

Immunovaccine Inc.

Consolidated Financial Statements
December 31, 2015

March 29, 2016

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Immunovaccine Inc. (the "Corporation") 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 International Financial Reporting Standards ("IFRS"). 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 Corporation's consolidated financial statements, and recommended their approval by the Board of Directors.

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

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



March 29, 2016

Independent Auditor's Report

To the Shareholders of Immunovaccine Inc.

We have audited the accompanying consolidated financial statements of **Immunovaccine Inc.** and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of changes in equity, loss and comprehensive loss and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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 audits 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 subsidiary as at December 31, 2015 and December 31, 2014 and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 of the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Immunovaccine Inc.'s ability to continue as a going concern.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

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Immunovaccine Inc.

Consolidated Statements of Financial Position

As at December 31, 2015 and 2014

(Expressed in Canadian dollars)

	2015 \$	2014 \$
Assets		
Current assets		
Cash and cash equivalents	3,842,408	10,662,463
Amounts receivable (note 4)	328,868	250,779
Prepaid expenses	226,965	264,285
Investment tax credits receivable	1,048,946	787,355
	<hr/> 5,447,187	<hr/> 11,964,882
Intangible asset (note 5)	207,173	234,796
Property and equipment (note 6)	<hr/> 297,708	<hr/> 248,782
	<hr/> 5,952,068	<hr/> 12,448,460
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	1,909,755	1,404,795
Amounts due to directors (note 8)	57,084	37,762
Deferred revenue	138,635	–
Current portion of long-term debt (note 9)	59,196	65,950
	<hr/> 2,164,670	<hr/> 1,508,507
Long-term debt (note 9)	<hr/> 3,718,040	<hr/> 3,126,110
	<hr/> 5,882,710	<hr/> 4,634,617
Equity	<hr/> 69,358	<hr/> 7,813,843
	<hr/> 5,952,068	<hr/> 12,448,460
Going Concern (note 1)		
Commitments (note 16)		

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

Approved on behalf of the Board of Directors

(signed) "James W. Hall", Director

(signed) "Wayne Pisano", Director

Immunovaccine Inc.

Consolidated Statements of Changes in Equity For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

	Share Capital \$ (note 10)	Contributed Surplus \$ (note 11)	Warrants \$ (note 12)	Deficit \$	Total \$
Balance, December 31, 2013	33,102,700	4,026,368	15,787	(34,554,090)	2,590,765
Net loss and comprehensive loss for the year	—	—	—	(6,567,738)	(6,567,738)
Issuance of shares in a public offering	8,802,460	—	—	—	8,802,460
Share issuance costs	(911,295)	—	—	—	(911,295)
Issuance of shares in a private placement	1,716,817	—	—	—	1,716,817
Share issuance costs	(78,198)	—	—	—	(78,198)
Issuance of warrants in a public offering	—	—	712,084	—	712,084
Warrant issuance costs	—	—	(72,489)	—	(72,489)
Issuance of broker warrants	—	—	128,546	—	128,546
Exercise of warrants	13,915	—	(6,076)	—	7,839
Employee share options:					
Value of services recognized	—	1,252,493	—	—	1,252,493
Exercise of options	628,317	(395,758)	—	—	232,559
Balance, December 31, 2014	43,274,716	4,883,103	777,852	(41,121,828)	7,813,843
Net loss and comprehensive loss for the year	—	—	—	(8,774,849)	(8,774,849)
Exercise of warrants	121,707	—	(24,477)	—	97,230
Employee share options:					
Value of services recognized	—	845,817	—	—	845,817
Exercise of options	204,134	(116,817)	—	—	87,317
Balance, December 31, 2015	43,600,557	5,612,103	753,375	(49,896,677)	69,358

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

Immunovaccine Inc.

Consolidated Statements of Loss and Comprehensive Loss For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

	2015 \$	2014 \$
Revenue	129,702	—
Expenses		
General and administrative	2,709,948	1,826,407
Research and development	4,570,047	3,544,354
Business development	1,223,171	945,054
Accreted interest and adjustments (note 9)	401,385	251,923
	<u>8,904,551</u>	<u>6,567,738</u>
Net loss and comprehensive loss for the year	<u>(8,774,849)</u>	<u>(6,567,738)</u>
Basic and diluted loss per share	<u>(0.10)</u>	<u>(0.08)</u>
Weighted-average shares outstanding	<u>91,873,227</u>	<u>83,389,672</u>

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

Immunovaccine Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

	2015 \$	2014 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(8,774,849)	(6,567,738)
Charges to operations not involving cash		
Amortization of intangible asset	27,623	39,133
Depreciation of property and equipment	72,084	63,787
Accreted interest and adjustments	401,385	251,923
Stock-based compensation	845,817	1,252,493
	(7,427,940)	(4,960,402)
Net change in non-cash working capital balances related to operations		
Increase (decrease) in amounts receivable	(78,089)	79,778
Decrease (increase) in prepaid expenses	37,320	(94,036)
Increase in investment tax credits receivable	(261,591)	(191,852)
Increase in accounts payable and accrued liabilities	504,960	293,482
Increase (decrease) increase in amounts due to directors	19,322	(25,476)
Increase in deferred revenue	138,635	–
	(7,067,383)	(4,898,506)
Financing activities		
Proceeds from issuance of shares in a public offering	–	9,514,544
Share and warrant issuance costs in a public offering	–	(855,238)
Proceeds from issuance of shares in a private placement	–	1,716,817
Share and warrant issuance costs in a private placement	–	(78,198)
Proceeds from the exercise of stock options	87,317	232,559
Proceeds from the exercise of warrants	97,230	7,839
Proceeds from long-term debt	253,700	1,589,000
Repayment of long-term debt	(69,909)	(63,432)
	368,338	12,063,891
Investing activities		
Acquisition of property and equipment	(121,010)	(38,919)
Net change in cash and cash equivalents during the year	(6,820,055)	7,126,466
Cash and cash equivalents – Beginning of year	10,662,463	3,535,997
Cash and cash equivalents – End of year	3,842,408	10,662,463
Supplementary cash flow		
Interest received	93,194	46,857

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

1 Nature of operations

Immunovaccine Inc. (the “Corporation”) is, through its 100% owned subsidiary ImmunoVaccine Technologies Inc., a clinical stage biopharmaceutical company that develops products based on its proprietary vaccine enhancement platform with a primary focus on T cell activating therapies for cancer. The Corporation also capitalizes on licensing opportunities of its platform for other applications including infectious diseases. The Corporation’s proprietary DepoVax™ adjuvanting/delivery platform is believed to produce a strong, high-quality immune response that has a specific and sustained immune effect, and enables the Corporation to pursue vaccine candidates in cancer, infectious diseases and potentially other vaccine applications. The Corporation has research collaborations with companies and research organizations, including Incyte Corporation and the National Institutes of Health (“NIH”) in the U.S. The Corporation has licensed the delivery technology to PharmAthene, Inc. to develop and commercialize an anthrax vaccine candidate and to Zoetis, formerly the animal health division of Pfizer, Inc. (“Pfizer”), for the development of vaccines for livestock. The Corporation has one reportable and geographic segment. Incorporated under the Canada Business Corporations Act and domiciled in Halifax, Nova Scotia, the shares of the Corporation are listed on the Toronto Stock Exchange (“TSX”) with the symbol “IMV” and trade on the OTCQX under the symbol “IMMVF”. The address of its principal place of business is 1344 Summer Street, Suite 412, Halifax, Nova Scotia, Canada.

Since the Corporation’s inception, the Corporation’s operations have been financed through the sale of shares, issuance of debt, revenue and cost-recoveries from license agreements, interest income on funds available for investment, government assistance and income tax credits. The Corporation has incurred significant operating losses and negative cash flows from operations since inception and has accumulated deficit of \$49,896,677 as at December 31, 2015.

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

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

2 Basis of presentation

The Corporation prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as set out in the Chartered Professional Accountants of Canada Handbook - Accounting - Part 1 (“CPA Canada Handbook”), which consist of International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors on March 29, 2016.

3 Significant accounting policies, judgments and estimation uncertainty

New and amended standards adopted by the Corporation

The following standard was adopted by the Corporation for the financial year beginning on January 1, 2014:

In May 2013, the IASB issued IFRIC 21, “Levies”, an interpretation on the accounting for levies imposed by governments. IFRIC 21 is an interpretation of IAS 37, “Provisions, contingent liabilities and contingent assets”. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard had no impact on the Corporation’s consolidated financial statements.

New standards and interpretations not yet adopted

IFRS 9 - Financial Instruments

IFRS 9, *Financial Instruments* (“IFRS 9”) introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of International Accounting Standards (“IAS”) 39, *Financial Instruments: Recognition and Measurement*, (“IAS 39”) to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets, including equity investments, are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; and (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity’s own credit risk, from financial liabilities designated under the fair value option, in other comprehensive loss, without having to adopt the remainder of IFRS 9. The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets-fair value through other comprehensive income; (ii) a single forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

New standards and interpretations not yet adopted (continued)

IAS 12 - Income Taxes

The IASB issued amendments to IAS 12, "Income Taxes" ("IAS 12") regarding the recognition of deferred tax assets for unrealized losses, effective for annual periods beginning on or after January 1, 2017. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Corporation is currently evaluating the impact of these amendments on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers

The IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") effective for annual periods beginning on or after January 1, 2017. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements.

IFRS 16 - Leases

IFRS 16, "Leases" ("IFRS 16") a new standard on lease accounting, was issued on January 13, 2016 and replaces the current guidance in IAS 17. The new standard results in substantially all lessee leases being recorded on the statement of financial position. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation is currently evaluating the impact of this new standard on the Corporation's financial statement measurements and disclosures. The Corporation does not anticipate early adoption of this standard.

Basis of measurement

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

Consolidation

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Foreign currency translation

i) Functional and presentation currency

Items included in the consolidated financial statements of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

ii) Transactions and balances

Foreign currency translation of monetary assets and liabilities, denominated in currencies other than the Corporation’s functional currency, are converted at the rate of exchange in effect at the consolidated statement of financial position date. Income and expense items are translated at the rate of exchange in effect at the transaction date. Translation gains or losses are included in determining income or loss for the year. Foreign exchange loss of \$98,670 for the year ended December 31, 2015 (2014 - \$41,249) is included in general and administrative expenses.

Cash and cash equivalents

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

Financial Instruments

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

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

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

The Corporation has implemented the following classifications:

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Impairment of financial assets

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

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

Property and equipment

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

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

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

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

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of general and administrative expenses in the consolidated statement of loss and comprehensive loss.

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 of 10.5 years on a straight-line basis.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Impairment of non-financial assets

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

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

Income tax

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

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

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

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

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

Research and development

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Revenue recognition

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

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

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

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

Deferred revenue

Revenue that has been paid for by customers but did not qualify for recognition at the end of the year under the Corporation's policies is reflected as deferred revenue.

Share capital

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

Loss per share

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

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Stock-based compensation plan

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

Government assistance

Non-repayable government assistance is recorded in the period earned as a reduction in the related qualifying expenditure. During the year ended December 31, 2015, the Corporation recorded \$168,610 of non-repayable government grants, from a number of government agencies, as a reduction in related research salaries (2014 - \$216,623). At December 31, 2015, \$43,183 (2014 - \$93,410) of government assistance, including government loans, is included in amounts receivable. Repayable government loans are recorded initially at fair value, with the difference between the book value and fair value recorded as a reduction of the related expenditures. During the year ended December 31, 2015, the Corporation recorded \$nil as a reduction of general and administrative expenditures (2014 - \$911,000) and \$52,126 as a reduction of research expenditures (2014 - \$5,400).

Research and development tax credits

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

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

Critical accounting estimates and judgments

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Critical accounting estimates and judgments (continued)

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

Atlantic Innovation Fund (“AIF”) loans

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

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

If the weighted average discount rate used in determining the initial fair value and the carrying value at each reporting date of all AIF loans, with repayment terms based on future revenue, had been determined to be higher by 10%, or lower by 10%, the carrying value of the long-term debt at December 31, 2015 would have been an estimated \$263,700 lower or \$579,100 higher, respectively. As there is no significant revenue forecasted in the near future, a 10% increase or decrease in the total forecasted revenue would not have a significant impact on the amount recorded for the AIF loans. If the total forecasted revenue were reduced to \$nil, no amounts would be forecast to be repaid on the AIF loans, and the AIF loans payable at December 31, 2015 would be recorded at \$nil, which would be a reduction in the AIF loans payable of \$569,500. If the timing of the receipt of forecasted future revenue was earlier or later by 2 years, the carrying value of the long-term debt at December 31, 2015 would have been an estimated \$389,800 higher or \$87,400 lower, respectively.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

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

Critical accounting estimates and judgments (continued)

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

Province of Nova Scotia ("The Province")

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

If the discount rate used for the Province loan had been determined to be higher or lower by 5% (resulting in discount rates of 20% or 10%, respectively), the carrying value of the long-term debt at December 31, 2015 would have been an estimated \$320,000 lower or \$364,000 higher, respectively. The difference between the book value and the initial fair value of the Province loan is recorded in the consolidated statement of loss as government assistance on initial recognition. Any changes in the amounts recorded on the consolidated statement of financial position for the Province loan result in an offsetting charge to accreted interest and adjustments after initial recognition in the consolidated statement of loss.

4 Amounts receivable

	2015 \$	2014 \$
Amounts due from government assistance and government loans	43,183	93,410
Sales tax receivable	82,070	82,246
Other	203,615	75,123
	<hr/> 328,868	<hr/> 250,779

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

5 Intangible asset

On July 9, 2009, the Corporation purchased an exclusive world-wide license for the use of certain patented antigens for \$446,765. These antigens are being used in the Corporation's therapeutic cancer vaccine candidate, DPX-0907. Under the terms of the license, the Corporation 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 Corporation plans to use the antigens for the foreseeable future and is therefore amortizing the cost of the license over its expected useful life of 14 years, which is the remaining life of the underlying patents.

	License \$
Year ended December 31, 2014	
Opening net book value	273,929
Amortization for the year	<u>(39,133)</u>
Closing net book value	<u>234,796</u>
At December 31, 2014	
Cost	446,765
Accumulated amortization	<u>(211,969)</u>
Net book value	<u>234,796</u>
Year ended December 31, 2015	
Opening net book value	234,796
Amortization for the year	<u>(27,623)</u>
Closing net book value	<u>207,173</u>
At December 31, 2015	
Cost	446,765
Accumulated amortization	<u>(239,592)</u>
Net book value	<u>207,173</u>

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

6 Property and equipment

	Computer equipment \$	Furniture and fixtures \$	Laboratory equipment \$	Total \$
Year ended December 31, 2014				
Opening net book value	23,910	28,676	221,064	273,650
Additions	19,325	4,906	14,688	38,919
Depreciation for the year	(11,879)	(6,226)	(45,682)	(63,787)
Closing net book value	31,356	27,356	190,070	248,782
At December 31, 2014				
Cost	181,951	70,319	732,096	984,366
Accumulated depreciation	(150,595)	(42,963)	(542,026)	(735,584)
Net book value	31,356	27,356	190,070	248,782
Year ended December 31, 2015				
Opening net book value	31,356	27,356	190,070	248,782
Additions	20,105	–	100,905	121,010
Depreciation for the year	(18,508)	(5,471)	(48,105)	(72,084)
Closing net book value	32,953	21,885	242,870	297,708
At December 31, 2015				
Cost	202,056	70,319	833,001	1,105,376
Accumulated depreciation	(169,103)	(48,434)	(590,131)	(807,668)
Net book value	32,953	21,885	242,870	297,708

7 Accounts payable and accrued liabilities

	2015 \$	2014 \$
Trade payables	838,924	607,192
Accrued liabilities	1,053,250	784,935
Payroll taxes	17,581	12,668
	<u>1,909,755</u>	<u>1,404,795</u>

8 Amounts due to directors

During the year ended December 31, 2015, the Corporation incurred \$298,436 (2014 - \$284,985) of directors' fees and attendance fees earned by the members of the Board of Directors who are not employees or officers of the Corporation. At December 31, 2015, \$57,084 (2014 - \$37,762) was due to these individuals. These costs are included in general and administrative expenses in the consolidated statements of loss and comprehensive loss.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

9 Long-term debt

	2015 \$	2014 \$
Atlantic Canada Opportunities Agency (“ACOA”) Atlantic Innovation Fund interest-free loan with a maximum contribution of \$3,786,474. Annual repayments, commencing December 1, 2008, are calculated as a percentage of gross revenue for the preceding fiscal year, at 2% when gross revenues are less than \$5,000,000 and 5% when gross revenues are greater than \$5,000,000. As at December 31, 2015, the amount drawn down on the loan, net of repayments, is \$3,749,531.	230,200	171,800
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of \$3,000,000. Annual repayments, commencing December 1, 2011, are calculated as a percentage of gross revenue, at 2% when gross revenues are less than \$5,000,000 and 5% when gross revenues are greater than \$5,000,000. As at December 31, 2015, the amount drawn down on the loan is \$3,000,000.	192,900	144,200
ACOA Business Development Program interest-free loan with a maximum contribution of \$245,625, repayable in 72 equal monthly payments of \$3,411 beginning September 1, 2011. As at December 31, 2015, the amount drawn down on the loan, net of repayments, is \$68,253.	64,013	101,328
ACOA Business Development Program interest-free loan with a maximum contribution of \$75,000, repayable in monthly payments beginning October 1, 2011 of \$500 until April 2012, \$1,000 until April 2013, \$1,500 until April 2014, \$2,000 until April 2015 and \$3,333 until August 2015. As at December 31, 2015, this loan has been fully repaid.	–	19,832
ACOA Business Development Program interest-free loan with a maximum contribution of \$394,826, repayable in monthly payments beginning October 1, 2015 of \$2,500 until October 2017 and \$5,850 until September 2022. As at December 31, 2015, the amount drawn down on the loan is \$387,326.	333,723	83,600
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of \$2,944,000, annual repayments commencing September 1, 2014, are calculated as a percentage of gross revenue from specific product(s), at 5% for the first 5 year period and 10%, thereafter. As at December 31, 2015, the amount drawn down on the loan is \$2,944,000.	146,400	139,300
Province of Nova Scotia “The Province” secured loan with a maximum contribution of \$5,000,000, interest bearing at a rate equal to the Province’s cost of funds plus 1%, compounded semi-annually and payable monthly. The loan is made available in four equal installments based on the Corporation meeting certain milestones, and is repayable on the fifth anniversary date of the first disbursement. The Corporation and its subsidiary have provided a general security agreement granting a first security interest in favour of the Province of Nova Scotia in and to all the assets of the Corporation and its subsidiary, including the intellectual property. As at December 31, 2015, the amount drawn down on the loan is \$3,750,000.	2,810,000	2,532,000
	<u>3,777,236</u>	<u>3,192,060</u>
Less: Current portion	59,196	65,950
	<u>3,718,040</u>	<u>3,126,110</u>

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

9 Long-term debt (continued)

Total contributions received less amounts that have been repaid as at December 31, 2015 is \$13,899,110 (2014 - \$13,663,193).

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

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

The minimum annual principal repayments of long-term debt over the next five years, excluding the Atlantic Innovation Fund repayments for 2017 and beyond which are not determinable at this time, are as follows:

	\$	
Year ending December 31, 2016	59,196	
2017	52,439	
2018	2,865,464	
2019	58,143	
2020	60,821	
	2015	2014
	\$	\$
Balance – Beginning of year	3,192,060	1,330,969
Borrowings, net of \$52,126 (2014 - \$916,400) allocated to government assistance	253,700	1,672,600
Accreted interest	401,385	251,923
Repayment of debt	(69,909)	(63,432)
Balance – End of year	3,777,236	3,192,060
Less: Current portion	59,196	65,950
Non-current portion	<u>3,718,040</u>	<u>3,126,110</u>

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

10 Share capital

Authorized

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

	Number of common shares	Amount \$
Issued and outstanding		
Balance – December 31, 2013	79,098,923	33,102,700
Issued for cash consideration, net of issuance costs	11,910,369	9,529,784
Issued in lieu of professional fees	693,785	628,317
Stock options exercised	19,600	13,915
Balance – December 31, 2014	91,722,677	43,274,716
Stock options exercised	206,668	204,134
Warrants exercised	111,325	121,707
Balance – December 31, 2015	92,040,670	43,600,557

On September 4, 2014, the Corporation completed a public offering of 10,002,795 units at a price of \$0.95 per unit, for aggregate proceeds of \$9,502,655. 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 Corporation at an exercise price of \$1.24 for a period of 18 months, expiring on March 4, 2016. The value allocated to the common shares issued was \$8,802,460 and the value allocated to the warrants was \$700,195. In addition, 191,750 common share purchase warrants were purchased for additional gross proceeds of \$11,889, resulting in total gross proceeds of \$9,514,544 under the public offering. Total costs associated with the offering were \$983,784, including cash costs for commissions of \$555,085, professional fees and regulatory costs of \$300,153 and 584,298 compensation options issued as commissions to the agents valued at \$128,546. Each compensation option entitles the holder to acquire one common share of the Corporation at an exercise price of \$0.95 for a period of 18 months, expiring on March 4, 2016. The Corporation has allocated \$911,295 of the issue costs to the common shares and \$72,489 of the issue costs to the warrants.

In connection with the public offering on September 4, 2014, the Corporation completed a private placement of 1,907,574 shares at a price of \$0.90 per share for aggregate gross proceeds of \$1,716,817. Total costs associated with this offering were \$78,198, including finder's fees of \$69,614, paid in cash. The remaining costs of \$8,584 were associated with professional and regulatory fees.

As at December 31, 2015, a total of 10,809,828 shares (2014 – 10,733,571) are reserved to meet outstanding stock options and warrants.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

11 Contributed surplus

	Amount \$
Contributed surplus	
Balance – December 31, 2013	4,026,368
Share-based compensation – stock options vested	1,252,493
Stock options exercised	<u>(395,758)</u>
Balance – December 31, 2014	4,883,103
Share-based compensation – stock options vested	845,817
Stock options exercised	<u>(116,817)</u>
Balance – December 31, 2015	<u>5,612,103</u>

Stock options

The Board of Directors of the Corporation has established a stock option plan (the "Plan") under which options to acquire common shares of the Corporation are granted to directors, employees and other advisors of the Corporation. The maximum number of common shares issuable under the Plan shall not exceed 9,100,000, inclusive of all shares presently reserved for issuance pursuant to previously granted stock options. 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, however the majority of options expire in five years. The vesting of the options is determined by the Board and is typically 33 1/3% every six months after the date of grant.

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

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

11 Contributed surplus (continued)

Stock options (continued)

The fair values of stock options are estimated using the Black-Scholes option pricing model. During the year ended December 31, 2015, 1,527,500 stock options (2014 – 2,231,500) with a weighted average exercise price of \$0.70 (2014 – \$0.74) and a term of 5 years (2014 – 5 years), were granted to employees and consultants. The expected volatility of these stock options was determined using historical volatility rates. The value of these stock options has been estimated at \$887,623 (2014 - \$1,450,475), which is a weighted average grant date value per option of \$0.58 (2014 - \$0.65), using the Black-Scholes valuation model and the following weighted average assumptions:

	2015	2014
Risk-free interest rate	2.98%	3.00%
Expected volatility	129%	123%
Expected dividend yield	—	—
Expected life (years)	4.3	4.49
Forfeiture rate	4%	4%

Option activity for the year ended December 31, 2015 and 2014 was as follows:

	2015		2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding - Beginning of year	4,733,050	0.69	3,793,685	0.67
Granted	1,527,500	0.70	2,231,500	0.74
Exercised	(206,668)	0.42	(693,785)	0.34
Expired	(891,500)	0.91	(587,117)	1.16
Forfeited	(50,000)	0.66	(11,233)	0.48
Outstanding - End of year	<u>5,112,382</u>	<u>0.66</u>	<u>4,733,050</u>	<u>0.69</u>

The weighted average exercise price of options exercisable at December 31, 2015 is \$0.65 (2014 – \$0.67).

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

11 Contributed surplus (continued)

Stock options (continued)

At December 31, 2015, the following options were outstanding:

Opening	Issued	Exercised	Expired	Forfeited	Closing	Exercisable	Exercise price per share \$	Expiry	Average years remaining
50,000	—	—	(50,000)	—	—	—	1.26	February 23, 2015	—
82,500	—	(45,000)	(37,500)	—	—	—	0.20	March 31, 2015	—
50,000	—	—	(50,000)	—	—	—	1.27	July 29, 2015	—
10,000	—	—	(10,000)	—	—	—	1.33	August 5, 2015	—
35,000	—	—	(35,000)	—	—	—	0.91	September 20, 2015	—
20,000	—	—	(20,000)	—	—	—	0.85	November 15, 2015	—
554,000	—	—	(554,000)	—	—	—	1.00	December 16, 2015	—
69,750	—	(15,000)	—	—	54,750	54,750	0.67	March 31, 2016	0.25
7,500	—	—	—	—	7,500	7,500	0.67	July 1, 2016	0.50
50,000	—	—	—	—	50,000	50,000	0.55	August 26, 2016	0.65
50,000	—	—	—	—	50,000	50,000	0.45	November 8, 2016	0.86
657,500	—	(35,000)	—	—	622,500	622,500	0.40	March 9, 2017	1.19
79,000	—	—	—	—	79,000	79,000	1.00	March 31, 2017	1.25
50,000	—	—	(50,000)	—	—	—	0.30	May 28, 2017	1.41
10,000	—	—	—	—	10,000	10,000	1.00	July 1, 2017	1.50
129,000	—	—	—	—	129,000	129,000	1.00	March 31, 2018	2.25
463,400	—	(61,668)	(35,000)	—	366,732	366,732	0.28	April 30, 2018	2.33
1,776,500	—	(50,000)	(50,000)	—	1,676,500	1,360,167	0.74	January 17, 2019	3.05
138,900	—	—	—	—	138,900	138,900	1.00	March 31, 2019	3.25
400,000	—	—	—	—	400,000	400,000	0.71	August 14, 2019	3.62
50,000	—	—	—	—	50,000	33,333	0.79	September 25, 2019	3.74
—	1,277,500	—	—	(50,000)	1,227,500	409,167	0.66	February 2, 2020	4.09
—	250,000	—	—	—	250,000	83,333	0.88	April 27, 2020	4.33
4,733,050	1,527,500	(206,668)	(891,500)	(50,000)	5,112,382	3,794,382			

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

12 Warrants

Warrant activity for the years ended December 31, 2015 and 2014 was as follows:

	2015			2014		
	Number	Exercise price per warrant \$	Amount \$	Number	Exercise price per warrant \$	Amount \$
Opening balance	5,808,771	1.17	777,852	50,925	0.40	15,787
Expired	—	—	—	—	—	—
Exercised	(111,325)	0.87	(24,477)	(19,600)	0.40	(6,076)
Granted	—	—	—	5,777,446	1.17	768,141
Closing balance	5,697,446		753,375	5,808,771	1.17	777,852

The fair values of warrants are estimated using the Black-Scholes option pricing model. The weighted average grant date value per warrant of warrants issued in 2014 was \$0.13, determined using the Black-Scholes valuation model and the following weighted average assumptions:

Risk-free interest rate	3.00%
Expected volatility	55%
Expected dividend yield	—
Expected life (years)	1.5

No warrants were issued during 2015.

13 Deferred income taxes

a) Reconciliation of total tax recovery

The effective rate on the Corporation's loss before income tax differs from the expected amount that would arise using the statutory income tax rates. A reconciliation of the difference is as follows:

	2015 \$	2014 \$
Loss before income taxes	(8,774,849)	(6,567,738)
Income tax rate	31.0%	31.0%
	(2,720,000)	(2,036,000)
Effect on income taxes of:		
Non-deductible share-based compensation	262,000	388,000
Unrecognized deductible temporary difference and carry forward amounts and experimental development expenditures	2,440,000	1,647,000
Other non-deductible items	18,000	1,000
Income tax recovery	—	—

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

13 Deferred income taxes (continued)

b) Deferred income tax

The significant components of the Corporation's deferred income tax are as follows:

	2015 \$	2014 \$
Deferred income tax liabilities:		
Intangibles	(59,000)	14,000
Deferred income tax assets:		
Non-capital losses	59,000	(14,000)
Net deferred income tax liability	<u>—</u>	<u>—</u>

The following reflects the balance of temporary differences for which no deferred income tax asset has been recognized:

	2015 \$	2014 \$
Non-capital losses	33,100,000	25,600,000
Scientific research and experimental development expenditures	8,360,000	6,543,000
Non-refundable investment tax credits	2,077,000	1,743,000
Deductible share issuance costs	820,000	1,303,000
Long-term debt	3,458,000	2,987,000
Property and equipment	210,000	45,000

c) Non-capital losses

As at December 31, 2015, the Corporation had approximately \$33,300,000 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 probable. These losses may be claimed no later than:

	\$
For the year ending December 31, 2025	1,000,000
2026	1,100,000
2027	1,470,000
2028	1,770,000
2029	660,000
2030	2,640,000
2031	5,180,000
2032	4,110,000
2033	4,270,000
2034	3,400,000
2035	7,700,000
	<u>33,300,000</u>

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

13 Deferred income taxes (continued)

d) Scientific research and experimental development expenditures

The Corporation has approximately \$8,360,000 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 probable.

e) Non-refundable investment tax credits

The Corporation also has approximately \$2,077,000 in non-refundable federal investment tax credits which may be carried forward to reduce taxes payable. These tax credits will be fully expired by 2035. The benefit of these tax credits has not been recorded in the accounts as realization is not considered probable.

14 Capital management

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

	2015 \$	2014 \$
Total debt	3,777,236	3,192,060
Less: Cash and cash equivalents	(3,842,408)	(10,662,463)
Net debt	(65,172)	(7,470,403)
Equity	69,358	7,813,843
Total capital	4,186	343,440

The Corporation is in compliance with its debt covenants.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

15 Financial instruments

Fair value of financial instruments

Financial instruments are defined as a contractual right or obligation to receive or deliver cash on another financial asset.

The following table sets out the approximate fair values of financial instruments as at the consolidated statements of financial position date with relevant comparatives:

	2015		2014	
	Carrying value \$	Fair value \$	Carrying value \$	Fair value \$
Cash and cash equivalents	3,842,408	3,842,408	10,662,463	10,662,463
Amounts receivable	246,798	246,798	79,533	79,533
Accounts payable and accrued liabilities	1,892,174	1,892,174	1,392,127	1,392,127
Amounts due to directors	57,084	57,084	37,762	37,762
Long-term debt	3,777,236	3,777,236	3,192,060	3,192,060

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

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, 2015, and do not necessarily reflect future value or amounts which the Corporation might receive if it were to sell some or all of its assets to a willing buyer in a free and open market.

The fair value of the long-term debt is estimated based on the expected interest rates for similar borrowings by the Corporation at the consolidated statements of financial position dates. At December 31, 2015, the fair value is estimated to be equal to the carrying amount.

Risk management

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

a) Interest rate risk

The Corporation has limited exposure to interest rate risk on its lending and borrowing activities. The Corporation has a significant loan in which the interest rate is dependent on the cost of funds from the lender plus 1%. This interest rate is fixed at the time that each loan disbursement is made, resulting in limited variability to the interest rate. The total amount drawn down on the loan as at December 31, 2015 is \$3,750,000 (2014 - \$3,750,000) and the Corporation is required to make interest payments in fiscal 2016 of \$120,762.

The Corporation also has interest-free debt that is repayable over 60, 72, or 84 months periods, resulting in required principal debt payments in fiscal 2016 of \$70,932. The remaining outstanding debt as at December 31, 2016 is interest-free, only becoming repayable when revenues are earned. The Corporation is required to make principal debt payments in fiscal 2016 of \$5,188.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

15 Financial instruments (continued)

Risk management (continued)

b) Credit risk

Credit risk arises from cash and cash equivalents and amounts receivable. The Corporation invests excess cash in high-interest savings accounts or in highly liquid temporary investments of Schedule 1 Canadian 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 consolidated statements of financial position as at December 31, 2015 of \$328,868 (2014 - \$250,779) is comprised mainly of current period advances due to the Corporation for government assistance programs and cost-recoveries from third party partners, as well as sales taxes recoverable. If required, the balance is shown net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. Historically, there have been no collection issues and the Corporation does not believe it is subject to any significant concentration of credit risk.

c) Liquidity risk

Liquidity risk represents the possibility that the Corporation may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations.

While the Corporation has \$3,842,408 in cash and cash equivalents at December 31, 2015, it continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Corporation is currently not yet receiving a significant ongoing revenue stream from its license agreements, nor can it be certain that it will receive significant revenue from these agreements before additional cash is required. As a result, there can be no assurance that the Corporation will have sufficient capital to fund its ongoing operations, and develop or commercialize any of its products without future financing. See note 1 for further details.

The following table outlines the contractual maturities for long-term debt repayable based on a percentage of revenues for the Corporation's financial liabilities. The long-term debt is comprised of the contributions received described in note 9, less amounts that have been repaid as at December 31, 2015:

					2015
	Total	Year 1	Years 2 to 3	Years 4 to 5	After 5 years
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,909,755	1,909,755	-	-	-
Amounts due to directors	57,084	57,084	-	-	-
Long-term debt	14,231,205	196,882	4,094,854	133,920	9,805,549
Operating leases	96,612	95,789	823	-	-
	16,294,656	2,259,510	4,095,677	133,920	9,805,549

The above amounts include interest payments, where applicable.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

15 Financial instruments (continued)

Risk management (continued)

d) Currency risk

The Corporation 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 Corporation 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.

Foreign exchange loss of \$98,670 for the year ended December 31, 2015 (2014, foreign exchange loss - \$41,249) are included in general and administrative expenses. If the foreign exchange had been 1% higher/lower, with all other variables held constant, it would have had an immaterial impact on the foreign exchange gain/loss.

16 Commitments

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

	\$
Year ending December 31, 2016	95,789
2017	823

Under the terms of the Corporation's 2009 license agreement with Immunotope Inc. for the world-wide exclusive use of certain antigens, the Corporation was required to make an up-front payment, which has been recorded as an intangible asset (see note 5). Should the Corporation's research using these antigens continue and prove successful through clinical trials and on to commercialization, the Corporation would be required to pay certain future milestones and royalty payments along the way. The likelihood and timing of these payments is not known at this time.

On July 12, 2010, the Corporation entered into a License Agreement with Merck KGaA to in-license EMD 640744, an investigational therapeutic Survivin-based cancer antigen designed to target multiple solid tumors and hematological malignancies. Should the Corporation's research using these antigens continue and prove successful through clinical trials and on to commercialization, the Corporation would be required to pay certain future milestones and royalty payments along the way. The likelihood and timing of these payments is not known at this time.

17 Related party transactions

During the year ended December 31, 2015, the Corporation was charged \$nil (2014 - \$198,531) for business development consulting fees by a non-executive director. The non-executive director resigned from the Board of Directors on September 25, 2014. As at December 31, 2015, there are no related party receivables.

Immunovaccine Inc.

Notes to the Consolidated Financial Statements For the years ended December 31, 2015 and 2014

(Expressed in Canadian dollars)

18 Expenses by nature

	2015 \$	2014 \$
Salaries, wages and benefits	2,453,491	2,106,664
Other research and development expenditures, including clinical costs	3,027,404	1,619,134
Professional and consulting fees	1,026,689	1,726,058
Travel	353,811	172,857
Office, rent and telecommunications	325,998	317,885
Insurance	116,401	70,527
Marketing, communications and investor relations	525,065	322,404
Amortization	27,623	39,133
Depreciation	72,084	63,787
Stock-based compensation	845,817	1,252,493
Other	266,119	4,096
Accreted interest	401,385	251,923
Research and development tax credits	(316,600)	(246,200)
Government assistance	(220,736)	(1,133,023)
	<u>8,904,551</u>	<u>6,567,738</u>

19 Compensation of key management

Key management includes the Corporation's Directors, the Chief Executive Officer, the Chief Financial Officer, the Chief Business Officer and the former Chief Operating Officer. Compensation awarded to key management is summarized as follows:

	2015 \$	2014 \$
Salaries and other benefits	1,033,741	765,519
Stock-based compensation	558,247	995,156
	<u>1,591,988</u>	<u>1,760,675</u>

20 Subsequent event

On January 21, 2016, the Corporation granted 1,393,200 stock options to employees and officers. Each stock option is exercisable for one common share at an exercise price of \$0.74 per option and expires on January 21, 2021.