Immunovaccine Inc.

Consolidated Financial Statements
December 31, 2011 and 2010

April 19, 2012

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Immunovaccine Inc. (the "Company") are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's 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

April 19, 2012

Independent Auditor's Report

To the Shareholders of
Immunovaccine Inc

We have audited the accompanying consolidated financial statements of **Immunovaccine Inc.** and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Immunovaccine Inc. and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Accountants

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Immunovaccine Inc.

Consolidated Statements of Financial Position

As at December 31, 2011, December 31, 2010 and January 1, 2010

(Expressed in Canadian dollars)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	5,070,950	10,413,047	7,777,303
Amounts receivable (note 5)	710,283	469,990	595,436
Share subscription receivable	–	–	28,877
Prepaid expenses	303,067	288,068	183,441
Investment tax credits receivable	298,242	784,106	510,448
	6,382,542	11,955,211	9,095,505
Intangible asset (note 6)	352,195	391,327	430,460
Property and equipment (note 7)	406,868	332,697	322,356
	7,141,605	12,679,235	9,848,321
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 8)	1,170,477	700,136	720,861
Amounts due to directors (note 9)	1,750	81,705	–
Current portion of long-term debt (note 10)	76,817	57,683	67,821
Deferred revenues	–	–	24,000
	1,249,044	839,524	812,682
Long-term debt (note 10)	840,988	573,876	462,761
	2,090,032	1,413,400	1,275,443
Equity (note 11)	5,051,573	11,265,835	8,572,878
	7,141,605	12,679,235	9,848,321

Commitments (note 17)

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

Approved on behalf of the Board of Directors

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

(signed) *"Albert Scardino"*, Director

Immunovaccine Inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2011 and December 31, 2010

(Expressed in Canadian dollars)

	Share Capital $	Contributed Surplus $	Warrants $	Deficit $	Total $
Balance, January 1, 2010	18,730,299	718,848	136,672	(11,012,941)	8,572,878
Loss and comprehensive loss for the year	–	–	–	(5,653,780)	(5,653,780)
Issuance of shares	5,171,992	–	–	–	5,171,992
Warrants exercised	455,573	–	(136,672)	–	318,901
Warrants granted	–	–	1,590,402	–	1,590,402
Employee share options:					
Value of services recognized	–	981,820	–	–	981,820
Proceeds on issuing shares	361,464	(95,842)	–	–	265,622
Issuance of share capital in lieu of professional fees	9,000	9,000	–	–	18,000
Balance, December 31, 2010	24,728,328	1,613,826	1,590,402	(16,666,721)	11,265,835
Loss and comprehensive loss for the year	–	–	–	(6,806,100)	(6,806,100)
Employee share options:					
Value of services recognized	–	564,838	–	–	564,838
Issuance of share capital in lieu of professional fees	36,000	(9,000)	–	–	27,000
Balance, December 31, 2011	24,764,328	2,169,664	1,590,402	(23,472,821)	5,051,573

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

Immunovaccine Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2011 and December 31, 2010

(Expressed in Canadian dollars)

	December 31, 2011 $	December 31, 2010 $
Revenue	–	76,105
Expenses		
General and administrative	1,573,998	1,967,442
Research and development	4,240,381	2,631,507
Business development	797,386	1,049,336
Accreted interest and adjustments	194,335	81,600
	6,806,100	5,729,885
Net loss and comprehensive loss for the year	(6,806,100)	(5,653,780)
Basic and diluted loss per share	(0.13)	(0.12)
Weighted-average shares outstanding	53,981,559	47,789,397

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

Immunovaccine Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and December 31, 2010

(Expressed in Canadian dollars)

	December 31, 2011 $	December 31, 2010 $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(6,806,100)	(5,653,780)
Charges to operations not involving cash		
Amortization of intangible asset	39,132	39,133
Depreciation of property and equipment	91,869	78,868
Accreted interest and adjustments	194,335	81,600
Loss on disposal of assets	3,347	–
Stock-based compensation	564,838	981,820
Shares issued for professional services	27,000	18,000
	(5,885,579)	(4,454,359)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in amounts receivable	(240,293)	125,446
Decrease in share subscription receivable	–	28,877
Increase in prepaid expenses	(14,999)	(104,627)
Decrease (increase) in investment tax credits receivable	485,864	(273,658)
Increase (decrease) in accounts payable and accrued liabilities	470,341	(20,725)
Decrease (increase) in amounts due to directors	(79,955)	81,705
Decrease in deferred revenues	–	(24,000)
	(5,264,621)	(4,641,341)
Financing activities		
Proceeds from issuance of capital stock and warrants	–	7,465,100
Shares and warrant issuance costs	–	(702,706)
Proceeds from long-term debt	147,289	86,497
Repayment of long-term debt	(55,378)	(67,120)
Proceeds from exercise of stock options	–	265,622
Proceeds from exercise of warrants	–	318,901
	91,911	7,366,294
Investing activities		
Acquisition of property and equipment	(169,387)	(89,209)
Net change in cash and cash equivalents during the year	(5,342,097)	2,635,744
Cash and cash equivalents – Beginning of year	10,413,047	7,777,303
Cash and cash equivalents – End of year	5,070,950	10,413,047
Cash and cash equivalents are comprised of the following:		
Cash on hand and balances with banks	184,424	349,749
Short-term investments	4,886,526	10,063,298
	5,070,950	10,413,047
Supplementary cash flow		
Interest received	122,121	54,167

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

(Expressed in Canadian dollars)

1 Nature of operations

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. At December 31, 2011, while there can be no assurance, management believes, the Company has sufficient cash and cash equivalents to meet its obligations for the next twelve months as they come due. See note 16(c) for additional discussion related to liquidity risk. Immunovaccine has patented vaccine delivery and enhancement technologies trade named VacciMax® and DepoVax™ and has a number of early stage infectious disease and cancer vaccine product candidates. The Company also partners with other companies to help them 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.

2 Basis of presentation and adoption of International Financial Reporting Standards ("IFRS")

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company is reporting on this basis in these annual financial statements. In the financial statements, the term ("Canadian GAAP") refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS. Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

These financial statements were approved by the Board of Directors on April 19, 2012.

3 Significant accounting policies, judgments and estimation uncertainty

Accounting standards issued but not yet applied

The Company does not expect to early adopt the following revised standards and amendments. Accordingly, the Company expects to adopt these standards as set forth below.

IFRS 9, Financial Instruments

The International Accounting Standards Board ("IASB") has issued IFRS 9, "Financial Instruments" ("IFRS 9"), effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. IFRS 9 introduces new classification and measurement requirements for financial instruments. The Company continues to assess the impact of IFRS 9 on its consolidated statements of loss and financial position.

(Expressed in Canadian dollars)

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

Accounting standards issued but not yet applied (continued)

IFRS 10, Consolidated Financial Statements

The IASB issued IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), effective for annual periods beginning on or after January 1, 2013. IFRS 10 replaces portions of IAS 27, "Consolidated and Separate Financial Statements" ("IAS 27") that addresses consolidation, and supersedes Standing Interpretations Committee ("SIC") SIC-12 in its entirety. The objective of IFRS 10 is to define the principles of control and establish the basis of determining when and how an entity should be included within a set of consolidated financial statements. IAS 27 has been amended to reflect the issuance of IFRS 10 and retains guidance only for separate financial statements. The Company continues to assess the impact of IFRS 10 on its consolidated statements of loss and financial position.

IFRS 11, Joint Ventures

The IASB issued IFRS 11, "Joint Ventures" ("IFRS 11"), effective for annual periods beginning on or after January 1, 2013. IFRS 11 supersedes IAS 31, "Interest in Joint Ventures" and SIC-13, "Jointly Controlled Entities – Non Monetary Contributions by Venturers". Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements which are controlled jointly. As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28") was amended to reflect the guidance provided in IFRS 10 and IFRS 11. Currently, this standard has no impact on the consolidated financial statements of the Company.

IFRS 12, Disclosure of Interests in Other Entities

The IASB issued IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12") effective for annual periods beginning on or after January 1, 2013. IFRS 12 requires extensive disclosures relating to a company's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. IFRS 12 enables users of the financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial position and performance. The Company continues to assess the impact of IFRS 12 on its consolidated statements of loss and financial position.

IFRS 13, Fair Value measurement

The IASB issued IFRS 13, "Fair Value Measurement" ("IFRS 13") effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value, provides guidance in a single framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. The Company continues to assess the impact of IFRS 13 on its consolidated statements of loss and financial position.

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

Accounting standards issued but not yet applied (continued)

Amendments to standards

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. The Company continues to assess the impact of all other changes to IFRS 7 on its consolidated statements of loss and financial position.

Basis of measurement

The 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 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 consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

ii) Transactions and balances

Foreign currency translation of monetary assets and liabilities, denominated in currencies other than the Company's functional currency, are 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.

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.

(Expressed in Canadian dollars)

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

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.

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.

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 statements of loss during the period in which they are incurred.

(Expressed in Canadian dollars)

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

Property and equipment (continued)

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

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

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

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

Intangible asset

The intangible asset, consisting of a license with a finite life is carried at its cost, net of accumulated amortization. Amortization is provided over its estimated useful life of 10.5 years on a straight-line basis.

Impairment of non-financial assets

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

(Expressed in Canadian dollars)

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

Income tax (continued)

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.

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.

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 payments (upfront payments) 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.

(Expressed in Canadian dollars)

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

Revenue recognition

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.

Deferred revenue

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

Share capital

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

Loss per share

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

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

Stock-based compensation plan

The Company grants stock options to certain employees and non-employees. The majority of the stock options vest over 18 months (33 1/3% per six months) and expire after five years. In 2011, the Company granted stock options which vest over 2 years (33 1/3% immediately, 33 1/3% in year 1 and in year 2). 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.

(Expressed in Canadian dollars)

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

Government assistance

Non-repayable government assistance is recorded in the period earned as a reduction in the related qualifying expenditure. During the year ended December 31, 2011, the Company recorded $127,191 of non-repayable government grants, from a number of government agencies, as a reduction in related research salaries (year ended December 31, 2010 - $292,555). At December 31, 2011, $591,468 (December 31, 2010 - $378,703) 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 year ended December 31, 2011, the Company recorded $1,393,300 as a reduction in related research expenditures (year ended December 31, 2010 - $1,175,328).

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 financial statements.

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 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.

(Expressed in Canadian dollars)

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

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 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.

4 Transition to IFRS

The Company transitioned to IFRS effective January 1, 2010 ("the transition date") and has prepared its opening IFRS statement of financial position as at that date. The actual adoption date of IFRS is January 1, 2011, the date from which the Company presents its annual and interim financial statements, including comparative information, in accordance with IFRS. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian GAAP. These consolidated financial statements have been prepared in accordance with the policies referenced in note 3. The Company's financial statements for the year ending December 31, 2011 are the first annual financial statements that comply with IFRS.

The effect of the Company's transition to IFRS is summarized in this note as follows:

i) Transition election;

ii) Reconciliation of equity and comprehensive loss as previously reported under Canadian GAAP to IFRS;

iii) Explanatory notes of significant differences in accounting policies between Canadian GAAP and IFRS; and

iv) Adjustments to the statements of cash flows.

(Expressed in Canadian dollars)

4 Transition to IFRS (continued)

i) Transition election

The Company's first financial statements are prepared under IFRS 1, "First-time Adoption of IFRS". The Company has only applied the transition exemptions for share-based payments. In general, IFRS 2, "Share-based Payment", is to be applied to all grants of shares, options or other equity instruments made after November 7, 2002. The exemption under IFRS 1 allows first-time adopters to not apply IFRS 2 to equity instruments that were granted prior to November 7, 2002. It also allows the first-time adopter to not apply IFRS 2 to equity instruments granted after November 7, 2002 that vested before transition to IFRS. The Company has chosen to utilize this exemption.

ii) Reconciliation of equity and comprehensive loss as previously reported under Canadian GAAP to IFRS

Equity	**Note 4 (iii)**	**December 31, 2010 $**	**January 1, 2010 $**
Equity as reported under Canadian GAAP		4,885,908	3,295,680
IFRS adjustment increase (decrease):			
Revaluation of investment tax credits receivable	**a**	(34,000)	(43,000)
Revaluation of long-term debt	**b**	6,413,927	5,320,198
Equity as reported under IFRS		11,265,835	8,572,878

Comprehensive loss	**Note 4 (iii)**	**Year ended December 31, 2010 $**
As reported under Canadian GAAP		(6,503,069)
Increase (decrease) in net loss for:		
Revaluation of investment tax credits receivable	**a**	9,000
Revaluation of long-term debt	**b**	1,093,729
Stock-based compensation	**c**	(253,440)
As reported under IFRS		(5,653,780)

	Note 4 (iii)	**For the year ended December 31, 2010**		
		Cdn GAAP	Adj	IFRS
Revenue		76,105	–	76,105
Expenses				
General and administrative	**c**	1,878,697	88,745	1,967,442
Research and development	**a/b/c**	3,672,249	(1,040,742)	2,631,507
Business development	**c**	1,028,228	21,108	1,049,336
Interest	**b**	–	81,600	81,600
		6,579,174	(849,289)	5,729,885
Net loss and comprehensive loss for the period		(6,503,069)	849,289	(5,653,780)
Basic and diluted loss per share		(0.14)		(0.12)
Weighted-average shares outstanding		47,789,397		47,789,397

(Expressed in Canadian dollars)

4 Transitions to IFRS (continued)

iii) Explanatory notes of significant differences in accounting policies between Canadian GAAP and IFRS

a) Under IFRS, the investment tax credits receivable must be measured initially at fair value. Under Canadian GAAP, these are measured at cost, however due to the length of time between recording the receivable and collection, the receivable must be adjusted to reflect the time value of money. The adjustment required a decrease to the investment tax credits receivable of $43,000 at January 1, 2010 which was subsequently accreted to the statements of loss with an increase of $9,000 for the year ended December 31, 2010.

b) Under IFRS, a government loan that has a 'below market rate of interest' should be measured at initial recognition at fair value, with any difference between the contribution received for the loan and the fair value amount accounted for as a government grant. These are subsequently measured at amortized cost using the effective interest rate.

The ACOA Atlantic Innovation Fund interest-free loan, with a maximum contribution of $3,786,474, was recorded at $243,000 at January 1, 2010 and $295,592 at December 31, 2010. Imputed interest on the loan is being accreted to the amounts repayable over the remaining term of the loan. $81,000 of accreted interest was recorded for the year ended December 31, 2010.

The ACOA Atlantic Innovation Fund interest-free loan, with a maximum contribution of $3,000,000, was recorded at $1,000 at January 1, 2010 and $1,600 at December 31, 2010. Imputed interest on the loan is being accreted to the amounts repayable over the remaining term of the loan. $600 of accreted interest was recorded for the year ended December 31, 2010.

c) Under IFRS, the Company accrues the costs of employee stock options over the vesting period using the graded method of amortization rather than the straight-line method, which was the Company's policy under Canadian GAAP. To calculate the fair value of the stock options using the Black-Scholes valuation model, the Company also included a forfeiture rate. Combined, this increased contributed surplus and the deficit at the date of transition by $84,878, and increased stock-based compensation expense by $253,440 for the year ended December 31, 2010.

d) The following is a summary of transition adjustments to the Company's deficit from Canadian GAAP to IFRS:

	December 31, 2010 $	January 1, 2010 $
Deficit as reported under Canadian GAAP	(22,708,330)	(16,205,261)
IFRS adjustment increase (decrease):		
Revaluation of investment tax credits	(34,000)	(43,000)
Revaluation of long-term debt	6,413,927	5,320,198
Amortization of employee stock options	(338,318)	(84,878)
	6,041,609	5,192,320
Deficit as reported under IFRS	(16,666,721)	(11,012,941)

(Expressed in Canadian dollars)

4 Transitions to IFRS (continued)

iv) Adjustments to the statements of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on the cash flows generated by the Company; however, the changes described above resulted in a difference in the presentation of certain items on the statements of cash flows. Recording the long-term debt at fair value resulted in a decrease of proceeds from new debt of $970,956 to $86,497, with the difference recorded as a government grant. The Company also recorded accreted interest relating to the interest-free loans of $81,600 for the year ended December 31, 2010, which were added back as non-cash items in the statement of cash flows.

5 Amounts receivable

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Amounts due from government assistance and government loans	591,468	378,703	368,335
Sales tax receivable	118,815	90,356	223,875
Other	–	931	3,226
	710,283	469,990	595,436

6 Intangible asset

On July 9, 2009, the Company purchased an exclusive world-wide license for the use of certain patented antigens for $446,765. These antigens are being used in the Company's therapeutic cancer vaccine candidate, DPX-0907. Under the terms of the license, the Company must pay certain royalties on commercial revenues generated through use of the antigens. As DPX-0907 has not yet reached commercial production, the license does not have an expiry date. The Company plans to use the antigens for the foreseeable future and is therefore amortizing the cost of the license over its expected useful life of 10.5 years, which is the remaining life of the underlying patents.

(Expressed in Canadian dollars)

6 Intangible asset (continued)

	License $
At January 1, 2010	
Cost	446,765
Accumulated amortization	(16,305)
Net book value	430,460
Year ended December 31, 2010	
Opening net book value	430,460
Amortization for the period	(39,133)
Closing net book value	391,327
At December 31, 2010	
Cost	446,765
Accumulated amortization	(55,438)
Net book value	391,327
Year ended December 31, 2011	
Opening net book value	391,327
Amortization for the period	(39,132)
Closing net book value	352,195
At December 31, 2011	
Cost	446,765
Accumulated amortization	(94,570)
Net book value	352,195

(Expressed in Canadian dollars)

7 Property and equipment

	Computer equipment $	Furniture and fixtures $	Laboratory equipment $	Total $
At January 1, 2010				
Cost	110,390	44,287	519,378	674,055
Accumulated depreciation	(68,227)	(33,078)	(250,394)	(351,699)
Net book value	42,163	11,209	268,984	322,356
Year ended December 31, 2010				
Opening net book value	42,163	11,209	268,984	322,356
Additions	25,178	3,873	60,158	89,209
Depreciation for the period	(16,425)	(2,629)	(59,814)	(78,868)
Closing net book value	50,916	12,453	269,328	332,697
At December 31, 2010				
Cost	135,568	48,160	579,536	763,264
Accumulated depreciation	(84,652)	(35,707)	(310,208)	(430,567)
Net book value	50,916	12,453	269,328	332,697
Year ended December 31, 2011				
Opening net book value	50,916	12,453	269,328	332,697
Additions	13,649	39,197	116,541	169,387
Disposal	–	(3,347)	–	(3,347)
Depreciation for the period	(19,939)	(6,410)	(65,520)	(91,869)
Closing net book value	44,626	41,893	320,349	406,868
At December 31, 2011				
Cost	149,217	63,174	696,077	908,468
Accumulated depreciation	(104,591)	(21,281)	(375,728)	(501,600)
Net book value	44,626	41,893	320,349	406,868

8 Accounts payable and accrued liabilities

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Trade payables	788,739	277,474	487,268
Accrued liabilities	363,016	422,662	175,731
Payroll taxes	18,722	–	57,862
	1,170,477	700,136	720,861

(Expressed in Canadian dollars)

9 Amounts due to directors

During the year ended December 31, 2011, the Company incurred $160,500 (2010 - $170,375) of director's fees and attendance fees earned by the Board of Directors who are not employees or officers of the Company. At December 31, 2011, $1,750 (2010 - $81,705) was due to these individuals. These costs are included in general and administrative expenses in the statements of loss.

10 Long-term debt

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
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 December 31, 2011, the amount drawn down on the loan, net of repayments, is $3,749,531	480,000	295,592	243,000
ACOA Marketing interest-free loan, repayable in 60 equal monthly payments of $3,226 beginning November 1, 2008. As at December 31, 2011, the amount drawn down on the loan, net of repayments, is $70,967	68,301	109,679	148,392
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 December 31, 2011, the amount drawn down on the loan is $3,000,000	2,400	1,600	1,000
ACOA Business Development Program interest-free loan with a maximum contribution of $245,625, repayable in 72 equal monthly payments of $3,411 beginning September 1, 2011. As at December 31, 2011, the amount drawn down on the loan, net of repayments, is $231,981	203,450	224,688	138,190
ACOA Business Development Program interest-free loan with a maximum contribution of $75,000, repayable in monthly payments beginning October 1, 2011 of $500 until April 2012, $1,000 until April 2013, $1,500 until April 2014, $2,000 until April 2015 and $3,333 until August 2015. As at December 31, 2011, the amount drawn down on the loan is $70,977	63,154	–	–
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 December 31, 2011, the amount drawn down on the loan is $2,033,915	100,500	–	–
	917,805	631,559	530,582
Less: Current portion	76,817	57,683	67,821
	840,988	573,876	462,761

(Expressed in Canadian dollars)

10 Long-term debt (continued)

Total contributions received less amounts that have been repaid as at December 31, 2011 is $9,157,371 (December 31, 2010 - $7,045,486).

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

The minimum annual principal repayments of long-term debt over the next five years, excluding the Atlantic Innovation Fund repayments for 2012 and beyond which are not determinable at this time, are as follows:

	$
Year ending December 31, 2012	90,144
2013	89,687
2014	63,432
2015	62,409
2016	40,932

	December 31, 2011 $	December 31, 2010 $
Balance – beginning of period	631,559	530,582
New debt	147,289	86,497
Accreted interest and adjustments	194,335	81,600
Repayment of debt	(55,378)	(67,120)
Balance – end of period	917,805	631,559
Less: current portion	76,817	57,683
Non-current portion	840,988	573,876

(Expressed in Canadian dollars)

11 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, 2010	45,222,395	18,730,299
Issued for cash consideration	7,465,100	5,171,992
Issued in lieu of professional fees	11,689	9,000
Warrants exercised	455,573	455,573
Stock options exercised	787,121	361,464
Balance – December 31, 2010	53,941,878	24,728,328
Issued in lieu of professional fees	45,206	36,000
Balance – December 31, 2011	53,987,084	24,764,328

On September 16, 2010, the Company completed a public offering of 7,465,100 units at a price of $1.00 per unit for aggregate gross proceeds of $7,465,100. Each unit consisted of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of $1.30 for a period of three years, expiring on September 16, 2013. The value allocated to the common shares issued was $5,852,638 and the value allocated to the warrants was $1,612,462. Total costs associated with the offering were $868,758, including cash costs for commissions, professional fees and regulatory costs of $702,706 and 405,006 compensation options issued as commissions to the agents, valued at $166,052. Each compensation option entitles the holder to acquire one common share of the Company at an exercise price of $1.00 for a period of two years, expiring on September 14, 2012. The Company has allocated $680,646 of the issue costs to the common shares and $188,112 of the issue costs to the warrants.

In November 2010, the Company entered into a five month consulting agreement with S.P.Angel Corporate Finance LLP (“S.P.Angel”), to act as corporate finance and European capital markets consultant and advisor. In consideration for the services rendered by S.P.Angel under the consulting agreement, the Company agreed to pay to S.P.Angel a monthly fee of $9,000, payable by issuance of common shares. The number of common shares issued to S.P.Angel in payment of the monthly fees is determined by dividing the amount of the monthly fees by the volume-weighted average price of the common shares of the Company during the last five trading days of the relevant month. As at December 31, 2011, the Company had issued 56,895 shares for services performed in the five month period November 2010 through to March 2011.

As at December 31, 2011, a total of 8,437,206 shares (December 31, 2010 – 7,954,706) are reserved to meet outstanding stock options and warrants.

(Expressed in Canadian dollars)

12 Contributed surplus

	Amount $
Contributed surplus	
Balance – January 1, 2010	718,848
Share-based compensation – stock options vested	981,820
Share-based compensation – stock options exercised	(95,842)
Shares issued in lieu of professional fees (note 11)	9,000
Balance – December 31, 2010	1,613,826
Share-based compensation – stock options vested	564,838
Shares issued in lieu of professional fees (note11)	(9,000)
Balance – December 31, 2011	2,169,664

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.

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.

(Expressed in Canadian dollars)

12 Contributed surplus (continued)

Stock options (continued)

The fair values of stock options are estimated using the Black-Scholes option pricing model. During the year ended December 31, 2011, 1,960,000 stock options (December 31, 2010 – 1,286,500) with a weighted average exercise price of $0.39 (December 31, 2010 – $1.04) and a term of 5 years (December 31, 2010 – 5 years), were granted to employees and consultants. The value of these stock options has been estimated at $438,700 (December 31, 2010 - $700,355), which is a weighted average grant date value per option of $0.22 (December 31, 2010 - $0.54), using the Black-Scholes valuation model and the following weighted average assumptions:

	December 31, 2011 $	December 31, 2010 $
Risk-free interest rate	3.00%	2.3%
Expected volatility	92%	95%
Expected dividend yield	–	–
Expected life (years)	4.29	4.29

Option activity for the years ended December 31, 2011 and December 31, 2010 was as follows:

	2011		2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding, beginning of period	3,817,150	0.97	3,518,687	0.81
Granted	1,960,000	0.39	1,286,500	1.04
Exercised	–	–	(787,121)	0.33
Expired	(1,200,833)	1.06	(44,750)	0.92
Forfeited	(276,667)	1.07	(156,166)	1.20
Outstanding, end of period	4,299,650	0.67	3,817,150	0.97

The weight average exercise price of options exercisable at December 31, 2011 is $0.78 (December 31, 2010 – $0.89).

(Expressed in Canadian dollars)

12 Contributed surplus (continued)

Stock options (continued)

At December 31, 2011, the following options were outstanding:

Opening	Issued	Exercised	Expired	Forfeited	Closing	Exercisable	Exercise price per share $	Expiry	Average years remaining
75,000	–	–	–	–	75,000	75,000	0.28	December 31, 2013	2.00
150,000	–	–	–	–	150,000	150,000	0.28	March 31, 2014	2.25
82,500	–	–	–	–	82,500	82,500	0.28	April 30, 2014	2.33
67,500	–	–	–	–	67,500	67,500	0.28	August 31, 2014	2.67
15,000	–	–	–	–	15,000	15,000	0.28	December 31, 2014	3.00
165,000	–	–	–	–	165,000	165,000	0.20	March 31, 2015	3.25
71,250	–	–	(1,500)	–	69,750	69,750	0.67	March 31, 2016	4.25
7,500	–	–	–	–	7,500	7,500	0.67	July 1, 2016	4.50
300,000	–	–	(300,000)	–	–	–	0.67	December 1, 2016	–
139,000	–	–	(50,000)	–	89,000	89,000	1.00	March 31, 2017	5.25
10,000	–	–	–	–	10,000	10,000	1.00	July 1, 2017	5.50
306,000	–	–	(170,000)	–	136,000	136,000	1.00	March 31, 2018	6.25
319,900	–	–	(180,000)	–	139,900	139,900	1.00	March 31, 2019	7.25
822,000	–	–	(334,333)	(41,667)	446,000	446,000	1.46	December 14, 2014	2.95
60,000	–	–	(60,000)	–	–	–	1.31	February 2, 2015	–
50,000	–	–	–	–	50,000	50,000	1.26	February 23, 2015	3.15
50,000	–	–	–	–	50,000	50,000	1.21	May 17, 2015	3.38
50,000	–	–	–	–	50,000	33,332	1.27	July 29, 2015	3.58
10,000	–	–	–	–	10,000	6,666	1.33	August 5, 2015	3.59
35,000	–	–	–	–	35,000	23,332	0.91	September 20, 2015	3.70
20,000	–	–	–		20,000	13,332	0.85	November 15, 2015	3.87
1,011,500	–	–	(105,000)	(235,000)	671,500	447,667	1.00	December 16, 2015	3.96
–	50,000	–	–	–	50,000	–	0.55	August 26, 2016	4.65
–	1,860,000	–	–	–	1,860,000	620,000	0.38	September 23, 2016	4.73
–	50,000	–	–	–	50,000	–	0.45	November 8, 2016	4.86
3,817,150	1,960,000	–	(1,200,833)	(276,667)	4,299,650	2,697,479			

(Expressed in Canadian dollars)

13 Warrants

Warrant activity for the years ended December 31, 2011 and December 31, 2010 was as follows:

	2011			2010		
	Number	Exercise price per warrant $	Amount $	Number	Exercise price per warrant $	Amount $
Opening balance	4,137,556	1.27	1,590,402	455,573	0.70	136,672
Issued	–	–	–	405,006	1.00	166,052
				3,732,550	1.30	1,424,350
Exercised	–	–	–	(455,573)	0.70	(136,672)
Closing balance	4,137,556	1.27	1,590,402	4,137,556	1.27	1,590,402

The Company incurred warrant issue costs of $152,245 in connection with the public offering on September 16, 2010. As an additional cost of the financing, the Company granted 405,006 compensation options to the broker, which entitles the holder to acquire one common share at a price of $1.00 for a period of two years, expiring on September 14, 2012. The value of these compensation options allocated to the warrants issued was $35,866.

The fair value of the warrants has been estimated using the Black-Scholes option pricing model. The weighted average grant date fair value for warrants issued during 2010 was $0.43. The weighted average assumptions used in the pricing model for each of the warrants granted during the year ended December 31, 2010 are as follows:

	2010
Risk free interest rate	3.0%
Expected volatility	75%
Expected dividend yield	–
Expected life (years)	2.9

(Expressed in Canadian dollars)

14 Deferred income taxes

a) Reconciliation of total tax recovery

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

	Year ended December 31, 2011 $	2010 $
Loss before income taxes	(6,806,100)	(5,653,780)
Income tax rate	32.5%	34.0%
	(2,212,000)	(1,922,000)
Effect on income taxes of:		
Non-deductible stock-based compensation	184,000	334,000
Non-deductible accretion of long-term debt	63,000	28,000
Unrecognized deductible temporary difference and carry forward amounts and experimental development expenditures	1,964,000	1,559,000
Other non-deductible items	1,000	1,000
Income tax expenses	–	–

b) Deferred income tax

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

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Deferred income tax liabilities:			
Property and equipment	(37,000)	(23,000)	(32,000)
Deferred income tax assets:			
Deductible share issues costs	37,000	23,000	32,000
Net deferred income tax liability	–	–	–

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

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Non-capital losses	15,000,000	10,580,000	7,020,000
Scientific research and experimental development expenditures	3,700,000	2,570,000	1,700,000
Non-refundable investment tax credits	750,000	520,000	170,000
Deductible share issuance costs	862,000	1,094,000	617,000

(Expressed in Canadian dollars)

14 Deferred income taxes (continued)

c) Non-capital losses

As at December 31, 2011, the Company had approximately $15,000,000 in losses available to reduce future taxable income. The benefit of these losses has not been recorded in the accounts as realization is not considered probable. These losses may be claimed no later than:

		$
For the year ended December 31,	2013	650,000
	2014	500,000
	2015	1,000,000
	2016	1,100,000
	2027	1,470,000
	2028	1,770,000
	2029	660,000
	2030	2,350,000
	2031	5,500,000
		15,000,000

d) Scientific research and experimental development expenditures

In addition, the Company has approximately $3,700,000 of unclaimed scientific research and development expenditures, which may be carried forward indefinitely and used to reduce taxable income in future years. The potential income tax benefits associated with the unclaimed scientific research and experimental development expenditures have not been recognized in the accounts as realization is not considered probable.

e) Non-refundable investment tax credits

The Company also has approximately $750,000 in non-refundable federal investment tax credits which may be carried forward to reduce taxes payable. These tax credits will be fully expired by 2031. The benefit of these tax credits has not been recorded in the accounts as realization is not considered probable.

(Expressed in Canadian dollars)

15 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.

	December 31, 2011 $	December 31, 2010 $
Total debt	917,805	631,559
Less: Cash and cash equivalents	(5,070,950)	(10,413,047)
Net debt	(4,153,145)	(9,781,488)
Equity	5,051,573	11,265,835
Total capital	898,428	1,484,347

The Company is in compliance with its debt covenants.

16 Financial instruments

Fair value of financial instruments

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

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Carrying value $	Fair value $	Carrying value $	Fair value $	Carrying value $	Fair value $
Cash and cash equivalents	5,070,950	5,070,950	10,413,047	10,413,047	7,777,303	7,777,303
Amounts receivable	591,449	591,449	379,539	379,539	400,437	400,437
Accounts payable and accrued liabilities	1,151,755	1,151,755	700,136	700,136	662,999	662,999
Amounts due to directors	1,750	1,750	81,705	81,705	–	–
Long-term debt	917,805	917,805	631,559	631,559	530,582	530,582

(Expressed in Canadian dollars)

16 Financial instruments (continued)

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

Fair value of items, which are short-term in nature, have been deemed to approximate their carrying value. The above noted fair values, presented for information only, reflect conditions that existed only at December 31, 2011, December 31, 2010 and January 1, 2010, 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.

The fair value of the long-term debt is estimated based on the expected interest rates for similar borrowings by the Company at the statement of financial position dates. At December 31, 2011, December 31, 2010 and January 1, 2010, the fair value is estimated to be equal to the carrying amount.

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 December 31, 2011 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 2012 of $90,144.

b) Credit risk

Credit risk arises from cash and cash equivalents and amounts receivable. 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.

The total of amounts receivable disclosed in the statements of financial position as at December 31, 2011 of $710,283 (December 31, 2010 - $469,990) is comprised mainly of current period advances due to the Company for government assistance programs, 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.

(Expressed in Canadian dollars)

16 Financial instruments (continued)

Risk management (continued)

c) Liquidity risk

Liquidity risk represents the possibility that the Company may not be able to gather sufficient cash resources, when required and under reasonable conditions, to meet its financial obligations. At December 31, 2011, while there can be no assurance, management believes the Company has sufficient cash and cash equivalents to meet its obligations for the next twelve months as they come due.

While the Company has $5,070,950 in cash and cash equivalents at December 31, 2011, 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.

The following table outlines the contractual maturities and estimated maturities for long-term debt repayable based on a percentage of revenues for the Company's financial liabilities. The long-term debt is comprised of the contributions received described in note 10, less amounts that have been repaid as at December 31, 2011 and December 31, 2010:

					December 31, 2011
	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Accounts payable and accrued liabilities	1,170,477	1,170,477	–	–	–
Amounts due to directors	1,750	1,750	–	–	–
Long-term debt	9,157,371	88,644	216,051	69,230	8,783,446
Operating leases	531,158	195,291	183,961	27,784	–
	10,860,756	1,456,162	400,012	97,014	8,783,446

					December 31, 2010
	Total $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $
Accounts payable and accrued expenses	700,136	700,136	–	–	–
Amounts due to directors	81,705	81,705	–	–	–
Long-term debt	7,045,486	79,644	193,763	60,960	6,711,119
Operating leases	57,411	56,526	885	–	–
	7,884,738	918,011	194,648	60,960	6,711,119

(Expressed in Canadian dollars)

16 Financial instruments (continued)

Risk management (continued)

d) Currency risk

The Company incurs some revenue and expenses in U.S. dollars, and as such, is subject to some fluctuations as a result of foreign exchange rate variation. The Company does not have in place any tools to manage its foreign exchange risk, as these U.S. dollars transactions are not significant to overall operations.

Foreign exchange gains of $10,400 for the year ended December 31, 2011 (December 31, 2010, foreign exchange loss - $22,127) are included in general and administrative expenses. If the foreign exchange had been 1% higher/lower, with all other variables held constant, it would have had an immaterial impact on the foreign exchange gain/loss.

17 Commitments

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

	$
Year ending December 31, 2012	195,291
2013	74,419
2014	53,046
2015	56,496
2016	27,784

Under the terms of the Company's license agreement with Immunotope Inc. for the world-wide exclusive use of certain antigens, the Company was required to make an up-front payment, which has been recorded as an intangible asset (see note 6). Should the Company's research using these antigens continue and prove successful through clinical trials and on to commercialization, the Company would be required to pay certain future milestones and royalty payments along the way. The likelihood and timing of these payments is not known at this time.

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

18 Related party transactions

During the year ended December 31, 2011, the Company carried out the following transactions which were incurred during the normal course of operations with related parties:

- The Company was charged $36,000 (December 31, 2010 - $66,000) for business development consulting fees during the period that the individual was a non-executive director. Subsequent to June 2011, the individual was no longer a non-executive director.

(Expressed in Canadian dollars)

19 Expenses by nature

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Salaries, wages and benefits	1,917,336	1,872,579
Research and development expenditures, including clinical costs	4,684,824	2,359,392
Professional and consulting fees	1,016,510	1,112,639
Office, rent and telecommunications	307,851	318,232
Insurance	72,614	77,904
Marketing, communications and investor relations	158,479	183,170
Amortization	39,132	39,133
Depreciation	91,869	78,868
Stock-based compensation	564,838	985,558
Accreted interest and adjustments	194,335	81,600
Other	276,616	418,474
Research and development tax credits	(371,140)	(349,000)
Government assistance	(2,147,164)	(1,448,664)
	6,806,100	5,729,885

20 Compensation of key management

Key management includes the Company's Directors, Chief Executive Officer, the former President and Chief Executive Officer, the Chief Science Officer, the Chief Financial Officer, the former Chief Financial Officer, the former Acting Chief Financial Officer and the former Vice President and Corporate Secretary. Compensation awarded to key management is summarized as follows:

	Year ended December 31, 2011 $	Year ended December 31, 2010 $
Salaries and other benefits	789,351	1,084,263
Stock-based compensation	438,700	433,836
	1,228,051	1,518,099

21 Subsequent event

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 $166,688, 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.