

Immunovaccine Inc.

Unaudited Interim Consolidated Financial Statements
September 30, 2010

Immunovaccine Inc.

Unaudited Consolidated Balance Sheets

As at September 30, 2010 and December 31, 2009

(Expressed in Canadian dollars)

	September 30, 2010 \$	December 31, 2009 \$
Assets		
Current assets		
Cash and cash equivalents	11,657,006	7,777,303
Amounts receivable	388,941	595,436
Share subscription receivable	—	28,877
Prepaid expenses	226,331	183,441
Investment tax credits receivable	777,448	553,448
	<u>13,049,426</u>	<u>9,138,505</u>
Intangible asset	401,110	430,460
Property and equipment	<u>344,570</u>	<u>322,356</u>
	<u>13,795,406</u>	<u>9,891,321</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	732,556	720,861
Current portion of long-term debt (note 3)	70,531	67,821
Deferred revenues	6,000	24,000
	<u>809,087</u>	<u>812,682</u>
Long-term debt (note 3)	<u>6,721,855</u>	<u>5,782,959</u>
	<u>7,530,942</u>	<u>6,595,641</u>
Shareholders' Equity		
Capital stock (note 4)	24,545,877	18,730,299
Contributed surplus and other (note 5)	1,132,826	633,970
Warrants (note 5)	1,590,402	136,672
Deficit	<u>(21,004,641)</u>	<u>(16,205,261)</u>
	<u>6,264,464</u>	<u>3,295,680</u>
	<u>13,795,406</u>	<u>9,891,321</u>
Nature of operations (note 1)		

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

Approved on behalf of the Board of Directors

Immunovaccine Inc.

Unaudited Interim Consolidated Statements of Loss, Comprehensive Loss and Deficit For the three and nine month periods ended September 30, 2010 and 2009

(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	6,000	448,871	70,105	448,871
Expenses				
General and administrative	422,185	285,899	1,310,756	882,791
Research and development	857,091	405,742	2,478,534	1,649,741
Business development	226,733	212,381	749,228	406,901
Stock-based compensation	173,157	28,816	554,967	68,683
	1,679,166	932,838	5,093,485	3,008,116
Loss from operations	(1,673,166)	(483,967)	(5,023,380)	(2,559,245)
Investment tax credits	(174,000)	(80,000)	(224,000)	(234,750)
Net loss and comprehensive loss for the period	(1,499,166)	(403,967)	(4,799,380)	(2,324,495)
Deficit – Beginning of period	(19,505,475)	(15,455,212)	(16,205,261)	(13,534,684)
Deficit – End of period	(21,004,641)	(15,859,179)	(21,004,641)	(15,859,179)
Basic and diluted loss per share	(0.03)	(0.01)	(0.10)	(0.08)
Weighted-average shares outstanding	46,777,459	30,755,599	45,829,833	30,650,976

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

Immunovaccine Inc.

Unaudited Interim Consolidated Statements of Cash Flows

For the three and nine month periods ended September 30, 2010 and 2009

(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(1,499,166)	(403,967)	(4,799,380)	(2,324,495)
Charges to operations not involving cash				
Amortization of intangible asset	9,784	–	29,350	–
Amortization of property and equipment	20,613	18,593	58,425	64,179
Stock-based compensation	173,157	28,816	554,967	68,683
Shares issued for professional services	–	–	–	3,872
	(1,295,612)	(356,558)	(4,156,638)	(2,187,761)
Net change in non-cash working capital balances related to operations				
Decrease (increase) in amounts receivable	(27,326)	(61,095)	138,915	556,014
Decrease (increase) in prepaid expenses	(12,583)	(21,171)	(42,890)	5,904
Decrease (increase) in investment tax credits receivable	(174,000)	441,665	(224,000)	490,927
Increase (decrease) in accounts payable and accrued liabilities	162,646	621,328	7,279	716,666
Increase (decrease) in deferred revenues	(6,000)	–	(18,000)	–
	(1,352,875)	624,169	(4,295,334)	(418,250)
Financing activities				
Proceeds from long-term debt	175,485	264,959	1,038,220	953,064
Repayment of long-term debt	(9,678)	(9,678)	(29,034)	(29,034)
Proceeds from exercise of stock options	54,217	–	134,034	–
Proceeds from collection of share subscriptions receivable	–	–	28,877	–
Advances from shareholders	–	400,000	–	400,000
Proceeds from exercise of warrants	318,901	–	318,901	–
Issuance of common shares and warrants	7,465,100	–	7,465,100	–
Shares and warrant issuance costs	(700,422)	–	(700,422)	–
	7,303,603	655,281	8,255,676	1,324,030
Investing activities				
Acquisition of property and equipment and intangible asset	(11,549)	(440,776)	(80,639)	(482,387)
Net change in cash and cash equivalents during the period	5,939,179	838,674	3,879,703	423,393
Cash and cash equivalents – Beginning of period	5,717,827	239,941	7,777,303	655,222
Cash and cash equivalents – End of period	11,657,006	1,078,615	11,657,006	1,078,615
Cash and cash equivalents are comprised of the following:				
Cash on hand and balances with banks	1,806,497	309,740	1,806,497	309,740
Short-term investments	9,850,509	768,875	9,850,509	768,875
	11,657,006	1,078,615	11,657,006	1,078,615
Supplementary cash flow information				
Interest received (paid)	9,801	18,767	23,293	18,767

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

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

1 Nature of operations

Immunovaccine Inc. (“Immunovaccine” or the “Company”) (formerly Rhino Resources Inc.) is, through its 100% owned subsidiary ImmunoVaccine Technologies Inc., a clinical stage biotechnology company dedicated to the development of premium vaccines for therapeutic cancer and infectious diseases. Immunovaccine has patented vaccine delivery and enhancement technologies trade named VacciMax® and DepoVax™ and has a number of early stage infectious disease and cancer vaccine product candidates. The Company also partners with other companies to help them to develop human and animal vaccine candidates. Based in Halifax, Nova Scotia, the shares of Immunovaccine are listed on the TSX-Venture Exchange (“TSX-V”) – 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. The resulting issuer and the operations of the Company were not altered significantly based on this transaction.

Basis of presentation

Upon completion of the reverse take-over, as the former IVT shareholders owned the majority of the common shares of Rhino, the transaction 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. As of September 30, 2009, the deemed reverse take-over date, the operations of Rhino were consolidated in these Immunovaccine interim financial statements.

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

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

1 Nature of operations (continued)

Interim financial statements

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

2 Significant accounting policies

Future accounting changes

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

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

International Financial Reporting Standards (“IFRS”)

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

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

3 Long-term debt

	September 30, 2010 \$	December 31, 2009 \$
Atlantic Canada Opportunities Agency (“ACOA”) Atlantic Innovation Fund interest-free loan with a maximum contribution of \$3,786,474. Annual principal repayments, commencing December 1, 2008, are calculated as a percentage of gross revenue for the preceding fiscal year, at 2% when gross revenues are less than \$5,000,000 and 10% when gross revenues are greater than \$5,000,000	3,779,461	3,779,461
ACOA Marketing interest-free loan repayable in 60 equal monthly payments of \$3,226 beginning November 1, 2008	119,357	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	2,699,684	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	193,884	138,190
	<u>6,792,386</u>	<u>5,850,780</u>
Less: Current portion	<u>70,531</u>	<u>67,821</u>
	<u>6,721,855</u>	<u>5,782,959</u>

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

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

4 Capital stock

Authorized

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

	Number of common shares	Consideration \$
Issued and outstanding		
Balance – March 31, 2009	30,598,862	10,770,437
Issued for cash consideration, net of issue costs	11,980,535	7,604,262
Issued in lieu of professional fees	2,248	–
Shares issued pursuant to 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	5,169,860
Stock options exercised	309,084	190,145
Warrants exercised	455,573	455,573
Balance – September 30, 2010	53,452,152	24,545,877

Reverse take-over

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

Private placements

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

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

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

4 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 \$870,890, including cash costs for commissions, professional fees and regulatory costs of \$704,838 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 \$682,778 of the issue costs to the common shares and \$188,112 of the issue costs to the warrants.

5 Contributed surplus and other

	September 30, 2010 \$	December 31, 2009 \$
Balance – Beginning of period	633,970	526,900
Stock-based compensation – stock options vested	554,967	143,634
Stock-based compensation – modification of existing options	–	11,000
Stock options exercised	(56,111)	(53,814)
Warrants expired (note 5 (b))	–	6,250
Total contributed surplus and other	1,132,826	633,970

a) Stock options

The Board of Directors of the Company established a stock option plan (the "Plan") under which options to acquire common shares of the Company may be granted to directors, officers, employees and other consultants of the Company. The maximum number of common shares issuable under the Plan shall not exceed 10 percent (10%) of the issued common shares of the Company, inclusive of all shares presently reserved for issuance pursuant to previously granted stock options. The total number of options awarded to all consultants for the Company shall not exceed 5% of the issued and outstanding common shares of the Company at the award date. If any option expires or otherwise terminates for any reason without having been exercised in full, or if any option is exercised in whole or in part, the number of shares in respect of which option expired, terminated or was exercised shall again be available for the purposes of the Plan.

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

5 Contributed surplus and other (continued)

a) Stock options (continued)

During the nine months ended September 30, 2010, 255,000 stock options (nine months ended December 31, 2009 - 1,012,000) with a weighted average exercise price of \$1.22 (nine months ended December 31, 2009 - \$1.40) and a term of 5 years (nine months ended December 31, 2009 - 5.4 years), were granted to officers, directors, employees and consultants. The value of these stock options has been estimated at \$223,350 (nine months ended December 31, 2009 - \$999,246), which is an estimated weighted average grant date fair value per option of \$0.88 (nine months ended December 31, 2009 - \$0.99), using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2010 \$	December 31, 2009 \$
Risk-free interest rate	2.54%	1.70%
Expected volatility	94%	91%
Expected dividend yield	0%	0%
Expected life (years)	5	5.4

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

	September 30, 2010		December 31, 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	255,000	1.22	1,012,000	1.40
Exercised	(309,084)	0.43	(208,750)	0.83
Expired/forfeited	(180,749)	1.15	–	–
Outstanding – End of period	<u>3,283,854</u>	0.86	<u>3,518,687</u>	0.81

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

5 Contributed surplus and other (continued)

a) Stock options (continued)

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

Opening	Issued	Exercised	Expired/ forfeited	Closing	Exercisable	Exercise price per share \$	Expiry	Average years remaining
22,500	—	(11,250)	(11,250)	—	—	0.20	March 7, 2010	0.0
127,500	—	(127,500)	—	—	—	0.28	March 7, 2010	0.0
15,000	—	(15,000)	—	—	—	0.67	March 7, 2010	0.0
22,000	—	(17,000)	(5,000)	—	—	1.00	March 7, 2010	0.0
133,254	—	(7,500)	—	125,754	125,754	0.28	December 31, 2013	3.3
225,000	—	(30,000)	—	195,000	195,000	0.28	March 31, 2014	3.5
82,500	—	—	—	82,500	82,500	0.28	April 30, 2014	3.6
67,500	—	—	—	67,500	67,500	0.28	August 31, 2014	3.9
22,500	—	—	—	22,500	22,500	0.28	December 31, 2014	4.3
299,783	—	—	—	299,783	299,783	0.28	March 31, 2015	4.5
270,000	—	(30,000)	—	240,000	240,000	0.20	March 31, 2015	4.5
87,750	—	(15,000)	—	72,750	72,750	0.67	March 31, 2016	5.5
7,500	—	—	—	7,500	7,500	0.67	July 1, 2016	5.7
300,000	—	—	—	300,000	300,000	0.67	December 1, 2016	6.2
154,000	—	(10,000)	—	144,000	144,000	1.00	March 31, 2017	6.5
10,000	—	—	—	10,000	10,000	1.00	July 1, 2017	6.8
326,500	—	(13,500)	—	313,000	313,000	1.00	March 31, 2018	7.5
333,400	—	(7,334)	(4,499)	321,567	321,567	1.00	March 31, 2019	8.5
75,000	—	(25,000)	(50,000)	—	—	0.70	September 14, 2019	0.0
937,000	—	—	(110,000)	827,000	279,000	1.46	December 14, 2014	4.5
—	60,000	—	—	60,000	30,000	1.31	February 1, 2015	4.3
—	50,000	—	—	50,000	16,666	1.26	February 22, 2015	1.4
—	50,000	—	—	50,000	—	1.21	May 17, 2015	4.6
—	50,000	—	—	50,000	—	1.27	July 29, 2015	4.8
—	10,000	—	—	10,000	—	1.33	August 5, 2015	4.8
—	35,000	—	—	35,000	—	0.91	September 20, 2015	4.9
3,518,687	255,000	(309,084)	(180,749)	3,283,854	2,527,520	0.86		4.3

Immunovaccine Inc.

Notes to Unaudited Interim Consolidated Financial Statements

For the period ended September 30, 2010

(Expressed in Canadian dollars)

5 Contributed surplus and other (continued)

b) Warrants

	Opening	Issued	Exercised	Expired	Closing	Exercise price per warrant \$	Expiry
Broker warrants	455,573	–	(455,573)	–	–	0.70	September 30, 2010
Compensation options	–	405,006	–	–	405,006	1.00	September 14, 2012
Warrants	–	3,732,550	–	–	3,732,550	1.30	September 16, 2013
	<u>455,573</u>	<u>4,137,556</u>	<u>(455,573)</u>	<u>–</u>	<u>4,137,556</u>		
Total value					<u>\$1,590,402</u>		

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 nine months ended September 30, 2010 and the nine months ended December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
Risk free interest rate	3.00%	1.25%
Expected volatility	75%	112 %
Expected dividend yield	0%	0%
Expected life (years)	2.9	1
Weighted average grant date fair value	\$0.43	\$0.30

6 Related party transactions

During the nine month period ended September 30, 2010, the Company incurred technical consulting fees of \$48,000 to a non-executive Director.