ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

RESPONSE BIOMEDICAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS

(EXPRESSED IN CANADIAN DOLLARS)

(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES USED IN THE UNITED STATES OF AMERICA (U.S. GAAP)

AS AT DECEMBER 31, 2014 AND 2013, AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2014

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements contained in this annual report have been approved by the board of directors and were prepared by management in accordance with United States generally accepted accounting principles. Management is responsible for the preparation and integrity of the consolidated financial statements and all other information in the annual report, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management has developed and is maintaining a system of policies and procedures and internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of directors not involved in the daily operations of the Company. The Audit Committee meets with management, and, the independent registered public accounting firm, satisfied itself that management's responsibilities are properly discharged, and reviewed the financial statements prior to their presentation to the Board of Directors for approval. The independent registered public accounting firm, PricewaterhouseCoopers LLP, conducted an independent audit of the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Their report expresses their opinion on the consolidated financial statements of the Company. The external auditors have free and full access to the Audit Committee with respect to their findings.

/s/ Anthony Holler	/s/ William J. Adams
Anthony Holler	William J. Adams
Interim Chief Executive Officer	Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
Response Biomedical Corp.

We have audited the accompanying consolidated balance sheets of Response Biomedical Corp. and its subsidiaries as of December 31, 2014 and December 31, 2013 and the related consolidated statements of loss and comprehensive loss, shareholder's equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2014. Management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Response Biomedical Corp. and its subsidiaries as of December 31, 2014 and December 31, 2013 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the company has incurred recurring losses from operations and has an accumulated deficit at December 31, 2014 that raises substantial doubt about its ability to continue as a going concern. Management's plans in this regard are also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, Canada
March 19, 2015

RESPONSE BIOMEDICAL CORP.
CONSOLIDATED BALANCE SHEETS
[SEE NOTE 2 - BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY]
(IN THOUSANDS OF CANADIAN DOLLARS)

ASSETS	December 31, 2014 $	December 31, 2013 $
Current		
Cash and cash equivalents	3,221	2,958
Trade receivables, net *[note 6]*	702	875
Other receivables	89	112
Inventories *[note 7]*	2,056	2,250
Prepaid expenses and other	183	123
Deferred financing costs - current portion *[note 11]*	88	73
Total current assets	**6,339**	**6,391**
Deferred financing costs *[note 11]*	45	-
Long-term prepaid expenses	93	93
Restricted deposits *[note 10]*	901	901
Property, plant and equipment *[note 8]*	6,250	6,819
Total assets	**13,628**	**14,204**
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current		
Accounts payable and accrued liabilities *[notes 6 and 9]*	3,867	2,727
Term loan - current portion *[note 11]*	494	-
Lease inducements - current portion *[note 10]*	169	170
Repayable leasehold improvement allowance - current portion *[notes 6 and 10]*	461	413
Deferred revenue - current portion	871	62
Warrant liability *[notes 5 and 12]*	1,249	5,251
Total current liabilities	**7,111**	**8,623**
Lease inducements *[note 10]*	1,197	1,366
Term loan *[note 11]*	1,004	-
Repayable leasehold improvement allowance *[note 10]*	5,208	5,669
Deferred revenue	2	28
	14,522	**15,686**
Commitments *[note 15]*		
Shareholders' deficit		
Common shares *[note 12]*	104,124	101,945
Additional paid-in capital *[note 12]*	15,241	14,742
Deficit	(120,259)	(118,169)
Total shareholders' deficit	**(894)**	**(1,482)**
	13,628	**14,204**

See accompanying notes

Subsequent event (note 17)

RESPONSE BIOMEDICAL CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(IN THOUSANDS OF CANADIAN DOLLARS)

	2014 $	2013 $	2012 $
REVENUE			
Product sales *[note 16]*	10,828	11,531	11,750
Collaborative revenue *[notes 2 and 13]*	186	-	-
Total revenue	**11,014**	**11,531**	**11,750**
Cost of sales *[notes 7, 8, 12, and 15]*	6,647	6,588	7,504
Gross profit	**4,367**	**4,943**	**4,246**
EXPENSES *[notes 8, 10, 12, 13 and 15]*			
Research and development	3,525	2,402	2,953
General and administrative	3,297	3,574	4,101
Sales and marketing	2,578	2,171	1,395
Total operating expenses	**9,400**	**8,147**	**8,449**
OTHER EXPENSES (INCOME)			
Interest expense and amortization of deferred financing costs and debt discount *[note 11]*	874	696	734
Interest income	(15)	(15)	(22)
Other income	-	(58)	-
Income tax expense	68	41	-
Foreign exchange loss	132	16	2
Unrealized loss (gain) on revaluation of warrant liability *[note 5]*	(4,002)	2,114	364
Total other expenses (income)	**(2,943)**	**2,794**	**1,078**
Net loss and comprehensive loss for the period	**(2,090)**	**(5,998)**	**(5,281)**
Loss per common share - basic and diluted *[note 12]*	**(0.26)**	**(0.89)**	**(0.82)**
Weighted average number of common shares outstanding – basic and diluted *[note 12]*	**8,025,143**	**6,747,369**	**6,437,158**

See accompanying notes

RESPONSE BIOMEDICAL CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY/ (DEFICIT)
(IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE DATA)

	Common Stock Issued and Outstanding # of shares	$	Additional paid in capital $	Deficit $	Total Shareholders' Equity/(Deficit) $
Balance at December 31, 2012	**6,455,206**	**99,289**	**13,203**	**(112,171)**	**321**
Net loss	-	-	-	(5,998)	(5,998)
Private placement, net of issue costs	1,273,117	2,055	695	-	2,750
Net shares issued upon exercise of warrants	122,458	562	-	-	562
Net shares issued upon conversion of restricted share units	20,144	39	(39)	-	-
Stock-based compensation expense	-	-	660	-	660
Restricted share units	-	-	223	-	223
Balance at December 31, 2013	**7,870,925**	**101,945**	**14,742**	**(118,169)**	**(1,482)**
Net loss	-	-	-	(2,090)	(2,090)
Private placement, net of issue costs	1,800,000	2,024			2,024
Net shares issued upon conversion of restricted share units	88,635	155	(155)	-	-
Net warrants issued per terms of loan	-	-	113	-	113
Stock-based compensation expense	-	-	381	-	381
Restricted share units	-	-	160	-	160
Balance at December 31, 2014	**9,759,560**	**104,124**	**15,241**	**(120,259)**	**(894)**

See accompanying notes

RESPONSE BIOMEDICAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS OF CANADIAN DOLLARS)

Twelve Months Ended December 31,	**2014**	**2013**	**2012**
OPERATING ACTIVITIES	**$**	**$**	**$**
Net loss for the year	(2,090)	(5,998)	(5,281)
Add (deduct) items not involving cash:			
Depreciation of property, plant and equipment	994	992	1,143
Amortization of deferred lease inducements	(170)	(171)	(165)
Amortization of deferred financing costs	99	-	-
Amortization of discount on debt	34	-	-
Stock-based compensation	381	660	614
Unrealized loss (gain) on revaluation of warrant liability	(4,002)	2,114	364
Other non-cash items	75	-	-
Changes in non-cash working capital:			
Trade receivables	173	658	79
Other receivables	23	25	(93)
Inventories	194	(459)	414
Prepaid expenses and other	(60)	88	38
Accounts payable and accrued liabilities	1,285	998	(1,630)
Deferred revenue	783	(181)	(115)
Cash used in operating activities	**(2,281)**	**(1,274)**	**(4,632)**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(410)	(196)	(311)
Cash used in investing activities	**(410)**	**(196)**	**(311)**
FINANCING ACTIVITIES			
Repayment of repayable leasehold improvement allowance	(413)	(371)	(332)
Proceeds from issuance of common shares, net of share issue costs	2,024	2,055	0
Proceeds from issuance of warrants, net of warrant issue costs	0	695	0
Proceeds from debt	1,661	0	0
Repayment of long term debt	(159)	0	0
Debt financing cost	(159)	(31)	0
Cash provided by (used in) financing activities	**2,954**	**2,348**	**(332)**
Increase /(Decrease) in cash during the year	263	878	(5,275)
Cash and cash equivalents, beginning of year	2,958	2,080	7,355
Cash and cash equivalents, end of year	**3,221**	**2,958**	**2,080**
Supplemental Disclosure:			
Interest Paid in cash	731	696	755
Taxes Paid in cash	50	27	-

See accompanying notes

1. DESCRIPTION OF BUSINESS

Response Biomedical Corp. ("Response" or the "Company") was incorporated on August 20, 1980 under the predecessor to the Business Corporations Act (British Columbia). The Company's wholly owned US subsidiary, Response Point of Care Inc., was incorporated on November 9, 2012 in the State of Delaware. The Company is engaged in the research, development, commercialization and distribution of diagnostic technologies for the medical point of care (POC), laboratory and on-site environmental testing markets. POC and on-site diagnostic tests (or assays) are simple, non-laboratory based tests performed using portable hand-held devices, compact desktop analyzers, single-use test cartridges and/or dipsticks. Since 1996, the Company has developed and commercialized a proprietary diagnostic system called RAMP®.

The RAMP® System is a portable fluorescence immunoassay-based diagnostic technology that combines the performance of a clinical lab with the convenience of a dipstick test, establishing a new paradigm in diagnostic testing. Immunoassays are extremely sensitive and specific tests used to identify and measure small quantities of materials, such as proteins. A large variety of biological molecules and inorganic materials can be targeted. Accordingly, the RAMP® technology is applicable to multiple distinct market segments and many products within those segments. RAMP® tests are now commercially available for use in the early detection of heart attack, congestive heart failure, influenza A+B, the respiratory syncytial virus, environmental detection of West Nile Virus, and biodefense applications including the rapid on-site detection of anthrax, smallpox, ricin and botulinum toxin.

2. BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY

These consolidated financial statements have been prepared by management in Canadian dollars in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming the Company will continue to operate as a going concern, which contemplates the realization of assets and liabilities and commitments in the normal course of business.

During the year ended December 31, 2014, the Company has incurred a net loss of $2.1 million and negative cash flows from operations of $2.3 million. As of December 31, 2014, the Company had a cash balance of $3.2 million, an accumulated deficit of $120.3 million, a shareholders' deficit of $894,000, and a negative working capital balance of $772,000. In addition, the Company has various operating leases and purchase commitments for inventory (refer to note 15). Included in current liabilities is a warrant liability in the amount of $1.2 million that is required to be measured at fair value and is presented as a current liability in accordance with Accounting Standards Codification Topic 815 – Derivatives and Hedging ("ASC 815"). Each warrant may only be exercised on a net cashless exercise basis and no warrant may be exercised at a time when the exercise price equals or exceeds the current market price meaning the potential settlement of any warrant does not require any cash disbursement. Without taking into account the warrant liability mentioned above, current assets exceed current liabilities by $477,000.

The ability of the Company to continue as a going concern is uncertain and dependent on the Company's ability to obtain additional financing and/or achieve cash flow positive operations. Management has, thus far, financed the operations through a series of equity financings, debt financing, and collaborative arrangements. On October 15, 2014, the Company announced that it had entered into a funded Technology Development Agreement with Hangzhou Joinstar Biomedical Technology Co. Ltd. ("Joinstar") to support the co-development by Response and Joinstar of components and multiple assays that will run on a high throughput rapid immunoassay analyzer developed by Joinstar. Joinstar related entities purchased 1,800,000 common shares of Response at a price of $1.21 per share for net proceeds of $2.0 million on December 12, 2014. Under the terms of the Technology Development Agreement, Joinstar paid US$560,000 upon the signing of the Technology Development Agreement on October 15, 2014 and US$720,000 upon the signing of the Collaborative Agreement, which was signed on February 16, 2015. Response is eligible to receive a further US$2.52 million in development milestones over the planned fifteen month project period. In conjunction with the signing of the Collaborative Agreement, Response and Joinstar entered into a definitive Supply Agreement whereby Response will provide certain materials required for Joinstar to manufacture and sell the developed assays specifically to run on their analyzer. Under the terms of the Supply Agreement, Response is eligible to receive a guaranteed US$2.13 million in revenue based payments over the first five years of commercialization of the co-developed assays. In addition to the Joinstar agreements, on February 11, 2014, the Company secured a US$2.5 million term loan from Silicon Valley Bank ("SVB") of which only US$1.5 million was drawn down. Refer to note 11 for the significant terms of the loan. On October 1, 2014 and November 3, 2014, the Company announced that it had breached certain financial covenants of the original term loan agreement. The Company subsequently entered into forbearance agreements with SVB in which SVB agreed not to exercise its rights in respect of the breach or anticipated breach until December 15, 2014. The Company then renegotiated the terms of the term loan and, on December 15, 2014, announced that it had entered into an amendment to the original term loan agreement with SVB. Under the amendment, SVB agreed to continue to advance the remaining outstanding principal of US$1.4 million for the same term and interest rate, waive its rights in respect of the previously announced breaches of certain financial covenants and to remove any future minimum revenue and liquidity ratio financial covenants. In addition, SVB received additional warrants and will receive a final payment of up to 4% of the principal advanced. Refer to note 11 for the significant terms to the loan.

Management believes that, with the signing and targeted execution under the new Joinstar Agreements and the renegotiation of the term loan with SVB, based on the current level of operations and excluding out of the ordinary cash management measures, the Company's cash and cash equivalent balances, including cash generated from operations, will be sufficient to meet the anticipated cash requirements through the next twelve months. However, due to the Company's history of losses, there is substantial doubt over the Company's ability to continue as a going concern as it is dependent on meeting the development milestones required to earn the additional US$2.52 million in development fees under the Collaboration Agreement with Joinstar or achieving profitable operations, the outcomes of which cannot be predicted at this time. The consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies is as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of significant estimates include revenue recognition, stock-based compensation expense, the value of the warrant liability, the resolution of uncertain tax positions, recoverability of long-lived assets and provisions for doubtful accounts, inventory obsolescence, inventory valuation, warranty accruals, and going concern assessments. Actual results could differ from those estimates.

Certain Significant Risks and Uncertainties

The Company is subject to certain risks and uncertainties and believes that changes in any of the following areas could have a material adverse effect on its future financial position or results of operations: continued regulatory compliance or regulatory changes; the ability to develop new products and services that are accepted in the marketplace; competition, including, but not limited to, pricing and products or product features and services; litigation or other claims; the adequate and timely sourcing and manufacturing of inventories; and the hiring, training and retention of key employees.

Cash equivalents

The Company considers all highly liquid investments with an original maturity of 90 days or less, when acquired, to be cash equivalents.

Inventories

Raw material, finished goods and work in progress inventories are carried at the lower of actual cost, determined on a first-in first-out basis, and market value. The cost of finished goods and work in progress inventories includes direct materials, direct labour and applicable overhead. The Company writes down its inventory balances for estimates of excess and obsolete amounts. These write-downs are recorded as a component of cost of sales. At the point of the write-down, a new, lower-cost basis for that inventory is established, and any subsequent improvements in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost and depreciated over the estimated useful lives using the straight-line method as follows:

Office and laboratory furniture and equipment (years)	5
Office and laboratory computer equipment (years)	3
Computer software (years)	2
Manufacturing equipment (years)	5 – 7
Manufacturing molds (years)	2
Leasehold improvements	Initial term of lease

Long Lived Asset Impairment

Long-lived assets to be held and used by the Company are periodically reviewed to determine whether any events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on impairment indicators such as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. In the event that facts and circumstances indicate that the carrying amount of an asset may not be recoverable and an estimate of future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss will be recognized for the difference between the carrying value and the fair value.

Leases

Leases are classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks of ownership of the property to the Company are accounted for as capital leases. All other leases are accounted for as operating leases wherein rental payments are expensed in a manner that results in the total rent payments being recognized on a straight-line basis over the term of the lease.

Deferred lease inducements

Lease inducements arising from rent-free inducements and non-repayable leasehold improvement allowances received from the landlord are being amortized over the term of the lease on a straight-line basis.

Revenue recognition

Product sales are recognized when legal title passes to distributors or customers, the sales price is fixed and determinable, collection of the resulting receivables is reasonably assured and no uncertainties with regard to customer acceptance exist. Sales are recorded net of discounts and sales returns.

When arrangements include multiple elements, we use objective evidence of fair value to allocate revenue to the elements, and recognize revenue when the criteria for revenue recognition have been met for each element, in accordance with authoritative guidance on multiple-element arrangements.

Upfront fees from collaborative research arrangements that are non-refundable, require the ongoing involvement of the Company and are directly linked to specific milestones are deferred and amortized into income as services are rendered. Upfront fees from collaborative research arrangements that are non-refundable, require the ongoing involvement of the Company and are not directly linked to specific milestones are deferred and amortized into income on a straight-line basis over the term of ongoing development. Upfront fees from collaborative research arrangements that are refundable are deferred and recognized once the refundable period has lapsed.

Accounts Receivable

For product sales, the Company typically invoices its customers at shipment for the sales order value of products shipped. For contract revenue, invoicing occurs based upon the terms of the specific research contract, typically one month in arrears for services rendered and any other allowable direct costs. Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company does not have any off-balance sheet credit exposure related to any of its customers.

Allowance for Doubtful Accounts

The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company becomes aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record an allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due and consideration of other factors such as industry conditions, the current business environment and its historical experience.

Deferred Financing Costs

The Company capitalizes incremental costs directly attributable to obtaining debt. The deferred financing costs are subsequently amortized using the effective interest rate method to interest expense over the contractual life of the debt. Under a modification to a debt arrangement, only the incremental costs directly paid to the lender are capitalized and amortized over the contractual life of the debt. All incremental costs paid to third parties are expensed when incurred and are included in general and administrative expenses on the consolidated statements of loss and comprehensive loss.

Warranty accrual

The Company offers a standard limited warranty on its products. The Company estimates costs that may be incurred under its warranty program as liabilities at the time the products are sold. Factors that affect the Company's warranty liability include the number of units sold, anticipated rate of warranty claims, and costs per claim, which require management to make estimates about future costs. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The initial recognition of and subsequent adjustments to the warranty accrual are recorded to cost of sales.

Research and development costs

Research and development costs are expensed as incurred and include expenses associated with new product research and regulatory activities.

Shipping and Handling Costs

Shipping and handling costs are included in cost of revenues and are recognized as a period expense during the period in which they are incurred.

Stock-based compensation

The Company uses the fair value method of accounting for all stock-based awards for non-employees and for all stock-based awards to employees that were granted, modified or settled since January 1, 2003. The fair value of stock options is determined using the Black-Scholes option-pricing model, which requires certain assumptions, including future stock price volatility, estimated forfeiture rates and expected time to exercise. Stock-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those stock-based awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Changes to any of these assumptions could produce different fair values for stock-based compensation. The expense is amortized on a straight-line basis over the graded vesting period.

Restricted deposits

Restricted deposits consist of long-term deposits pledged as security as part of certain contractual obligations. The interest earned on these deposits is recorded in interest income on the consolidated statements of loss and comprehensive loss.

Financial Instruments

Financial instruments include cash, cash equivalents, receivables, restricted deposits, accounts payable, accrued and other liabilities, term loan, warrant liability, and the repayable leasehold improvement allowance. The Company has classified restricted deposits as held-to-maturity. Trade receivables and other receivables are classified as loans and receivables. Accounts payable, accrued and other liabilities, term loan, warrant liability and the repayable leasehold improvement allowance are classified as other financial liabilities.

Held-for-trading financial instruments are initially measured at fair value with subsequent changes in fair value recorded to net income. Held-to-maturity investments are measured at amortized cost using the effective interest method with changes in amortized cost recorded to net income. Loans and receivables and other financial liabilities are initially measured at amortized cost with subsequent changes in amortized cost recorded to net income. Transaction costs (except for transaction costs related to held-for-trading financial instruments, which are expensed as, incurred) are included in the carrying amounts of financial instruments as they are carried on the consolidated balance sheet.

Warrants

The Company accounts for warrants, issued in the 2011 rights offering, pursuant to the authoritative guidance on accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock. The Company classifies warrants on the consolidated balance sheet as a liability that is revalued at each balance sheet date subsequent to the initial issuance. Determining the appropriate fair-value model, and calculating the fair value of warrants requires considerable judgment, including estimating stock price volatility and expected warrant life. The computation of expected volatility was based on the historical volatility of shares of the Company's common stock for a period that coincides with the expected life of the warrants. A small change in the estimates used may have a relatively large change in the estimated valuation. The Company uses the Black-Scholes pricing model to value the warrants. Changes in the fair market value of the warrants are reflected in the consolidated statement of loss as Unrealized (gain)/loss on revaluation of warrant liability

Foreign currency translation

Monetary items denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expense items are translated at the average exchange rate for the period. Foreign exchange gains and losses are included in the determination of loss for the year.

Income taxes

The Company accounts for income taxes using the liability method of tax allocation. Deferred income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in substantively enacted rates is included in earnings in the period that includes the substantive enactment date. Deferred income tax assets, net of a valuation allowance, are recorded in the consolidated financial statements if realization is considered more likely than not.

The Company accounts for uncertain tax positions using a "more-likely-than-not threshold for recognizing and resolving uncertain tax positions. The Company evaluates uncertain tax positions on a quarterly basis and considers various factors, including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. The Company includes interest and penalties related to gross unrecognized tax benefits in the provision for income taxes.

Scientific Research and Development Tax Credits

The benefits of tax credits for scientific research and development expenditures are recognized in the year the qualifying expenditure is made provided there is reasonable assurance of recoverability. The tax credits recorded are based on the Company's estimates of amounts expected to be recovered and are subject to audit by taxation authorities. All qualifying expenditures are eligible for non-refundable tax credits only.

Loss per common share

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year, excluding contingently issuable shares. Diluted loss per common share is computed in accordance with the treasury stock method that uses the weighted average number of common shares outstanding during the period. The effect of potentially issuable common shares from outstanding stock options and outstanding warrants is anti-dilutive for all periods presented.

Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its senior management team. The Company has one operating segment that is dedicated to the manufacture and sale of RAMP® tests. In note 16, the Company discloses information about Products and Services, Geographic Areas, and Major Customers.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued Accounting Standard Update ("ASU") 2014-09, "Revenue from Contracts with Customers", which will supersede most of the existing revenue recognition guidance under U.S. GAAP. This ASU requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This pronouncement is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. The Company is currently evaluating the potential effect of this ASU on its financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Updated, or ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 2015-40) ("ASU 2014-15"). ASU 2014-15 provides guidance to U.S. GAAP about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This new rule requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles currently in the U.S. auditing standards. Specifically, ASU 2014-15 (1) defines the term substantial doubt, (2) requires an evaluation of every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plans, (4) requires an express statement and other disclosures when substantial doubt is not alleviated, and (5) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). This guidance is effective for annual periods ending after December 15, 2016**.** The Company is currently evaluating the potential effect of this ASU on its financial statements and related disclosures

5. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability ("exit price") in an orderly transaction between market participants at the measurement date. Fair value measurements of financial instruments are determined by using a fair value hierarchy that prioritizes the inputs to valuation techniques into three levels according to the relative reliability of the inputs used to estimate the fair values.

The three levels of inputs used to measure fair value are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical financial instruments;
Level 2 – Inputs other than quoted prices that are observable for the financial instrument either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

In determining fair value measurements, the Company uses the most observable inputs when available.

For certain of the Company's financial instruments, including cash and cash equivalents, trade receivables, other receivables, and accounts payable and accrued liabilities the carrying amounts approximate fair values due to their short-term nature. The carrying value of the restricted deposits approximates its fair value due to the nature of the cash deposit. The fair value of the term loan approximates its carrying value as the term loan with SVB was secured during the first quarter of 2014 and renegotiated in the fourth quarter of 2014 and therefore approximates the current market rate for the term loan. The fair value of the repayable leasehold improvement allowance approximates its carrying value as the fixed interest rate of 11% is considered to approximate the current market rate.

The fair value hierarchy level at which a financial instrument is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement (in thousands):

Financial Instrument carried at fair value as of December 31, 2014 (in thousands)

	Level 1	Level 2	Level 3	Total
Liabilities	**$**	**$**	**$**	**$**
Warrant Liability	-	-	1,249	1,249

Financial Instrument carried at fair value as of December 31, 2013 (in thousands)

	Level 1	Level 2	Level 3	Total
Liabilities	**$**	**$**	**$**	**$**
Warrant Liability	-	-	5,251	5,251

As of December 31, 2014, the warrant liability is recorded at its fair value of $1.2 million. The Company reassesses the fair value of the common stock warrants at each reporting date utilizing a Black-Scholes pricing model. Inputs used in the pricing model include estimates of stock price volatility, contractual term of the warrant, and risk-free interest rate (refer to note 12[g]). The computation of expected volatility was based on the historical volatility of the Company's stock. A small change in the estimates used in the Black-Scholes pricing model may have a relatively large change in the estimated valuation of the common stock warrants.

The following table presents the changes in fair value of the Company's total Level 3 financial liabilities for the year ended December 31, 2014 (in thousands):

	Balance at December 31, 2013	Unrealized loss	Exercise of Warrants	Balance at December 31, 2014
Warrant Liability	5,251	(4,002)	-	1,249

Quantitative information about unobservable inputs used in Level 3 fair value measurements is presented below:

	Valuation Technique	Unobservable Input	As at December 31, 2014	As at December 31, 2013
Warrant Liability	Option Model	Stock Price Volatility	106%	140%

A 5% increase or decrease in stock price volatility would cause an approximate corresponding $82,000 increase or decrease to the Warrant Liability ($100,000 – December 31, 2013).

6. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk is the risk of a financial loss if a customer or counterparty to a financial instrument fails to meet its obligations under a contract. The risk arises primarily from the Company's cash, cash equivalents, restricted deposits and receivables from customers.

Cash, cash equivalents and restricted deposits are placed with high quality financial institutions and are regularly monitored by management. These deposits are in excess of the amount of the insurance provided by governmental agencies on such deposits. To date, the Company has not experienced any losses on such deposits.

The Company's exposure to credit risk related to its receivables is dependent upon the characteristics of each customer. The Company continually monitors the credit of its customers and requires orders to be prepaid by certain customers.

The Company is subject to concentration risk related to its accounts receivable. The Company defines concentration risk as customers whose outstanding receivable is 10% or greater than the total receivable balance or who represent 10% or greater of total revenue. At December 31, 2014, four customers represent 87% [2013 - three customers represent 74%] of the trade receivables balance. Refer to note 16 for a discussion of concentration risk on the Company's revenues.

The Company reviews the collectability of its accounts receivable on a regular basis and establishes an allowance for doubtful accounts based on its best estimates of any potentially uncollectible accounts. As at December 31, 2014, the balance of the Company's allowance for doubtful accounts was nil [2013 – $6,000]. The amount written off during the year ended December 31, 2014 was $8,000 [2013 - nil and 2012 - nil].

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company continuously monitors actual and forecasted cash flows to ensure there is sufficient working capital to satisfy its operating requirements. Refer to note 2 for a discussion of the Company's liquidity plans.

Pursuant to their respective terms, accounts payables, accrued liabilities, the term loan, and the repayable leasehold improvement allowance are aged as follows (in thousands):

	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**
	$	$	$	$	$	$
Accounts payable and accrued liabilities	3,867	-	-	-	-	-
Term loan	546	728	303			
Repayable leasehold improvement allowance	461	514	574	640	714	2,766
	4,874	1,242	877	640	714	2,766

7. INVENTORIES

Inventories are comprised of the following (in thousands):

	December 31, 2014	**December 31, 2013**
	$	**$**
Raw materials	1,212	1,155
Work in progress	309	198
Finished goods	535	897
	2,056	**2,250**

The carrying value of inventory as of December 31, 2014 includes a write-down and a provision for expired, obsolete, and damaged inventory in the amount of $135,000 [December 31, 2013 - $60,000]. For the year ended December 31, 2014, inventory write-downs and obsolescence charges were $285,000 [2013 - $25,000; 2012 - $217,000].

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment is comprised of the following (in thousands):

	Cost $	Accumulated amortization $	Net book value $
December 31, 2014			
Office furniture and equipment	964	959	5
Office computer equipment	434	354	80
Laboratory furniture and equipment	585	578	7
Laboratory computer equipment	596	509	87
Computer software	136	101	35
Manufacturing equipment	2,709	2,019	690
Manufacturing molds	603	603	-
Leasehold improvements	9,810	4,464	5,346
	15,837	**9,587**	**6,250**
December 31, 2013			
Office furniture and equipment	964	954	10
Office computer equipment	358	311	47
Laboratory furniture and equipment	585	575	10
Laboratory computer equipment	521	476	45
Computer software	109	70	39
Manufacturing equipment	2,472	1,801	671
Manufacturing molds	603	603	0
Leasehold improvements	9,800	3,803	5,997
	15,412	**8,593**	**6,819**

The following table shows depreciation expense allocated by type of cost (in thousands):

Years ended December 31,	**2014**	**2013**	**2012**
Cost of sales	**628**	614	676
Research and development	**241**	252	307
General and administrative	**66**	73	91
Sales and marketing	**59**	53	69
	994	992	1,143

As at December 31, 2014, $187,000 [2013 - $4,000] of manufacturing equipment was in the validation phase and not ready for use and therefore has not been depreciated.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise (in thousands):

	December 31, 2014 $	December 31, 2013 $
Trade accounts payable	1,624	1,232
Employee related accounts payable and accrued liabilities	1,307	913
Royalties	287	172
Other accrued liabilities	649	410
	3,867	**2,727**

Accounts payable and accrued liabilities include $15,000 of additions to property, plant, and equipment as at December 31, 2014. This amount has been excluded from cash used in investing activities respectively on the consolidated statements of cash flows for the year ended December 31, 2014, as the cash had not been disbursed. Consequently, it has also been excluded from cash used in operating activities.

10. LEASE INDUCEMENTS

Lease agreements entered into by the Company for its offices provides for lease inducements to be provided by the landlord to the Company, which are summarized as follows (in thousands):

	December 31, 2014 $	December 31, 2013 $
Current Portion		
Rent-free inducement *[i]*	54	55
Non-repayable leasehold improvement allowance *[ii]*	115	115
	169	**170**
Repayable leasehold improvement allowance *[iii]*	461	413
Total Current Portion	**630**	**583**
Long-Term Portion		
Rent-free inducement *[i]*	385	439
Non-repayable leasehold improvement allowance *[ii]*	812	927
	1,197	**1,366**
Repayable leasehold improvement allowance *[iii]*	5,208	5,669
Total Long-Term Portion	**6,405**	**7,035**
Total	**7,035**	**7,618**

The lease inducements disclosed on the consolidated balance sheets as a result of these benefits is comprised of the following:

[i] In 2007, the Company entered into a long-term facility lease agreement that included an eight and one half month rent-free period from May 17, 2007 to February 1, 2008. The lease inducement benefit arising from the rent-free period is being amortized on a straight-line basis over the term of the operating lease as a reduction to rental expense Amortization expense for the year ended December 31, 2014 amounted to $54,000 [2013 - $54,000; 2012 - $54,000].

[ii] The Company received a non-repayable allowance for an amount of $1.7 million for expenditures related to general upgrades to the facility. The lease inducement benefit arising from the non-repayable leasehold improvement allowance is being amortized on a straight-line basis over the balance of the term of the lease beginning April 1, 2008 as a reduction to rental expense. Amortization expense for the year ended December 31, 2014 amounted to $115,000 [2013 - $115,000; 2012 - $115,000].

[iii] The Company received a repayable leasehold improvement for an amount of $7.8 million used for additional improvements to the facility. This lease inducement is being repaid over the term of the operating lease commencing February 1, 2008 at approximately $89,000 per month including interest calculated at an interest rate negotiated between the Company and the landlord. Principal repayments for the year ended December 31, 2014 amounted to $413,000 [2013 - $370,000; 2012 - $332,000], respectively. Interest payments for the year ended December 31, 2014 amounted to $649,000 [2013 - $691,000; 2012 - $730,000].

To secure the lease, the Company is maintaining a security deposit with the landlord in the form of an irrevocable letter of credit in the amount of $871,000 collateralized by a term deposit with a market value of $871,000 that is presented as part of restricted deposits in the long-term asset section of the balance sheets.

11. TERM LOAN

On February 11, 2014, the Company entered into a loan and security agreement with SVB providing for a US$2.5 million term loan. The loan is secured by substantially all of the assets of the Company. The loan included financial covenants that were later removed in an amendment (refer to discussion below). The loan also includes certain non-financial covenants as well as a subjective acceleration clause. Under the terms of the original loan agreement, the total proceeds of US$2.5 million were available in tranches of US$1.5 million upon closing and the remaining US$1.0 million was available at the discretion of the Company at any time prior to September 30, 2014 if the Company remained in compliance with the terms of the loan agreement. The second tranche was not drawn as of September 30, 2014. The loan matures on May 1, 2017 and bears an interest rate of Wall Street Journal Prime Rate plus 2.5% annually. Interest only payments were made until October 1, 2014 at which time, 32 equal monthly installments of principal plus accrued interest started to be made. The loan contains a voluntary prepayment option whereby the principal amount can be prepaid in whole, or in part, for a fixed fee if a prepayment is made on or before February 10, 2016. Response provided SVB with 52,796 warrants with an exercise price of $1.831 per warrant and a term of 10 years. These warrants were measured at their fair market value using the Black-Scholes model on the date of the grant using the following assumptions: Risk free interest rate: 2.04%; Expected dividend yield: 0.0%; Expected life: 10.0 years; Expected volatility: 110%. The estimated fair value of the warrants was $73,000 and was recorded as a debt discount that is being amortized into income over the term of the loan using the effective interest method. In addition, there were $224,000 of fees related to the original term loan that are also being amortized over the term of the loan using the effective interest method.

The Company made all contractual interest and principal payments during 2014, but in several months late in 2014, the Company did not meet certain financial covenants. Upon such covenant breaches, SVB was contractually entitled to declare a default and request immediate repayment of the outstanding loan amount. The Company entered into a forbearance agreement with SVB on September 30, 2014 and November 3, 2014 where SVB granted a forbearance under which it agreed not to exercise its rights in respect of these breaches. On December 15, 2014, the Company entered into an amendment to the original loan agreement with SVB. Under the amendment, SVB agreed to continue to advance the remaining outstanding principal of US$1.4 million for the same term and interest rate under the original agreement. In addition, SVB waived its rights in respect of the breaches discussed above and removed any future financial covenants. Interest only payments would be made until April 1, 2015, at which time, 26 equal monthly installments of principal plus accrued interest would be made through to maturity on May 1, 2017. In addition, the Company will pay an additional final payment of up to 4% of the outstanding principal advanced upon repayment. Response provided SVB with 54,905 warrants with an exercise price of $1.00 per warrant and a term of 10 years. These warrants were measured at their fair market value using the Black-Scholes model on the date of the grant using the following assumptions: Risk free interest rate: 1.57%; Expected dividend yield: 0.0%; Expected life: 10.0 years; Expected volatility: 112%. The estimated fair value of the warrants was $40,000 and was recorded as an additional debt discount that is being amortized into income over the remaining term of the loan using the effective interest method. There were $9,000 of fees related to the modification of the term loan that are being amortized over the remaining term of the loan using the effective interest method.

Amortization of the deferred financing costs for the year ended December 31, 2014 was $99,000 (2013 and 2012 – nil) and amortization of the debt discount for the year ended December 31, 2014 was $34,000 (2013 and 2012 – nil). Both of these amounts are included in interest expense and amortization of deferred financing costs and debt discount on the consolidated statements of loss and comprehensive loss.

The term loan is comprised of the following amounts (in thousands):

	December 31, 2014	December 31, 2013
	$	$
Current portion of term loan	546	-
Current portion of unamortized debt discount	(52)	-
Current portion of term loan, net debt discount	**494**	**-**
Long-term portion of term loan	1,031	-
Long-term portion of unamortized debt discount	(27)	-
Long-term portion of term loan, net debt discount	**1,004**	**-**
Total	**1,498**	**-**

Future principal payments for the term loan as of December 31, 2014, are as follows (in thousands):

December 31,	$
2015	546
2016	728
2017	303
2018	-
2019	-
Thereafter	-
Total	**1,577**

12. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

[a] Authorized - Unlimited common shares without par value.

[b] Issued

2014 Private Placement

On December 12, 2014, the Company closed a private placement with Joinstar related entities consisting of 1,800,000 common shares at a price of $1.21 per share for total gross proceeds of $2,178,000. The net proceeds were $2,024,000 after deduction of $154,000 of financing costs.

2013 Private Placement

On November 7, 2013, the Company's shareholders approved a brokered and non-brokered private placement of 1,273,117 subscription receipts (the "Subscription Receipts") at a price of $2.45 for aggregate gross proceeds of $3.1 million (the "Private Placement"). Each Subscription Receipt automatically entitles the holder to receive one unit. Each unit consists of one common share and one-half of one warrant to purchase one common share. Each whole warrant has a term of 36 months and an exercise price of $3.58.

The net proceeds were $2.8 million after deduction of $388,000 of financing costs. Of these net proceeds, $2.1 million was allocated to common shares and $677,000 was allocated to warrants.

[c] Stock option plan

At the Annual General Meeting held September 3, 2008, the Company's shareholders approved a new stock option plan ("2008 Plan"). Under the plan, the Company may grant options to purchase common shares in the Company to employees, directors, officers and consultants of the Company. The exercise price of the options is determined by the Board but is equal to the fair market value of the common shares at the grant date. The Company estimates the fair value of options on the date of the grant. The options vest over the requisite service period in accordance with terms as determined by the Board, typically over four years. Stock options expire no later than ten years from the date of grant.

At the Annual General and Special Meeting held on June 18, 2013, the Company's shareholders' approved a change to the Company's 2008 stock option plan permitting the maximum shares authorized to be issued under the plan to be up to 20% of the issued and outstanding common shares outstanding at any point in time.

Of the 1,951,912 stock options authorized for grant under the 2008 Plan as at December 31, 2014, options for 1,007,629 shares were outstanding and 944,283 stock options were available for future grant.

The following assumptions were used to estimate the fair value of options granted during the years ended December 31, 2014, 2013, and 2012 using a Black-Scholes option-pricing model:

Year ended December 31,	**2014**	**2013**	**2012**
Risk-free interest rates	1.98%	1.69%	1.68%
Expected dividend yield	0%	0%	0%
Expected life (in years)	5.96	5.76	5.95
Expected volatility	126%	123%	113%
Fair value per stock option	$ 1.20	$ 2.63	$ 1.57

The expected volatility reflects the assumption that the historical volatility of common stock of the Company over a period similar to the expected life of the options is indicative of future trends. The Company estimates the risk-free interest rate using the Bank of Canada bond yield with a remaining term equal to the expected life of the option. The Company uses the simplified method for estimating the stock option term for stock option grants during the year ended December 31, 2014 as the Company has determined that the stock options are "plain vanilla" and historical share option exercises do not apply as the vesting term and contractual lives have significantly changed from those stock options exercised previously.

The total fair value of options vested during the fiscal 2014, 2013, and 2012 years was $357,000, $605,000, and $355,000 respectively.

Total aggregate intrinsic value represents the pre-tax intrinsic value, based on the Company's closing stock price as of December 31, 2014, that would have been received by the option holders had all option holders exercised their stock options as of that date. The intrinsic value of the options outstanding as at December 31, 2014, 2013, 2012 was nil, $31,000, and $2,000 respectively. There were no stock option exercises during the years ended December 31, 2014, 2013, and 2012.

At December 31, 2014, the following stock options were outstanding:

Range of exercise price $	**Number of shares under option #**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**	**Number of options currently exercisable #**	**Weighted average exercise price $**
0.88	115,790	9.88	0.88	-	-
1.02 - 1.80	314,454	8.46	1.46	111,037	1.40
2.20	388,861	7.26	2.20	348,122	2.20
3.00 - 3.10	186,700	8.22	3.10	159,877	3.10
6.80 - 8.20	1,824	1.12	7.70	1,496	7.89
0.88 - 8.20	**1,007,629**	**8.10**	**1.99**	**620,532**	**2.30**

The options expire at various dates from December 1, 2015 to November 13, 2024.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of optioned common shares #	Weighted average exercise price $
Balance, December 31, 2012	989,064	1.98
Options granted	215,170	3.03
Options forfeited	(68,926)	2.32
Options expired	(4,680)	21.94
Balance at December 31, 2013	1,130,628	2.08
Options granted	506,780	1.36
Options forfeited	(629,194)	1.62
Options expired	(585)	23.00
Balance, December 31, 2014	1,007,629	1.99

[d] Restricted share unit plan

At the Annual General and Special Meeting held on June 18, 2013, the Company's shareholders approved a new restricted share unit plan ("RSU Plan"). Under the plan, the Company may grant Restricted Share Units ("RSUs") to employees, directors, and eligible consultants which entitle each participant to either one common share of the Company on a time vested basis or a cash payout equal to the number of vested RSUs multiplied by the then current market value of the RSUs. The fair market value of the RSUs is determined based upon the number of RSUs granted and the quoted closing price of the Company's stock on the trading day immediately preceding the date of determination. The duration of the vesting period and other vesting terms applicable to the grant of the RSUs shall be determined by the Board.

	Number of RSUs #	Weighted average exercise price $
Balance at December 31, 2012	-	-
RSUs granted	118,439	1.89
RSUs converted to common shares	(20,114)	1.93
Balance, December 31, 2013	98,325	1.88
RSUs granted	126,688	1.27
RSUs converted to common shares	(88,665)	1.75
Balance, December 31, 2014	136,348	1.39

The RSUs that were granted during the years ended December 31, 2014 and 2013 were to settle a director compensation liability that was recorded in accounts payable and accrued liabilities on the consolidated balance sheets. The $160,000 of director fees paid by RSUs during the year ended December 31, 2014 (2013 - $223,000) were excluded from the change in accounts payable and accrued liabilities on the statement of cash flows.

Of the 243,989 RSUs authorized for grant under the RSU Plan as at December 31, 2014, 107,641 RSUs are available for grant.

[e] Deferred share unit plan

At the Annual General and Special Meeting held on June 18, 2013, the Company's shareholders approved a new non-employee director deferred share unit plan ("DSU Plan"). A Deferred Share Unit ("DSU") is a right granted to non-employee directors which entitle each participant to either one common share of the Company on a time vested basis or a cash payout equal to the number of DSUs multiplied by the then current market value of the DSUs. The fair market value of the DSU's is determined based upon the number of DSUs granted and the quoted price of the Company's stock on the trading day immediately preceding the determination date. The duration of the vesting period and other vesting terms applicable to the grant of the DSU's shall be determined by the Board.

Of the 243,989 DSUs authorized for grant under the DSU Plan as at December 31, 2014, all are available for grant.

[f] Stock-based compensation

The following table shows stock-based compensation allocated by type of cost (in thousands):

Year ended December 31,	**2014**	**2013**	**2012**
	$	**$**	**$**
Cost of sales	**36**	29	27
Research and development	**45**	44	48
General and administrative	**259**	551	528
Sales and marketing	**41**	36	11
	381	660	614

As of December 31, 2014, the total unrecognized compensation expense related to stock options granted amounts to $306,000, which is expected to be recognized over a weighted average service period of 2.0 years.

[g] Common share purchase warrants

At December 31, 2014, there were 86,865,691 warrants outstanding to purchase shares of common stock, with expiry dates ranging from November 7, 2015 to December 15, 2024. Of the total 86,865,691 warrants outstanding, 86,103,744 warrants (the warrants related to the 2011 financing) entitle the holder thereof to purchase 1/20th of a common share of the Company at a price of $1.492 per whole common share; 636,557 warrants (the private placement warrants) entitle the holder thereof to purchase one common share of the Company at a price of $3.58 per common share; 17,689 warrants (the agent warrants) entitle the holder thereof to purchase one common share of the Company at a price of $2.45 per common share, 52,796 warrants entitle the holder thereof to purchase one common share of the Company at a price of $1.831 per common share, and 54,905 warrants entitle the holder thereof to purchase one common share of the Company at a price of $1.00 per common share.

Common share purchase warrant transactions are summarized as follows:

	Number of warrants #	Weighted average exercise price $
Balance, December 31, 2012	**89,976,289**	**0.0746**
Warrants issued	654,246	3.5500
Exercise of warrants	(3,872,545)	0.0746
Balance, December 31, 2013	**86,757,990**	**0.1008**
Warrants issued	107,701	1.4074
Balance, December 31, 2014	**86,865,691**	**0.1024**

The estimated fair value of the warrants related to the 2011 financing is reassessed at each balance sheet date using the Black-Scholes option pricing model. The following assumptions were used to value the warrants on the following balance sheet dates:

	2014	2013
Risk-free interest rates	1.00%	1.10%
Expected dividend yield	0%	0%
Expected life (in years)	2	3
Expected volatility	111%	140%
Fair value of warrant	$ 0.0355	$ 0.0610

[h] Earnings per common share

Basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares that would have been outstanding during the period assuming the issuance of common shares for all potential dilutive common shares outstanding using the treasury stock method. Dilutive potential common shares outstanding include outstanding warrants, stock options, and restricted share units.

86,865,691 warrants, 1,007,629 stock options and 136,348 restricted share units have been excluded from the computation of diluted earnings per share for the year ended December 31, 2014 as the Company has incurred a net loss during the year and their inclusion would be anti-dilutive to the loss per share (2013 – 86,757,990 warrants, 1,130,628 stock options and 98,325 restricted share units were excluded).

13. RELATED PARTY TRANSACTIONS

[a] On December 12, 2014, the Company closed a private placement with Joinstar related entities consisting of 1,800,000 common shares at a price of $1.21 per share for total net proceeds of $2,024,000. Upon closing, the Joinstar entities became a principal owner of the Company with a combined ownership of 18.4% of the outstanding common shares as at December 31, 2014.

[b] On October 22, 2014, the Company received the first milestone payment of US$560,000 earned under the Technology Development Agreement signed with Joinstar. This upfront payment is being recognized into income over development period and for the year ended December 31, 2014, $186,000 was recognized (2013 and 2012 – nil). These development fees are included under collaborative revenue in the consolidated statements of loss and comprehensive loss. The unrecognized portion of the development fees are included under deferred revenue – current portion on the consolidated balance sheet.

[c] On November 7, 2013, the Company's shareholders approved the Private Placement described in note 12[b]. Of the 1,273,117 subscription receipts issued, 816,325 subscription receipts were issued to a group of investment funds controlled by OrbiMed Advisors, LLC ("OrbiMed"), the Company's majority shareholder. Upon conversion of the subscription receipts, 816,325 common shares and 408,162 warrants were issued. In connection with the Private Placement, the Company incurred and paid legal costs of $53,000 on behalf of OrbiMed.

[d] The Company incurred consulting fees to a director of $174,000 for the year ended December 31, 2012. There were no such fees incurred during the year ended December 31, 2014 and 2013. These amounts have been paid during the year and no amount is included in accounts payable and accrued liabilities as at December 31, 2014 and 2013. These consulting fees were included in general and administrative expenses in the consolidated statement of loss and comprehensive loss.

14. INCOME TAXES

At December 31, 2014 the Company had approximately $60.0 million [2013 - $60.9 million] of non-capital loss carry forwards, approximately $3.1 million [2013 - $2.7 million] of federal investment tax credits and approximately $794,000 [2013 - $679,000] of provincial investment tax credits available to reduce taxable income and taxes payable for future years. These losses and investment tax credits expire as follows (in thousands):

Year of Expiry	Provincial investment tax credit	Federal investment tax credits	Non-capital loss carryforwards
2015	58	-	6,880
2016	142	-	-
2017	205	-	-
2018	198	151	-
2019	56	227	-
2020	-	430	-
2021	28	384	-
2022	53	233	-
2023	20	168	-
2024	34	36	-
2025	-	105	-
2026	-	256	7,669
2027	-	370	8,560
2028	-	357	4,107
2029	-	101	7,217
2030	-	-	9,266
2031	-	50	5,796
2032	-	96	3,887
2033		35	3,166
2034		61	3,488
	794	**3,060**	**60,036**

In addition, the Company has unclaimed tax deductions of approximately $12.5 million [2013 - $11.8 million] related to scientific research and experimental development expenditures available to carry forward indefinitely to reduce taxable income of future years and other deductible temporary differences of approximately $19.8 million [2013 - $17.9 million].

Significant components of the Company's deferred tax assets are shown below (in thousands):

	2014 $	2013 $
Future Tax Assets:		
Book amortization in excess of tax capital cost allowance	**2,647**	2,296
Non-capital loss carry forwards	**15,609**	15,222
Research and development deductions and credits	**6,336**	6,001
Share issue costs	**113**	169
Unearned revenue	**227**	22
Free rent liability	**110**	124
Non-repayable lease inducements	**232**	260
Repayable lease inducements	**1,417**	1,521
Other	**86**	83
Total future tax assets	**26,777**	25,698
Valuation allowance	**(26,777)**	(25,698)
Net future tax assets	**-**	-

The potential income tax benefits relating to these deferred tax assets have not been recognized in the consolidated financial statements as their realization does not meet the requirements of "more likely than not" under the liability method of tax accounting. Accordingly, a valuation allowance has been recorded and no deferred tax assets have been recognized as at December 31, 2014 and 2013.

The reconciliation of income tax attributable to operations computed at the statutory tax rate to income tax expense, using a 26.0% [2013 – 25.0%; 2012 – 25.0%] statutory tax rate is as follows (in thousands):

	2014 $	2013 $	2012 $
Income tax recovery at statutory rates	**(526)**	(1,500)	(1,318)
Tax expense of other tax jurisdictions	**68**	41	-
Expenses not deductible for tax purposes	**(923)**	691	247
Non-capital losses for which no benefit has been recognized	**907**	755	1,082
Other temporary differences for which no benefit has been recognized	**542**	54	(11)
Total income tax expense	**68**	41	-

The reconciliation of the unrecognized tax benefits of uncertain tax positions is as follows (in thousands):

	$
Balance at December 31, 2012	44
Balance at December 31, 2013	44
Additions based on tax positions related to the current year	-
Balance at December 31, 2014	**44**

As of December 31, 2014, unrecognized benefits of approximately $44,000, if recognized, would affect the Company's effective tax rate, and would reduce the Company's deferred tax assets. Interest and penalties related to the unrecognized tax benefits that are accrued in the Company's balance sheets as at December 31, 2014 were $24,000.

The Company is subject to taxes in Canada, the United States of America, and China. The tax years which remain subject to examination as of December 31, 2014 for Canada include 2008 to 2014. The tax years which remain subject to examination as of December 31, 2014 for the United States of America and China include 2013 to 2014.

15. COMMITMENTS

[a] License agreements

The Company entered into a non-exclusive license agreement, effective July 2005, as amended June 2008, to use and sublicense certain technology ("Technology") for one of the Company's cardiac tests. In consideration for these rights, the Company paid a non-refundable license issuance fee of $2.0 million in the first two years after execution of the agreement and is required to pay quarterly royalties on the sale of products that incorporate the Technology. For the year ended December 31, 2014, the Company incurred an expense of $628,000 [2013 - $616,000; 2012 - $634,000] for royalties. Royalty and license fees incurred are included in cost of sales

[b] Supply agreement

The Company entered into a supply agreement, effective September 2003 for certain reagents for the Company's RAMP® West Nile Virus Test. In addition to paying for the reagent purchased, the Company is required to pay the supplier semi-annual royalties equal to 10% of net revenue generated from the sale of the Company's RAMP® West Nile Virus Test. The initial term of the agreement was three years from the effective date and is automatically renewed for successive periods of one year until either party terminates the agreement. For the year ended December 31, 2014, the Company incurred an expense of $49,000 [2013 - $56,000; 2012 - $42,000] for royalties to the supplier. These royalties are included in cost of sales.

[c] Lease agreements

[i] The Company entered into a long-term agreement to lease a single tenant 46,000 square foot facility to house all of the Company's operations beginning March 2008. Rent is payable from February 1, 2008 to January 31, 2023. The Company is required to pay the landlord total gross monthly payments of approximately $173,000, which is comprised of base rent, administrative and management fees, estimated property taxes and repayments of the repayable leasehold improvement allowance [note 10[iii]].

[ii] The Company had entered into a lease agreement for office space for its Representative Office in China on November 18, 2012 where the Company was required to make monthly payments of approximately $5,000 for base rent and management fees. The lease agreement expired on September 17, 2014. The Company entered into a new lease agreement for new office space that expires on September 9, 2015. The Company is required to make monthly payments of approximately $8,000 for base rent and management fees under the new lease agreement.

[ii] The Company has entered into operating leases for administrative equipment.

[iii] The minimum annual cost of lease commitments is estimated as follows (in thousands):

December 31,	Premise $	Equipment $	Total $
2015	2,074	19	2,093
2016	2,102	10	2,112
2017	2,130	1	2,131
2018	2,160	-	2,160
2019	2,190	-	2,190
Thereafter	6,949	-	6,949
	17,605	**30**	**17,635**

For the year ended December 31, 2014, $802,000 [2013 - $807,000; 2012 - $779,000] was incurred for expenses related to base rent, administrative and management fees and estimated property taxes offset by amortization of both the rent-free inducement [note 10[i]] and non-repayable leasehold improvement allowance [note 10[ii]]. These expenses are allocated to cost of sales, research and development, general and administrative, and sales and marketing expenses.

[d] Purchase Commitments

As at December 31, 2014, the Company has outstanding purchase commitments to purchase inventory, equipment, and other services. The purchase commitments are summarized as follows (in thousands):

December 31,	**$**
2015	1,163
2016	133
2017	175
2018	195
2019	150
Thereafter	-
	1,816

[e] Indemnification of directors and officers

Under the Articles of the Company, applicable law and agreements with its directors and officers, the Company, in circumstances where the individual has acted legally, honestly and in good faith, may, or is required to indemnify its directors and officers against certain losses. The Company's liability in respect of the indemnities is not limited. The maximum potential of the future payments is unlimited. However, the Company maintains appropriate liability insurance that limits the exposure and enables the Company to recover any future amounts paid, less any deductible amounts pursuant to the terms of the respective policies, the amounts of which are not considered material.

[f] Indemnification of third parties

The Company has entered into license and research agreements with third parties that include indemnification provisions that are customary in the industry. These indemnifications generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims for damages arising from these transactions. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount that it could be required to pay. To date, the Company has not made any indemnification payments under such agreements and no amount has been accrued in these consolidated financial statements with respect to these indemnification obligations.

16. SEGMENTED INFORMATION

The Company operates primarily in one business segment, the research, development, commercialization and distribution of diagnostic technologies, with primarily all of its assets and operations located in Canada. The Company's revenues are generated from product sales primarily in the United States, Europe, Asia and Canada. Expenses are primarily incurred from purchases made from suppliers in Canada and the United States.

Customers that represent a concentration risk are those whose outstanding receivable is 10% or greater than the total balance or those customers who represent 10% or greater of our total revenue. Refer to note 6 for a discussion of concentration risk in relation to outstanding receivables. For the year ended December 31, 2014, $6.3 million (58%) in product sales was generated from two customers of which one customer represented 33% and the other customer represented 25%[2013 - $5.8 million (50%) from two customers of which one customer represented 36% and the other customer 14%; 2012 - $7.7 million (66%) from two customers of which one customer represented 48% and the other customer 18%].

Product sales by customer location were as follows (in thousands):

Years ended December 31,	2014	2013	2012
	$	$	$
China	**6,905**	7,153	7,748
United States	**1,246**	1,670	1,124
Asia (excluding China)	**512**	807	824
Europe	**1,304**	1,121	1,081
Canada	**73**	35	30
Other	**788**	745	943
Total	**10,828**	11,531	11,750

Product sales by type of product were as follows (in thousands):

Years ended December 31,	2014	2013	2012
	$	$	$
Cardiovascular	**9,785**	10,056	10,798
Infectious Diseases	**163**	450	173
Biodefense products	**360**	403	317
West Nile Virus (Environmental)	**520**	622	462
Total	**10,828**	11,531	11,750

17. SUBSEQUENT EVENTS

On February 16, 2015, the Company announced that it had signed the definitive Collaboration Agreement with Joinstar to support the co-development by Response and Joinstar of components and assays that will run on a high throughput rapid immunoassay analyzer developed by Joinstar. As a result, the Company has earned the second milestone of US$720,000 in the Collaboration Agreement with Joinstar. Concurrently, the companies have entered into a definitive Supply Agreement whereby Response will provide certain materials to Joinstar required for Joinstar to manufacture and sell these assays specifically to run on their new analyzer.