

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated
Financial Statements
September 30, 2015

November 12, 2015

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed consolidated financial statements of Immunovaccine Inc. (the "Corporation") are the responsibility of management and have been approved by the Board of Directors. The unaudited interim condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The unaudited interim condensed consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgement.

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 unaudited interim condensed consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Corporation's unaudited interim condensed consolidated financial statements, and recommended their approval by the Board of Directors.

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

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

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Financial Position As at September 30, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	September 30, 2015 \$	December 31, 2014 \$
Assets		
Current assets		
Cash and cash equivalents	5,338,821	10,662,463
Amounts receivable	255,049	250,779
Prepaid expenses	267,338	264,285
Investment tax credits receivable	1,006,455	787,355
	<u>6,867,663</u>	<u>11,964,882</u>
Intangible asset	214,079	234,796
Property and equipment (note 4)	<u>310,164</u>	<u>248,782</u>
	<u>7,391,906</u>	<u>12,448,460</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,108,620	1,404,795
Amounts due to directors	54,210	37,762
Deferred revenue	194,555	–
Current portion of long-term debt (note 5)	53,300	65,950
	<u>1,410,685</u>	<u>1,508,507</u>
Long-term debt (note 5)	<u>3,624,496</u>	<u>3,126,110</u>
	5,035,181	4,634,617
Equity	<u>2,356,725</u>	<u>7,813,843</u>
	<u>7,391,906</u>	<u>12,448,460</u>

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

Approved on behalf of the Board of Directors

(signed) "James W. Hall", Director

(signed) "Wayne Pisano", Director

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity For the period ended September 30, 2015 and December 31, 2014

(Expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Warrants \$	Deficit \$	Total \$
Balance, December 31, 2013	33,102,700	4,026,368	15,787	(34,554,090)	2,590,765
Loss and comprehensive loss for the period	–	–	–	(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
Loss and comprehensive loss for the period	–	–	–	(6,325,990)	(6,325,990)
Exercise of warrants	121,707	–	(24,477)	–	97,230
Employee share options:					
Value of services recognized	–	699,725	–	–	699,725
Exercise of options	177,834	(105,917)	–	–	71,917
Balance, September 30, 2015	43,574,257	5,476,911	753,375	(47,447,818)	2,356,725

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

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue	64,851	–	64,851	–
Expenses				
General and administrative	624,881	185,644	1,970,009	1,057,738
Research and development	1,123,469	873,663	3,365,357	2,648,161
Business development	214,421	119,293	771,264	642,729
Accreted interest and adjustments	105,874	83,953	284,211	187,034
	2,068,645	1,262,553	6,390,841	4,535,662
Net loss and comprehensive loss for the period	(2,003,794)	(1,262,553)	(6,235,990)	(4,535,662)
Basic and diluted loss per share	(0.02)	(0.02)	(0.07)	(0.06)
Weighted-average shares outstanding	91,786,615	83,063,424	91,764,768	80,622,768

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

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Cash Flows For the nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

	Nine months ended September 30,	
	2015	2014
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss for the period	(6,325,990)	(4,535,662)
Charges to operations not involving cash		
Amortization of intangible asset	20,717	29,349
Depreciation of property and equipment	49,486	45,237
Accreted interest and adjustments	284,211	187,034
Share-based compensation	699,725	1,109,750
	<u>(5,271,851)</u>	<u>(3,164,292)</u>
Net change in non-cash working capital balances related to operations		
Decrease (increase) in amounts receivable	(4,270)	90,137
Increase in prepaid expenses	(3,053)	(9,986)
Increase in investment tax credits receivable	(219,100)	(119,252)
Increase (decrease) in accounts payable and accrued liabilities	(296,175)	140,399
Increase in amounts due to directors	16,448	64,204
Increase in deferred revenue	194,555	—
	<u>(5,583,446)</u>	<u>(2,998,790)</u>
Financing activities		
Proceeds from the exercise of stock options	71,917	135,059
Proceeds from issuance of shares in a private placement, net of issuance costs	—	1,638,618
Proceeds from issuance of shares in a public offering, net of issuance costs	—	8,659,306
Proceeds from the exercise of warrants	97,230	7,840
Proceeds from long-term debt	253,700	1,589,000
Repayment of long-term debt	(52,175)	(47,200)
	<u>370,672</u>	<u>11,982,623</u>
Investing activities		
Acquisition of property and equipment	(110,868)	(20,194)
Net change in cash and cash equivalents during the period	(5,323,642)	8,963,639
Cash and cash equivalents – Beginning of period	10,662,463	3,535,997
Cash and cash equivalents – End of period	<u>5,338,821</u>	<u>12,499,636</u>
Supplementary cash flow information		
Interest received	79,166	17,610

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

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

1 Nature of operations

Immunovaccine Inc. (“Immunovaccine” or 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 Immunovaccine 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.

2 Basis of presentation

The Corporation prepares its unaudited interim condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants – Part I (“CICA Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, International Accounting Standards 34 “*Interim Financial Reporting*”. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB have been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation’s annual audited consolidated financial statements for the year ended December 31, 2014.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of November 12, 2015, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending December 31, 2014 could result in restatement of these unaudited interim condensed consolidated financial statements.

3 Significant accounting policies, judgments and estimation uncertainty

These unaudited interim condensed consolidated financial statements have been prepared using the same policies and methods as the annual consolidated financial statements of the Corporation for the year ended December 31, 2014. Refer to note 3 of the Corporation’s annual consolidated financial statements for the year ended December 31, 2014 for more information on new accounting standards and amendments not yet effective.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

4 Property and equipment

	Computer equipment \$	Furniture and equipment \$	Laboratory equipment \$	Total \$
Year January 1, 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
Period ended September 30, 2015				
Opening net book value	31,356	27,356	190,070	248,782
Additions	15,668	–	95,200	110,868
Depreciation for the period	(11,222)	(4,103)	(34,161)	(49,486)
Closing net book value	35,802	23,253	251,109	310,164
At September 30, 2015				
Cost	197,619	70,319	827,296	1,095,234
Accumulated depreciation	(161,817)	(47,066)	(576,187)	(785,070)
Net book value	35,802	23,253	251,109	310,164

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

5 Long-term debt

	September 30, 2015 \$	December 31, 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 September 30, 2015, the amount drawn down on the loan, net of repayments, is \$3,749,531.	205,250	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 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 September 30, 2015, the amount drawn down on the loan is \$3,000,000.	177,575	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 September 30, 2015, the amount drawn down on the loan, net of repayments, is \$78,486.	73,496	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 September 30, 2015, this loan is 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 September 30, 2015, the amount drawn down on the loan is \$394,826.	337,300	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 September 30, 2015, the amount drawn down on the loan is \$2,944,000.	147,175	139,300
Province of Nova Scotia, Economic and Rural Development and Tourism ("ERDT") department secured loan with a maximum contribution of \$5,000,000, interest bearing at a rate equal to ERDT'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 September 30, 2015, the amount drawn down on the loan is \$3,750,000.	2,737,000	2,532,000
	<u>3,677,796</u>	<u>3,192,060</u>
Less: Current portion	53,300	65,950
	<u>3,624,496</u>	<u>3,126,110</u>

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

5 Long-term debt (continued)

Total contributions received less amounts that have been repaid as at September 30, 2015 is \$13,916,843 (December 31, 2014 - \$13,663,193).

Certain ACOA loans and the ERDT loan require approval by ACOA or the Minister for ERDT before the Corporation can pay management fees, bonuses, dividends or other distributions, or before there is any change of ownership of the Corporation. The ERDT 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 ERDT 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 ERDT 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 ERDT 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.

	September 30, 2015 \$	December 31, 2014 \$
Balance – Beginning of period	3,192,060	1,330,969
New debt, net of \$52,126 (2014 - \$916,400) allocated to government assistance	253,700	1,672,600
Accreted interest and adjustments	284,211	251,923
Repayment of debt	(52,175)	(63,432)
Balance – End of period	3,677,796	3,192,060
Less: current portion	53,300	65,950
Non-current portion	<u>3,624,496</u>	<u>3,126,110</u>

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

6 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 – January 1, 2014	79,098,923	33,102,700
Issued for cash consideration, net of issue costs	11,910,369	9,529,784
Stock options exercised	693,785	628,317
Warrants exercised	19,600	13,915
	<hr/>	<hr/>
Balance – December 31, 2014	91,722,677	43,274,716
Stock options exercised	166,668	177,834
Warrants exercised	111,325	121,707
	<hr/>	<hr/>
Balance – September 30, 2015	92,000,670	43,574,257

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 September 30, 2015, a total of 11,423,828 shares (December 31, 2014 – 10,733,571) are reserved to meet outstanding stock options and warrants.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

7 Contributed surplus

	Amount \$
Contributed surplus	
Balance – January 1, 2014	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	699,725
Stock options exercised	<u>(105,917)</u>
Balance – September 30, 2015	<u>5,476,911</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. The total number of options awarded to all insiders of Corporation shall not exceed 10% of the issued and outstanding common shares of the Corporation at the award date. If any option expires or otherwise terminates for any reason without having been exercised, the number of shares in respect of which option expired or terminated shall again be available for the purposes of the Plan. The Board of Directors may make certain amendments to the Plan without seeking the approval of the shareholders of the Corporation.

Stock options are granted with an exercise price determined by the Board of Directors, which is not less than the volume weighted average market price of the shares for the five trading days immediately preceding the award (the "VWAP"). The term of the option is determined by the Board of Directors, not to exceed ten years from the date of grant. The vesting of the options is determined by the Board and is typically 33 1/3% every six months after the date of grant.

If approved by the Board of Directors, in lieu of paying the exercise price for the shares that may be issued pursuant to the exercise of stock options, the participant may elect to acquire the number of shares determined by subtracting the exercise price from the VWAP, multiplying the difference by the number of shares in respect of which the option was otherwise being exercised and then dividing that product by such VWAP. In such event, the number of shares as so determined (and not the number of shares to be issued under the Option) will be deemed to be issued under the Plan and all the options surrendered will be cancelled.

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 for any reason other than being dismissed from their position for Cause, death or permanent disability, 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 Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

7 Contributed surplus (continued)

Stock options (continued)

During the nine months ended September 30, 2015, 1,527,500 stock options (nine months ended September 30, 2014 – 2,231,500) with a weighted average exercise price of \$0.70 (nine months ended September 30, 2014 - \$0.74) and a term of 5 years (nine months ended September 30, 2014 – 5 years) were granted to officers, directors, employees and consultants. The value of these stock options has been estimated at \$887,625 (nine months ended September 30, 2014 - \$1,641,810), which is a weighted average grant date value per option of \$0.58 (nine months ended September 30, 2014 - \$0.65), using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2015	December 31, 2014
Risk-free interest rate	2.98%	3.00%
Expected volatility	129%	123%
Expected dividend yield	–	–
Expected life (years)	4.30	4.49
Forfeiture rate	4%	4%

Option activity for the nine months ended September 30, 2015 and the year ended December 31, 2014 was as follows:

	September 30, 2015		December 31, 2014	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding - Beginning of period	4,733,050	0.69	3,793,685	0.67
Granted	1,527,500	0.70	2,231,500	0.74
Exercised	(166,668)	0.43	(693,785)	0.34
Forfeited	(50,000)	0.66	(587,117)	1.16
Expired	(317,500)	0.76	(11,233)	0.48
Outstanding - End of period	<u>5,726,382</u>	0.70	<u>4,733,050</u>	0.69

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

8 Related party transaction

During the three and nine months ended September 30, 2015, the Corporation was charged \$nil (three and nine months ended September 30, 2014 - \$33,610 and \$198,531) for business development consulting fees by a non-executive director.

9 Expenses by nature

	Three months ended September 30, 2015 \$	Three months ended September 30, 2014 \$	Nine months ended September 30, 2015 \$	Nine months ended September 30, 2014 \$
Salaries, wages and benefits	619,960	532,542	1,739,315	1,459,741
Other research and development expenditures, including clinical costs	726,368	425,004	2,128,858	1,228,240
Professional and consulting fees	178,168	283,034	662,218	1,307,529
Travel	35,099	34,812	279,488	105,629
Office, rent and telecommunications	84,198	74,139	241,464	230,069
Insurance	20,429	17,063	65,363	54,131
Marketing, communications and investor relations	97,975	37,065	412,224	214,702
Amortization	6,906	9,783	20,717	29,349
Depreciation	18,450	15,289	49,486	45,237
Share-based compensation	199,135	472,370	699,725	1,109,750
Accreted interest	105,874	83,953	284,211	187,034
Other	77,590	(225,975)	204,501	(138,936)
Research and development tax credits	(51,000)	(43,600)	(219,100)	(173,600)
Government assistance	(50,507)	(452,926)	(177,629)	(1,123,213)
	<u>2,068,645</u>	<u>1,262,553</u>	<u>6,390,841</u>	<u>4,535,662</u>

10 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.

	September 30, 2015 \$	December 31, 2014 \$
Total debt	3,677,796	3,192,060
Less: Cash and cash equivalents	<u>(5,338,821)</u>	<u>(10,662,463)</u>
Net debt	(1,661,025)	(7,470,403)
Shareholders' equity	<u>2,356,725</u>	<u>7,813,843</u>
Total capital	<u>695,700</u>	<u>343,440</u>

The Corporation is in compliance with its debt covenants.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

11 Financial instruments

Fair value of financial instruments

Financial instruments are defined as a contractual right on 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 statement of financial position date with relevant comparatives:

	September 30, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Cash and cash equivalents	5,338,821	5,338,821	10,662,463	10,662,463
Amounts receivable	168,370	168,370	79,533	79,533
Accounts payable and accrued liabilities	1,091,640	1,091,640	1,392,127	1,392,127
Amounts due to directors	54,210	54,210	37,762	37,762
Long-term debt	3,677,796	3,677,796	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 accounts payable.

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 September 30, 2015 and December 31, 2014 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.

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 September 30, 2015 is \$3,750,000 (December 31, 2014 - \$3,750,000) and the Corporation is required to make interest payments in fiscal 2015 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 2015 of \$69,909.

The remaining outstanding debt as at September 30, 2015 is interest-free and only becomes repayable when revenues are earned.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

11 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 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 statement of financial position as at September 30, 2015 of \$255,049 (December 31, 2014 - \$250,779) is comprised mainly of non-repayable government assistance, 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 risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

While the Corporation has \$5,338,821 in cash and cash equivalents at September 30, 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 animal health license agreements, nor can it be certain that it will receive significant revenue from these agreements before additional cash is required. As a result, there can be no assurance that the Corporation will have sufficient capital to fund its ongoing operations, develop or commercialize any of its products without future financing.

The following table outlines the contractual maturities for the Corporation's financial liabilities. The long-term debt is comprised of the contributions received described in note 5, less amounts that have been repaid as at September 30, 2015:

	Total \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$
Accounts payable and accrued liabilities	1,108,620	1,108,620	—	—	—
Amounts due to directors	54,210	54,210	—	—	—
Long-term debt	14,279,129	58,300	379,017	3,974,491	9,867,321
Operating leases	152,934	56,322	96,612	—	—
	<u>15,594,893</u>	<u>1,277,452</u>	<u>475,629</u>	<u>3,974,491</u>	<u>9,867,321</u>

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

(Expressed in Canadian dollars)

11 Financial instruments (continued)

Risk management (continued)

d) Currency risk

The Corporation incurs some revenue and expenses in US 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 US dollars transactions are not significant to overall operations.

Foreign exchange loss of \$38,369 and \$84,204 for the three and nine months ended September 30, 2015 (three and nine months ended September 30, 2014, foreign exchange loss - \$9,789 and \$22,348) are included in general and administrative expenses. If the foreign exchange had been 1% higher or lower, with all other variables held constant, it would have had an immaterial impact on the foreign exchange gain/loss.