Consolidated financial statements

Annidis Corporation

December 31, 2014 and 2013

Annidis Corporation
December 31, 2014 and 2013

Table of contents

Independent Auditor's Report........1-2

Consolidated statements of financial position........3

Consolidated statements of comprehensive loss........4

Consolidated statements of changes in deficiency........5

Consolidated statements of cash flows........6

Notes to the consolidated financial statements........7-32

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Independent Auditor's Report

To the Shareholders of
Annidis Corporation

We have audited the accompanying consolidated financial statements of Annidis Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive loss, consolidated statements of changes in deficiency and consolidated statements of cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Annidis Corporation as at December 31, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that, as at December 31, 2014, the Company had a deficit of $29,207,944 and for the year then ended had incurred a net loss of $5,672,756 and had negative cash flows from operating activities of $4,140,291. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

April 17, 2015

Annidis Corporation

Consolidated statements of financial position as at December 31, 2014 and 2013

(in Canadian dollars)

	2014	2013
	$	$
Assets		
Current assets		
Cash	**80,016**	1,854,534
Restricted short-term investments (Note 4)	**57,401**	55,954
Trade accounts receivable	**341,106**	249,933
Inventories (Note 5)	**1,116,745**	911,577
Prepaids and other receivables (Note 6)	**225,222**	437,043
Total current assets	**1,820,490**	3,509,041
Property and equipment (Note 7)	**496,119**	426,804
	2,316,609	3,935,845
Liabilities and deficiency		
Current liabilities		
Accounts payable and accrued liabilities	**1,655,282**	1,511,724
Current portion of finance lease obligations (Note 10)	**28,095**	139,929
Convertible promissory note (Note 11)	**1,963,416**	-
Convertible note (Note 13)	**-**	956,115
Total current liabilities	**3,646,793**	2,607,768
Long-term liabilities (Note 23)	**195,278**	80,227
Long-term portion of finance lease obligations (Note 10)	**9,175**	37,271
Promissory notes (Note 12)	**3,885,956**	2,478,338
Secured promissory note (Note 14)	**984,965**	-
	8,722,167	5,203,604
Commitments (Note 23)		
Deficiency		
Share capital (Note 15)	**18,878,818**	18,878,818
Warrants (Note 15)	**1,708,821**	1,192,132
Share-based reserve	**2,214,747**	2,067,063
Deficit	**(29,207,944)**	(23,405,772)
Total deficiency	**(6,405,558)**	(1,267,759)
	2,316,609	3,935,845

On behalf of the Board of Directors

"Gerald Slemko", Director *"Michael Mueller"*, Director

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

Annidis Corporation
Consolidated statements of comprehensive loss
years ended December 31, 2014 and 2013
(in Canadian dollars)

	2014	2013
	$	$
Revenues	**2,364,027**	1,066,807
Cost of sales	**1,795,783**	826,970
	568,244	239,837
Expenses		
Manufacturing and operations	**728,671**	528,190
Research and development (Note 19)	**1,187,691**	933,266
General and administration	**1,402,782**	946,592
Sales and marketing	**1,951,063**	1,240,847
	5,270,207	3,648,895
Loss from operations	**(4,701,963)**	(3,409,058)
Other expenses		
Interest expense and financing charges	**579,180**	587,232
Accretion on promissory notes and convertible note	**316,602**	186,546
Share-based compensation expense	**51,199**	113,962
Amortization of debt issue costs	**23,812**	11,784
	970,793	899,524
Net loss and total comprehensive loss for the year	**(5,672,756)**	(4,308,582)
Net loss per share Basic and diluted (Note 21)	**(0.06)**	(0.06)
Weighted average number of common shares Basic and diluted (Note 21)	**88,735,155**	72,924,653

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

Annidis Corporation
Consolidated statements of changes in deficiency
years ended December 31, 2014 and 2013
(in Canadian dollars)

	Share capital	Warrants	Share-based reserve	Deficit	Total deficiency
	$	$	$	$	$
Balance, December 31, 2012	14,177,491	566,897	1,826,721	(19,047,568)	(2,476,459)
Net loss and total comprehensive loss	-	-	-	(4,308,582)	(4,308,582)
Issuance of common shares	5,000,000	-	-	-	5,000,000
Share issue costs	(298,673)	-	-	-	(298,673)
Warrants issued in connection with promissory notes	-	701,993	-	-	701,993
Value of warrants reclassified to share-based reserve on expiry	-	(126,380)	126,380	-	-
Revaluation of warrants on extension	-	49,622	-	(49,622)	-
Share-based compensation expense	-	-	113,962	-	113,962
Balance, December 31, 2013	18,878,818	1,192,132	2,067,063	(23,405,772)	(1,267,759)
Net loss and total comprehensive loss	-	-	-	(5,672,756)	(5,672,756)
Revaluation of warrants on extension	-	129,416	-	(129,416)	-
Warrants issued in connection with promissory notes	-	234,258	-	-	234,258
Warrants issued in connection with secured promissory note	-	173,916	-	-	173,916
Warrants cancelled in exchange for warrants on secured promissory note	-	(9,781)	9,781	-	-
Value of warrants reclassified to share-based reserve on expiry	-	(11,120)	11,120	-	-
Equity component of conversion right on convertible promissory note	-	-	75,584	-	75,584
Share-based compensation expense	-	-	51,199	-	51,199
Balance, December 31, 2014	**18,878,818**	**1,708,821**	**2,214,747**	**(29,207,944)**	**(6,405,558)**

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

Annidis Corporation

Consolidated statements of cash flows
years ended December 31, 2014 and 2013

(in Canadian dollars)

	2014	2013
	$	$
Cash flows from operating activities		
Net loss for the year	**(5,672,756)**	(4,308,582)
Add items not involving cash		
Interest on promissory notes and convertible note	**539,639**	313,804
Interest on promissory notes advances	**-**	103,709
Other non-cash interest	**3,589**	-
Accretion of promissory notes and convertible note	**316,602**	186,546
Amortization of debt issue costs	**23,812**	11,784
Amortization of property and equipment	**292,620**	220,296
Share-based compensation	**51,199**	113,962
Lease inducement	**158,611**	-
	(4,286,684)	(3,358,481)
Changes in non-cash working capital items (Note 22)	**146,393**	(634,563)
Net cash used in operating activities	**(4,140,291)**	(3,993,044)
Cash flows from investing activities		
Acquisition of property and equipment	**(494,298)**	(51,360)
Net cash used in investing activities	**(494,298)**	(51,360)
Cash flows from financing activities		
Proceeds from the issuance of promissory notes	**1,000,000**	1,000,000
Proceeds from the issuance of convertible note	**1,500,000**	-
Proceeds from the issuance of share units	**-**	5,000,000
Proceeds from the issuance of promissory note advances	**-**	636,711
Proceeds from short-term borrowings (Note 9)	**500,000**	685,000
Repayment of short-term borrowings	**-**	(685,000)
Repayment of financing leases	**(139,929)**	(131,010)
Repayment of interest on convertible note	**-**	(344,994)
Share issuance costs	**-**	(298,673)
Debt issuance costs	**-**	(75,000)
Net cash generated by financing activities	**2,860,071**	5,787,034
Net cash (outflow) inflow	**(1,774,518)**	1,742,630
Cash, beginning of year	**1,854,534**	111,904
Cash, end of year	**80,016**	1,854,534

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

1. Description of business

The principal activities of Annidis Corporation ("Annidis" or the "Company") are the development and sale of imaging technologies to eye care professionals in Canada, the United States and China.

Annidis was incorporated and is domiciled in Ontario with its registered office located at 100 Maple Grove Road, Ottawa, Ontario. The Company is publicly traded on the TSX Venture Exchange ("TSXV") under the symbol "RHA".

Effective January 1, 2014 Annidis Corporation completed an amalgamation pursuant to the Business Corporations Act (Ontario) with its wholly-owned operating subsidiary, Annidis Health Systems Corp. ("AHSC").

2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 17, 2015.

Basis of measurement

These consolidated financial statements have been prepared based on historical cost except for certain financial instruments that are measured at revalued amounts or fair values as explained in the accounting policies below. Historical cost is generally based on the fair value of consideration given in exchange for assets.

Basis of consolidation

The consolidated financial statements include the accounts of the parent, Annidis Corporation, and its wholly-owned United States subsidiary, Annidis Inc., which was incorporated in November 2013. The accounting policies of the subsidiary align with the policies adopted by the Company. All intercompany transactions, balances, income and expenses have been eliminated in full on consolidation.

Going concern

The preparation of financial statements in accordance with IFRS contemplates the continuation of the Company as a going concern. As at December 31, 2014, the Company had a deficit of $29,207,944 and for the year then ended incurred a net loss of $5,672,756 and had negative cash flows from operating activities of $4,140,291. In the absence of raising additional debt or equity financing or attaining sufficient revenues to achieve and sustain profitability, there is significant doubt regarding the Company's ability to continue as a going concern. The Company believes that certain sales-related efforts and financing initiatives will provide sufficient cash flow for it to continue as a going concern in its present form. However, there can be no assurance that the Company will achieve such results. The consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts, or the amounts and classification of liabilities, which might be necessary should the Company be unable to continue its operations.

3. Summary of significant accounting policies

The following are the significant accounting policies:

Restricted short-term investments

Short-term investments consist of investments in guaranteed investment certificates that have an original term of 91 days or greater.

Inventories

Inventories of raw materials and components used in the manufacturing of medical devices are valued at the lower of cost and net realizable value. Cost is determined on a first in, first out basis. Inventories of work in progress representing the assembly of subcomponents in the process of being manufactured are valued at the lower of cost (including appropriate overhead charges) and net realizable value. Inventories of finished goods are valued at the lower of cost (including appropriate overhead charges) and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment loss. Amortization is provided on a straight-line basis calculated to write off the cost less, in the case of medical equipment, estimated residual value over their estimated useful lives as follows:

Medical equipment	3 to 4 years
Medical equipment under finance leases	3 to 4 years
Furniture and office equipment	5 years
Computer equipment	3 years
Lab and manufacturing equipment	5 years
Leasehold improvements	5 years

Medical equipment refers to retinal examination devices leased to customers under either operating leases or finance leases together with equipment held by the Company for demonstration and testing purposes. Medical equipment is depreciated from the point of activation at the customers' site. Equipment that is removed from a customer's site, refurbished and relocated to a new customer site is depreciated based on the remaining net book value of the equipment together with additional capital costs incurred in refurbishing the equipment over the remaining useful life of the asset.

The carrying value of property and equipment is reviewed for impairment each reporting period whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of the property and equipment and its net recoverable value, which is generally determined based on undiscounted cash flows expected to result from the use and eventual disposal of the property and equipment. Any impairment in the carrying value of property and equipment is charged to the statement of comprehensive loss in the period such impairment is determined.

Financing charges

The Company defers legal, accounting and other direct costs incurred in connection with the issuance of debt or equity. Upon completion or abandonment of the transaction, the deferred charges will be applied against the debt or share capital or expensed, as deemed appropriate at the time.

Equipment leased to customers

The Company provides medical equipment that is owned by the Company for use at customer sites under its customer contracts. The Company has determined that certain contracts contain implicit leases and has evaluated these arrangements to determine if those equipment leases should be recognized as direct financing or operating leases under the provisions of International Accounting Standard ("IAS") 17, *Leases*.

3. Summary of significant accounting policies (continued)

Equipment owned by the Company that is located at customer sites is subject to operating leases with those customers. The equipment is classified as “Property and equipment” in the accompanying statements of financial position and amortization expense is recognized over the useful life of each asset.

In certain situations, the Company has arranged for third party financing on medical equipment provided to customers. Where the Company has the right to purchase the medical equipment at the end of the lease at a price which is expected to be significantly lower than fair value at that date and it is reasonably certain that this option will be exercised, the lease is recorded as a finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between interest costs and the reduction of the outstanding liability.

Government assistance

The Company makes periodic applications for financial contributions under available government incentive programs. Government contributions relating to research and development are recorded as a reduction of expenses at the time the assistance becomes receivable.

The Company recognizes investment tax credits for qualifying research and developments costs when there is reasonable assurance of the realization of the credit. The Company accounts for investment tax credits relating to research and development expenses as a reduction of such expenses and those relating to capital expenditures as a reduction of the cost of the asset acquired.

Research and development costs

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete the development to use or sell the asset. Other development expenditures are recognized in profit and loss as incurred. To date, no development costs have been capitalized.

Revenue recognition

The Company derives revenue from the sale of its devices directly to customers and through pay-per-use agreements based on the customers’ volume of transactions.

Revenue derived from the use of the eye health technology owned by the Company and provided to the customer under multi-year rental arrangements for the purpose of performing retinal examinations on their patients is recognized as the services are rendered by the customer to its patients. The fee is based on the actual number of billable patients imaged in accordance with the terms of the agreement with the customer.

Revenue from the sale of devices is recognized when legal title transfers to the customer and all installation and testing of the devices has been completed in accordance with the Company’s specifications. Revenue from maintenance and support is recognized over the term of the contract as services are rendered by the customer to its patients. Revenue related to operating leases is recognized rateably over the term of the lease.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received net of any discounts or rebates.

3. Summary of significant accounting policies (continued)

Foreign exchange translation

All amounts presented in the consolidated financial statements and the notes to the financial statements are reflected in Canadian dollars, which is the functional currency of the Company and its wholly-owned subsidiary.

Transactions undertaken in foreign currencies are translated into Canadian dollars at approximate exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the date of the statement of financial position. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated into Canadian dollars at the rate of exchange in effect at the related transaction dates. Exchange gains and losses arising from the translation of foreign currency items are included in the statement of comprehensive loss.

Loss per share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise common shares held in escrow, warrants, options and the convertible note.

Income taxes

The income tax expense for the year comprises current and deferred income taxes, and is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using the tax rates that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. Summary of significant accounting policies (continued)

Share-based compensation

The Company has an employee stock option plan. The Company measures the equity settled share-based payments based on their fair value at the date of the grant and recognizes compensation expense over the vesting period based on the Company's estimate of the equity instruments that will eventual vest. Expected forfeitures are estimated at the date of the grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in the profit or loss such that the cumulative expense reflects the revised estimate. For stock options granted to non-employees, the compensation expense is measured at the fair value of the goods or services received except where the fair value of the goods or services received cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of the share-based compensation to non-employees is periodically re-measured until the counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees on the exercise of the stock option is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Financial instruments

The Company classifies its financial assets as financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets and classifies its financial liabilities as either financial liabilities at fair value through profit or loss or other financial liabilities. All financial instruments are initially recognized at fair value including transaction costs, except those at fair value through profit or loss for which transaction costs are expensed when incurred.

Financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

3. Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities

The Company initially recognizes debt securities issued and liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or expire.

Financial liabilities are recognized initially at fair value. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in the profit and loss.

Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Financial assets	Classification
Cash	Loans and receivables
Restricted short-term investments	Loans and receivables
Trade accounts receivable	Loans and receivables
Other receivables	Loans and receivables
Financial liabilities	
Accounts payable and accrued liabilities	Other liabilities
Long-term liabilities	Other liabilities
Finance lease obligations	Other liabilities
Promissory notes	Other liabilities
Secured promissory note	Other liabilities
Convertible promissory note (liability portion)	Other liabilities

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash outflows through the expected life of the debt instrument, or, where appropriate, a shorter period of time, to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those classified at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The following are the critical judgments and estimates:

3. Summary of significant accounting policies (continued)

Revenue recognition

Application of the accounting principles related to the measurement and recognition of revenue requires the Company to make judgments and estimates. Revenue arrangements may be comprised of multiple license and service elements. Judgment is required in determining the deliverables that exist in an arrangement and the nature of these deliverables. Revenue recognition requires the arrangement fee to be allocated to the elements on a relative fair value basis. Judgments and estimates are required when determining the relative fair value of elements utilizing standalone prices for similar deliverables where it exists or third party evidence or internally generated estimates of standalone price. Judgment is also required in determining whether the transaction is an operating lease or a finance lease based on the substance of the transaction.

Revenue for product elements is recognized when delivered. Judgment is required in determining when delivery has occurred including assessing if significant obligations to install the product exist that must be completed, the timing of when the significant risks and rewards of ownership have been transferred, and if a risk of return exists due to non-compliance with product specifications.

Revenue for service elements is recognized as the services are performed. Estimates of proportional performance of service arrangements are required to recognize revenue including effort spent to date versus total effort expected to complete.

Impairment of trade accounts receivable

Management determines the estimated recoverability of trade accounts receivable based on the evaluation and aging of the receivables, including the current creditworthiness and the past collection history of the customers, and reviews these estimates at the end of each reporting period. The Company maintains an allowance for doubtful accounts to provide for impairment of trade accounts receivable. The expense recorded for doubtful accounts is included within general and administrative expenses in the consolidated statement of comprehensive loss.

Medical device financing arrangements

Where customers obtain use of the medical device through an operating lease under which the customer pays the Company fixed and variable amounts of lease income, the Company may enter into a financing agreement with third party providers of debt financing. The Company considers the arrangement between the vendor finance provider and Annidis to be a finance lease (as opposed to an operating lease) as defined in IAS 17 because ownership of the asset reverts to Annidis at the end of the finance arrangement for nominal consideration.

The debt finance provider advances the Company funds in return for taking the right to receive the fixed revenue streams and legal title to the device over the term of the finance arrangement.

As the significant risks and rewards of ownership are retained by the Company, the proceeds received from the third-party providers of debt finance are recorded as fixed-rate obligations which are repayable by installments. In such cases, the medical devices are recorded as property and equipment and the debt financing as a finance lease.

Estimated useful lives and amortization of property and equipment

Amortization of property and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of property and equipment or intangible assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3. Summary of significant accounting policies (continued)

Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive as a result of a previous event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount recognized is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligations. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate of the expected future cash flows.

Income taxes

Management uses estimates and judgment when determining current and deferred income taxes. These estimates are used to determine the recoverability of tax loss carry forwards, research and development expenditures and investment tax credits.

Share-based compensation

In calculating share-based compensation expense, key estimates used include the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk free interest rate.

Determining the allocation of proceeds received on the issuance of debt

The key estimate used to determine the allocation of proceeds received on the issuance of convertible notes or promissory notes and secured promissory notes with warrants is to calculate the estimated fair value of the debt portion of the compound instrument by discounting the future cash flows associated with the debt using the estimated borrowing cost to the Company for similar notes with no warrants. The allocation between debt and equity (warrants) is then determined by allocating this calculated fair value to the debt portion of the instrument, and the remainder to the equity portion.

New Standards effective for January 1, 2014

The Company has adopted the following new accounting standards and interpretations effective January 1, 2014.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amendments to IAS 32 *Financial Instruments: Presentation* clarify certain aspects because of diversity in application of the requirements on offsetting, focus on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realisation and settlement the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.
- The IAS 32 amendments were applied retrospectively on January 1, 2014 with no impact.

IFRIC 21 Levies (IFRIC 21)

Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- The liability is recognised progressively if the obligating event occurs over a period of time
- If an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

IFRIC 21 was applied beginning January 1, 2014 with no impact.

3. Summary of significant accounting policies (continued)

New Standards effective for January 1, 2014 (continued)

IAS 36 Impairment of Assets (IAS 36)

In May 2013, the IASB amended IAS 36, to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively on January 1, 2014 with no impact.

Amendments to IFRS 2 - Share-based Payments ("IFRS 2")

In the second quarter of 2014, the IASB issued Amendments to IFRS 2. The amendments change the definitions of "vesting condition" and "market condition" in the standard, and add definitions for "performance condition" and "service condition". They also clarify that any failure to complete a specified service period would result in a failure to satisfy a service condition. This would result in the reversal, in the current period, of compensation expense previously recorded reflecting the fact that the employee failed to complete a specified service condition.

These amendments were effective for transactions with a grant date on or after July 1, 2014. There was no impact to the Company in implementing this amendment.

New and revised IFRS in issue but not effective

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15)

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts.

The impact of these standards and amendments has not yet been determined.

4. Restricted short-term investments

Restricted short-term investments of $57,401 (2013 - $55,954) consist of two guaranteed investment certificates in the amounts of $40,000 maturing April 16, 2015, which was automatically renewed, (2013 - $40,000 maturing April 16, 2014) and US$15,000 maturing October 16, 2015 (2013 - US$15,000 maturing October 16, 2014) with an effective annual interest rate of 0% (2013 - 0%).

The investment certificates are held by the Royal Bank of Canada (the "Bank") as collateral for credit offered to the Company through corporate credit cards. In addition, the Bank has registered a first charge over the accounts of the Company as security against the outstanding balances on the credit cards.

(in Canadian dollars)

5. Inventories

Inventories consist of the following:

	2014	2013
	$	$
Raw materials	**477,241**	352,014
Work in process	**602,758**	520,965
Finished goods	**36,746**	38,598
	1,116,745	911,577

For the year ended December 31, 2014, the Company has expensed inventory costs of $1,623,868 (2013 - $628,866).

6. Prepaids and other receivables

Prepaids and other receivables consist of the following:

	2014	2013
	$	$
Supplier deposits	**95,134**	219,018
Prepaids	**96,990**	54,561
Commodity taxes receivable	**33,098**	64,500
IRAP receivable	**-**	98,964
	225,222	437,043

7. Property and equipment

Cost	January 1, 2014	Additions	Transfers	December 31, 2014
	$	$	$	$
Medical equipment	431,150	359,928	(163,068)	628,010
Medical equipment under finance leases	262,364	-	(43,674)	218,690
Computer equipment	166,087	56,861	-	222,948
Lab and manufacturing equipment	38,146	9,239	-	47,385
Furniture and office equipment	19,668	25,031	-	44,699
Leasehold improvements	-	43,239	-	43,239
	917,415	494,298	(206,742)	1,204,971

(in Canadian dollars)

7. Property and equipment (continued)

Cost	January 1, 2013	Additions	Transfers	December 31, 2013
	$	$	$	$
Medical equipment	482,720	-	(51,570)	431,150
Medical equipment under finance leases	306,358	-	(43,994)	262,364
Computer equipment	127,884	38,203	-	166,087
Lab and manufacturing equipment	25,689	12,457	-	38,146
Furniture and office equipment	18,968	700	-	19,668
Leasehold improvements	-	-	-	-
	961,619	51,360	(95,564)	917,415

Accumulated amortization	**January 1, 2014**	**Amortization**	**Transfers**	**December 31, 2014**
	$	**$**	**$**	**$**
Medical equipment	**229,832**	**148,085**	**(46,029)**	**331,888**
Medical equipment under finance leases	**102,424**	**101,585**	**(28,350)**	**175,659**
Computer equipment	**119,944**	**27,846**	**-**	**147,790**
Lab and manufacturing equipment	**23,247**	**5,925**	**-**	**29,172**
Furniture and office equipment	**15,164**	**2,728**	**-**	**17,892**
Leasehold improvements	**-**	**6,451**	**-**	**6,451**
	490,611	**292,620**	**(74,379)**	**708,852**

Accumulated amortization	January 1, 2013	Amortization	Transfers	December 31, 2013
	$	$	$	$
Medical equipment	152,441	133,965	(56,574)	229,832
Medical equipment under finance leases	54,633	59,455	(11,664)	102,424
Computer equipment	99,512	20,432	-	119,944
Lab and manufacturing equipment	19,695	3,552	-	23,247
Furniture and office equipment	12,272	2,892	-	15,164
Leasehold improvements	-	-	-	-
	338,553	220,296	(68,238)	490,611

(in Canadian dollars)

7. Property and equipment (continued)

Net book value	2014	2013
	$	$
Medical equipment	**296,122**	201,318
Medical equipment under finance leases	**43,031**	159,940
Computer equipment	**75,158**	46,143
Lab and manufacturing equipment	**18,213**	14,899
Furniture and office equipment	**26,807**	4,504
Leasehold improvements	**36,788**	-
	496,119	426,804

8. License agreement

In 2013, the Company renegotiated a license agreement with Ottawa Health Research Institute ("OHRI") committing to annual cash payments of $16,667 over the next three years and the provision of a medical device to OHRI in lieu of a $225,000 commitment made in 2012. As a result, in 2013, the Company reversed against general and administrative expenses previously recorded accruals relating to this agreement in the amount of $170,953.

9. Short-term borrowings

In September 2014, the Company entered into an agreement with Yimai Technology International Company ("Yimai"), a related party (Note 24), whereby Yimai agreed to lend the Company the principal amount of $500,000. The unsecured note bears interest at 10% per annum and was due upon the closing of an equity financing. In November 2014, the note was included as part of a convertible promissory note financing by Yimai (Note 11).

The total interest and fees on the short-term borrowings amounted to $3,589 (2013 - $18,223).

10. Finance lease obligations

The Company obtains lease financing for certain equipment provided to its customers. The terms of the leases are either 36, 38 or 48 months and the interest rates associated with the leases range from 10.2% to 12.8%.

Due between	Future minimum lease payments	Interest	Present value of minimum lease payments
	$	$	$
January 1, 2015 to December 31, 2015	30,471	2,376	28,095
January 1, 2016 to October 1, 2016	9,637	462	9,175
Total	**40,108**	**2,838**	**37,270**

(in Canadian dollars)

11. Convertible promissory note

In November 2014, the Company completed the private placement of a $2,003,589 convertible promissory note with Yimai including the note payable of $500,000 and accrued but unpaid interest on the note payable of $3,589 (Note 9).

The convertible promissory note will mature six months from the date of issuance and bears interest at a rate of 10% per annum payable at maturity. At Yimai's option, the convertible promissory note may be converted into common shares in the capital of Annidis at a conversion price of $0.35 per common share. The Company may prepay the outstanding principal amount of the convertible promissory note together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the note.

The convertible promissory note contains a liability and an equity component represented by the conversion right. The fair value of the liability component was estimated by discounting the future cash flows associated with the debt at a discount rate of approximately 20% which represents the estimated borrowing cost to the Company for similar notes with no conversion feature. The residual value was allocated to the equity. Subsequent to initial recognition, the notes will be recorded at amortized cost using the effective interest method.

	2014
	$
Notes payable exchanged for convertible promissory note (including unpaid interest) (Note 9)	**503,589**
Subscription by Yimai Technology International Company Limited	**1,500,000**
	2,003,589
Less: Equity component of convertible promissory note (conversion right)	**(75,584)**
	1,928,005
Interest on convertible promissory note at 10%	**19,391**
Accretion in the carrying value of the convertible promissory note	**16,020**
	1,963,416

12. Promissory notes

In June 2013, promissory note advances totaling $2,000,000 were converted into promissory notes with a term of three (3) years from the date of issuance, bearing interest at 10% per annum compounded monthly and payable at maturity or such earlier date upon which the promissory notes are prepaid, without penalty. Also in June 2013, Yimai provided an additional $1,000,000 to complete the promissory note financing.

On May 22, 2014, the Company completed a private placement of a secured promissory note in the amount of $1,000,000 with Yimai. The note has a three-year term and bears interest at a rate of 10% per annum compounded monthly and payable at maturity.

The promissory notes are secured by a general security agreement over the assets, including all intellectual property, of the Company. The Company will have the option, at any time after the first anniversary of the issuance date and prior to maturity, to prepay the outstanding principal amount together with all accrued and unpaid interest without penalty.

(in Canadian dollars)

12. Promissory notes (continued)

For each one dollar of promissory notes, the Company issued one common share warrant to purchase one common share at an exercise price of $0.40 per common share. The term of the warrants will be three (3) years from the date of issuance.

The notes contain a liability and an equity component represented by the warrants to purchase common shares. The fair value of the liability component was estimated by discounting the future cash flows associated with the debt at a discount rate of approximately 20% which represents the estimated borrowing cost to the Company for similar notes with no warrants. The residual value was allocated to the warrants. Subsequent to initial recognition, the notes will be recorded at amortized cost using the effective interest method.

	2014	2013
	$	$
Promissory notes advances converted to promissory notes	**2,000,000**	2,000,000
Subscription by Yimai Technology International Company Limited Company Limited	**2,000,000**	1,000,000
	4,000,000	3,000,000
Less: Equity component of notes (warrants)	**(936,251)**	(701,993)
	3,063,749	2,298,007
Interest on promissory notes at 10%	**556,253**	163,950
Accretion in the carrying value of the promissory notes	**305,358**	79,595
Debt issue costs	**(75,000)**	(75,000)
Amortization of debt issue costs	**35,596**	11,784
	3,885,956	2,478,336

13. Convertible note

On June 8, 2011, the Company issued a subordinated secured convertible note in the amount of $1,000,000 secured by a general security agreement over all the tangible and intangible assets of the Company. The Company reached an agreement with the convertible note holder whereby the convertible note in the principal amount of $1,000,000 which matured on June 7, 2014 was cancelled and replaced with a new $1,000,000 secured promissory note (Note 14). In connection with the surrender of the convertible note for cancellation, the Company paid to the lender in December 2013 all accrued and outstanding interest on the convertible note up to and including November 30, 2013, along with a one-time note replacement fee of $50,000. The TSXV approved the transaction in July 2014.

(in Canadian dollars)

13. Convertible note (continued)

The following is a summary of changes in the convertible note for the year:

	2014	2013
	$	$
Issuance of convertible note, at face value	**1,000,000**	1,000,000
Less: Equity component of convertible note	**(267,446)**	(267,446)
	732,554	732,554
12% interest on convertible note	**344,994**	344,994
Accretion in the carrying value of the convertible note	**267,446**	213,680
Payment of interes	**(344,994)**	(344,994)
	1,000,000	946,234
12% interest on new secured promissory note	**71,361**	9,881
	1,071,361	956,115
Principal and accrued interest from December 1, 2013 exchanged for secured promissory note	**(1,071,361)**	-
	-	956,115

14. Secured promissory note

The Company reached an agreement with the convertible note holder whereby the convertible note was cancelled and replaced with a new $1,000,000 secured promissory note (Note 13). The new secured promissory note matures on January 31, 2017 and bears interest beginning December 1, 2013 at a rate of 12% per annum compounded monthly and payable at maturity. The Company may prepay the outstanding principal amount of the secured promissory note together with all accrued and unpaid interest, without penalty, at any time after the first anniversary of the issuance date of the new secured promissory note. This note is secured by a general security agreement over the assets of the Company.

The Company issued to the lender 2,133,333 warrants for the purchase of common shares of the Company. Each warrant is exercisable at a price of $0.30 per common share at any time prior to September 30, 2016.

The allocation of the proceeds between debt and warrants was determined by calculating the fair value of the debt portion by discounting the future cash flows associated with the debt using the estimated borrowing cost to the Company for similar notes with no warrants (20%). The allocation between debt and warrants is then determined by allocating this calculated fair value to the debt portion of the instrument, and the remainder to the warrants.

(in Canadian dollars)

14. Secured promissory note (continued)

The following is a summary of the components of the Company's secured promissory note:

	2014
	$
Issuance of secured promissory note, at face value	**1,000,000**
Unpaid interest on convertible note exchanged	**71,361**
	1,071,361
Less: Equity component of secured promissory note (warrants)	**(173,916)**
	897,445
12% interest on secured promissory note	**66,466**
Accretion in the carrying value of the secured promissory note	**21,054**
	984,965

15. Share capital

(a) Authorized

The authorized share capital of the Company consists of unlimited common shares.

The common shares are voting and are entitled to dividends if, as and when declared by the Board of Directors.

(b) Common shares

	Number	$
Balance, December 31, 2012	67,901,822	14,177,491
Issued to Yimai Technology International Company Limited	27,965,379	5,000,000
Less: Shares held in escrow	(7,132,046)	-
Cost of issuance	-	(298,673)
Balance, December 31, 2013	88,735,155	18,878,818
Balance, December 31, 2014	**88,735,155**	**18,878,818**

On October 4, 2013, the Company closed a private placement of common shares with Yimai whereby Yimai acquired ownership of 27,965,379 common shares of Annidis, of which 7,132,046 common shares will be subject to escrow as an anti-dilution measure. All the common shares issued are subject to a statutory hold period of four months and one day from the date of closing.

The 27,965,379 common shares were issued from treasury in consideration of $5,000,000 in cash. The 20,833,333 common shares not subject to escrow were issued at a price of $0.24 per share (or an effective price of $0.179 per share in the event that all 7,132,046 common shares subject to escrow are released from escrow upon the exercise or conversion on or before September 30, 2016 of the issuer's outstanding convertible securities).

(in Canadian dollars)

15. Share capital (continued)

(b) Common shares (continued)

Of these 27,965,379 common shares, 7,132,046 will be held in escrow by Annidis and will be released to Yimai on the basis of one escrowed share for each (approximately) 3.26 common shares which are issued upon exercise of certain of the Company's other outstanding convertible securities on or before September 30, 2016. After such date, any escrowed shares not already released to Yimai will be cancelled. As of the date of the transaction, Annidis had a total of 23,099,661 common shares reserved for issuance under convertible securities which are exercisable or otherwise convertible at prices ranging from $0.30 to $0.80 per common share and which expire on various dates between December 2014 and September 2016. Yimai may not exercise the voting rights attached to the common shares held in escrow.

(c) Warrants

Warrants	#	$	Exercise price	Expiry date
Balance, December 31, 2012	12,376,423	566,897		
Expiry of warrants [i]	(208,200)	(45,304)	0.20	
Expiry of brokers' warrants [ii]	(644,900)	(81,076)	0.40	
Warrant - promissory notes [iii]	3,000,000	701,993	0.40	28-Jun-16
Revaluation of warrants on extension [iv]	-	49,622		
Balance, December 31, 2013	14,523,323	1,192,132		
Revaluation of warrants on extension [v]	-	129,416		
Warrants - promissory notes [vi]	1,000,000	234,258	0.40	22-May-17
Warrants - secured promissory note [vii]	2,133,333	173,916	0.30	30-Sep-16
Warrants cancelled in exchange for warrants on secured promissory note [vii]	(250,000)	(9,781)	0.33	
Expiry of warrants [viii]	(312,500)	(11,120)	0.40	
Balance, December 31, 2014	17,094,156	1,708,821		

[i] In January 2013, 208,200 common share warrants assumed on the reverse acquisition of Aumento Capital Corporation at an exercise price of $0.20 per common share expired unexercised. The estimated fair value of the expired warrants, as determined at the date of the assumption of the warrants, has been reclassified from warrants to share-based reserve.

[ii] In June 2013, 644,900 common share warrants to brokers in connection with a private placement in June 2011 at an exercise price of $0.40 per common share expired unexercised. The estimated fair value of the expired warrants, as determined at the date of the issuance of the warrants, has been reclassified from warrants to share-based reserve.

[iii] On June 28, 2013, the Company completed a promissory note financing for proceeds of $3,000,000. Each note holder received one common share purchase warrant for every one dollar of principal. Each warrant entitles the holder thereof to purchase one common share at a price of $0.40 per share at any time up to June 28, 2016.

15. Share capital (continued)

(c) Warrants (continued)

[iv] On June 4, 2013, the Company received approval from the TSXV to amend the warrants Issued on June 9, 2011 in connection with the private placement completed concurrently with the corporation's Qualifying Transaction. A total of 4,171,250 warrants that were to expire on June 11, 2013 at an exercise price of $0.80 per common share were extended by three additional years to expire on June 11, 2016. The exercise price of these warrants remained at $0.80 per common share.

As a result of this extension, the warrants were revalued using the Black-Scholes option pricing model based on the following assumptions: expected life of 3.0 years, expected volatility of 70%, risk-free interest rate of 1.41%, and expected dividend of $NIL. The difference of $49,622 between the previously recorded value and the new value was charged to deficit.

[v] On January 2, 2014, the TSXV approved the Company's application to extend the term of 3,531,250 warrants which were issued by the Company on June 9, 2011 in connection with the completion of the Company's Qualifying Transaction. The warrants are exercisable at prices of $0.30 and $0.40 per common share and were set to expire between December 18, 2013 and November 4, 2014. The term of the warrants was extended by one year and now expire between December 18, 2014 and November 4, 2015. All other terms of the warrants, including the exercise price, remain unchanged.

As a result of this extension, the warrants were revalued using the Black-Scholes option pricing model based on the following assumptions: average expected life of 2.4 years, expected volatility of 70%, risk-free interest rate of 1.61%, and expected dividend of $NIL. The difference of $129,416 between the value of the warrants based on their original remaining life and the value of the extended warrants was charged to deficit.

[vi] On May 22, 2014, the Company completed a promissory note financing for proceeds of $1,000,000. The note holder received one common share purchase warrant for every one dollar of principal. Each warrant entitles the holder thereof to purchase one common share at a price of $0.40 per share at any time up to May 22, 2017.

[vii] In connection with the issuance of the secured promissory note, the Company issued to the lender 2,133,333 warrants for the purchase of common shares of the Company. Each warrant is exercisable at a price of $0.30 per common share at any time prior to September 30, 2016. In exchange for the issuance of the warrants, the lender has surrendered to the Company for cancellation two outstanding warrants for the purchase of up to 250,000 common shares of the Company (one warrant for the purchase of 62,500 common shares originally issued on December 22, 2009 and set to expire on December 22, 2014, and a second warrant for the purchase of 187,500 common shares originally issued on March 15, 2010 and set to expire on March 15, 2015). The estimated fair value of the expired warrants has been reclassified from warrants to share-based reserve.

[viii] In December 2014, 312,500 common share warrants issued in 2009 on a financing transaction at an exercise price of $0.40 per common share expired unexercised. The estimated fair value of the expired warrants, as determined at the date of the issuance of the warrants, has been reclassified from warrants to share-based reserve.

(in Canadian dollars)

15. Share capital (continued)

(d) Stock option plan

The following is a summary of the changes in the Company's stock options:

	Number of options	Weighted average exercice price
	#	$
Balance, December 31, 2012	5,495,000	0.40
Options granted	1,230,000	0.40
Options cancelled	(802,500)	0.40
Options forfeited	(20,000)	0.40
Balance, December 31, 2013	5,902,500	0.40
Options granted	635,000	0.40
Options forfeited	(295,000)	0.40
Balance, December 31, 2014	**6,242,500**	**0.40**
Options exercisable, end of period	**6,242,500**	**0.40**

The following is a summary of the outstanding options as at December 31, 2014:

Expiry date	Exercise price	Number of options exercisable	Total	Weighted average remaining life (years)
	$	#		
July 11, 2016	0.40	1,675,000	1,675,000	
July 28, 2016	0.40	1,350,000	1,350,000	
September 22, 2016	0.40	62,500	62,500	
September 30, 2016	0.40	3,155,000	3,155,000	
		6,242,500	**6,242,500**	**1.7**

A total of $51,199 (2013 - $113,962) in share-based compensation expense was recognized in fiscal 2014.

In April 2014, the Board of Directors authorized the issuance of 335,000 stock options under the stock option plan with an exercise price of $0.40, all of which vested immediately. Total share-based compensation expense for these stock options was $24,254. These options were valued using the Black-Scholes option pricing model based on the following assumptions: expected life of 2.4 years, expected volatility of 70%, risk-free interest rate of 1.062%, and expected dividend of $NIL.

(in Canadian dollars)

15. Share capital (continued)

[d] Stock option plan (continued)

In October 2014, the Board of Directors authorized the issuance of 300,000 stock options under the stock option plan with an exercise price of $0.40, all of which vest immediately. Total share-based compensation expense for these stock options was $26,520. These options were valued using the Black-Scholes option pricing model based on the following assumptions: expected life of 2 years, expected volatility of 70%, risk-free interest rate of 0.99%, and expected dividend of $NIL.

16. Segment information

Operating segments

IFRS 8 *Operating Segments* defines an operating segment as (a) a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenue and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance and, (c) for which discrete financial information is available.

The Company operates in one operating segment, the research, development and sale of a medical device for eye care professionals. All revenues earned and expenses incurred to date are related to this one business segment.

Geographic segments

The Company deploys its devices in the United States, Canada and China. Revenue is attributed to geographic location based on the location of the customer. The Company’s revenues by geographic location is as follows:

	2014	2013
	$	$
Revenues		
United States	**1,465,418**	727,141
China	**672,080**	42,230
Canada	**226,529**	297,436
	2,364,027	1,066,807

All property and equipment is located in Canada.

(in Canadian dollars)

17. Nature of expenses

	2014	2013
	$	$
Salaries, commissions and benefits	**2,815,220**	1,639,379
Consultants and contractors	**584,581**	607,423
Travel and entertainment	**495,002**	455,224
Occupancy costs	**308,960**	309,750
Professional fees and consultants	**219,377**	205,703
Sales and marketing	**322,609**	156,090
Administrative	**260,234**	280,198
OHRI research contract expenditure	**-**	(170,953)
IRAP earned	**(118,360)**	(131,640)
Amortization	**168,298**	91,791
Other	**214,286**	205,930
	5,270,207	3,648,895

Amortization of medical equipment utilized by customers under either operating or finance leases amounting to $124,322 (2013 - $128,506) is included in cost of sales.

18. Compensation of key management

Key management includes directors and officers of the Company. The compensation paid to key management for services is as follows:

	2014	2013
	$	$
Salaries and employee benefits	**192,110**	111,562
Share-based compensation	**-**	58,345
	192,110	169,907

19. Research and development

The Company is involved in the research and development of retinal imaging technology targeted to the primary eye exam provider. The research and development costs are as follows:

	2014	2013
	$	$
Research and development expenses	**1,306,051**	1,064,906
Less: IRAP	**(118,360)**	(131,640)
	1,187,691	933,266

In July 2013, the Company entered into an agreement with the Industrial Research Assistance Program (“IRAP”) which provided for a maximum non-refundable payment of $250,000 towards costs incurred in the program until March 28, 2014.

All research and development costs incurred to date have been expensed.

(in Canadian dollars)

20. Income taxes

(a) As at December 31, 2014, the Company has accumulated non-capital losses of approximately $22,535,000 for federal and provincial purposes in Canada, which can be used to offset future taxable income. The losses expire as follows:

	$
2026	488,000
2027	965,000
2028	1,798,000
2029	2,089,000
2030	1,211,000
2031	2,841,000
2032	3,959,000
2033	3,954,000
2034	5,230,000

(b) The Company also has unclaimed research and development expenditures of $2,564,668 (2013 - $2,564,668) which may be carried forward indefinitely to reduce future years' taxable income.

(c) The Company has $10,999 in non-refundable investment tax credits which can be used to reduce future years' federal taxes payable as follows:

	$
2027	4,431
2028	5,033
2029	1,535

21. Loss per share

The basic and diluted loss per share was calculated using the weighted average number of common shares outstanding for the years presented. The securities listed below were outstanding at December 31, 2014 and 2013 but were not included in the diluted loss per share calculation as they were anti-dilutive for the periods presented. These instruments may be dilutive in future periods.

	2014	2013
	$	$
Escrowed common shares	**7,132,046**	7,132,046
Options	**6,242,500**	5,902,500
Warrants	**17,094,156**	14,523,323
Convertible debt	**5,779,943**	1,666,667
	36,248,645	29,224,536

(in Canadian dollars)

22. Supplementary cash flow information

The net change in non-cash working capital balances related to operations consists of the following:

	2014	2013
	$	$
Restricted short-term investments	**(1,447)**	(15,954)
Trade accounts receivable	**(91,173)**	(217,102)
Inventories	**(72,807)**	(181,030)
Prepaids and other receivables	**211,821**	(355,748)
Accounts and accrued liabilities	**99,999**	135,271
	146,393	(634,563)

Excluded from the cash flow statement is $1,292,985 in promissory note advances related to 2012 that were converted into promissory notes in fiscal 2013.

23. Commitments

In April 2014, the Company moved its offices and entered into a new five-year lease commencing May 1, 2014 for total aggregate minimum lease payments of $655,711.

	$
2030	139,408
2031	146,666
2032	153,923
2033	161,181
2034	54,533
	655,711

A lease inducement consisting of seven months free rent less amortization is included in long-term liabilities (2014 - $158,611; 2013 - $NIL). The lease inducement is being amortized over the term of the lease.

(in Canadian dollars)

24. Related party transactions

The Company was involved in the following related party transactions with Yimai which holds a 23% interest in the Company and has three members on the Board of Directors:

	2014	2013
	$	$
Sales	**672,080**	42,230
Recovery of expenses	**8,424**	5,424
Reimbursement of travel expenses	**(5,213)**	-
Accounts receivable as at December 31	**3,815**	5,654

All transactions have been measured at the exchange amount, which is the amounts agreed to by the related parties.

Also see Notes 9, 11, 12 and 15.

25. Financial instruments

(a) Fair values hierarchy

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable or can be corroborated by observable market data;

Level 3 - unobservable inputs that are supported by little or no market activity.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

There are no items classified as Level 1.

The carrying amounts of cash, restricted short-term investments, trade accounts receivable, other receivables and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The fair value of the promissory notes approximates their book value as borrowing rates have not changed.

(b) Interest rate risk

Interest rate risks related to the promissory notes is limited given they are fixed-rate instruments.

The Company receives a variable rate of interest based on movements in the prime interest rate on restricted short-term investments. A change of 1% in the interest rate received on investments with a variable interest rate would have a nominal impact on the loss for the year.

25. Financial instruments (continued)

(c) Foreign exchange risk

The Company earns revenues, incurs expenses, and makes certain payments in United States dollars. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. The Company does not currently have any agreement to fix or hedge the exchange rate of the Canadian to the United States dollar due to the relatively short time frame for settlement of these balances.

(d) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade accounts receivable. The Company is exposed to credit-related losses in the event of non-performance by the counterparties.

The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but continues to be exposed to normal credit risk from its customers. The credit risk that exists at this point in time is minimal as payment for the equipment sales is made upon delivery of the equipment. Monthly fees are individually smaller amounts. Trade accounts receivable are reported net of an allowance for doubtful accounts of $NIL (2013 - $14,000).

As at December 31, 2014, four customers account for 85% (2013 - three customers accounted for 74%) of the Company's accounts receivable with the remaining customers individually accounting for less than 3% of the total accounts receivable. As at December 31, 2014, the Company's aging of receivables was approximately 95% under sixty days (2013 - 90% under sixty days).

The carrying amount of cash, restricted short-term investments, trade accounts receivable, and other receivables represent the maximum exposure to credit risk and as at December 31, 2014 this amounted to $511,621 (2013 - $2,323,885). The cash and restricted short-term investments are held by the Company's bank which is one of the large Canadian banks. Since the inception of the Company, no losses have been suffered in relation to cash held by the bank.

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. To date, the Company has incurred significant operating losses. During the year ended December 31, 2014, the Company obtained significant financing through the issuance of promissory notes. The Company's ability to continue as a going concern is dependent on its ability to obtain additional capital until it is able to generate sufficient revenues to achieve sustainable profitability.

(in Canadian dollars)

25. Financial instruments (continued)

(e) Liquidity risk (continued)

The table below summarizes the maturity profile of the Company's financial liabilities and obligations as at December 31, 2014 on contractual undiscounted payments:

December 31, 2014	Total	Less than one year	1 to 3 years	Thereafter
	$	$	$	$
Accounts payable and accrued liabilities	1,655,282	1,655,282	-	-
Convertible promissory notes	2,022,980	2,022,980	-	-
Secured promissory notes	1,137,827	1,137,827	-	-
Finance lease obligations	37,270	28,095	9,175	-
Long-term liabilities	80,227	-	80,227	-
Promissory notes	4,556,253	-	4,556,253	-
	9,489,839	4,844,184	4,645,655	-

26. Capital management

The Company manages its capital with the objective of maximizing shareholder value and sustaining future development of the business. The Company defines capital as the Company's deficiency and any debt it may issue which totalled $466,049 as at December 31, 2014 (2013 - $2,343,894). Debt issued by the Company is comprised of promissory notes, finance lease obligations and convertible notes. The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the Company's activities. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstances.

The Board of Directors does not establish quantitative returns on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to externally imposed capital requirements and there have been no changes in the Company's capital management objectives and policies since the prior year.

27. Subsequent event

On April 10, 2015, the Company completed the private placement of a $500,000 promissory note with Yimai. The note will mature six months from the date of issuance or such earlier time as the Company completes an equity financing of not less than $3,000,000 and bears interest at a rate of 10% per annum compounded monthly and payable at maturity. The Company may prepay the outstanding principal amount of the note together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the note. The proceeds from the note will be used by the Company for general working capital purposes.

Also on April 15, 2015, subject to approval of the TSXV, Annidis and Yimai have amended the convertible promissory notes (Note 11) to extend the maturity date of the notes from May 17, 2015 to May 17, 2017. All other terms remain unchanged.