine delivery mechanisms. Vaccines are one of the fastest growing segments of the pharmaceutical industry. According to industry sources, global revenues are expected to rise to US$46.5 billion by 2014. The development of new infectious diseases vaccines along with therapeutic cancer vaccines will drive the growth of this industry in the first quarter of the 21st Century.

Currently, there are five manufacturers that dominate revenue generation in the human vaccine market; Merck & Co., GlaxoSmithKline ("GSK"), Novartis, Sanofi Pasteur ("Sanofi"), and Pfizer. The increased revenue potential for vaccines is due in part to the improved pricing for vaccine products. For example, the Gardasil vaccine is currently

selling for approximately US$160 per dose for three doses. This represents an improvement of what used to be a fundamental economics problem within the vaccine industry.

Furthermore, advances in biotechnology mean that vaccines are not easily replaced by generic substitutes and therefore are more likely to assure a long-term income stream. Governments and healthcare providers also positively view vaccines because of their potential to reduce hospital stays and drug costs. New technologies, such as the enhanced vaccine delivery platform being developed by the Company, are enabling the development of targeted vaccines not previously possible. These new vaccine products are being priced at a premium to reflect the value of the technology.

Therapeutic cancer vaccines

Cancer is considered one of the most widespread and prevalent diseases globally. According to the US Centers for Disease Control and Prevention (CDC), 12.7 million individuals become victims of cancer and 7.6 million individuals die from the disease annually.

Interest in immunotherapy and cancer vaccines has been rising as researchers are learning more about cancer and its interactions with the immune system. A better understanding of the immunology of cancer has led to novel strategies for vaccine development in the past several years. The recent approval by the FDA of Dendreon's Provenge for prostate cancer and Bristol-Meyers Squibb's Yervoy (ipilimumab) for melanoma have resulted in increased attention and support for immunotherapy and cancer vaccine companies.

The global market for cancer vaccines, including both prophylactic and therapeutic vaccines, was US$1.6 billion in 2010. While the majority of this is based on sales of prophylactic vaccines, the area of therapeutic cancer vaccines is expected to experience high growth, reaching US$4.8 billion by 2018. Several first-in-class therapeutic cancer vaccines are expected to be introduced during this time driving this anticipated growth rate.

Independent sources note a high unmet need in the therapeutic cancer vaccine market. Despite recent advances in cancer therapy, the median survival rate remains poor. Vaccines for cancer treatment could meet the unmet need for new and effective therapies with low toxicity.

Conventional cancer treatment involves debulking surgery, followed by chemotherapy. Chemotherapy interferes with the ability of cancer cells to grow and spread, but these drugs can only delay the cancer's recurrence as most tumors eventually develop resistance to the treatment. Chemotherapy also kills normal cells, resulting in multiple negative side effects.

Because patients need treatments with a better safety profile, the next generation of therapeutic cancer vaccines is a more attractive approach. The vaccine is administered after surgery and chemotherapy, when tumor burden is low. The goal is to have the cancer vaccine train the body's immune system to target and kill remaining cancer cells and maintain remission for the patient.

Cancer vaccines can be a possible combination partner with chemotherapy, radiation or surgery. Thus, cancer vaccines are believed to hold great promise in the future as a potential for combination treatment options. The Company is of the belief that, over the next five years, cancer vaccines will become part of a multi-targeted approach for the treatment of cancer.

Infectious Diseases

Globally, infectious diseases have witnessed robust growth in recent years. During the past decade, diseases thought to be under control or retreating, such as plague, diphtheria, yellow fever, dengue, meningitis, influenza and malaria, have re-emerged. While the effort to control these known infectious diseases continues, more than 30 emerging diseases have been identified in humans for the first time over the past two decades.

The global market for infectious disease treatments was valued at US$90.4 billion in 2009. This market is expected to increase 8.8% (CAGR) to reach US$138 billion in 2014. Viral disease treatments will have the fastest growth rate of 12.1% (CAGR), increasing from nearly US$45 billion in 2009 to US$79 billion in 2014.

With up to 17 million deaths each year, there is an increased awareness of the impact of current and emerging infectious diseases. Demand for newer treatments and vaccines is growing globally. Decision Resources reports that the world-wide market for vaccines against infectious diseases more than doubled between 2005 and 2011.

Many infectious diseases lack effective prophylactic vaccines, and the industry faces a variety of challenges in vaccine design and production. Adjuvants and delivery methods are viewed as key technologies for the success of future vaccines. The Company believes this current market landscape offers significant commercial opportunities for both our technology platform and our vaccines.

Efforts to decrease treatment duration by developing single-dose vaccines, in particular for malaria, are a strong focus at the research level to improve patient compliance and decrease monitoring of therapy by the healthcare provider.

Better diagnostics are being sought for many infectious diseases. This advance could result in additional market expansion by increasing the number of patients identified for vaccine treatment. Finally, further growth of the influenza vaccines market could be driven by the implementation of a universal immunization program recommended by the US Advisory Committee on Immunization Practices to increase further the flu vaccination coverage.

Pharmaceutical companies dominating this market include Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Merck & Co. and Roche. Additionally, government and nonprofit institutions play a significant role in vaccine development in both industrialized and developing markets. Support for infectious diseases vaccine development and commercialization is available to companies through government and nonprofit funding and granting mechanisms.

Bio-defense

According to the Center for Bio-security's review of the U.S. government FY2012 federal budget, funds for civilian bio-defense total US$6.42 billion. Of that total, US$5.78 billion (90%) is budgeted for programs that have both bio-defense and non bio-defense goals and applications, and US$637.6 million (10%) is budgeted for programs that have objectives solely related to bio-defense.

U.S. government-funding programs for civilian bio-defense are intended to address a range of scientific, public health, healthcare, national security, and international security issues in addition to bio-defense. Programs with both bio-defense and non bio-defense goals and applications include those that fund basic scientific research in infectious disease pathogenesis and immunology, programs to improve planning and operations related to public health preparedness, and programs to improve preparedness and response for a range of other disasters.

An example of programs with both bio-defense and non bio-defense goals includes the National Institute of Allergy and Infectious Diseases' (NIAID) Bio-defense Research Program, which, in addition to funding preclinical and clinical research toward bio-defense countermeasures, funds basic infectious disease pathogenesis and immunology research with implications for a multitude of other diseases. The Company's platform technology and products have application to many of these programs.

Animal Health Market

According to industry sources, the world animal health market, defined as a sector spanning veterinary pharmaceuticals, biologics and medicated feed additives, was approximately US$20 billion in 2008. The animal vaccine market, subdivided into livestock, companion animal and other smaller segments including equine, poultry and aquatic, makes up approximately 20% of the total animal health market and is projected to reach US$5.6 billion by 2015. Europe is the leading market for veterinary vaccines followed closely by North America. Asia-Pacific is the fastest growing market for veterinary vaccines.

The world-wide livestock vaccine market is comprised primarily of cattle and swine vaccines, along with, to a lesser extent, vaccines for sheep, poultry and other food animals. Of this market, industry sources suggest the world-wide livestock vaccine market is estimated to be approximately US$3.6 billion by 2015, with the cattle vaccine market

representing approximately US$1 billion of the livestock vaccines. The companion animal vaccine market represents US$2 billion of the market. There are only a few players in the animal vaccine market including Pfizer, Boehringer Ingelheim, Merial, Merck Animal Health, Novartis and AgriLabs. While the livestock vaccine market is based on high volumes and lower pricing, the companion animal market is less sensitive to price and is focused on safety of the products. The majority of today's vaccines for both market segments require a booster administration, which increases the handling costs for the livestock market and has the potential to decrease safety in the companion animal market. Therefore, a vaccine that requires fewer doses (one dose, in some cases) for efficacy could be a significant innovation and have the potential to replace existing products in both segments.

There is a growing global demand for premium companion animal vaccines that can be safely and easily administered. According to a Global Industry Analysts' report the veterinary vaccine market is projected to reach US$5.6 billion by 2015. Growth in this market is driven by an increasing number of pet owners demanding products that enhance the health and well being of their pets.

RECENT DEVELOPMENTS AND OUTLOOK

Key developments and achievements

- On April 11, 2012, the Company received the "Best Early-Stage Vaccine Biotech" award at the 5th Vaccine Industry Excellence (ViE) Awards ceremony during the World Vaccine Congress Washington 2012 in Washington, D.C. The annual ViE Awards honor the efforts, accomplishments and positive contributions of companies and individuals within the vaccine industry. The "Best Early-Stage Vaccine Biotech" was awarded to Immunovaccine based on the Company's strong early clinical trial results in immunotherapy and key collaborations that have expanded its product pipeline in infectious diseases, addiction and bio-defense vaccines.

- On March 12, 2012, the Company signed a research agreement with Weill Cornell Medical College to advance a vaccine for treating cocaine addiction. The new vaccine would stimulate the body's own immune system to prevent cocaine molecules from reaching the brain, blocking the effects of the drug before it produced pleasurable sensations. The vaccine could become one of several methods of intervention intended to help people in rehabilitation programs.

- On March 7, 2012, the Company received gross proceeds of $2,788,201.50 through its non-brokered Private Placement. The Company issued 9,294,005 common shares of the Company at the price of $0.30 per common share.

- On February 14, 2012, the Company entered into a research collaboration to advance the development of next generation bio-defense vaccines against the most threatening biological agents. These novel vaccine candidates will be evaluated as part of a U.S. National Institutes of Health (NIH) funded study, starting in the first quarter of 2012.

- On January 4, 2012, the Company announced it had vaccinated the first patient with DPX-Survivac in December 2011. The goal of the Phase I clinical trial is to establish the safety and immune activity of DPX-Survivac in patients with advanced ovarian cancer.

- On October 26, 2011, the Company announced that Health Canada has cleared its Clinical Trial Application for a Phase I/II study with DPX-Survivac, a therapeutic cancer vaccine. The decision allows the Company to proceed with preparations in Canada to test the safety and efficacy of its immunotherapeutic vaccine in patients with advanced ovarian cancer.

- On October 17, 2011, the Company announced the addition of Wayne Pisano, former President and Chief Executive Officer of Sanofi Pasteur, to Immunovaccine's Board of Directors.

- On September 12, 2011, the Company announced the appointment of John J. Trizzino as Chief Executive Officer and director on the Board of Directors.

- On June 27, 2011, the Company announced that Dr. Marc Mansour, Chief Operating Officer and Chief Science Officer, presented at the 2011 Biotechnology Industry Organization (BIO) Business Forum, the largest global event for the biotechnology industry.

- On June 23, 2011, the Company announced the results of the 2011 Annual General Meeting. The shareholders elected Dr. William A. Cochrane, Wade K. Dawe, James W. Hall, Albert Scardino, Kimberly Stephens and Brad Thompson to serve on the Board of Directors. The shareholders approved all motions put forth at the meeting, including the appointment of PricewaterhouseCoopers LLP, Chartered Accountants, as the Company's independent auditors. The board elected Albert Scardino chairman.

- On June 20, 2011, the Company announced that the U.S. FDA approved its IND application for a Phase I/II clinical trial with DPX-Survivac, a therapeutic cancer vaccine. After a successful Phase I clinical trial, which the Company initiated in Q4 Fiscal 2011, Immunovaccine will be permitted to initiate a Phase II clinical trial without any further application to the FDA.

- On June 1, 2011, the Company announced a detailed analysis of immune responses from patients enrolled in the Phase I clinical trial assessing the safety and tolerability of DPX-0907, a therapeutic cancer vaccine. The trial was designed to evaluate the safety and immunogenicity of DPX-0907 in patients with advanced stage breast, ovarian or prostate cancer. Immunovaccine performed a detailed analysis of patients' blood samples that showed cell mediated immunity (CMI) to vaccine targets in all 3 breast cancer patients, 5 of 6 ovarian cancer patients and 3 of 9 prostate cancer patients. Both dose levels produced a targeted immune response in vaccinated patients.

- On May 31, 2011, Immunovaccine provided a corporate update indicating that the Company had completed a pre-Investigational New Drug Application meeting with the U.S. Food and Drug Administration for DPX-Survivac. In pre-clinical studies, DPX-Survivac was found to significantly enhance immune response over the control formulation used in previous clinical trials. Immunovaccine is completing the remaining safety studies required for the IND filing for clearance to begin human clinical trials. Also, the Company signed a research agreement with Cuban-based CIMAB S.A. ("CIMAB") to deliver CIMAB's CIMAvax-EGF peptide antigen formulated in the Company's DepoVax™ delivery system to potentially enhance the immunogenicity of their novel therapeutic vaccine. Also, the Company retained The Equicom Group ("Equicom") to provide strategic investor relations services. Under the terms of the 6 months agreement, Immunovaccine will pay Equicom a monthly fee of $5,800 for select strategic communication services.

- On April 14, 2011, the Company announced the resignation of Dr. Randal Chase from the Board of Directors effective immediately and also his three month notice to terminate his contract as President and Chief Executive Officer. Dr. Chase remained President and Chief Executive Officer until July 13, 2011, while the Board conducted an executive search for his replacement.

- On April 11, 2011, the Company announced positive interim immunogenicity results for the Phase I clinical trial of its therapeutic vaccine candidate, DPX-0907, in patients with breast, ovarian and prostate cancer. The analysis showed that the DPX-0907 vaccine elicited an antigen specific immune response in the majority of ovarian cancer patients analyzed. This preliminary evaluation examined vaccine responses in the first fifteen patients enrolled in the clinical trial; three with breast cancer, five with ovarian cancer, and seven with prostate cancer.

- On April 5, 2011, Immunovaccine announced that it would be presenting at the American Association for Cancer Research (AACR) 102nd annual meeting in Orlando, FL and at the World Vaccine Congress 2011 in Washington, D.C. The presentations disclosed findings from the Phase I clinical trial with the therapeutic cancer vaccine, DPX-0907, and the ability of DepoVax™ to enhance the immunogenicity of peptide antigens.

- On March 21, 2011, Immunovaccine announced it will receive $2.9 million from the Atlantic Canada Opportunities Agency (ACOA), under the Atlantic Innovation Fund (AIF). This non-dilutive funding will enable Immunovaccine to develop new diagnostics to identify specific subsets of cancer patient populations

that would benefit most from receiving DepoVax™-based vaccine therapies. This funding will also help the Company develop additional methods for measuring vaccine activity, which will help design future Phase II clinical trials.

- On February 23, 2011, the Company and Immunotope Inc. announced that the U.S. Patent and Trademark Office had issued an official Notice of Allowance for a new U.S. patent specific to the DPX-0907 therapeutic cancer vaccine. The new U.S. patent application titled "Cytotoxic T-lymphocyte-inducing immunogens for prevention, treatment, and diagnosis of cancer" provides additional intellectual property protection in the U.S. for the seven antigens used in Immunovaccine's DPX-0907.

- On February 10, 2011, the Company provided a corporate update, including the following announcements: the completion of enrolment for the Phase I clinical trial of DPX-0907; the achievement of positive pre-clinical results for DPX-Survivac; the recipient of the Halifax Chamber of Commerce Business of the Year Bronze Award; presenting at the BIO CEO & Investor Conference in New York; and announcing the date of the Annual General Meeting of June 22, 2011.

- On January 11, 2011, Dr. Randal Chase, President and CEO presented at the Biotech Showcase, during the JP Morgan Healthcare conference, the industry's largest annual healthcare investor conference in San Francisco, CA.

Outlook

Much interest has already been shown in the broad range of potential applications for the Company's DepoVax™ delivery platform. Positive clinical safety and immunogenicity results have been achieved, as well as positive results in pre-clinical models for cancer and infectious disease.

Immunovaccine will continue to refine and focus its research activities on those candidates that show the most compelling technical results and commercial opportunities. The Company continues to seek partners to drive the clinical programs. One group of potential partners includes those who hold specific infectious diseases antigens who are interested in developing an effective vaccine. Other partners would provide non-dilutive funding to advance the development of the Company's cancer vaccine candidates. With positive clinical safety and immunogenicity results from the Phase I clinical trial of DPX-0907, Immunovaccine intends to leverage this achievement to accelerate its business development efforts.

The Company is also currently pursuing additional licensing and revenue opportunities within the animal health market.

SUMMARY OF QUARTERLY RESULTS

The following consolidated quarterly data was drawn from the audited annual consolidated financial statements and the unaudited interim condensed consolidated financial statements. All values discussed below are rounded to the nearest thousand. The information is reported on an IFRS basis.

Quarter Ended In	Total Revenue $	Total Expenses $	Loss $	Basic and Diluted Loss Per Share $
Q4 - December 31, 2011	-	1,387,000	(1,387,000)	(0.03)
Q3 - September 30, 2011	-	1,497,000	(1,497,000)	(0.03)
Q2 - June 30, 2011	-	2,044,000	(2,044,000)	(0.04)
Q1 - March 31, 2011	-	1,878,000	(1,878,000)	(0.03)
Q4 - December 31, 2010	6,000	1,468,000	(1,462,000)	(0.03)
Q3 - September 30, 2010	6,000	1,451,000	(1,445,000)	(0.03)
Q2 - June 30, 2010	6,000	1,644,000	(1,638,000)	(0.04)
Q1 - March 31, 2010	58,000	1,167,000	(1,109,000)	(0.02)

Results for the three month period ended December 31, 2011 ("Q4 Fiscal 2011"), compared to the three month period ended December 31, 2010.

Net loss and comprehensive loss

The net loss and comprehensive loss for Q4 Fiscal 2011 was $75,000 lower than the net loss and comprehensive loss during the three month period ended December 31, 2010. Operating expenses decreased by $81,000 due mainly to the $221,000 decrease in research and development costs and the $44,000 decrease in business development costs, offset by an increase of $101,000 in general and administration expenses and an increase of $105,000 of accreted interest and adjustments.

Revenues

During Q4 Fiscal 2011, revenue was $nil compared to $6,000 during the three month period ended December 31, 2010. The $6,000 was deferred revenue being recognized in the period in relation to a license agreement with Pfizer. Although Immunovaccine is actively pursuing new additional licensing and revenue opportunities within both the animal and human health markets, the Company did not sign any new license agreements in 2011.

All revenue recognized to date has been earned through the Company's animal health activities and relates to potential animal vaccines that are being developed by another company that has licensed the Company's technology. The animal licenses are structured with upfront payments, milestone payments and royalties paid as a percentage of sales. As the animal vaccine candidates to which these licenses relate have not yet achieved final commercialization, the revenue at this stage of development is inconsistent. The amount and timing of future revenues from these animal health licenses are dependent on continued future development.

Operating expenses

Overall operating expenses decreased by $81,000 (5%) during Q4 Fiscal 2011 compared to the three month period ended December 31, 2010. Explanations of the nature of costs incurred, along with explanations of changes in those costs are discussed below.

Research and development expenses ("R&D")

R&D expenses include salaries and benefits, expenses associated with the Phase I clinical trial of DPX-0907, clinical research expenses of DPX-Survivac, consulting fees paid to various independent contractors who possess specific expertise required by the Company, the cost of animal care facilities, lab supplies, peptides and other chemicals, rental of lab facilities, insurance, as well as other R&D related expenses. These R&D costs are offset by investment tax credits and government assistance received in relation to the R&D expenses incurred.

The majority of the Company's R&D efforts and related expenses for Q4 Fiscal 2011 were final costs surrounding the Company's Phase I clinical trial of DPX-0907 and the initial costs of the Phase I clinical trial of DPX-Survivac. The remaining R&D costs related to the Company's ongoing R&D activities associated with the investigation, analysis and evaluation of other potential vaccine candidates and technologies. R&D expenses are expected to decrease in 2012 as the Company has concluded the expenditures on the DPX-0907 Phase I trial and therefore only has one vaccine candidate, DPX-Survivac, in clinical testing.

Total R&D expenses for Q4 Fiscal 2011 were $1,336,000, less government loans and assistance of $553,000 and investment tax credits of $178,000. This represented a $48,000 increase over the three month period ended December 31, 2010. Total R&D expenses for the three month period ended December 31, 2010 were $1,288,000, less investment tax credits of $122,000 and government loans and assistance of $333,000.

The largest component of R&D expense was $797,000 of pre-clinical and Phase I clinical trial expenditures on DPX-Survivac. The Company initiated the Phase I clinical trial in Q4 Fiscal 2011 when it vaccinated its first patient in December 2011. These costs were offset by the decrease in the expenses associated with the Phase I clinical trial for DPX-0907 and general R&D expenses. As the clinical trial for DPX-0907 has ended, the expenses associated with the Phase I clinical trial were reduced to $173,000 for Q4 Fiscal 2011 compared to $435,000 for the three

month period ended December 31, 2010. Other R&D expenses decreased by $102,000 (22%) to $366,000 during Q4 Fiscal 2011 compared to $468,000 during the three month period ended December 31, 2010.

The government loans and assistance recorded consists mainly of amounts realized due to the revaluation of the interest-free government loans. Under IFRS, as described in further detail below, the government interest-free repayable loans must be valued at fair value and the difference between the fair value of the loans and the contribution received must be treated as government assistance. In the three month period ended December 31, 2010, the Company received loan contributions of $260,000, which was recorded directly against research and development costs, compared to $540,000 in Q4 Fiscal 2011.

General and administrative expenses ("G&A")

G&A expenses of $492,000 represented 36% of total expenses for Q4 Fiscal 2011 compared to $391,000 (27% of total expenses) for the three month period ended December 31, 2010, an overall increase of $101,000 (26%).

The most significant components of G&A expenses are salaries and benefits and professional fees. Professional fees for Q4 Fiscal 2011 of $107,000 (three month period ended December 31, 2010 - $118,000) included: $50,000 in costs to maintain and expand the Company's patent portfolio; $37,000 in respect of audit, accounting, taxation and other consulting services provided by the Company's auditors; and $20,000 general legal and other professional fees. During the three month period ended December 31, 2010, patent related costs, accounting and related costs, and general legal and other professional costs were approximately $52,000, $57,000 and $9,000, respectively.

G&A expenses related to salaries and benefits for Q4 Fiscal 2011 were approximately $194,000 compared to $52,000 for the three month period ended December 31, 2010. The increase of $142,000 is attributable to the new Chief Executive Officer in September 2011 and the bonus accruals for 2011. The former President and Chief Executive Officer was paid as a consultant and therefore, consulting fees decreased by $55,000 due to his departure, as well as the departure of the former Acting Chief Financial Officer who was also paid as a consultant.

G&A expenses also increased due to an increase in travel expenses of $41,000, offset by a decrease in directors' fees of $8,500 and a decrease in foreign exchange loss of $5,000 related to U.S. funds held by the Company.

Business development expenses ("BD")

Total business development expenses of $185,000 in Q4 Fiscal 2011 represented a decrease of $44,000 compared to the three month period ended December 31, 2010. This relates mainly to a $22,000 decrease in travel expenses, an $11,000 decrease in salary and consulting fees, and an $11,000 decrease in marketing and public relations expenses. These decreases were a result of the Company being in a transition period with a new Chief Executive Officer, whose responsibilities include business development. These costs are expected to increase in 2012.

Results for the year ended December 31, 2011, compared to the year ended December 31, 2010.

Net loss and comprehensive loss

As a result of a decrease in revenue and increased operating expenses, as discussed below, the net loss and comprehensive loss increased from a loss of $5,654,000 during the year ended December 31, 2010 to a loss of $6,806,000 during the year ended December 31, 2011, an increase of $1,152,000. Operating expenses increased by $1,076,000, due mainly to an increase of $3,244,000 related to pre-clinical and clinical research expenses for DPX-Survivac. This increase is offset by a decrease in general and administration expenses of $393,000, a decrease in general research and development costs not related to the clinical or pre-clinical trials of $370,000, a decrease in business development costs of $252,000, a $421,000 decrease in stock-based compensation, and a $721,000 increase in government loans and assistance and investment tax credits.

Revenues

During the year ended December 31, 2011, revenue was $nil compared to $76,000 during the year ended December

31, 2010. The entire amount of $76,000 was for a non-refundable, upfront license fee pursuant to the signing of a new license agreement for a third livestock vaccine with Pfizer during the year ended December 31, 2010. Although Immunovaccine is actively pursuing new additional licensing and revenue opportunities within both the animal and human health markets, the Company has not signed any new license agreements in 2011.

All revenue recognized to date has been earned through the Company's animal health activities and relates to potential animal vaccines that are being developed by another company that has licensed the Company's technology. The animal health licenses are structured with upfront payments, milestone payments and royalties paid as a percentage of sales. As the animal vaccine candidates to which these licenses relate have not yet achieved final commercialization, the revenue at this stage of development is inconsistent. The amount and timing of future revenues from these animal health licenses are dependent on continued future development.

Operating expenses

Overall operating expenses increased by $1,076,000 (19%) during the year ended December 31, 2011 compared to the year ended December 31, 2010. Explanations of the nature of costs incurred, along with explanations of changes in those costs are discussed below.

Research and development expenses ("R&D")

R&D expenses include salaries and benefits, expenses associated with the Phase I clinical trial of DPX-0907, pre-clinical research expenses and Phase I clinical trial expenses of DPX-Survivac, including formulation costs of the clinical batch of DPX-Survivac vaccines, consulting fees paid to various independent contractors who possess specific expertise required by the Company, the cost of animal care facilities, lab supplies, peptides and other chemicals, rental of lab facilities, insurance, as well as other R&D related expenses. These R&D costs are offset by investment tax credits and government loans and assistance received in relation to the R&D expenses incurred.

The majority of the Company's R&D efforts and related expenses for the year ended December 31, 2011 continued to be focused on the Company's Phase I clinical trial of DPX-0907 and the pre-clinical research expenses and Phase I clinical trial expenses of DPX-Survivac. The remaining R&D costs related to the Company's ongoing R&D activities associated with the investigation, analysis and evaluation of other potential vaccine candidates and technologies. R&D expenses are expected to decrease in 2012 as the Company has concluded the expenditures on the DPX-0907 Phase I trial and therefore only has one vaccine candidate, DPX-Survivac, in clinical testing.

Total R&D expenses for the year ended December 31, 2011 were $6,759,000 less investment tax credits of $371,000 and government loans and assistance of $2,147,000. This represented an increase of $2,330,000 over the year ended December 31, 2010. Total R&D expenses for the year ended December 31, 2010 were $4,429,000, less investment tax credits of $349,000 and government loans and assistance of $1,449,000.

The largest component of R&D expense was the pre-clinical and clinical expenses of the Company's DPX-Survivac vaccine candidate of $3,928,000 (December 31, 2010 - $684,000). Included in these pre-clinical research expenses was the milestone payment made to Merck KGaA ("Merck") to in-licence the Survivin antigen for the DPX-Survivac vaccine candidate of $1,363,000. On July 12, 2010, the Company entered into a license agreement with Merck to in-license EMD 640744, an investigational therapeutic Survivin-based cancer vaccine designed to target multiple solid tumors and hematological malignancies. As a part of the license agreement, the Company had agreed to pay Merck an agreement milestone of EUR 1,000,000 on or prior to July 31, 2011.

These costs were offset by the decrease in the expenses associated with the Phase I clinical trial for DPX-0907 and general R&D expenses. As the clinical trial for DPX-0907 has ended, the expenses associated with the Phase I clinical trial were reduced to $1,129,000 for the year ended December 31, 2011 compared to $1,450,000 for the year ended December 31, 2010. Other R&D expenses decreased by $370,000 (21%) to $1,367,000 during the year ended December 31, 2011 compared to $1,737,000 during the year ended December 31, 2010. The decrease in other R&D expenses is due to the focus on the clinical trial of DPX-0907 and the pre-clinical research and clinical trial of DPX-Survivac. The remaining difference of $335,000 relates to the stock-based compensation expense described below.

The government assistance recorded consists mainly of amounts realized due to the revaluation of the Atlantic Innovation Fund ("AIF") interest-free government loans from the Atlantic Canada Opportunities Agency ("ACOA"). Under IFRS, as described in further detail below, the government interest-free repayable loans must be valued at fair value and the difference between the fair value of the loans and the contribution received must be treated as government assistance. In the year ended December 31, 2010, the Company received loan contributions of $1,205,000, of which $1,175,000 was recorded directly against research and development costs, compared to contributions of $2,072,000, of which $1,973,000 was recorded directly against research and development costs in the year ended December 31, 2011. The remaining amount of government assistance relates to government loans and grants of $174,000 (year ended December 31, 2010 - $274,000).

General and administrative expenses ("G&A")

G&A expenses of $1,574,000 represented 23% of total expenses for the year ended December 31, 2011 compared to $1,967,000 (34% of total expenses) for the year ended December 31, 2010, an overall decrease of $393,000 (20%).

The most significant components of G&A expenses are salaries and benefits and professional fees. Professional fees for the year ended December 31, 2011 of $361,000 (year ended December 31, 2010 - $518,000) included: $160,000 in costs to maintain and expand the Company's patent portfolio; $147,000 in respect of audit, accounting, taxation and other consulting services provided by the Company's auditors; and $54,000 in general legal and other professional fees. During the year ended December 31, 2010, patent related costs, accounting and related costs, and general legal and other professional costs were approximately $202,000, $219,000 and $97,000, respectively.

G&A expenses related to salaries and benefits for the year ended December 31, 2011 were approximately $379,000 compared to $464,000 for the year ended December 31, 2010. The decrease of $85,000 is attributable to the departure of the former Chief Financial Officer in June 2010 and the Vice President in August 2010, offset by the appointment of the new Chief Financial Officer in January 2011.

Also included in G&A expenses for the year ended December 31, 2011 are consulting fees of $251,000 (year ended December 31, 2010 - $226,000). The increase in consulting fees primarily relates to costs associated with the executive search for the new Chief Executive Officer. The Company's directors' fees and costs were consistent in the year ended December 31, 2011 of $161,000 compared to $170,000 during the year ended December 31, 2010.

Other G&A expenses during the year ended December 31, 2011 included a foreign exchange gain of $10,000 related to U.S. funds held by the Company, and $122,000 in interest income compared to a foreign exchange loss of $22,000 and interest income of $54,000, respectively, during the year ended December 31, 2010. Other minor differences were noted in office expenses and travel.

Business development expenses ("BD")

Total business development expenses of $797,000 during the year ended December 31, 2011 represented a decrease of $252,000 compared to the year ended December 31, 2010. The Company incurred increased expenses in consulting fees of $99,000 offset by a decrease in salary and benefits of $64,000, as the role of Director of Business Development is currently being performed by a consultant rather than an employee. Travel expenses decreased by $83,000, from $215,000 in the year ended December 31, 2010, compared to $131,000 in the year ended December 31, 2011. The remaining significant decreases relate to the decrease in legal fees of $85,000 and the stock-based compensation expense as described below.

Stock-based compensation

Under IFRS, stock-based compensation has been reallocated to research and development expenses, general and administrative expenses and business development expenses based on the appropriate breakdown of the expense. A total amount of $335,000, $230,000 and a credit of $1,000 for the year ended December 31, 2011 (year ended December 31, 2010 - $558,000, $345,000 and $82,000) was allocated to R&D, G&A and BD expenses, respectively. The overall decrease was due primarily to the change in accounting for stock-based compensation

under IFRS compared to the former Canadian GAAP. Refer to the section below, "Transition to International Financial Reporting Standards (IFRS)", for more detail describing this change.

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2011, the Company had cash and cash equivalents of $5,071,000 and working capital of $5,133,000 as compared to $10,413,000 and $11,116,000, respectively at December 31, 2010.

Since inception, Immunovaccine has been financed through the sale of shares, debt, revenue from the animal health licenses, interest income on funds available for investment, and government assistance and tax credits.

During the year ended December 31, 2011, cash of $5,264,000 was used in operating activities. This included the reported net loss of $6,806,000 prior to being decreased for; non-cash amortization, non-cash depreciation, non-cash accretion of long-term debt and adjustments, loss on the disposal of assets, non-cash stock-based compensation and shares issued for professional services $39,000, $92,000, $194,000, $3,000, $565,000 and $27,000, respectively.

During the year ended December 31, 2011, the Company had a source of cash of $621,000 as a result of non-cash changes in working capital balances. The primary uses of cash were a $240,000 increase of amounts receivable, a $15,000 increase in prepaid expenses and an $80,000 decrease in amounts due to directors. These uses of cash were offset by a decrease of $486,000 of investment tax credits receivable and a $470,000 increase in accounts payable and accrued liabilities.

Sources of cash raised through financing activities during the year ended December 31, 2011 were $147,000 in proceeds from long-term debt, offset by the repayment of $55,000 of its long-term debt.

During the year ended December 31, 2011, the Company purchased $169,000 of equipment for ongoing research and operating activities.

At December 31, 2011, the Company had approximately $7.0 million of existing and identified potential sources of cash including:

- cash and equivalents of $5.0 million;
- amounts receivable and investment tax credits receivable of $1.0 million; and
- additional funding of $1.0 million available from government assistance and loans that the Company has been awarded and not yet claimed assistance.

Subsequently, on March 7, 2012, the Company completed a private placement of 9,294,005 shares at a price of $0.30 per share for aggregate gross proceeds of $2,788,202. Total costs associated with the offering were $166,688, including finder's fees of $134,438; paid 50% in cash of $67,219 and 50% by the issuance of common shares. The 224,063 common shares issued to satisfy payment of 50% of the finder's fee were issued at a deemed price of $0.30 per common share. The remaining costs were associated with professional fees and regulatory fees.

For the year ended December 31, 2011, the Company's "cash burn rate" (defined as net loss for the period adjusted for non-cash transactions including amortization, depreciation, accretion of long-term debt and adjustments, loss on disposal of assets, stock-based compensation and shares issued for professional services) averaged approximately $1.47 million per quarter. The Company forecasts the burn rate to be between $1.2 million to $1.6 million per quarter over the next twelve months, as the DPX-0907 Phase I clinical trial costs are completed and the Company maintains similar expenses for its Phase I clinical development for DPX-Survivac.

At December 31, 2011, the Company had cash resources of $5.0 million and identified additional potential cash resources of $2.0 million, including amounts receivable and investment tax credits receivable of $1.0 million and remaining $1.0 million from the new AIF loan. Management is of the belief that this provides the Company with sufficient funds to execute the strategy of completing the Phase I trial of DPX-Survivac, executing business development efforts and pre-clinical collaborations on infectious diseases, while maintaining adequate working capital for the next twelve months. Management further believes there are discretionary expenditures within the current cash forecast which could be reduced in the event that the identified potential sources of cash are not realized

or receipt is delayed. The Company continually reassesses the adequacy of its cash resources since should either positive research results be obtained from existing research projects and/or potential collaboration opportunities identified, then additional funding may be required.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Canadian Accounting Standards Board announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS") and companies will begin reporting, with comparative data, under IFRS for fiscal years beginning on or after January 1, 2011. The Company adopted IFRS effective January 1, 2011 and has prepared its opening balance sheet at that date. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with previous Canadian GAAP. The Company's audited annual consolidated financial statements for the year ended December 31, 2011 will be the first annual financial statements that comply with IFRS. The Company's audited annual consolidated financial statements have been prepared in accordance with IFRS, as well as all comparative financial information presented in this MD&A, consistent with retrospective application.

While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure. The adoption of IFRS did not have an impact on the Company's reported net cash flows, however it had a material impact on the Company's consolidated balance sheets, which is now referred to as the statements of financial position under IFRS, and statements of loss and comprehensive loss.

Following is a summary of key differences between Canadian GAAP and IFRS that have affected the Company.

Statement of Financial Position Impact

The following table provides the old Canadian GAAP consolidated statements of financial position as at January 1, 2010 and December 31, 2010 and changes required to adjust to new GAAP (IFRS).

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)						
Audited Consolidated Statements of Financial Position						
As at December 31, 2010 and January 1, 2010						
	December 31, 2010			**January 1, 2010**		
	Cdn GAAP	**Adj**	**IFRS**	**Cdn GAAP**	**Adj**	**IFRS**
Assets						
Current assets						
Cash and cash equivalents	10,413,047		10,413,047	7,777,303		7,777,303
Amounts receivable	469,990		469,990	595,436		595,436
Share subscription receivable	-		-	28,877		28,877
Prepaid expenses	288,068		288,068	183,441		183,441
Investment tax credits receivable	818,106	(34,000)	784,106	553,448	(43,000)	510,448
	11,989,211	(34,000)	11,955,211	9,138,505	(43,000)	9,095,505
Intangible asset	391,327		391,327	430,460		430,460
Property and equipment	332,697		332,697	322,356		322,356
	12,713,235	(34,000)	12,679,235	9,891,321	(43,000)	9,848,321
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	700,136		700,136	720,861		720,861
Amounts due to directors	81,705		81,705			-
Current portion of long-term debt	57,683		57,683	67,821		67,821
Deferred revenues	-		-	24,000		24,000
	839,524	-	839,524	812,682	-	812,682
Long-term debt	6,987,803	(6,413,927)	573,876	5,782,959	(5,320,198)	462,761
	7,827,327	(6,413,927)	1,413,400	6,595,641	(5,320,198)	1,275,443
Equity						
Capital Stock	24,728,328		24,728,328	18,730,299		18,730,299
Contributed Surplus	1,275,508	338,318	1,613,826	633,970	84,878	718,848
Warrants	1,590,402		1,590,402	136,672		136,672
Deficit	(22,708,330)	6,041,609	(16,666,721)	(16,205,261)	5,192,320	(11,012,941)
	4,885,908	6,379,927	11,265,835	3,295,680	5,277,198	8,572,878
	12,713,235	(34,000)	12,679,235	9,891,321	(43,000)	9,848,321

The most significant statement of financial position impact relates to the valuation of the Company's government interest-free loans. Under IFRS, a government loan that has a "below market rate of interest" should be measured at initial recognition at fair value, with any difference between the contribution received for the loan and the fair value amount accounted for as government assistance. This varies from old Canadian GAAP, where the loans were recorded at cost and reduced at the time of repayment. The impact of this accounting change resulted in a $5.32 million decrease in the value of the long-term debt recorded in the opening statement of financial position of January 1, 2010, a 92% decrease below the carrying value of the loans under the old Canadian GAAP at December 31, 2009. The fair value of the loans were calculated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks.

The two significant AIF loans the Company received from ACOA have repayment terms based on future revenue. As the Company is a clinical stage vaccine development company and has not earned significant revenues to date, there is a significant level of uncertainty in the projections of the repayment of the loans. This resulted in the decreased valuation of these loans, from their respective book values of $3,779,000 and $1,785,000 on January 1, 2010, to their fair values of $243,000 and $1,000, respectively. Subsequent to the transition date of January 1, 2010, the difference between the book value and the fair value is recorded as government assistance, reducing research and development expenses. The imputed interest rate used to discount the loans will be accreted in the statement of loss each quarter, until the loan is paid in full. While the Company has made this accounting change to the financial statements to comply with IFRS, the Company is still responsible for the repayment of these government loans, based on future revenue.

The Company's accounting for stock options was also impacted by the change to IFRS. The Company grants stock options to certain employees and non-employees which vest over 18 months and expire after five years. Under IFRS, each tranche in an award is considered a separate award with its own vesting period and grant date fair value. This accelerated vesting leads to higher stock-based compensation expense in the beginning of the vesting period, resulting in an $85,000 increase in contributed surplus recorded in the opening statement of financial position of January 1, 2010.

Under IFRS, the investment tax credit receivable must be measured at fair value. Under old Canadian GAAP, these were measured at cost, however due to the length of time between recording the receivable and collection, the receivable must be adjusted to reflect the time value of money. The IFRS adjustment required decreased the receivable by $43,000 at January 1, 2010 and $34,000 at December 31, 2010.

The net difference of these adjustments flowed through shareholders' equity, which increased by $5.3 million in the opening statement of financial position of January 1, 2010.

Statement of Loss and Comprehensive Loss Impact

The table below provides the old Canadian GAAP consolidated statements of loss and comprehensive loss for the year ended December 31, 2010 and changes required to adjust to new GAAP (IFRS).

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)			
Audited Consolidated Statements of Loss and Comprehensive Loss			
For the year ended December 31, 2010			
	12 months		
	December 31, 2010		
	Cdn GAAP	**Adj**	**IFRS**
Revenue	76,105	-	76,105
Expenses			
General and administrative	1,878,697	88,745	1,967,442
Research and development	3,672,249	(1,040,742)	2,631,507
Business development	1,028,228	21,108	1,049,336
Interest	-	81,600	81,600
	6,579,174	(849,289)	5,729,885
Net loss and comprehensive loss	(6,503,069)	849,289	(5,653,780)

Adopting IFRS has resulted in a net loss for the year ended December 31, 2010 of $5,654,000 compared to a net loss of $6,503,000, under old Canadian GAAP. The most significant statement of loss item is the difference between the fair value of the government interest-free loans and the amount of contribution received, which was recorded as government assistance and accounted for as a reduction in research and development expenditures. The Company recorded an increase of $1,182,000 in government assistance in the year ended December 31, 2010. This positive adjustment was offset by the accreted interest relating to these loans of $82,000, as well as an increase in the stock-based compensation expense of $253,000 in the year ended December 31, 2010. A small increase in the investment tax credit expense of $9,000 reduced the impact to a $849,000 decrease of net loss in the year ended December 31, 2010, due to the adoption of IFRS.

Statements of Cash Flows

The transition from old Canadian GAAP to IFRS had no significant impact on the cash flows generated by the Company; however the changes described above resulted in a difference in the presentation of certain items on the statement of cash flows. Recording the long-term debt at fair value resulted in a decrease of proceeds from new debt of $971,000 to $86,000, with the difference recorded as government assistance. The Company also recorded accreted interest relating to the interest-free loans of $82,000 for the year ended December 31, 2010, which were added back as non-cash items in the statement of cash flows.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2011, the Company incurred business development consulting fees of $36,000 during the period that the individual was a non-executive Director. Subsequent to June 2011, the individual was no longer a non-executive Director. The Company had no other transactions with related parties as defined in the CICA Handbook (IFRS), except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship arrangements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

Venture Issuers are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's GAAP.

SIGNIFICANT ESTIMATES

The audited annual consolidated financial statements as at December 31, 2011 have been prepared in accordance with new Canadian GAAP (IFRS). Significant accounting estimates used in preparing the unaudited interim condensed consolidated financial statements include the valuation of long-term debt, the Scientific Research and Experimental Development ("SRED") tax credit receivable, the fair value allocation of consideration for multiple element revenue arrangements, non-cash stock based compensation expense, amortization and depreciation of intangibles and property and equipment, allocation of proceeds between common shares and warrants, and accrued liabilities. Management has calculated the fair value of the interest-free government loans based on the forecast of the Company's future revenue, discounted at an appropriate discount rate. The estimates and assumptions used in the valuation model were based on current information available to Management and a degree of Management's

judgment. A change in Management's assumptions used to forecast future revenue or a change in the discount rate could have a significant impact on the fair value of these interest-free government loans. Management has estimated the SRED receivable based on its assessment of tax credits receivable on eligible expenditures incurred during the period and its experience with claims filed with and collected from the Canada Revenue Agency. Management has analyzed the accounts receivable listing for potentially uncollectible amounts and has allowed for all balances which collection is doubtful. Management has made estimates regarding when stock options might be exercised and stock price volatility in calculating non-cash stock based compensation. The timing for exercise of options is out of the Company's control and will depend on a variety of factors including the market value of the Company's shares and the financial objectives of the stock-based instrument holders. Management has made estimates about the expected useful lives of long-lived assets, and the expected residual values of the assets. Management has determined the allocation of proceeds between common shares and warrants based on the relative values of the shares and warrants issued. Through knowledge of the Company's activities in the year ended December 31, 2011, Management has estimated the amount of accrued liabilities to be recorded.

OUTSTANDING SECURITIES

The number of issued and outstanding common shares on April 19, 2012 is 63,505,152. The number of outstanding stock options on December 31, 2011 is 4,299,650. The outstanding stock options have a weighted average exercise price of $0.67 per share and a weighted average remaining term of 4.22 years. The number of outstanding warrants on December 31, 2011 is 4,137,556. The outstanding warrants have a weighted average exercise price of $1.27 per share and a weighted average remaining term of 1.61 years.

INTELLECTUAL PROPERTY RIGHTS

The Company strives to protect its intellectual property in established as well as emerging markets around the world. The Company's intellectual property portfolio for its vaccine platform technology includes five patent families, the first of which contains five patents issued in four jurisdictions (U.S., Europe, Japan and Australia) and two pending patent applications in the U.S. and Canada. The four other families collectively contain thirty-three pending patent applications in eleven jurisdictions. U.S. Patent 6,793,923, issued in 2004, contains claims to the Company's platform, covering "any antigen, any adjuvant in any liposome and any oil". The platform name is protected by trademarks in the U.S., Canada and Europe.

FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognized when the Company 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 Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statements 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 Company recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net loss or other comprehensive loss.

The Company 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.

OFF BALANCE SHEET ARRANGEMENTS

The Company was not party to any off balance sheet arrangements as of December 31, 2011.

RISK ASSESSMENT

The Company's activities are subject to certain risk factors and uncertainties that generally affect development-stage biotechnology companies. Management defines risk as the evaluation of the probability that an event might happen in the future that could negatively affect the financial condition, results of operation or perspectives of the Company. The success of the Company will depend, without limitation, on its ability to: i) develop its products and technologies; ii) preserve its intellectual property rights; iii) retain its key employees; iv) conclude strategic alliances and research and development partnerships with third parties; v) complete strategic in-licensing agreements; vi) demonstrate the safety and efficacy of its products and obtain satisfactory results in regard to the clinical trials; vii) manufacture product candidates in sufficient yields, at commercial scale and at economical market prices; and viii) obtain regulatory approvals required to commercialize its products or those of its partners. The Company's activities have required and will require significant financial investment. Therefore, the Company's ability to obtain the necessary funding to finance its activities is essential to ensure its success and is, as such, a risk factor. The risks identified above do not include all possible risks as there may be other risks of which Management is currently unaware. The above risks and other general risks and uncertainties relating to the Company and its activities are more fully described in the Annual Information Form of the Company for the year ended December 31, 2011, under the heading "Risk Factors and Uncertainties".