Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Financial Statements
September 30, 2014

November 14, 2014

NOTICE

Notice in accordance with National Instruments 51-102, Part 4, subsection 4.3 (3) (a).

The accompanying unaudited interim condensed consolidated financial statements of **Immunovaccine Inc.** ("Immunovaccine" or the "Corporation") for the three and nine months ended September 30, 2014 have been prepared by Management and approved by the Audit Committee of the Board of Directors of the Corporation.

These unaudited interim condensed consolidated financial statements have not been reviewed by the external auditors of the Corporation.

November 14, 2014

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, 2014 and December 31, 2013

(Expressed in Canadian dollars)

	September 30, 2014 $	December 31, 2013 $
Assets		
Current assets		
Cash and cash equivalents	12,499,636	3,535,997
Amounts receivable	156,820	246,957
Prepaid expenses	180,235	170,249
Investment tax credits receivable	714,755	595,503
	13,551,446	4,548,706
Intangible asset	244,580	273,929
Property and equipment (note 4)	248,607	273,650
	14,044,633	5,096,285
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,251,712	1,111,313
Amounts due to directors	127,442	63,238
Current portion of long-term debt (note 5)	63,786	56,809
	1,442,940	1,231,360
Long-term debt (note 5)	2,996,017	1,274,160
	4,438,957	2,505,520
Equity	9,605,676	2,590,765
	14,044,633	5,096,285

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, 2014 and December 31, 2013

(Expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Warrants $	Deficit $	Total $
Balance, December 31, 2012	27,452,763	2,804,809	1,424,350	(29,872,657)	1,809,265
Loss and comprehensive loss for the period	–	–	–	(3,855,849)	(3,855,849)
Issuance of shares in a private placement	1,603,880	–	–	–	1,603,880
Share issuance costs	(50,881)	–	–	–	(50,881)
Issuance of share capital in lieu of professional fees	15,708	–	–	–	15,708
Expiration of warrants	–	1,192,850	(1,424,350)	–	(231,500)
Employee share options:					
Value of services recognized	–	15,476	–	–	15,476
Balance, September 30, 2013	29,021,470	4,013,135	–	(33,728,506)	(693,901)
Loss and comprehensive loss for the period	–	–	–	(825,584)	(825,584)
Issuance of shares in a private placement	4,204,484	–	–	–	4,204,484
Share issuance costs	(200,266)	–	–	–	(200,266)
Issuance of share capital in lieu of professional fees	66,887	–	–	–	66,887
Issuance of broker warrants	–	–	15,787	–	15,787
Employee share options:					
Value of services recognized	–	21,258	–	–	21,258
Exercise of options	10,125	(8,025)	–	–	2,100
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	–	–	–	(4,535,662)	(4,535,662)
Issuance of shares in a private placement	1,716,817	–	–	–	1,716,817
Share issuance costs	(78,198)	–	–	–	(78,198)
Issuance of shares in a public offering	8,802,460	–	–	–	8,802,460
Share issuance costs	(911,295)	–	–	–	(911,295)
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	–	1,109,750	–	–	1,109,750
Exercise of options	493,317	(358,258)	–	–	135,059
Balance, September 30, 2014	43,139,716	4,777,860	777,852	(39,089,752)	9,605,676

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, 2014 and 2013

(Expressed in Canadian dollars)

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Expenses				
General and administrative	185,644	751,751	1,057,738	1,926,949
Research and development	873,663	530,018	2,648,161	1,845,220
Business development	119,293	247,957	642,729	672,158
Accreted interest and adjustments	83,953	7,333	187,034	(356,978)
	1,262,553	1,537,059	4,535,662	4,087,349
Loss before income taxes	(1,262,553)	(1,537,059)	(4,535,662)	(4,087,349)
Income tax recovery	–	231,500	–	231,500
Net loss and comprehensive loss for the period	(1,262,553)	(1,305,559)	(4,535,662)	(3,855,849)
Basic and diluted loss per share	(0.02)	(0.02)	(0.06)	(0.06)
Weighted-average shares outstanding	83,063,424	68,412,996	80,622,768	67,280,417

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 three and nine months ended September 30, 2014 and 2013

(Expressed in Canadian dollars)

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Cash provided by (used in)				
Operating activities				
Net loss for the period	(1,262,553)	(1,305,559)	(4,535,662)	(3,855,849)
Charges to operations not involving cash				
Amortization of intangible asset	9,783	9,784	29,349	29,350
Depreciation of property and equipment	15,288	18,985	45,237	56,739
Accreted interest and adjustments	83,953	7,333	187,034	(356,978)
Share-based compensation	472,370	(90,427)	1,109,750	15,476
Income tax recovery	–	(231,500)	–	(231,500)
	(681,159)	(1,591,384)	(3,164,292)	(4,342,762)
Net change in non-cash working capital balances related to operations				
Decrease in amounts receivable	23,563	8,651	90,137	168,153
Decrease (increase) in prepaid expenses	63,815	17,284	(9,986)	187,079
Decrease (increase) in investment tax credits receivable	(43,600)	152,686	(119,252)	15,926
Increase in accounts payable and accrued liabilities	286,687	390,193	140,399	317,642
Increase in amounts due to directors	58,558	44,781	64,204	49,331
	(292,136)	(977,789)	(2,998,790)	(3,604,631)
Financing activities				
Proceeds from the exercise of stock options	3,266	–	135,059	–
Proceeds from issuance of shares in a private placement, net of issuance costs	1,638,619	–	1,638,618	–
Proceeds from issuance of shares in a public offering net of issuance costs	8,659,306	–	8,659,306	–
Proceeds from the exercise of warrants	–	–	7,840	1,568,707
Proceeds from long-term debt	802,000	1,250,000	1,589,000	1,250,000
Repayment of long-term debt	(16,234)	(24,411)	(47,200)	(71,733)
	11,086,957	1,225,589	11,982,623	2,746,974
Investing activities				
Acquisition of property and equipment	(1,438)	(1,441)	(20,194)	(5,326)
Net change in cash and cash equivalents during the period	10,793,383	246,359	8,963,639	(862,983)
Cash and cash equivalents – Beginning of period	1,706,253	892,589	3,535,997	2,001,931
Cash and cash equivalents – End of period	12,499,636	1,138,948	12,499,636	1,138,948
Cash and cash equivalents are comprised of the following:				
Cash on hand and balances with banks	12,499,636	244,875	12,499,636	244,875
Short-term investments	–	894,073	–	894,073
	12,499,636	1,138,948	12,499,636	1,138,948
Supplementary cash flow information				
Income taxes paid	–	–	–	–
Interest received	3,859	4,962	17,610	32,990

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

(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 discovers and develops activators of the immune system to treat cancer and prevent infectious diseases. Immunovaccine has built a proprietary product platform that is used to create immunogenic vaccines. 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 research organizations, including the National Institutes of Health (“NIH”) in the U.S. The Corporation has licensed the delivery technology 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 TSX-Venture Exchange (“TSX-V”) with the symbol IMV. 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, 2013.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of November 14, 2014, the date the Board of Directors approved the financial 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

The significant accounting policies used in the preparation of these unaudited interim condensed consolidated financial statements are described below.

Basis of measurement

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

(Expressed in Canadian dollars)

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

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.

Foreign currency translation

i) Functional and presentation currency

Items included in the unaudited interim condensed 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 unaudited interim condensed consolidated financial statements are presented in Canadian dollars, which is Immunovaccine'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 is converted at the rate of exchange in effect at the statement of financial position date. Income and expense items are translated at the rate of exchange in effect at the translation date. Translation gains or losses are included in determining income or loss for the period. Foreign exchange loss (gain) of $9,789 and $22,348 for the three and nine months ended September 30, 2014 (three and nine months ended September 30, 2013 - $1,314 and $14,650) 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 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 or comprehensive loss.

(Expressed in Canadian dollars)

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

Financial instruments (continued)

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.

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 periods 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 statement of loss during the period 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 other gains and losses in the statement of loss.

(Expressed in Canadian dollars)

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

Intangible assets

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.

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. 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). 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 statement of 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 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 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.

Tax on income in interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

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.

(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 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 payment (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.

Share capital

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

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 period.

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 would be anti-dilutive.

(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. 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 three and nine months ended September 30, 2014, the Corporation recorded $4,926 and $212,213, respectively, of non-repayable government grants, from a number of government agencies, as a reduction in related research salaries (three and nine months ended September 30, 2013 - $116,543 and $258,700, respectively). At September 30, 2014, $306 (December 31, 2013 - $67,658) of government assistance is included in amounts receivable.

Repayable government loans are recorded at fair value, with the difference between the book value and fair value recorded as a reduction of research and development expenditures or a reduction of general and administration expenditures. During the three and nine months ended September 30, 2014, the Corporation recorded $448,000 and $911,000 respectively, as a reduction of general and administrative expenditures (2013 - $nil).

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 unaudited interim condensed consolidated financial statements.

(Expressed in Canadian dollars)

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

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:

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 statement of loss as government assistance. Calculating 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 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 current 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 discount rates ranging from 35% to 50% to discount the AIF loans.

(Expressed in Canadian dollars)

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

Critical accounting estimates and judgments (continued)

Province of Nova Scotia, Economic and Rural Development and Tourism (“ERDT”) loan

The initial fair value of the ERDT 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 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 ERDT 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 ERDT loan.

If the discount rate used in for the ERDT 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 September 30, 2014, would have been an estimated $410,000 lower or $499,000 higher, respectively. The difference between the book value and the initial fair value of the ERDT loan is recorded in the statement of loss as government assistance on initial recognition. Any changes in the amounts recorded on the statement of financial position for the ERDT loan result in an offsetting charge in the statement of loss accreted interest and adjustments after initial recognition.

4 Property and equipment

	Computer equipment $	Furniture and equipment $	Laboratory equipment $	Total $
At January 1, 2013				
Opening net book value	36,438	34,279	272,065	342,782
Additions	1,470	1,390	3,791	6,651
Depreciation for the year	(13,998)	(6,993)	(54,792)	(75,783)
Closing net book value	23,910	28,676	221,064	273,650
At December 31, 2013				
Cost	162,626	65,413	717,408	945,447
Accumulated depreciation	(138,716)	(36,737)	(496,344)	(671,797)
Net book value	23,910	28,676	221,064	273,650
Period ended September 30, 2014				
Opening net book value	23,910	28,676	221,064	273,650
Additions	5,507	–	14,687	20,194
Depreciation for the period	(6,894)	(4,302)	(34,041)	(45,237)
Closing net book value	22,523	24,374	201,710	248,607
At September 30, 2014				
Cost	168,133	65,413	732,095	965,641
Accumulated depreciation	(145,610)	(41,039)	(530,385)	(717,034)
Net book value	22,523	24,374	201,710	248,607

(Expressed in Canadian dollars)

5 Long-term debt

	September 30, 2014 $	December 31, 2013 $
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 10% when gross revenues are greater than $5,000,000. As at September 30, 2014, the amount drawn down on the loan is $3,749,531.	275,700	228,000
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 from specific product(s), 5% for the first 5-year period and 10%, thereafter. As at September 30, 2014, the amount drawn down on the loan is $3,000,000.	3,275	5,300
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, 2014, the amount drawn down on the loan is $119,418.	110,401	137,006
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, 2014, the amount drawn down on the loan is $27,477.	25,577	40,963
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), 5% for the first 5 year period and 10%, thereafter. As at September 30, 2014, the amount drawn down on the loan is $2,944,000.	175,850	139,400
ERDT department secured loan with a maximum contribution of $5,000,000, bearing interest 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 August 9, 2018. 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. The Corporation received the third disbursement of $1,250,000 on August 7, 2014. As at September 30, 2014, the amount drawn down on the loan is $3,750,000.	2,469,000	780,300
	3,059,803	1,330,969
Less: Current portion	63,786	56,809
	2,996,017	1,274,160

(Expressed in Canadian dollars)

5 Long-term debt (continued)

Total contributions received less amounts that have been repaid as at September 30, 2014 is $13,590,426.

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, 2014 $	December 31, 2013 $
Balance – Beginning of period	1,330,969	990,288
New debt	2,500,000	753,000
Accreted interest and adjustments	187,034	70,644
Adjustments	(911,000)	(393,276)
Repayment of debt	(47,200)	(89,687)
Balance – End of period	3,059,803	1,330,969
Less: Current portion	63,786	56,809
Non-current portion	2,996,017	1,274,160

(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, 2013	63,505,152	27,452,763
Issued in lieu of professional fees	214,818	82,595
Stock options exercised	7,500	10,125
Issued for cash consideration, net of issuance costs	15,371,453	5,557,217
Balance – December 31, 2013	79,098,923	33,102,700
Stock options exercised	443,785	493,317
Warrants exercised	19,600	13,915
Issued for cash consideration, net of issuance costs	11,910,369	9,529,784
Balance – September 30, 2014	91,472,677	43,139,716

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 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.

(Expressed in Canadian dollars)

6 Share capital (continued)

Authorized (continued)

On March 5, 2013, the Corporation completed a private placement of 4,860,244 common shares at a price of $0.33 per share for aggregate gross proceeds of $1,603,880. Total costs associated with the offering were $50,881, including finder's fees of $15,708, paid by the issuance of common shares. The 47,600 common shares issued to satisfy payment of the finder's fee were at a deemed price of $0.33 per common share. The remaining costs were associated with professional and regulatory fees.

On November 21, 2013, the Corporation completed a private placement of 10,511,209 shares at a price of $0.40 per common share for aggregate gross proceeds of $4,204,484. In connection with the private placement, the Corporation agreed to pay finders' fees representing an aggregate of $82,562 in cash, along with $66,887 of finders' fees paid by the issuance of 167,218 common shares, and $15,787 of finders' fees paid by the issuance of 50,925 compensation options, each compensation option entitling its holder to purchase one common share at a price of $0.40 per share until May 21, 2015. The remaining costs of $35,030 were associated with professional and regulatory fees.

As at September 30, 2014, a total of 11,384,571 shares (September 30, 2013 – 5,118,720) are reserved to meet outstanding stock options and warrants.

7 Contributed surplus

Contributed surplus	$
Balance – January 1, 2013	2,804,809
Warrants expired, net of tax effect of $231,500	1,192,850
Stock options exercised	(8,025)
Share-based compensation – stock options vested	36,734
Balance – December 31, 2013	4,026,368
Share-based compensation – stock options vested	1,109,750
Stock options exercised	(358,258)
Balance – September 30, 2014	4,777,860

(Expressed in Canadian dollars)

7 Contributed surplus (continued)

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 consultants for the Corporation shall not exceed 5% 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 in full, or if any option is exercised in whole or in part, the number of shares in respect of which option expired, terminated or was exercised shall again be available for the purposes of the Plan.

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

In the event that the option holder should die while he or she is still a director, employee or other advisor of the 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, 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.

During the nine months ended September 30, 2014, 2,231,500 stock options (nine months ended September 30, 2013 – 514,070) with a weighted average exercise price of $0.74 (nine months ended September 30, 2013 - $0.28) and a term of 5 years (nine months ended September 30, 2013 – 5 years) were granted to officers, directors, employees and consultants. The value of these stock options has been estimated at $1,641,810 (nine months ended September 30, 2013 - $113,095), which is a weighted average grant date value per option of $0.65 (nine months ended September 30, 2013 - $0.22), using the Black-Scholes valuation model and the following weighted average assumptions:

	September 30, 2014	September 30, 2013
Risk-free interest rate	3.00%	3.00%
Expected volatility	123%	116%
Expected dividend yield	0%	0%
Expected life (years)	4.5	4.4
Forfeiture rate	4%	4%

(Expressed in Canadian dollars)

7 Contributed surplus (continued)

Stock options (continued)

Option activity for the nine months ended September 30, 2014 and the year ended December 31, 2013 were as follows:

	September 30, 2014		December 31, 2013	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding - Beginning of period	3,793,685	0.67	5,229,650	0.60
Granted	2,231,500	0.74	514,070	0.28
Exercised	(443,785)	0.30	(7,500)	0.28
Expired	(186,117)	0.53	(1,312,500)	0.38
Forfeited	(11,233)	0.48	(630,035)	0.38
Outstanding - End of period	5,384,050	0.73	3,793,685	0.67

8 Related party transaction

During the three and nine months ended September 30, 2014, the Corporation was charged $33,610 and $198,531, respectively (three and nine months ended September 30, 2013 - $nil) for business development consulting fees by a non-executive director.

9 Expenses by nature

	Three months ended September 30, 2014 $	Three months ended September 30, 2013 $	Nine months ended September 30, 2014 $	Nine months ended September 30, 2013 $
Salaries, wages and benefits	532,542	883,017	1,459,741	1,971,203
Other research and development expenditures, including clinical costs	425,004	300,279	1,228,240	1,030,283
Professional and consulting fees	283,034	343,299	1,307,529	1,040,553
Travel	34,812	67,795	105,629	230,213
Office, rent and telecommunications	74,139	74,559	230,069	228,366
Insurance	17,063	18,814	54,131	56,574
Marketing, communications and investor relations	37,065	15,530	214,702	134,111
Amortization	9,783	9,783	29,349	29,349
Depreciation	15,289	18,984	45,237	56,738
Share-based compensation	472,370	(90,427)	1,109,750	15,476
Accreted interest	83,953	7,333	187,034	96,162
Other	(225,975)	66,636	(138,936)	(357,002)
Research and development tax credits and income tax recovery	(43,600)	(293,500)	(173,600)	(417,476)
Government assistance	(452,926)	(116,543)	(1,123,213)	(258,701)
	1,262,553	1,305,559	4,535,662	3,855,849

(Expressed in Canadian dollars)

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, 2014 $	December 31, 2013 $
Total debt	3,059,803	1,330,969
Less: Cash and cash equivalents	(12,499,636)	(3,535,997)
Net debt	(9,439,833)	(2,205,028)
Shareholders' equity	9,605,676	2,590,765
Total capital	165,843	385,737

The Corporation is in compliance with its debt covenants.

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, 2014		December 31, 2013	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	12,499,636	12,499,636	3,535,997	3,535,997
Amounts receivable	74,024	74,024	125,142	125,142
Accounts payable and accrued liabilities	1,241,994	1,171,358	1,101,001	1,101,001
Amounts due to directors	127,442	127,442	63,238	63,238
Long-term debt	3,059,803	3,059,803	1,330,969	1,330,969

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, 2014 and December 31, 2013 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.

(Expressed in Canadian dollars)

11 Financial instruments (continued)

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. Most outstanding debt as at September 30, 2014 and December 31, 2013 is interest-free, with the vast majority only becoming repayable when revenues are earned. The remaining interest-free debt portion is repayable over either 60 or 72 month periods, resulting in required principal debt payments in fiscal 2014 of $63,432. The Corporation also has a loan in which the interest rate is dependent on the cost of funds from the lender plus 1%. The Corporation does not use derivative financial instruments to alter the effects of this risk.

b) Credit risk

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

The total of amounts receivable disclosed in the statement of financial position as at September 30, 2014 of $156,820 (December 31, 2013 - $246,957) 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 $12,499,636 in cash and cash equivalents at September 30, 2014, 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.

(Expressed in Canadian dollars)

11 Financial instruments (continued)

Risk management (continued)

c) Liquidity risk (continued)

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, 2014:

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Accounts payable and accrued liabilities	1,251,712	1,251,712	–	–	–
Amounts due to directors	127,442	127,442	–	–	–
Long-term debt	14,063,410	46,423	372,186	3,951,270	9,693,531
Operating leases	107,437	51,370	56,067	–	–
	15,550,001	1,476,947	428,253	3,951,270	9,693,531

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.