

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated
Financial Statements
September 30, 2016

November 8, 2016

Management's Responsibility for Financial Reporting

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

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

(signed) "*Frederic Ors*"
Chief Executive Officer

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

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Financial Position As at September 30, 2016 and December 31, 2015

(Expressed in Canadian dollars)

	September 30, 2016 \$	December 31, 2015 \$
Assets		
Current assets		
Cash and cash equivalents	7,908,407	3,842,408
Amounts receivable	81,578	328,868
Prepaid expenses	416,672	226,965
Investment tax credits receivable	423,953	1,048,946
	<u>8,830,610</u>	<u>5,447,187</u>
Intangible asset (note 12)	–	207,173
Property and equipment (note 4)	<u>285,583</u>	<u>297,708</u>
	<u>9,116,193</u>	<u>5,952,068</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	1,081,265	1,909,755
Amounts due to directors	40,101	57,084
Deferred revenue	–	138,635
Current portion of long-term debt (note 5)	57,947	59,196
	<u>1,179,313</u>	<u>2,164,670</u>
Long-term debt (note 5)	<u>4,948,774</u>	<u>3,718,040</u>
	6,128,087	5,882,710
Equity	<u>2,988,106</u>	<u>69,358</u>
	<u>9,116,193</u>	<u>5,952,068</u>

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

Approved on behalf of the Board of Directors

(signed) "James W. Hall", Director

(signed) "Wayne Pisano", Director

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Changes in Equity For the period ended September 30, 2016 and December 31, 2015

(Expressed in Canadian dollars)

	Share capital \$	Contributed surplus \$	Warrants \$	Deficit \$	Total \$
Balance, December 31, 2014	43,274,716	4,883,103	777,852	(41,121,828)	7,813,843
Net loss and comprehensive loss for the year	–	–	–	(8,774,849)	(8,774,849)
Exercise of warrants	121,707	–	(24,477)	–	97,230
Employee share options:					
Value of services recognized	–	845,817	–	–	845,817
Exercise of options	204,134	(116,817)	–	–	87,317
Balance, December 31, 2015	43,600,557	5,612,103	753,375	(49,896,677)	69,358
Net loss and comprehensive loss for the period	–	–	–	(5,154,940)	(5,154,940)
Issuance of shares in a private placement	7,566,000	–	–	–	7,566,000
Share issuance costs	(709,142)	–	–	–	(709,142)
Issuance of warrants in a private placement	–	–	436,500	–	436,500
Warrant issuance costs	–	–	(40,912)	–	(40,912)
Issuance of broker warrants	–	–	95,910	–	95,910
Expiry of warrants	–	753,375	(753,375)	–	–
Employee share options:					
Value of services recognized	–	658,247	–	–	658,247
Exercise of options	168,623	(101,538)	–	–	67,085
Balance, September 30, 2016	50,626,038	6,922,187	491,498	(55,051,617)	2,988,106

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

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Loss and Comprehensive Loss For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenue	–	64,851	129,703	64,851
Expenses				
General and administrative	685,550	624,881	1,856,285	1,970,009
Research and development	762,690	1,123,469	2,417,919	3,365,357
Business development	117,739	214,421	468,769	771,264
Accreted interest and adjustments	137,717	105,874	346,683	284,211
Impairment loss (note 12)	194,987	–	194,987	–
	1,898,683	2,068,645	5,284,643	6,390,841
Net loss and comprehensive loss for the period	(1,898,683)	(2,003,794)	(5,154,940)	(6,325,990)
Basic and diluted loss per share	(0.02)	(0.02)	(0.05)	(0.07)
Weighted-average shares outstanding	106,807,889	91,786,615	98,271,036	91,764,768

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

Immunovaccine Inc.

Unaudited Interim Condensed Consolidated Statements of Cash Flows For the nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

	Nine months ended September 30,	
	2016	2015
	\$	\$
Cash provided by (used in)		
Operating activities		
Net loss and comprehensive loss for the period	(5,154,940)	(6,325,990)
Charges to operations not involving cash		
Amortization of intangible asset	12,186	20,717
Depreciation of property and equipment	54,805	49,486
Impairment loss on intangible asset	194,987	–
Accreted interest and adjustments	346,683	284,211
Share-based compensation	658,247	699,725
	<u>(3,888,032)</u>	<u>(5,271,851)</u>
Net change in non-cash working capital balances related to operations		
Decrease (increase) in amounts receivable	247,290	(4,270)
Increase in prepaid expenses	(189,707)	(3,053)
Decrease (increase) in investment tax credits receivable	624,993	(219,100)
Decrease in accounts payable and accrued liabilities	(828,490)	(296,175)
Increase (decrease) in amounts due to directors	(16,983)	16,448
Increase (decrease) in deferred revenue	(138,635)	194,555
	<u>(4,189,564)</u>	<u>(5,583,446)</u>
Financing activities		
Proceeds from issuance of share capital and warrants in a private placement	8,002,500	–
Share and warrant of issuance costs in a private placement	(654,144)	–
Proceeds from the exercise of stock options	67,085	71,917
Proceeds from the exercise of warrants	–	97,230
Proceeds from long-term debt	936,000	253,700
Repayment of long-term debt	(53,198)	(52,175)
	<u>8,298,243</u>	<u>370,672</u>
Investing activities		
Acquisition of property and equipment	<u>(42,680)</u>	<u>(110,868)</u>
Net change in cash and cash equivalents during the period	4,065,999	(5,323,642)
Cash and cash equivalents – Beginning of period	3,842,408	10,662,463
Cash and cash equivalents – End of period	<u>7,908,407</u>	<u>5,338,821</u>
Supplementary cash flow information		
Interest received	58,341	79,166

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

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

1 Nature of operations

Immunovaccine Inc. (the “Corporation”) is, through its 100% owned subsidiary ImmunoVaccine Technologies Inc., a clinical stage biopharmaceutical company that develops products based on its proprietary vaccine enhancement platform with a primary focus on T cell activating therapies for cancer. The Corporation also capitalizes on licensing opportunities of its platform for other applications including infectious diseases. The Corporation’s proprietary DepoVax™ delivery platform is believed to produce a strong, high-quality immune response that has a specific and sustained immune effect, and enables the Corporation to pursue vaccine candidates in cancer, infectious diseases and potentially other vaccine applications. The Corporation has research collaborations with companies and research organizations, including Incyte Corporation and Leidos Inc. (“Leidos”) in the U.S. The Corporation has licensed the delivery technology to Zoetis, formerly the animal health division of Pfizer, Inc. (“Pfizer”), for the development of vaccines for livestock. The Corporation has one reportable and geographic segment. Incorporated under the Canada Business Corporations Act and domiciled in Halifax, Nova Scotia, the shares of the Corporation are listed on the Toronto Stock Exchange (“TSX”) with the symbol “IMV” and trade on the OTCQX under the symbol “IMMVF”. The address of its principal place of business is 1344 Summer Street, Suite 412, Halifax, Nova Scotia, Canada.

Since the Corporation’s inception, operations have been financed through the sale of shares, issuance of debt, revenue and cost-recoveries from license agreements, interest income on funds available for investment, government assistance and income tax credits. The Corporation has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of \$55,051,617 as at September 30, 2016.

2 Basis of presentation

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

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, International Accounting Standards 34 “*Interim Financial Reporting*”. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB has been omitted or condensed. The unaudited interim condensed consolidated financial statements should be read in conjunction with the Corporation’s annual audited consolidated financial statements for the year ended December 31, 2015.

The policies applied in these unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of November 8, 2016, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation’s annual consolidated financial statements for the year ending December 31, 2015 could result in restatement of these unaudited interim condensed consolidated financial statements.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

3 Significant accounting policies, judgments and estimation uncertainty

These unaudited interim condensed consolidated financial statements have been prepared using the same policies and methods as the annual consolidated financial statements of the Corporation for the year ended December 31, 2015. Refer to note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2015 for more information on new accounting standards and amendments not yet effective.

4 Property and equipment

	Computer equipment \$	Furniture and equipment \$	Laboratory equipment \$	Total \$
Year January 1, 2015				
Opening net book value	31,356	27,356	190,070	248,782
Additions	20,105	–	100,905	121,010
Depreciation for the year	(18,508)	(5,471)	(48,105)	(72,084)
Closing net book value	32,953	21,885	242,870	297,708
At December 31, 2015				
Cost	202,056	70,319	833,001	1,105,376
Accumulated depreciation	(169,103)	(48,434)	(590,131)	(807,668)
Net book value	32,953	21,885	242,870	297,708
Period ended September 30, 2016				
Opening net book value	32,953	21,885	242,870	297,708
Additions	11,194	–	31,486	42,680
Disposal - Cost	(99,740)	–	–	(99,740)
Disposal – Accumulated depreciation	99,740	–	–	99,740
Depreciation for the period	(13,784)	(3,283)	(37,738)	(54,805)
Closing net book value	30,363	18,602	236,618	285,583
At September 30, 2016				
Cost	113,510	70,319	864,487	1,048,316
Accumulated depreciation	(83,147)	(51,717)	(627,869)	(762,733)
Net book value	30,363	18,602	236,618	285,583

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

5 Long-term debt

	September 30, 2016 \$	December 31, 2015 \$
Atlantic Canada Opportunities Agency (“ACOA”) Atlantic Innovation Fund interest-free loan with a maximum contribution of \$3,786,474. Annual repayments, commencing December 1, 2008, are calculated as a percentage of gross revenue for the preceding fiscal year, at 2% when gross revenues are less than \$5,000,000 and 5% when gross revenues are greater than \$5,000,000. As at September 30, 2016, the amount drawn down on the loan, net of repayments, is \$3,749,531.	249,700	230,200
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, at 2% when gross revenues are less than \$5,000,000 and 5% when gross revenues are greater than \$5,000,000. As at September 30, 2016, the amount drawn down on the loan is \$3,000,000.	202,650	192,900
ACOA Business Development Program interest-free loan with a maximum contribution of \$245,625, repayable in 72 equal monthly payments of \$3,411 beginning September 1, 2011. As at September 30, 2016, the amount drawn down on the loan, net of repayments, is \$37,554.	34,953	64,013
ACOA Business Development Program interest-free loan with a maximum contribution of \$394,826, repayable in monthly payments beginning October 1, 2015 of \$2,500 until October 2017 and \$5,850 until September 2022. As at September 30, 2016, the amount drawn down on the loan is \$364,826.	322,543	333,723
ACOA Atlantic Innovation Fund interest-free loan with a maximum contribution of \$2,944,000, annual repayments commencing September 1, 2014, are calculated as a percentage of gross revenue from specific product(s), at 5% for the first 5 year period and 10%, thereafter. As at September 30, 2016, the amount drawn down on the loan is \$2,944,000.	184,875	146,400
Province of Nova Scotia (the “Province”) secured loan with a maximum contribution of \$5,000,000, interest bearing at a rate equal to the Province’s cost of funds plus 1%, compounded semi-annually and payable monthly. The loan is made available in four equal installments based on the Corporation meeting certain milestones, and is repayable on the fifth anniversary date of the first disbursement. The Corporation and its subsidiary have provided a general security agreement granting a first security interest in favour of the Province in and to all the assets of the Corporation and its subsidiary, including the intellectual property. As at September 30, 2016, the amount drawn down on the loan is \$5,000,000.	4,012,000	2,810,000
	5,006,721	3,777,236
Less: Current portion	57,947	59,196
	<u>4,948,774</u>	<u>3,718,040</u>

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

5 Long-term debt (continued)

Total contributions received less amounts that have been repaid as at September 30, 2016 is \$15,095,911 (December 31, 2015 - \$13, 899,110).

Certain ACOA loans and the Province loan require approval by ACOA or the Minister for the Province before the Corporation can pay management fees, bonuses, dividends or other distributions, or before there is any change of ownership of the Corporation. The Province loan requires the Corporation to obtain the written consent of the Province prior to the sale, disposal or abandon of possession of the intellectual property of the Corporation or its subsidiary. If during the term of the Province loan, the head office, research and development facilities, or production facilities of the Corporation are moved from the Province, the Corporation is required to repay 40% of the outstanding principal of the loan.

The Province loan requires certain early repayments if the Corporation's subsidiary, or the Corporation on a consolidated basis, has cash flow from operations in excess of \$1,500,000. The Province loan also requires repayment of the loan under certain circumstances, such as changes of control, sale or liquidation of the Corporation or the sale of substantially all of the assets of the Corporation.

	September 30, 2016	December 31, 2015
	\$	\$
Balance – Beginning of period	3,777,236	3,192,060
New debt, net of \$314,000 (2015 - \$52,126) allocated to government assistance	936,000	253,700
Accreted interest and adjustments	346,683	401,385
Repayment of debt	(53,198)	(69,909)
	<hr/>	<hr/>
Balance – End of period	5,006,721	3,777,236
Less: current portion	57,947	59,196
	<hr/>	<hr/>
Non-current portion	4,948,774	3,718,040
	<hr/>	<hr/>

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

6 Share capital

Authorized

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

	Number of common shares	Amount \$
Issued and outstanding		
Balance – January 1, 2015	91,722,677	43,274,716
Stock options exercised	206,668	204,134
Warrants exercised	111,325	121,707
Balance – December 31, 2015	92,040,670	43,600,557
Issued for cash consideration, net of issuance costs	14,550,000	6,856,858
Stock options exercised	270,838	168,623
Balance – September 30, 2016	106,861,508	50,626,038

As at September 30, 2016, a total of 14,543,395 shares (December 31, 2015 – 10,809,828) are reserved to meet outstanding stock options and warrants.

On June 8, 2016, the Corporation completed a bought deal private placement of 14,550,000 units at a price of \$0.55 per unit, for aggregate proceeds of \$8,002,500. Each unit consisted of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share of the Corporation at an exercise price of \$0.72 for a period of 24 months, expiring on June 8, 2018. The value allocated to the common shares issued was \$7,566,000 and the value allocated to the warrants was \$436,500. Total costs associated with the offering were \$750,054, including cash costs for commissions of \$479,549, professional fees and regulatory costs of \$174,595 and 871,908 compensation options issued as commissions to the agents valued at \$95,910. Each compensation option entitles the holder to acquire one common share of the Corporation at an exercise price of \$0.60 for a period of 18 months, expiring on June 8, 2018. The Corporation has allocated \$709,142 of the issue costs to the common shares and \$40,912 of the issue costs to the warrants. The warrants and compensation options issued on June 8, 2016 represent the only outstanding warrants of the Corporation as at September 30, 2016.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

7 Contributed surplus

	Amount \$
Contributed surplus	
Balance – January 1, 2015	4,883,103
Share-based compensation – stock options vested	845,817
Stock options exercised	<u>(116,817)</u>
Balance – December 31, 2015	5,612,103
Share-based compensation – stock options vested	658,247
Warrants expired	753,375
Stock options exercised	<u>(101,538)</u>
Balance – September 30, 2016	<u>6,922,187</u>

Stock options

The Board of Directors of the Corporation has established a stock option plan (the "Plan") under which options to acquire common shares of the Corporation are granted to directors, employees and other advisors of the Corporation. The maximum number of common shares issuable under the Plan shall not exceed 9,100,000, inclusive of all shares presently reserved for issuance pursuant to previously granted stock options. The total number of options awarded to all insiders of Corporation shall not exceed 10% of the issued and outstanding common shares of the Corporation at the award date. If any option expires or otherwise terminates for any reason without having been exercised, the number of shares in respect of which option expired or terminated shall again be available for the purposes of the Plan. The Board of Directors may make certain amendments to the Plan without seeking the approval of the shareholders of the Corporation.

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

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

In the event that the option holder should die while he or she is still a director, employee or other advisor of the Corporation, the expiry date shall be 12 months from the date of death of the option holder, not to exceed the original expiry date of the option. In the event that the option holder ceases to be a director, employee or other advisor, of the Corporation for any reason other than being dismissed from their position for Cause, death or permanent disability, the expiry date of the option shall be the 90th day following the date the option holder ceases to be a director, employee or other advisor of the Corporation, not to exceed the original expiry date of the option.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

7 Contributed surplus (continued)

Stock options (continued)

The fair values of stock options are estimated using the Black-Scholes option pricing model. During the nine months ended September 30, 2016, 1,793,200 stock options (2015 – 1,527,500), with a weighted average exercise price of \$0.71 (2015 - \$0.70) and a term of 5 years (2015 – 5 years), were granted to employees and consultants. The expected volatility of these stock options was determined using historical volatility rates. The value of these stock options has been estimated at \$826,940 (2015 – \$887,625), which is a weighted average grant date value per option of \$0.46 (2015 - \$0.58), using the Black Scholes valuation model and the following weighted average assumptions:

	September 30, 2016	December 31, 2015
Risk-free interest rate	2.70%	2.98%
Expected volatility	112%	129%
Expected dividend yield	–	–
Expected life (years)	4.30	4.30
Forfeiture rate	5%	4%

Option activity for the nine months ended September 30, 2016 and the year ended December 31, 2015 was as follows:

	<u>September 30, 2016</u>		<u>December 31, 2015</u>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding - Beginning of period	5,112,382	0.66	4,733,050	0.69
Granted	1,793,200	0.71	1,527,500	0.70
Exercised	(399,945)	0.39	(206,668)	0.42
Expired	(152,583)	0.78	(891,500)	0.66
Fortified	(46,567)	0.67	(50,000)	0.91
Outstanding - End of period	<u>6,306,487</u>	0.69	<u>5,112,382</u>	0.66

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

8 Related party transaction

During the three and nine months ended September 30, 2016, there were no related party transactions (three and nine months ended September 30, 2015 - \$nil).

9 Expenses by nature

	Three months ended September 30, 2016 \$	Three months ended September 30, 2015 \$	Nine months ended September 30, 2016 \$	Nine months ended September 30, 2015 \$
Salaries, wages and benefits	551,557	619,960	1,714,329	1,739,315
Other research and development expenditures, including clinical costs	471,847	726,368	1,697,226	2,128,858
Professional and consulting fees	142,598	178,168	616,430	662,218
Travel	42,371	35,099	139,138	279,488
Office, rent and telecommunications	76,431	84,198	250,092	241,464
Insurance	16,906	20,429	50,438	65,363
Marketing, communications and investor relations	117,738	97,975	318,249	412,224
Amortization	—	6,906	12,186	20,717
Depreciation	19,252	18,450	54,805	49,486
Impairment loss	194,987	—	194,987	—
Share-based compensation	203,993	199,135	658,247	699,725
Accreted interest	137,717	105,874	346,683	284,211
Other	33,549	77,590	121,008	204,501
Research and development tax credits	(60,900)	(51,000)	(202,400)	(219,100)
Government assistance	(49,363)	(50,507)	(686,775)	(177,629)
	<u>1,898,683</u>	<u>2,068,645</u>	<u>5,284,643</u>	<u>6,390,841</u>

10 Capital management

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

	September 30, 2016 \$	December 31, 2015 \$
Total debt	5,006,721	3,777,236
Less: Cash and cash equivalents	<u>(7,908,407)</u>	<u>(3,842,408)</u>
Net debt	(2,901,686)	(65,172)
Shareholders' equity	<u>2,988,106</u>	<u>69,358</u>
Total capital	<u>86,420</u>	<u>4,186</u>

The Corporation is in compliance with its debt covenants.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

11 Financial instruments

Fair value of financial instruments

Financial instruments are defined as a contractual right on obligation to receive or deliver cash on another financial asset. The following table sets out the approximate fair values of financial instruments as at the statement of financial position date with relevant comparatives:

	September 30, 2016		December 31, 2015	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
Cash and cash equivalents	7,908,407	7,908,407	3,842,408	3,842,408
Amounts receivable	11,940	11,940	246,798	246,798
Accounts payable and accrued liabilities	1,055,841	1,055,841	1,892,174	1,892,174
Amounts due to directors	40,101	40,101	57,084	57,084
Long-term debt	5,006,721	5,006,721	3,777,236	3,777,236

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

Fair value of items, which are short-term in nature, have been deemed to approximate their carrying value. The above noted fair values, presented for information only, reflect conditions that existed only at September 30, 2016 and December 31, 2015 and do not necessarily reflect future value or amounts which the Corporation might receive if it were to sell some or all of its assets to a willing buyer in a free and open market.

Risk management

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

a) Interest rate risk

The Corporation has limited exposure to interest rate risk on its lending and borrowing activities. The Corporation has a significant loan in which the interest rate is dependent on the cost of funds from the lender plus 1%. This interest rate is fixed at the time that each loan disbursement is made, resulting in limited variability to the interest rate. The total amount drawn down on the loan as at September 30, 2016 is \$5,000,000 (December 31, 2015 - \$3,750,000) and the Corporation is required to make interest payments in fiscal 2016 of \$138,764.

The Corporation also has interest-free debt that is repayable over 60, 72, or 84 months periods, resulting in required principal debt payments in fiscal 2016 of \$70,932.

The remaining outstanding debt as at September 30, 2016 is interest-free and only becomes repayable when revenues are earned. The Corporation is required to make principal debt repayments in fiscal 2016 of \$5,108.

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

11 Financial instruments (continued)

Risk management (continued)

b) Credit risk

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

The total of amounts receivable disclosed in the statement of financial position as at September 30, 2016 of \$81,578 (December 31, 2015 - \$328,868) is comprised mainly of non-repayable government assistance, as well as sales taxes recoverable. If required, the balance is shown net of allowances for bad debts, estimated by management based on prior experience and their assessment of the current economic environment. Historically, there have been no collection issues and the Corporation does not believe it is subject to any significant concentration of credit risk.

c) Liquidity risk

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

While the Corporation has \$7,908,407 in cash and cash equivalents at September 30, 2016, it continues to have an ongoing need for substantial capital resources to research and develop, commercialize and manufacture its products and technologies. The Corporation is currently not yet receiving a significant ongoing revenue stream from its animal health license agreements, nor can it be certain that it will receive significant revenue from these agreements before additional cash is required. As a result, there can be no assurance that the Corporation will have sufficient capital to fund its ongoing operations, develop or commercialize any of its products without future financing.

The following table outlines the contractual maturities for the Corporation's financial liabilities. The long-term debt is comprised of the contributions received described in note 5, less amounts that have been repaid as at September 30, 2016:

	Total \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$
Accounts payable and accrued liabilities	1,081,265	1,081,265	—	—	—
Amounts due to directors	40,101	40,101	—	—	—
Long-term debt	15,392,591	221,002	5,282,260	133,920	9,755,409
Operating leases	592,996	221,030	371,966	—	—
	<u>17,106,953</u>	<u>1,563,398</u>	<u>5,654,226</u>	<u>133,920</u>	<u>9,755,409</u>

Immunovaccine Inc.

Notes to the Unaudited Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2016 and 2015

(Expressed in Canadian dollars)

11 Financial instruments (continued)

Risk management (continued)

d) Currency risk

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

Foreign exchange gain of \$84 and \$10,394 for the three and nine months ended September 30, 2016 (three and nine months ended September 30, 2015, foreign exchange loss - \$38,369 and \$84,204) are included in general and administrative expenses. If the foreign exchange had been 1% higher or lower, with all other variables held constant, it would have had an immaterial impact on the foreign exchange gain/loss.

12 Impairment Loss

On November 7, 2016, the Corporation terminated its exclusive world-wide license for the use of certain patented antigens that were being used in the Corporation's therapeutic cancer vaccine candidate, DPX-0907 as this approach is not in line with the business strategy of combination therapy with checkpoint inhibitors. DPX-0907 is no longer expected to reach commercial production, therefore, the recoverable amount of the intangible asset was determined to be nil. The Corporation has recognized an impairment loss of \$194,987 during the period ended September 30, 2016 (December 31, 2015 – \$nil).