Immunovaccine Inc.

Consolidated Financial Statements
December 31, 2010 and 2009

April 20, 2011

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Immunovaccine Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

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

(signed) "*Randal Chase*"
President & Chief Executive Officer

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
Summit Place
1601 Lower Water Street, Suite 400
Halifax, Nova Scotia
Canada B3J 3P6
Telephone +1 (902) 491 7400
Facsimile +1 (902) 422 1166

April 20, 2011

Independent Auditor's Report

To the Shareholders of
Immunovaccine Inc.

We have audited the accompanying consolidated financial statements of **Immunovaccine Inc.**, and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the year ended December 31, 2010 and the nine month period ended December 31, 2009, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Immunovaccine Inc.**, and its subsidiaries as at December 31, 2010 and 2009 and the results of their operations and their cash flows for the year ended December 31, 2010 and the nine month period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

Immunovaccine Inc.

Consolidated Balance Sheets

As at December 31, 2010 and 2009

(Expressed in Canadian dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	10,413,047	7,777,303
Amounts receivable	469,990	595,436
Share subscription receivable	–	28,877
Prepaid expenses	288,068	183,441
Investment tax credits receivable	818,106	553,448
	11,989,211	9,138,505
Intangible asset (note 3)	391,327	430,460
Property and equipment (note 4)	332,697	322,356
	12,713,235	9,891,321
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	700,136	720,861
Amounts due to directors (note 5)	81,705	–
Current portion of long-term debt (note 6)	57,683	67,821
Deferred revenues	–	24,000
	839,524	812,682
Long-term debt (note 6)	6,987,803	5,782,959
	7,827,327	6,595,641
Shareholders' Equity		
Capital stock (note 7)	24,728,328	18,730,299
Contributed surplus (note 8)	1,275,508	633,970
Warrants (note 9)	1,590,402	136,672
Deficit	(22,708,330)	(16,205,261)
	4,885,908	3,295,680
	12,713,235	9,891,321

Commitments (note 13)

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) *"Michael Kirby"*, Director

Immunovaccine Inc.

Consolidated Statements of Loss, Comprehensive Loss and Deficit

For the year ended December 31, 2010 and the nine months ended December 31, 2009

(Expressed in Canadian dollars)

	Year ended December 31, 2010 $	Nine months ended December 31, 2009 $
Revenue	76,105	1,420,412
Expenses		
General and administrative	1,613,960	937,791
Research and development	3,780,398	1,853,008
Business development	967,252	365,134
Amortization of intangible asset	39,133	16,305
Amortization of property and equipment	78,868	55,050
Stock-based compensation	732,118	154,634
	7,211,729	3,381,922
Loss before the following:	(7,135,624)	(1,961,510)
Investment tax credits	340,000	180,000
Government assistance	292,555	117,831
Net loss and comprehensive loss for the period	(6,503,069)	(1,663,679)
Deficit – Beginning of period	(16,205,261)	(14,541,582)
Deficit – End of period	(22,708,330)	(16,205,261)
Basic and diluted loss per share	(0.14)	(0.05)
Weighted-average shares outstanding	47,789,397	35,473,757

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

Immunovaccine Inc.

Consolidated Statements of Cash Flows

For the year ended December 31, 2010 and the nine months ended December 31, 2009

(Expressed in Canadian dollars)

	Year ended December 31, 2010 $	Nine months ended December 31, 2009 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(6,503,069)	(1,663,679)
Charges to operations not involving cash		
Amortization of intangible asset	39,133	16,305
Amortization of property and equipment	78,868	55,050
Stock-based compensation	732,118	154,634
Shares issued for professional services	18,000	–
	(5,634,950)	(1,437,690)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in amounts receivable	416,316	(281,533)
Decrease (increase) in share subscriptions receivable	28,877	(28,877)
Increase in prepaid expenses	(104,627)	(136,368)
Decrease (increase) in investment tax credits receivable	(264,658)	341,665
Increase (decrease) in accounts payable and accrued liabilities	(20,725)	170,236
Increase in amounts due to directors	81,705	–
Increase (decrease) in deferred revenues	(24,000)	24,000
	(5,522,062)	(1,348,567)
Financing activities		
Shares issued for net monetary assets on the reverse take-over	–	127,511
Repayment of employee loan	–	37,500
Proceeds from issuance of capital stock and warrants, net of issuance costs	6,762,394	7,747,184
Proceeds from long-term debt	970,956	835,101
Repayment of long-term debt	(67,120)	(31,151)
Proceeds from exercise of stock options	261,884	174,275
Proceeds from exercise of warrants	318,901	–
	8,247,015	8,890,420
Investing activities		
Acquisition of intangible asset	–	(446,765)
Acquisition of property and equipment	(89,209)	(31,657)
	(89,209)	(478,422)
Net change in cash and cash equivalents during the period	2,635,744	7,063,431
Cash and cash equivalents – Beginning of period	7,777,303	713,872
Cash and cash equivalents – End of period	10,413,047	7,777,303
Cash and cash equivalents are comprised of the following:		
Cash on hand and balances with banks	349,749	1,269,506
Short-term investments	10,063,298	6,507,797
	10,413,047	7,777,303
Supplementary cash flow information		
Income taxes paid	–	–
Interest paid	–	3,836

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

(Expressed in Canadian dollars)

1 Nature of operations

Immunovaccine Inc. ("Immunovaccine" or the "Company") is, through its 100% owned subsidiary ImmunoVaccine Technologies Inc., a clinical stage biotechnology company dedicated to the development of premium vaccines for therapeutic cancer and infectious diseases. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise. Immunovaccine has patented vaccine delivery and enhancement technologies trade named VacciMax® and DepoVax™ and has a number of early stage infectious disease and cancer vaccine product candidates. The Company also partners with other companies to help them develop human and animal vaccine candidates. Based in Halifax, Nova Scotia, the shares of Immunovaccine are listed on the TSX-Venture Exchange ("TSX-V") with the 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, it was not expected that any one individual would hold more than 10% of the common shares of the resulting issuer and the operations of Immunovaccine were not expected to be 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 was 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 financial statements.

(Expressed in Canadian dollars)

2 Significant accounting policies

Changes in accounting policies

Financial Instruments

In June 2009, the Accounting Standards Board ("AcSB") issued amendments to Section 3862, "Financial Instruments – Disclosures", to require enhanced disclosures about the relative reliability of the data, or "inputs", that an entity uses in measuring the fair values of its financial instruments. The new requirements were effective for annual financial statements for fiscal years ending after September 30, 2009. The additional disclosures are included in note 11.

Credit Risk and Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee ("EIC") of the Canadian AcSB issued EIC Abstract 173, "Credit Risk and Fair Value of Financial Assets and Financial Liabilities", which establishes guidance requiring an entity to consider its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. This interpretation must be applied retrospectively without restatement of prior years. The adoption of this interpretation did not have a significant impact on the Company's financial statements.

Future accounting changes

Convergence with International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian AcSB announced that Canadian generally accepted accounting principles ("GAAP") for publically accountable enterprises would be replaced by IFRS for fiscal years beginning on or after January 1, 2011. As such, the Company will be required to prepare its financial statements for the interim periods and fiscal year ends beginning in 2011, including comparative information, in compliance with IFRS.

(Expressed in Canadian dollars)

2 Significant accounting policies (continued)

Financial instruments

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 are classified as "Financial Assets Held-for-Trading". These financial assets are marked-to-market through net loss at each period end;
- 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 and amounts due to directors are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks, bank overdrafts that are repayable on demand and fluctuate frequently from being positive to being overdrawn, and highly liquid temporary investments that are readily convertible to known amounts of cash.

Amortization

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

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

Intangible asset

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

2 Significant accounting policies (continued)

Impairment of long-lived assets

Long-lived assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When events or circumstances indicate that the carrying amount of long-lived assets, other than indefinite life intangibles, are not recoverable, the long-lived assets are tested for impairment by comparing the estimate of future expected cash flows to the carrying amount of the assets or groups of assets. If the carrying value is not recoverable from future expected cash flows, any loss is measured as the amount by which the asset’s carrying value exceeds fair value and recorded in the period. Recoverability is assessed relative to undiscounted cash flows from the direct use and disposition of the asset or group of assets. Any impairment would be recognized as an expense in the period of impairment. No such impairments were noted in 2010.

Revenue recognition

Revenue from license fees is recognized based on the terms of the license agreement, when there is persuasive evidence of an arrangement, delivery or performance has occurred, the fee is fixed or determinable, and when collection is reasonably assured. The licensing arrangements may include multiple elements. Revenue arrangements with multiple elements are reviewed in order to determine whether the multiple elements can be divided into separate units of accounting. If separable, the consideration received is allocated among the separate units of accounting based on their respective fair values, and the applicable revenue recognition criteria are applied to each of the separate units. Otherwise, the applicable revenue recognition criteria are applied to combined elements as a single unit of accounting.

Deferred revenue

Revenue that has been paid for by customers but did not qualify for recognition at the end of the period under the Company’s policies is reflected as deferred revenue. Included in deferred revenue are amounts related to the provision of future services.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future tax assets and liabilities are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or when the losses are expected to be utilized. Future income tax assets are evaluated and, if realization is not considered more likely than not, a valuation allowance is provided.

2 Significant accounting policies (continued)

Research and development tax credits

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

Research and development

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

Measurement uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of certain assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities at the date of the financial statements and for the period presented. Actual results could differ significantly from those estimates and assumptions. These include but are not limited to:

- Amounts recorded for amortization and impairment of property, equipment and intangibles which depend on estimates of net recoverable amounts based on expected economic lives and future cash flows from related assets;
- Amounts recorded for investment tax credits which are calculated based on the expected eligibility and tax treatment of qualifying scientific research and experimental development expenditures recorded in the Company's financial statements;
- Contingencies are accrued on an undiscounted basis when it is probable that a liability for past events exists and the liability can be reasonably estimated. In determining whether a liability exists, the Company is required to make judgments as to the probability of a future event occurring;
- Allocation of proceeds between common shares and warrants;
- Calculation of fair value of stock-based compensation; and
- The fair value allocation of consideration for multiple element revenue arrangements.

(Expressed in Canadian dollars)

2 Significant accounting policies (continued)

Stock-based compensation plan

The Company has a stock option plan, which is described in note 8. The Canadian Institute of Chartered Accountants Handbook Section 3870, “Stock-Based Compensation and other Stock-Based Payments”, sets out a fair value based method for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

The value of options is determined using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, expected dividends on the stock, the risk-free interest rate over the expected life of the option, as well as the expected volatility of its stock over the expected life of the option. The resulting value of the options granted to employees is expensed on a straight-line basis over their vesting periods. Options granted to non-employees are measured at fair value initially when granted and re-measured at each reporting date until the measurement date is reached, which is the earliest of completion of performance, a performance commitment being achieved or when vesting occurs.

Cash consideration received from employees when options are exercised is credited to capital stock.

Foreign currency translation

Foreign currency translation of current assets and liabilities denominated in U.S. dollars is converted at the rate of exchange in effect at the balance sheet date. Income and expense items are translated at the rate of exchange in effect at the translation date. Translation gains or losses are included in determining income or loss for the period. Foreign exchange losses of $22,127 for the year ended December 31, 2010 (nine months ended December 31, 2009 - $1,312) are included in general and administrative expenses.

Government assistance

Non-repayable government assistance is recorded in the period earned as a reduction in the related qualifying expenditure. During the year ended December 31, 2010, the Company recorded $292,555 of non-repayable government grants from a number of government agencies as a reduction in related research salaries (nine months ended December 31, 2009 - $117,831). At December 31, 2010, $87,833 (December 31, 2009 - $78,856) of government assistance is included in amounts receivable.

Share issuance expense

Share issuance expenses are applied against share capital.

(Expressed in Canadian dollars)

3 Intangible asset

On July 9, 2009, the Company purchased an exclusive world-wide license for the use of certain patented antigens for $446,765. These antigens are being used in the Company's therapeutic cancer vaccine candidate, DPX-0907. Under the terms of the license, the Company must pay certain royalties on commercial revenues generated through use of the antigens. As DPX-0907 has not yet reached commercial production, the license does not have an expiry date. The Company plans to use the antigens for the foreseeable future and is therefore amortizing the cost of the license over its expected useful life of 10.5 years, which is the remaining life of the underlying patents.

During the year ended December 31, 2010, the Company recorded $39,133 (nine months ended December 31, 2009 - $16,305) of amortization of intangible asset.

			2010
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
License	446,765	55,438	391,327

			2009
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
License	446,765	16,305	430,460

(Expressed in Canadian dollars)

4 Property and equipment

			2010
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment	135,568	84,652	50,916
Furniture and equipment	48,160	35,707	12,453
Laboratory equipment	579,536	310,208	269,328
	763,264	430,567	332,697

			2009
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment	110,390	68,227	42,163
Furniture and equipment	44,287	33,078	11,209
Laboratory equipment	519,378	250,394	268,984
	674,055	351,699	322,356

During the year ended December 31, 2010, the Company recorded $78,868 (nine months ended December 31, 2009 - $55,050) of amortization of property and equipment.

5 Amounts due to directors

During the year ended December 31, 2010, the Company incurred $170,375 (nine months ended December 31, 2009 - $19,000) of director's fees and attendance fees earned by the Board of Directors who are not employees or officers of the Company. At December 31, 2010, $81,705 (December 31, 2009 - $nil) was due to these individuals.

(Expressed in Canadian dollars)

6 Long-term debt

	2010 $	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	3,751,053	3,779,461
ACOA Marketing interest-free loan, repayable in 60 equal monthly payments of $3,226 beginning November 1, 2008	109,679	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	2,960,066	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	224,688	138,190
	7,045,486	5,850,780
Less: Current portion	57,683	67,821
	6,987,803	5,782,959

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

The minimum annual principal repayments of long-term debt over the next five years, excluding the Atlantic Innovation Fund repayments for 2012 and beyond which are not determinable at this time, are as follows:

	$
Year ending December 31, 2011	57,683
2012	79,644
2013	73,187
2014	40,932
2015	40,932

(Expressed in Canadian dollars)

7 Capital stock

Authorized

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

	Number of common shares	Amount $
Issued and outstanding		
Balance – March 31, 2009	30,598,862	10,770,437
Issued for cash consideration, net of issue costs	11,813,013	7,486,997
Issued in lieu of professional and service fees	169,770	117,265
Issued on the reverse take-over	2,400,000	127,511
Stock options exercised	240,750	228,089
Balance – December 31, 2009	45,222,395	18,730,299
Issued for cash consideration, net of issue costs	7,465,100	5,171,992
Issued in lieu of professional fees	11,689	9,000
Stock options exercised	787,121	361,464
Warrants exercised	455,573	455,573
Balance – December 31, 2010	53,941,878	24,728,328

Reverse take-over

Pursuant to the reverse take-over, 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 $7,486,997 and $136,672 (note 8), respectively.

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-V, and issued to Cato 167,522 common shares of its capital stock at a price of $0.70 per share.

(Expressed in Canadian dollars)

7 Capital stock (continued)

On September 16, 2010, the Company completed a public offering of 7,465,100 units at a price of $1.00 per unit for aggregate gross proceeds of $7,465,100. Each unit consisted of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of $1.30 for a period of three years, expiring on September 16, 2013. The value allocated to the common shares issued was $5,852,638 and the value allocated to the warrants was $1,612,462. Total costs associated with the offering were $868,758, including cash costs for commissions, professional fees and regulatory costs of $702,706 and 405,006 compensation options issued as commissions to the agents, valued at $166,052. Each compensation option entitles the holder to acquire one common share of the Company at an exercise price of $1.00 for a period of two years, expiring on September 14, 2012. The Company has allocated $680,646 of the issue costs to the common shares and $188,112 of the issue costs to the warrants.

In November 2010, the Company entered into a consulting agreement with S.P.Angel Corporate Finance LLP ("S.P.Angel"), to act as corporate finance and European capital markets consultant and advisor. In consideration for the services rendered by S.P.Angel under the consulting agreement, the Company has agreed to pay to S.P.Angel a monthly fee of $9,000, payable by issuance of common shares. The number of common shares to be issued to S.P.Angel in payment of the monthly fees is determined by dividing the amount of the monthly fees by the volume-weighted average price of the common shares of the Company during the last five trading days of the relevant month. As at December 31, 2010, 11,689 shares had been issued for services provided in November, and 11,843 shares were released on January 4, 2011 for services provided in December.

As at December 31, 2010, a total of 7,954,706 shares (December 31, 2009 – 3,974,260) are reserved to meet outstanding stock options and warrants.

8 Contributed surplus

	2010 $	2009 $
Contributed surplus		
Balance, beginning of year	633,970	526,900
Stock-based compensation – stock options vested	732,118	143,634
Stock-based compensation – modification of existing options	–	11,000
Stock options exercised	(99,580)	(53,814)
Warrants expired (note 9)	–	6,250
Shares issued in lieu of professional fees (note 7)	9,000	–
Total contributed surplus	1,275,508	633,970

(Expressed in Canadian dollars)

8 Contributed surplus (continued)

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 4,500,000, inclusive of all shares presently reserved for issuance pursuant to previously granted stock options. The total number of options awarded to all consultants for the 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.

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

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

During the year ended December 31, 2010, 1,286,500 stock options (nine months ended December 31, 2009 – 1,012,000) with a weighted average exercise price of $1.04 (December 31, 2009 – $1.40) and a term of 5 years (December 31, 2009 – 5.4 years), were granted to employees and consultants. The value of these stock-options has been estimated at $720,870 (December 31, 2009 - $999,246), which is a weighted average grant date value per option of $0.56 (December 31, 2009 - $0.99), using the Black-Scholes valuation model and the following weighted average assumptions:

	2010 **$**	**2009** **$**
Risk-free interest rate	2.9%	1.7%
Expected volatility	91%	91%
Expected dividend yield	–	–
Expected life (years)	5.0	5.4

(Expressed in Canadian dollars)

8 Contributed surplus (continued)

Stock options (continued)

During the nine months ended December 31, 2009, a total of 345,750 stock options had their terms shortened to expire on March 7, 2010. These options were fully vested so there was no additional compensation charge recorded. Additionally, the vesting period for 50,000 options was accelerated resulting in an additional stock-based compensation charge of $11,000.

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

	2010		2009	
	Number	**Weighted average exercise price $**	**Number**	**Weighted average exercise price $**
Outstanding, beginning of period	3,518,687	0.81	2,715,437	0.59
Granted	1,286,500	1.04	1,012,000	1.40
Exercised	(787,121)	0.33	(208,750)	0.83
Forfeited	(200,916)	1.14	–	–
Outstanding, end of period	3,817,150	0.97	3,518,687	0.81

(Expressed in Canadian dollars)

8 Contributed surplus (continued)

Stock options (continued)

At December 31, 2010, the following options were outstanding:

Opening	Issued	Exercised	Expired	Closing	Exercisable	Exercise price per share $	Expiry	Average years remaining
22,500		(11,250)	(11,250)	–	–	0.20	March 7, 2010	–
127,500		(127,500)		–	–	0.28	March 7, 2010	–
15,000		(15,000)		–	–	0.67	March 7, 2010	–
22,000		(17,000)	(5,000)	–	–	1.00	March 7, 2010	–
133,254		(58,254)		75,000	75,000	0.28	December 31, 2013	3.00
225,000		(75,000)		150,000	150,000	0.28	March 31, 2014	3.25
82,500				82,500	82,500	0.28	April 30, 2014	3.33
67,500				67,500	67,500	0.28	August 31, 2014	3.67
22,500		(7,500)		15,000	15,000	0.28	December 31, 2014	4.00
299,783		(299,783)		–	–	0.28	March 31, 2015	–
270,000		(105,000)		165,000	165,000	0.20	March 31, 2015	4.25
87,750		(15,000)	(1,500)	71,250	71,250	0.67	March 31, 2016	5.25
7,500				7,500	7,500	0.67	July 1, 2016	5.50
300,000				300,000	300,000	0.67	December 1, 2016	5.92
154,000		(10,000)	(5,000)	139,000	139,000	1.00	March 31, 2017	6.25
10,000				10,000	10,000	1.00	July 1, 2017	6.50
326,500		(13,500)	(7,000)	306,000	306,000	1.00	March 31, 2018	7.25
333,400		(7,334)	(6,166)	319,900	319,900	1.00	March 31, 2019	8.25
75,000		(25,000)	(50,000)	–	–	0.70	September 28, 2019	–
937,000			(115,000)	822,000	548,000	1.46	December 14, 2014	3.95
	60,000			60,000	55,000	1.31	February 2, 2015	4.09
	50,000			50,000	16,666	1.26	February 23, 2015	4.15
	50,000			50,000	16,666	1.21	May 17, 2015	4.38
	50,000			50,000		1.27	July 29, 2015	4.57
	10,000			10,000	–	1.33	August 5, 2015	4.59
	35,000			35,000	–	0.91	September 20,2015	4.72
	20,000			20,000	–	0.85	November 15, 2015	4.87
	1,011,500			1,011,500	–	1.00	December 16, 2015	4.96
3,518,687	1,286,500	(787,121)	(200,916)	3,817,150	2,344,982	0.97		3.64

(Expressed in Canadian dollars)

9 Warrants

Warrant activity for the year ended December 31, 2010 and the nine months ended December 31, 2009 was as follows:

	2010			2009		
	Number	**Exercise price per warrant $**	**Amount $**	**Number**	**Exercise price per warrant $**	**Amount $**
Opening balance	455,573	0.70	136,672	145,143	1.75	–
Issued	405,006	1.00	166,052	139,714	1.17	–
	3,732,550	1.30	1,424,350	32,000	0.50	–
				455,573	0.70	136,672
Expired	–	–	–	(145,143)	1.75	–
				(139,714)	1.17	–
				(32,000)	0.50	–
Exercised	(455,573)	0.70	(136,672)	–	–	–
Closing balance	4,137,556		1,590,402	455,573		136,672

The Company incurred warrant issue costs of $152,245 in connection with the public offering on September 16, 2010. As an additional cost of the financing, the Company granted 405,006 compensation options to the broker, which entitles the holder to acquire one common share at a price of $1.00 for a period of two years, expiring on September 14, 2012. The value of these compensation options allocated to the warrants issued was $35,866.

The fair value of the warrants has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for each of the warrants granted during the year ended December 31, 2010 and the nine months ended December 31, 2009 are as follows:

	2010	**2009**
Risk free interest rate	3.00%	1.25%
Expected volatility	75%	112%
Expected dividend yield	–	–
Expected life (years)	2.9	1.0
Weighted average grant date fair value	$0.43	$0.30

(Expressed in Canadian dollars)

10 Future income taxes

a) Reconciliation between statutory and effective rate:

	2010 $	2009 $
Loss for the period	(6,503,069)	(1,663,679)
Combined basic federal and provincial income tax recovery at 34% (December 31, 2009 - 35%)	(2,211,000)	(582,000)
Effect on income taxes of:		
Non-deductible stock-based compensation	249,000	54,000
Non-recognition of operating losses and scientific research and experimental development expenditures	1,961,000	527,000
Other non-deductible items	1,000	1,000
	–	–

b) Future income taxes

The significant components of the Company's future income taxes are as follows as at December 31, 2010 and 2009:

	2010 $	2009 $
Future income tax assets:		
Non-capital loss carry forwards	3,285,000	2,190,000
Scientific research and experimental development expenditures	676,000	392,000
Deductible share issue costs	372,000	216,000
	4,333,000	2,798,000
Future income tax liabilities:		
Property and equipment	(23,000)	(32,000)
	4,310,000	2,766,000
Less: Valuation allowance	(4,310,000)	(2,766,000)
	–	–

(Expressed in Canadian dollars)

10 Future income taxes (continued)

c) Non-capital losses

As at December 31, 2010, the Company had approximately $10,580,000 in losses available to reduce future taxable income. The benefit of these losses has not been recorded in the accounts as realization is not considered more likely than not. These losses may be claimed no later than:

	$
2013	650,000
2014	500,000
2015	1,000,000
2016	1,100,000
2027	1,540,000
2028	1,720,000
2029	630,000
2030	3,440,000
	10,580,000

d) Scientific research and experimental development expenditures

In addition, the Company has approximately $2,570,000 of unclaimed scientific research and development expenditures, which may be carried forward indefinitely and used to reduce taxable income in future years. The potential income tax benefits associated with the unclaimed scientific research and experimental development expenditures have not been recognized in the accounts as realization is not considered more likely than not.

e) Investment tax credits

The Company also has approximately $520,000 in non-refundable federal investment tax credits which may be carried forward to reduce taxes payable. These tax credits will be fully expired by 2029. The benefit of these tax credits has not been recorded in the accounts as realization is not considered more likely than not.

(Expressed in Canadian dollars)

11 Capital management

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

	2010 **$**	**2009** **$**
Total debt	7,045,486	5,850,780
Less: Cash and cash equivalents	(10,413,047)	(7,777,303)
Net debt	(3,367,561)	(1,926,523)
Shareholders' equity	4,885,908	3,295,680
Total capital	1,518,347	1,369,157

The Company is in compliance with its debt covenants.

12 Financial instruments

Fair value of financial instruments

The following table sets out the approximate fair values of financial instruments as at the balance sheet date with relevant comparatives:

	2010		**2009**	
	Carrying value **$**	**Fair value** **$**	**Carrying value** **$**	**Fair value** **$**
Cash and cash equivalents	10,413,047	10,413,047	7,777,303	7,777,303
Amounts receivable	379,539	379,539	400,437	400,437
Accounts payable and accrued liabilities	700,136	700,136	720,861	720,861
Amounts due to directors	81,705	81,705	–	–

(Expressed in Canadian dollars)

12 Financial instruments (continued)

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

Fair value of items, which are short-term in nature, have been deemed to approximate their carrying value. The above noted fair values, presented for information only, reflect conditions that existed only at December 31, 2010 and 2009 and do not necessarily reflect future value or amounts which the Company might receive if it were to sell some or all of its assets to a willing buyer in a free and open market.

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Company's only financial asset or liability recorded at fair value on the balance sheets is cash and cash equivalents, which is valued based on market prices in an active market (Level 1).

Risk management

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

a) Interest rate risk

The Company has no exposure to interest rate risk on its lending and borrowing activities. All outstanding debt as at December 31, 2010 is interest free, with the vast majority only becoming repayable when revenues are earned. The remaining portion is repayable over either 60 or 72 month periods, resulting in required principal debt payments in fiscal 2011 of $57,683.

(Expressed in Canadian dollars)

12 Financial instruments (continued)

b) Credit risk

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

The total of amounts receivable disclosed in the balance sheet of $469,990 is comprised mainly of current period advances due to the Company under the ACOA AIF program, as well as sales taxes recoverable. If required, the balance is shown net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. Historically, there have been no collection issues and the Company does not believe it is subject to any significant concentration of credit risk.

c) Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations. At December 31, 2010, the Company had sufficient cash and cash equivalents to meet all of its continual liabilities for the next twelve months.

While the Company has $10,413,047 in cash and cash equivalents at December 31, 2010, it continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Company is currently not yet receiving a significant ongoing revenue stream from its animal health license agreements, nor can it be certain that it will receive significant revenue from these agreements before additional cash is required. As a result, there can be no assurance that the Company will have sufficient capital to fund its ongoing operations, develop or commercialize any of its products without future financing.

d) Currency risk

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

(Expressed in Canadian dollars)

13 Commitments

The minimum annual payments under long-term lease agreements for office premises and equipment for the next two years are as follows:

	$
Year ending December 31, 2011	3,540
2012	295

In November 2009, the Company entered into a Master Services Agreement with Cato 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-V, and issued to Cato 167,522 common shares of its capital stock at a price of $0.70 per share. The remaining portion of the Master Services Agreement requires the Company to pay Cato for further service fees as well as other direct Phase I related costs.

Under the terms of the Company's license agreement with Immunotope Inc. for the worldwide exclusive use of certain antigens, the Company was required to make an up-front payment, which has been recorded as an intangible asset (see note 3). Should the Company's research using these antigens continue and prove successful through clinical trials and on to commercialization, the Company would be required to pay certain future milestone and royalty payments along the way. The likelihood and timing of these payments is not known at this time.

On July 12, 2010, the Company entered into a License Agreement with Merck KGaA ("Merck") to in-license EMD 640744, an investigational therapeutic surviving-based cancer vaccine designed to target multiple solid tumours and hematological malignancies. As a part of the License Agreement, the Company has agreed to pay Merck an agreement milestone of EUR 1,000,000 ("Agreement Milestone") on or prior to July 31, 2011. The Company has the right to terminate this License Agreement upon sixty days' advance written notice to Merck and shall not be required to pay Merck the Agreement Milestone, if terminated prior to July 31, 2011.

14 Related party transactions

During the year ended December 31, 2010 the Company carried out the following transactions which are recorded at the exchange amount and were incurred during the normal course of operations with related parties:

a) The Company was charged $nil (nine months ended December 31, 2009 - $322,731) for legal services from law firms in which certain shareholders are principals;

b) The Company was charged interest of $nil by two directors of the Company on loans made by them to the Company (nine months ended December 31, 2009 - $3,836); and

c) The Company was charged $66,000 (nine months ended December 31, 2009 - $nil) for business development consulting fees to a non-executive director.

(Expressed in Canadian dollars)

15 Projects under development

Project A: 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 with specific antigens believed to be involved in critical tumor cell processes and is expected to kill tumor cells without injury to normal healthy cells. The Company commenced their Phase I clinical trial in March 2010.

Project B: DPX-Survivac

DPX-Survivac uses Survivin-based antigens, in-licensed from Merck KGaA on a worldwide exclusive basis, and formulated in the DepoVax™ vaccine delivery platform. Survivin is a major tumor-associated antigen over-expressed in ovarian cancer cells, making it a viable target for immunotherapy. DepoVax™ will deliver the Survivin-based antigens in a lipid-depot format designed to generate a strong and prolonged immune response. The Company began pre-clinical work on this project in October 2010.

Project A: DPX - 0907	**2010** **$**	**2009** **$**	**Cumulative since inception** **$**
Research costs expensed	1,759,551	939,821	2,699,372
Total Project Costs	1,759,551	939,821	2,699,372

Project B: DPX - Survivac	**2010** **$**	**2009** **$**	**Cumulative since inception** **$**
Research costs expensed	373,809	–	373,809
Total Project Costs	373,809	–	373,809

16 Subsequent event

On March 21, 2011, ACOA announced the Company was awarded an Atlantic Innovation Fund interest-free loan, with a maximum contribution of $2,944,000. The terms of the loan are to be determined.