

**IMMUNALL SCIENCE INC.**  
**(FORMERLY PANCONTINENTAL ENERGY INC.)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 AND 2006**

## AUDITORS' REPORT

To: The Shareholders of  
**Immunall Science Inc.**

We have audited the consolidated balance sheets of **Immunall Science Inc.** (formerly Pancontinental Energy Inc.) (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
April 20, 2008

*Hudson LLP*  
HUDSON LLP  
Chartered Accountants

**IMMUNALL SCIENCE INC.  
FORMERLY PANCONTINENTAL ENERGY INC.  
CONSOLIDATED BALANCE SHEETS**

DECEMBER 31	2007	2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 58,908	\$ 69,523
Term deposits (note 4)	405,733	-
GST receivable	21,160	3,288
Prepaid expenses	800	-
	<u>486,601</u>	<u>72,811</u>
DUE FROM RELATED PARTY (note 5)	2,483	-
PROPERTY, PLANT AND EQUIPMENT (note 6)	3,373	4,109
RESEARCH AND DEVELOPMENT	76,626	56,814
LICENSING AGREEMENT (note 7)	19,863	-
PATENTS (note 7)	<u>-</u>	<u>8,814</u>
	<u>\$ 588,946</u>	<u>\$ 142,548</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 40,175	\$ 21,404
Due to related parties (note 5)	14,715	14,000
Due to shareholders (note 8)	<u>77,323</u>	<u>19,962</u>
	<u>132,213</u>	<u>55,366</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (note 9)	919,144	165,077
CONTRIBUTED SURPLUS (note 10)	224,769	-
DEFICIT	<u>(687,180)</u>	<u>(77,895)</u>
	<u>456,733</u>	<u>87,182</u>
	<u>\$ 588,946</u>	<u>\$ 142,548</u>

Contingent liability (note 11)

Approved on behalf of the Board

Frank Phillet, Director  
("signed")

Jim Aboughoche, Director  
("signed")

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**

<b>YEARS ENDED DECEMBER 31</b>	<b>2007</b>	<b>2006</b>
<b>EXPENSES</b>		
Stock based compensation (note 9)	\$ 171,911	\$ -
Salaries and benefits	85,292	45,223
Professional fees	44,045	19,612
Consulting fees	32,000	-
Public company expenses	20,406	-
Advertising and promotion	15,714	2,026
Office	5,187	1,781
Rent	4,900	3,300
Travel	2,422	4,870
Amortization	1,189	583
Interest and bank charges	901	500
<b>LOSS BEFORE THE FOLLOWING ITEM</b>	<b>(383,967)</b>	<b>(77,895)</b>
<b>OTHER INCOME</b>		
Interest income	6,476	-
<b>NET AND COMPREHENSIVE LOSS</b>	<b>(377,491)</b>	<b>(77,895)</b>
<b>RETAINED EARNINGS (DEFICIT), beginning of years</b>		
As previously stated	(77,895)	-
Net liability assumed on reverse take over	(231,794)	-
As restated	(309,689)	-
<b>DEFICIT, end of years</b>	<b>\$ (687,180)</b>	<b>\$ (77,895)</b>
<b>BASIC AND DILUTED LOSS PER SHARE (note 11)</b>	<b>\$ (0.012)</b>	<b>\$ (0.003)</b>

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>YEARS ENDED DECEMBER 31</b>	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net and comprehensive loss	\$ (377,491)	\$ (77,895)
Items not affecting cash		
Amortization	1,189	583
Stock based compensation	171,911	-
	(204,391)	(77,312)
Change in non-cash working capital items		
GST receivable	(3,465)	(3,288)
Prepaid expenses	(800)	-
Accounts payable and accrued liabilities	(7,720)	21,404
	(216,376)	(59,196)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(452)	(4,692)
Research and development	(19,812)	(56,814)
Licensing agreement	(11,049)	-
Patents	-	(8,814)
Cash acquired in reverse take-over (note 1)	950	-
	(30,363)	(70,320)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from (to) shareholders	(32,675)	19,962
Advances from (to) related parties	(11,268)	14,000
Private placement proceeds	685,800	165,077
	641,857	199,039
<b>CHANGE IN CASH POSITION</b>	395,118	69,523
<b>CASH, beginning of years</b>	69,523	-
<b>CASH, end of years</b>	<b>\$ 464,641</b>	<b>\$ 69,523</b>
<u>Non-cash transactions:</u>		
During 2007, \$121,125 of debt acquired on the acquisition was extinguished through the issuance of 1,211,252 common shares (note 9(vi)). Also during 2007, the Company entered into a licensing agreement for cash consideration of \$10,000 and the transfer of patents valued at \$9,863 (note 7).		
<b>CASH CONSISTS OF:</b>		
Cash	\$ 58,908	\$ 69,523
Term deposits	405,733	-
	<b>\$ 464,641</b>	<b>\$ 69,523</b>

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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**1. BUSINESS COMBINATION, AMALGAMATION AND NATURE OF OPERATIONS**

Effective June 13, 2007 Pancontinental Energy Inc. ("Pancon"), a public company, acquired all outstanding common shares of Immunall Scientific Inc. ("Scientific"), a private company. The acquisition was accounted for as a reverse takeover.

Also effective June 13, 2007 Pancon was renamed Immunall Science Inc. (the "Company") under the Business Corporations Act (Alberta).

The application of reverse takeover accounting results in the following:

- The financial statements of the combined entity are issued under the name of the Company but are considered to be the continuation of the financial statements of Scientific. While the legal capital structure remains that of the Company the issued share capital of the entity at June 13, 2007 is that of Scientific less the value of the net liabilities of the Company.
- As Scientific is deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. The share capital, contributed surplus and deficit of the Company have been eliminated and the operations of the Company are included from June 13, 2007.
- Control of the assets and operations of the Company is considered to pass to the former shareholders of Scientific, as they own 90% of the outstanding common shares as a result of the acquisition. The Company issued 27,446,931 common shares in exchange for all the issued and outstanding shares of Scientific. The Company was not considered to be a business and therefore the pre-acquisition shares of the Company have been valued at the fair value of their net assets.

Details of the acquisition are as follows:

Fair value of net liability acquired:		
Cash	\$	950
Other working capital		(232,744)
	\$	(231,794)

On December 31, 2007 the Company was amalgamated with Scientific. The amalgamation transaction between related parties has been recorded at the carrying values reported on each company's respective financial statements as at December 31, 2007. As such there has been no goodwill recorded on the amalgamation transaction.

The Company (formerly "Pancon") was incorporated under the Business Corporation Act (Alberta) in 1986. From incorporation until 2002 the Company operated under the name of Diversity Corporation.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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**1. BUSINESS COMBINATION, AMALGAMATION AND NATURE OF OPERATIONS,**  
**continued**

The Company and its subsidiary are research companies engaged in the business of developing and commercialising technology related to the growth and extraction of active ingredients from American Ginseng.

The Company is in the development stage and the ability of the Company to continue as a going concern is dependent on obtaining additional financing or generating income sufficient to pay its liabilities. As of December 31, 2007 the Company has not earned any revenues from operations. Any revenues obtained are considered to be incidental to development activities and are included in development costs.

**2. CHANGE IN ACCOUNTING POLICY**

On January 1, 2007 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges" and Section 3861 "Financial Instruments – Disclosure and Presentation". These new Handbook Sections contain recommendations governing the recognition and measurement of financial instruments and the reporting of gains or losses in the financial statements.

Under Section 3855, all financial instruments are initially measured on the balance sheet at fair value. Subsequent measurement of the financial instruments is based on their classification and gains and losses are recognized in net income or other comprehensive income. The Company has made the following classifications:

- Cash and term deposits are classified as assets held-for-trading. They are measured at fair value and the gains or losses resulting from the remeasurement at the end of each period are recognized in net income.
- GST receivable and due from related party are classified as loans and receivables. They are recorded at cost, which upon their initial measurement is equal to the fair value. Subsequent measures are recorded at amortized cost, which is generally the amount on initial recognition less an allowance for doubtful accounts.
- Accounts payable and accrued liabilities, due to shareholders, and due to related parties are classified as other liabilities. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measures are recorded at amortized cost.

Section 1530 establishes standards for reporting and presentation of comprehensive income which is defined as the change in the equity of a company arising from transactions, events and circumstances from non-owners sources. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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**2. CHANGE IN ACCOUNTING POLICY, continued**

Section 3865 sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, to qualifying transactions that the Company elects to designate as hedges for accounting purposes. The Company has not entered into any hedging contracts.

The Company has evaluated the impact of these new standards and determined that the adoption of these standards has had no material impact on the Company's net earnings or cash flows.

The carrying value and fair values of financial assets and liabilities at December 31, 2007 are summarized as follows:

<u>Classification</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$ 464,641	\$ 464,641
Loans and receivables	23,643	23,643
Other liabilities	132,213	-

Included in other liabilities are amounts due to shareholders and related parties, for which the fair value cannot be determined (note 15).



**IMMUNALL SCIENCE INC.**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

---

**3. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiary Precise Hydroponics Inc. ("the subsidiary"). The subsidiary is owned 51% by third parties and shareholders who are also shareholders of the Company. The Company owns 49% of the subsidiary directly. The Company through direct and indirect shareholdings has control of the subsidiary.

As the subsidiary is in a loss position that is greater than the value of its share capital there is no minority interest liability recorded in these financial statements. All inter-corporate balances and transactions have been eliminated.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in these financial statements are property, plant and equipment, research and development costs, accounts payable and accrued liabilities and stock based compensation.

**Cash**

Cash consists of balances with financial institutions less outstanding cheques.

**Term deposits**

The investments in term deposits are valued at the lower of cost and net realizable value.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost. The Company provides for amortization using the straight-line method at rates designed to amortize the cost of the property, plant and equipment over their estimated useful lives. The annual amortization rates are as follows:

Furniture and fixtures	10 years
Computer equipment	3 years
Computer software	2 years

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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**3. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Research and development costs**

The Company expenses all research costs as incurred. Product development costs meeting certain criteria are deferred and amortized over five years commencing at the inception of commercial production of the related product. The capitalization criteria are met when there is a defined process to create the product, the costs attributable to the research and development have been adequately tracked, the technical feasibility of the process and product have been established, managements' intention is to produce and market the product, and the future market is clearly defined.

**Licensing agreement**

The Licensing Agreement is recorded at cost and is amortized on a straight-line basis over the useful life of five years. There is no amortization in the current year.

**Future income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

**Stock-based compensation**

The Company has a stock based compensation plan, which is described in note 9. Awards of options under this plan are expensed based on the fair value of the options at the grant date. The amount is credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

**Per share information**

The calculation of basic earnings per common share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

**4. TERM DEPOSITS**

The term deposit bears interest at 4.3% and matures on September 2, 2008.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

**5. RELATED PARTY TRANSACTIONS**

(a) The Company has entered into transactions with the following related parties:

New Venture Fund II Management Corporation, related by common directors  
Pancontinental Energy Inc., related by common directors  
Craig D. McLennan Professional Corporation, related by common management  
APA Bioceuticals Inc., related by common directors

(b) Transactions

	2007	2006
Expenses		
Rent paid to APA Bioceuticals Inc.	\$ 2,700	\$ -
Accounting fees paid to Craig D. McLennan Professional Corporation	12,715	-
	<u>\$ 15,415</u>	<u>\$ -</u>

(c) Due to (from) related parties

	2007	2006
New Venture Fund II Management Corporation	\$ 7,000	\$ -
Pancontinental Energy Inc.	-	14,000
Craig D. McLennan Professional Corporation	7,715	-
APA Bioceuticals Inc.	(2,483)	-
	12,232	14,000
Less current portion	<u>14,715</u>	<u>14,000</u>
	<u>\$ (2,483)</u>	<u>\$ -</u>

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Advances to and from related parties consist of cash advances and expenses paid on behalf of the Company. The advances have been recorded at the exchange value of the amounts advanced or paid which is the amount agreed to by both parties. These advances are unsecured, without interest and have no specific terms of repayment.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

**6. PROPERTY, PLANT AND EQUIPMENT**

	2007		
	Cost	Accumulated amortization	Net
Furniture and fixtures	\$ 2,280	\$ 465	\$ 1,815
Computer equipment	2,694	1,136	1,558
Computer software	170	170	-
	<u>\$ 5,144</u>	<u>\$ 1,771</u>	<u>\$ 3,373</u>
	2006		
	Cost	Accumulated amortization	Net
Furniture and fixtures	\$ 1,828	\$ 91	\$ 1,737
Computer equipment	2,694	449	2,245
Computer software	170	43	127
	<u>\$ 4,692</u>	<u>\$ 583</u>	<u>\$ 4,109</u>

**7. LICENSING AGREEMENT**

During the year, the Company entered into a licensing and royalty memorandum of understanding with the initial developer of the technology that is being utilized exclusively by the Company for the production of products from ginseng roots. Consideration paid by the Company to obtain the exclusive licensing for the technology includes the transfer of all patents, at the carrying amount, previously held by the Company, a cash payment of \$10,000, and a royalty of 5% of the invoiced cost of each production run incurred by the Company.

**8. DUE TO SHAREHOLDERS**

The amount due to the shareholders is unsecured and non-interest bearing with no specific terms of repayment.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

**9. SHARE CAPITAL**

Authorized

Unlimited number of common shares  
20,000,000 preferred shares  
20,000,000 redeemable preferred shares

Changes in share capital

	Number	Amount
Balance December 31, 2005	-	\$ -
Common shares issued (i)	10,000	165,077
Balance December 31, 2006	10,000	165,077
Shares surrendered on reverse takeover (ii)	(10,000)	-
Shares issued on reverse takeover (ii)	27,446,931	-
Shares held after 4:1 consolidation (iii)	3,049,659	-
Common shares issued in private placement (iv)	6,858,000	685,800
Value of warrants issued on private placement (v)	-	(52,858)
Shares issued on conversion of debt (vi)	1,211,252	121,125
Balance December 31, 2007	38,565,842	\$ 919,144

(i) During 2006, 10,000 shares of Scientific were issued for proceeds of \$165,077.

(ii) The reverse takeover resulted in Scientific shareholders being issued 2,744.69 shares of Pancon for every share they held in Scientific. This resulted in the issuance of 27,446,931 shares of the Company. The 10,000 Scientific shares outstanding at the time of the reverse takeover were surrendered.

(iii) Pancon originally had 12,198,636 common shares outstanding at the time of the reverse takeover. These shares were consolidated on a 4:1 basis leaving the original Pancon shareholders with 3,049,659 shares of the Company.

(iv) On August 7, 2007 the Company closed an unbrokered private placement, issuing a total of 6,858,000 common shares at \$0.10 per share for proceeds of \$658,800.

(v) Warrants were issued in conjunction with this private placement with one warrant issued for every three shares. The warrants have an exercise price of \$0.40 and expire 12 months from the date of issue. The fair value of the warrants is \$52,858.

(vi) On July 16, 2007, \$121,125 of the debt assumed on the reverse takeover was converted into 1,211,252 common shares at \$0.10 per share.

Escrowed shares

At December 31, 2007 there are 24,702,236 shares (2006 - nil) held in Escrow. These shares will be released in stages until July 2010.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

9. **SHARE CAPITAL, continued**

Stock options

The Company has adopted a stock option plan pursuant to which the Board of Directors of the Company may grant options to purchase common shares to the officers, directors and employees of the Company or affiliated companies and to consultants retained by the Company.

The aggregate number of common shares reserved for issuance under the stock option plan was set at a maximum of 10% of the total number of shares outstanding at the time the options are granted. Furthermore, the aggregate number of shares issuable to one individual may not exceed 5% of the total number of issued and outstanding common shares of the Company. The exercise price of all options issued under the stock option plan may not be less than the closing market price on the last business day prior to the date the option was granted.

On July 16, 2007, the Company granted 1,900,000 options under the stock option plan. The assumptions used to value the options issued during the year were as follows:

Risk free interest rate - 3.9%  
Expected life - 1 to 5 years  
Expected volatility - 145%  
Dividend yield - 0%

	2007		2006	
	Number of options	Weighted average share price	Number of options	Weighted average share price
Issued	1,900,000	\$ 0.10	-	\$ -

The following table summarizes the options outstanding and exercisable at December 31, 2007.

Options outstanding	Exercise price	Options exercisable at December 31, 2007	Expiry date
200,000	\$ 0.10	200,000	July 13, 2008
700,000	0.10	700,000	July 13, 2009
200,000	0.10	200,000	July 13, 2010
800,000	0.10	800,000	July 13, 2012

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

9. **SHARE CAPITAL, continued**

Warrants

The fair value of each warrant was estimated using the Black-Scholes fair value option pricing model with the following assumptions: expected volatility of 145% and risk-free interest rate of 3.9%.

Each warrant entitles the warrant holder to acquire one common share of the Company at the exercise price.

The following table summarizes warrants outstanding at December 31, 2007.

	2007		2006	
	Warrants outstanding	Exercise price	Warrants outstanding	Exercise price
Issued - August 2007	2,286,000	\$ 0.40	-	\$ -

The following table summarizes the warrants outstanding and exercisable at December 31, 2007.

Warrants outstanding	Exercise price	Warrants exercisable at December 31, 2007	Expiry date
2,286,000	0.40	2,286,000	August 7, 2008

10. **CONTRIBUTED SURPLUS**

	2007	2006
Fair value of warrants issued in 2007	\$ 52,858	\$ -
Fair value of options issued in 2007	171,911	-
	<u>\$ 224,769</u>	<u>\$ -</u>

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

**11. LOSS PER SHARE**

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of stock options outstanding. Loss per share is calculated as follows:

	2007		
	Net loss	Weighted average common shares	Loss per share
Basic and diluted	\$ (377,491)	32,427,040	(0.012)
	2006		
	Net loss	Weighted average common shares	Loss per share
Basic and diluted	\$ (77,895)	27,446,931	(0.003)

**12. FUTURE INCOME TAXES**

a) The components of future income tax balances are as follows:

	2007	2006
Future income tax asset		
Non-capital loss carry-forwards	\$ 86,600	\$ 12,423
Other	74	48
	86,674	12,471
Valuation allowance	(86,674)	(12,471)
	\$ -	\$ -



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**FORMERLY PANCONTINENTAL ENERGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

**12. FUTURE INCOME TAXES, continued**

- b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 31% (2006 - 16.12%) to the loss for the years as follows:

	2007	2006
Loss for the year before income taxes	\$ (377,491)	\$ (77,895)
Anticipated income tax recovery	(117,022)	(12,557)
Change in valuation allowance	74,203	12,471
Change in income tax rates used	(11,512)	-
Permanent income differences	53,684	94
Other	647	(8)
Provision for income taxes	\$ -	\$ -

For income tax purposes, the Company has a loss of \$279,356 (2006 - \$77,066) which can be applied to reduce future years' taxable income. These losses expire from 2026 to 2027.

**13. CONTINGENT LIABILITY**

The subsidiary, Precise Hydroponics Inc., is named, along with a number of other parties, in a statement of claim seeking damages totaling \$1,136,000 and other remedies filed by Mr. Mark Dolgoy, a shareholder of the subsidiary and a shareholder of the Company owning more than 10% of the Company, wherein he claims that his beneficial interest in the subsidiary was negatively affected by the conduct of current officers and/or Directors of the Company, and that he was wrongfully dismissed from a related company, APA Bioceuticals Inc. The Company is not a party to this action and is not subject to this claim. The defendants have recently filed a statement of defense denying all claims and intend to defend this action. As the claim only relates to the beneficial ownership of the subsidiary, no provisions related to this matter have been made in the subsidiary financial statements.

**IMMUNALL SCIENCE INC.**  
**FORMERLY PANCONTINENTAL ENERGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2007 AND 2006

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**14. RECENT ACCOUNTING PRONOUNCEMENTS**

Recently the Canadian Institute of Chartered Accountants approved new accounting recommendations which have not yet come into effect. The following is a summary of the new recommendations:

**(a) Going concern**

For fiscal years beginning on or after January 1, 2008 the Canadian Institute of Chartered Accountants issued recommendations for assessing and disclosing an entity's ability to continue as a going concern. S1400 (which was announced in June 2007) requires management to assess their ability to continue to as a going concern.

**(b) Capital disclosures**

The Accounting Standards Board ("AcSB") have issued Section 1535 with an effective date for periods commencing on or after October 1, 2007. This standard will require the Company to make disclosures regarding:

- the Company's objectives, policies and processes for managing capital;
- quantitative data about what the Company regards as capital;
- whether the Company had complied with any capital requirements; and
- if it has not complied, the consequences of such non-compliance.

**(c) Going concern**

For fiscal years beginning on or after January 1, 2008, the AcSB issued recommendations for assessing and disclosing an entity's ability to continue as a going concern. Section 1400, which was announced in June 2007, requires management to assess their ability to continue as a going concern.

Management does not believe these recent pronouncements will have a significant impact on the Company's financial statements.

**15. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of cash, term deposits and due from related parties, which will result in future cash receipts, as well as accounts payable and accrued liabilities, due to shareholders and due to related parties which will result in future cash outlays.

The Company is exposed to the following risks in respect of certain financial instruments held:

**(a) Fair value**

In management's opinion, the carrying values of the above noted financial instruments, other than due to shareholders and due to/from related parties, approximate their fair values. The fair value of due to shareholders and due to/from related parties cannot be estimated as the amounts are non-interest bearing and have no fixed terms of repayment.