Immunovaccine Inc.

Unaudited Interim Condensed Consolidated
Financial Statements
March 31, 2013

May 16, 2013

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 "Company") for the three months ended March 31, 2013 have been prepared by Management and approved by the Audit Committee of the Board of Directors of the Company.

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

May 16, 2013

Management's Responsibility for Financial Reporting

The accompanying unaudited interim condensed consolidated financial statements of Immunovaccine Inc. 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 Company's unaudited interim condensed consolidated financial statements, and recommended their approval by the Board of Directors.

(signed) "*John J. Trizzino*"
Chief Executive Officer

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

Immunovaccine Inc.

Unaudited Consolidated Statements of Financial Position

As at March 31, 2013 and December 31, 2012

(Expressed in Canadian dollars)

	March 31, 2013 $	December 31, 2012 $
Assets		
Current assets		
Cash and cash equivalents	2,474,737	2,001,931
Amounts receivable	114,452	397,556
Prepaid expenses	176,344	300,153
Investment tax credits receivable	564,429	494,429
	3,329,962	3,194,069
Intangible asset	303,279	313,062
Property and equipment (note 4)	327,088	342,782
	3,960,329	3,849,913
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,060,607	1,019,424
Amounts due to directors	54,972	30,936
Current portion of long-term debt (note 5)	72,757	80,065
	1,188,336	1,130,425
Long-term debt (note 5)	916,007	910,223
	2,104,343	2,040,648
Equity	1,855,986	1,809,265
	3,960,329	3,849,913

Nature of operations and going concern (note 1)

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

Approved on behalf of the Board of Directors

(signed) *"James W. Hall"*, Director

(signed) *"Wayne Pisano"*, Director

Immunovaccine Inc.

Unaudited Consolidated Statement of Changes in Equity

For the period ended March 31, 2013 and December 31, 2012

(Expressed in Canadian dollars)

	Share capital $	Contributed Surplus $	Warrants $	Deficit $	Total $
Balance, January 1, 2012	24,764,328	2,169,664	1,590,402	(23,472,821)	5,051,573
Comprehensive loss for the period	–	–	–	(1,403,795)	(1,403,795)
Issuance of shares	2,788,202	–	–	–	2,788,202
Share issuance costs	(166,986)	–	–	–	(166,986)
Employee share options:					
Value of services recognized	–	167,829	–	–	167,829
Issuance of share capital in lieu of professional fees	67,219	–	–	–	67,219
Balance, March 31, 2012	27,452,763	2,337,493	1,590,402	(24,876,616)	6,504,042
Comprehensive loss for the period	–	–	–	(4,996,041)	(4,996,041)
Expiration of warrants	–	139,052	(166,052)	–	(27,000)
Employee share options:					
Value of services recognized	–	328,264	–	–	328,264
Balance, December 31, 2012	27,452,763	2,804,809	1,424,350	(29,872,657)	1,809,265
Comprehensive loss for the period	–	–	–	(1,584,844)	(1,584,844)
Issuance of shares	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
Employee share options:					
Value of services recognized	–	62,858	–	–	62,858
Balance, March 31, 2013	29,021,470	2,867,667	1,424,350	(31,457,501)	1,855,986

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

Immunovaccine Inc.

Unaudited Consolidated Statement of Loss and Comprehensive Loss

For the three months ended March 31, 2013 and 2012

(Expressed in Canadian dollars)

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Expenses		
General and administrative	613,756	566,641
Research and development	728,265	546,842
Business development	221,437	244,369
Accreted interest and adjustments	21,386	45,943
	1,584,844	1,403,795
Net loss and comprehensive loss for the period	(1,584,844)	(1,403,795)
Basic and diluted loss per share	(0.02)	(0.02)
Weighted-average shares outstanding	64,977,505	56,601,938

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

Immunovaccine Inc.

Unaudited Consolidated Statement of Cash Flows

For the three months ended March 31, 2013 and 2012

(Expressed in Canadian dollars)

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(1,584,844)	(1,403,795)
Charges to operations not involving cash		
Amortization of intangible asset	9,783	9,784
Depreciation of property and equipment	18,859	22,219
Accretion of long-term debt	21,386	45,943
Stock-based compensation	62,858	167,829
	(1,471,958)	(1,158,020)
Net change in non-cash working capital balances related to operations		
Decrease in amounts receivable	283,104	263,711
Decrease in prepaid expenses	123,809	46,924
Increase in investment tax credits receivable	(70,000)	(32,187)
Increase (decrease) in accounts payable and accrued liabilities	41,183	(413,755)
Increase in amounts due to directors	24,036	44,550
	(1,069,826)	(1,248,777)
Financing activities		
Proceeds from issuance of capital stock	1,603,880	2,788,202
Share issuance costs	(35,173)	(99,767)
Proceeds from long-term debt	–	16,150
Repayment of long-term debt	(22,910)	(21,411)
	1,545,797	2,683,174
Investing activities		
Acquisition of property and equipment	(3,165)	(7,951)
Net change in cash and cash equivalents during the period	472,806	1,426,446
Cash and cash equivalents – Beginning of period	2,001,931	5,070,950
Cash and cash equivalents – End of period	2,474,737	6,497,396
Cash and cash equivalents are comprised of the following:		
Cash on hand and balances with banks	1,474,737	2,595,675
Short-term investments	1,000,000	3,901,721
	2,474,737	6,497,396
Supplementary cash flow information		
Income taxes paid	–	–
Interest received	9,602	15,981

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

(Expressed in Canadian dollars)

1 Nature of operations and going concern

Immunovaccine Inc. ("Immunovaccine" or the "Company") is, through its 100% owned subsidiary ImmunoVaccine Technologies Inc., a clinical stage biotechnology company dedicated to the development of premium vaccines for therapeutic cancer and infectious diseases. To date, the Company has not earned significant revenues and is considered to be a development stage enterprise. Immunovaccine has patented vaccine delivery and enhancement technologies trade named VacciMax® and DepoVax™ and has a number of early stage infectious diseases and cancer vaccine product candidates. The Company also partners with other companies to help them develop human and animal vaccine candidates. Incorporated 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.

Since the Company's inception, the Company's operations have been financed through the sale of shares, issuance of debt, revenue from animal health licenses, interest income on funds available for investment, and government assistance and income tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of $31,457,501 as at March 31, 2013.

The ability of the Company to continue as a going concern is dependent upon raising additional financing through equity and non-dilutive funding and partnerships. There can be no assurance that the Company will have sufficient capital to fund its ongoing operations, develop or commercialize any products without future financings. These material uncertainties cast significant doubt as to the Company's ability to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. The Company is currently pursuing financing alternatives that may include equity, debt, and non-dilutive financing alternatives including co-development with partners and strategic investments from major pharmaceutical companies. There can be no assurance, especially considering the current economic environment, that additional financing will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures or the Company may be unable to continue operations.

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

2 Basis of presentation

The Company 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").

(Expressed in Canadian dollars)

2 Basis of presentation (continued)

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 Company's annual audited consolidated financial statements for the year ended December 31, 2012.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of May 16, 2013, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2013 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.

Consolidation

The financial statements of the Company 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 Company.

Foreign currency translation

i) Functional and presentation currency

Items included in the unaudited interim condensed consolidated financial statements of the Company 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 Inc.'s functional currency.

(Expressed in Canadian dollars)

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

Foreign currency translation (continued)

ii) Transactions and balances

Foreign currency translation of monetary assets and liabilities denominated in currencies other than the Company'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 of $4,825 for the three months ended March 31, 2013 (three months ended March 31, 2012- $nil) 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 Company 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 Company 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 Company 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.

The Company 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.

(Expressed in Canadian dollars)

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

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company 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 Company 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.

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.

(Expressed in Canadian dollars)

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

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows. 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 Company 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 Company 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 Company 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 Company'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 Company 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 Company 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 Company 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 Company 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 months ended March 31, 2013, the Company recorded $40,828 of non-repayable government grants, from a number of government agencies, as a reduction in related research salaries (three months ended March 31, 2012 - $18,254). At March 31, 2013, $38,236 (December 31, 2012 - $591,468) of government assistance, including government loans, 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. During the three months ended March 31, 2013, the Company recorded $nil as a reduction in related research expenditures (three months ended March 31, 2012 - $330,367).

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 Company'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 Company 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 Company's unaudited interim condensed 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 of long-term debt:

The initial fair value of long-term debt is determined by using a discounted cash flow analysis for each of the loans, which require a number of assumptions. The assumptions used in determining the discounted cash flows include estimating future revenue for the Company and the discount rate. Any changes in these assumptions will impact the initial fair value of the long-term debt.

The Company determined the appropriate discount rate at initial recognition of the loan. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the debt. In determining the appropriate discount rate, the Company considers the interest rates of similar long-term debt structures, with similar terms.

If the discount rate used in determining the initial fair value of all Atlantic Canada Opportunities Agency ("ACOA") Atlantic Innovation Fund loans, with repayment terms based on future revenue, had differed by 10% lower or higher, the carrying value of the long-term debt would be an estimated $362,400 higher or $183,500 lower, respectively.

In addition to the discount rate, management has made assumptions related to the future cash flows which are based on information available at the initial recognition date. These assumptions consider market conditions and estimated timing of future cash inflows.

Calculation of carrying amount of long-term debt:

The carrying amount of long-term debt 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 statement of loss. Changes in these assumptions could have an impact on the carrying value of the long-term debt.

(Expressed in Canadian dollars)

4 Property and equipment

	Computer equipment $	Furniture and equipment $	Laboratory equipment $	Total $
Year January 1, 2012				
Opening net book value	44,626	41,893	320,349	406,868
Additions	11,939	849	17,540	30,328
Depreciation for the year	(20,127)	(8,463)	(65,824)	(94,414)
Closing net book value	36,438	34,279	272,065	342,782
At December 31, 2012				
Cost	161,156	64,023	713,617	938,796
Accumulated depreciation	(124,718)	(29,744)	(441,552)	(596,014)
Net book value	36,438	34,279	272,065	342,782
Period ended March 31, 2013				
Opening net book value	36,438	34,279	272,065	342,782
Additions	1,470	670	1,025	3,165
Depreciation for the period	(3,499)	(1,731)	(13,629)	(18,859)
Closing net book value	34,409	33,218	259,461	327,088
At March 31, 2013				
Cost	162,626	64,693	714,642	941,961
Accumulated depreciation	(128,217)	(31,475)	(455,181)	(614,873)
Net book value	34,409	33,218	259,461	327,088

(Expressed in Canadian dollars)

5 Long-term debt

	March 31, 2013 $	December 31, 2012 $
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 March 31, 2013, the amount drawn down on the loan is $3,749,531.	621,276	613,200
ACOA Marketing interest-free loan, repayable in 60 equal monthly payments of $3,226 beginning November 1, 2008. As at March 31, 2013, the amount drawn down on the loan is $22,577.	22,330	31,718
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 March 31, 2013, the amount drawn down on the loan is $3,000,000.	3,950	3,500
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 March 31, 2013, the amount drawn down on the loan is $180,816.	162,690	171,046
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 March 31, 2013, the amount drawn down on the loan is $57,477.	52,918	55,324
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 March 31, 2013, the amount drawn down on the loan is $2,944,000.	125,600	115,500
	988,764	990,288
Less: Current portion	72,757	80,065
	916,007	910,223

Total contributions received less amounts that have been repaid as at March 31, 2013 is $9,954,401.

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

(Expressed in Canadian dollars)

5 Long-term debt (continued)

	March 31, 2013 $	December 31, 2012 $
Balance – Beginning of period	990,288	917,805
New debt	–	15,001
Accreted interest and adjustments	21,386	147,627
Repayment of debt	(22,910)	(90,145)
Balance – End of period	988,764	990,288
Less: Current portion	72,757	80,065
Non-current portion	916,007	910,223

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, 2012	53,987,084	24,764,328
Issued in lieu of professional fees	224,063	67,219
Issued for cash consideration, net of issue costs	9,294,005	2,621,216
Balance – March 31, 2012 and December 31, 2012	63,505,152	27,452,763
Issued for cash consideration, net of issue costs	4,860,244	1,552,999
Issued in lieu of professional fees	47,600	15,708
Balance – March 31, 2013	68,412,996	29,021,470

(Expressed in Canadian dollars)

6 Share capital (continued)

On March 5, 2013, the Company 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 March 7, 2012, the Company completed a private placement of 9,294,005 shares at a price of $0.30 per share for aggregate gross proceeds of $2,788,202. Total costs associated with the offering were $166,986, including finder's fees of $134,438; paid 50% in cash of $67,219 and 50% by the issuance of common shares. The 224,063 common shares issued to satisfy payment of 50% of the finder's fee were issued at a deemed price of $0.30 per common share. The remaining costs were associated with professional fees and regulatory fees.

As at March 31, 2013, a total of 8,962,200 shares (March 31, 2012 – 9,234,706) are reserved to meet outstanding stock options and warrants.

7 Contributed surplus

Contributed surplus	Amount $
Balance – January 1, 2012	2,169,664
Share-based compensation – stock options vested	496,093
Warrants expired	139,052
Balance – December 31, 2012	2,804,809
Share-based compensation – stock options vested	62,858
Balance – March 31, 2013	2,867,667

Stock options

The Board of Directors of the Company has established a stock option plan (the "Plan") under which options to acquire common shares of the Company are granted to directors, employees and other advisors of the Company. The maximum number of common shares issuable under the Plan shall not exceed 5,300,000, inclusive of all shares presently reserved for issuance pursuant to previously granted stock options. The total number of options awarded to all consultants for the Company shall not exceed 5% of the issued and outstanding common shares of the Company at the award date. If any option expires or otherwise terminates for any reason without having been exercised in full, or if any option is exercised in whole or in part, the number of shares in respect of which option expired, terminated or was exercised shall again be available for the purposes of the Plan.

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

(Expressed in Canadian dollars)

7 Contributed surplus (continued)

Stock options (continued)

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

During the three months ended March 31, 2013, no stock options were granted to employees and consultants. During the three months ended March 31, 2012, 812,500 stock options with a weighted average exercise price of $0.40 and a term of 5 years were granted to employees and consultants. The value of these stock options has been estimated at $221,524, which is a weighted average grant date value per option of $0.27, using the Black-Scholes valuation model and the following weighted average assumptions:

	March 31, 2012
Risk-free interest rate	3.0%
Expected volatility	93%
Expected dividend yield	0%
Expected life (years)	4.40
Forfeiture rate	0-16%

Option activity for the three months ended March 31, 2013 and the year ended December 31, 2012 was as follows:

	March 31, 2013		December 31, 2012	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding, beginning of period	5,229,650	0.60	4,299,650	0.67
Granted	–	–	1,112,500	0.39
Forfeited	–	–	(41,667)	0.78
Expired	–	–	(140,833)	1.19
Outstanding, end of period	5,229,650	0.60	5,229,650	0.60

(Expressed in Canadian dollars)

8 Related party transaction

During the three months ended March 31, 2013 and March 31, 2012, the Company had no transactions with related parties.

9 Expenses by nature

	Three months ended March 31, 2013 $	Three months ended March 31, 2012 $
Salaries, wages and benefits	520,404	617,399
Other research and development expenditures, including clinical costs	380,364	496,188
Professional and consulting fees	383,262	221,012
Office, rent and telecommunications	77,313	78,956
Insurance	18,947	23,703
Marketing, communications and investor relations	94,029	47,108
Amortization	9,783	9,784
Depreciation	18,859	22,219
Stock-based compensation	62,858	167,829
Accreted interest	21,386	45,943
Travel	86,621	89,755
Other	21,846	(7,480)
Research and development tax credits	(70,000)	(60,000)
Government assistance	(40,828)	(348,621)
	1,584,844	1,403,795

10 Capital management

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

	March 31, 2013 $	December 31, 2012 $
Total debt	988,764	990,288
Less: Cash and cash equivalents	(2,474,737)	(2,001,931)
Net debt	(1,485,973)	(1,011,643)
Shareholders' equity	1,855,986	1,809,265
Total capital	370,013	797,622

The Company is in compliance with its debt covenant.

(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:

	March 31, 2013		December 31, 2012	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	2,474,737	2,474,737	2,001,931	2,001,931
Amounts receivable	38,236	38,236	296,617	296,617
Accounts payable and accrued liabilities	1,106,668	1,106,668	1,011,642	1,011,642
Amounts due to directors	54,972	54,972	30,936	30,936
Long-term debt	988,764	988,764	990,288	990,288

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 March 31, 2013 and December 31, 2012 and do not necessarily reflect future value or amounts which the Company might receive if it were to sell some or all of its assets to a willing buyer in a free and open market.

Risk management

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

a) Interest rate risk

The Company has no exposure to interest rate risk on its lending and borrowing activities. All outstanding debt as at March 31, 2013 and December 31, 2012 is interest-free, with the vast majority only becoming repayable when revenues are earned. The remaining portion is repayable over either 60 or 72 month periods, resulting in required principal debt payments in fiscal 2013 of $89,687.

b) Credit risk

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

(Expressed in Canadian dollars)

11 Financial instruments (continued)

Risk management (continued)

b) Credit risk (continued)

The total of amounts receivable disclosed in the statement of financial position as at March 31, 2013 of $114,452 (December 31, 2012 - $446,572) 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 Company does not believe it is subject to any significant concentration of credit risk.

c) Liquidity risk

Liquidity risk represents the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

While the Company has $2,474,737 in cash and cash equivalents at March 31, 2013, it continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Company is currently not yet receiving a significant ongoing revenue stream from its animal health license agreements, nor can it be certain that it will receive significant revenue from these agreements before additional cash is required. As a result, there can be no assurance that the Company will have sufficient capital to fund its ongoing operations, develop or commercialize any of its products without future financing. See note 1 for further details.

The following table outlines the contractual maturities for the Company'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 March 31, 2013:

	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Accounts payable and accrued liabilities	1,060,607	1,060,607	–	–	–
Amounts due to directors	54,972	54,972	–	–	–
Long-term debt	9,977,312	89,687	166,773	27,321	9,693,531
Operating leases	477,448	200,302	273,045	4,101	–
	11,570,339	1,405,568	439,818	31,422	9,693,531

d) Currency risk

The Company 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 Company does not have in place any tools to manage its foreign exchange risk, as these US dollars transactions are not significant to overall operations.