



## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the three and twelve months ended December 31, 2015

April 27, 2016

The following Management Discussion and Analysis ("MD&A") of Annidis Corporation ("Annidis" or the "Company") provides the consolidated financial position and consolidated results from operations for the three and twelve months ended December 31, 2015 and 2014. This MD&A has been prepared by management of the Company and should be read in conjunction with the Audited Consolidated Financial Statements of the Company, and the notes thereto, for the years ended December 31, 2015 and 2014.

Continuous disclosure documents, including the Company's press releases and quarterly reports, are available through its filings with the securities regulatory authorities in Canada at [www.sedar.com](http://www.sedar.com).

Annidis reports its financial results under International Financial Reporting Standards ("IFRS") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable periods.

All amounts are expressed in Canadian dollars unless otherwise stated.

### **FORWARD-LOOKING STATEMENTS**

This MD&A contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or to be achieved. Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materially from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

## **THE COMPANY**

**Annidis Corporation** (TSXV:RHA) develops and markets imaging technologies to eye care professionals.

It is a North American based company founded on scientific concepts emerging from a decade of research and development by the Annidis team in consultation with respected eye care professionals in Canada and the United States. The Annidis RHA™ has evolved into an ocular pathology management system to aid in early detection and management of age related macular degeneration, diabetic retinopathy and glaucoma.

## **RECENT DEVELOPMENTS**

### **Highlights**

Beginning in 2015 and continuing into early 2016, the Company has made significant changes to its senior management team with the skills and experience required to reposition the business and products in the marketplace. The new management team will use a staged process to align the business with a customer focused product development and marketing strategy. In recent months the Company has performed several comparative clinical studies in leading clinics which validate the specific clinical utility that the RHA product brings to optometric practices. The RHA's advantage in early detection of vision impacting eye disease proven by these comparative studies will be a fundamental component of the next stage of the Company's marketing initiatives as the RHA advances into a broader market acceptance. The Company believes that the new executive leadership's approach to marketing the instrument through focus on clinical validation, economic benefit to optometric practices and satisfied customer referrals will be an effective strategy to gain market share and to continue to build on relationships with key participants in the industry.

There will be costs associated with required changes as the company eliminates some activities and initiates others as part of an overall plan to repair strained relationships in the marketplace and implement some foundational product design improvements.

The Company and its distribution partner in China, Yimai Technology International Company ("Yimai"), are optimistic about the opportunities in China and anticipate significant demand for its technology in the country, with an estimated addressable market of 5,000 imaging systems. Yimai is currently conducting several clinical studies in several luminary hospitals across China. A number of key opinion leaders in the Chinese ophthalmology market have been hosted at the Annidis offices in Ottawa to participate in demonstrations and educational seminars focusing on the RHA's clinical capabilities. The Company shipped a total of 19 units to China in fiscal 2015 compared to 16 units in fiscal 2014. Furthermore, the Company received an order from Yimai for 30 additional units that are scheduled for delivery by the end of fiscal 2016 for which full payment was received in the third quarter. The anticipated increase in sales volume is expected to reduce the cost of inventory by taking advantage of favourable payment terms and discounts from key vendors, and to leverage the Company's presence in China.

In March 2015, the National Space Biomedical Research Institute (NSBRI) Industry Forum launched the 'Vision for Mars' Challenge to identify and advance critical medical technologies for ocular health selecting and funding three companies, one of which was Annidis. Their goal is to further develop unique technologies that address visual problems in space as well as on Earth. Astronauts are susceptible to increased intracranial hypertension. A similar condition called idiopathic intracranial hypertension can be easily seen in RHA images. The expectation is that the RHA will help detect and monitor this condition in astronauts. Furthermore, retinal pigment epithelial disruptions with melanin clumping in macular degeneration and retinal dystrophies are much more easily identified using the RHA, as indicated in peer reviewed papers which have been published in recent scientific journals. These developments are additional validation that the Annidis RHA is innovative and adds clinical value.

The Company's sales efforts are focused on:

- repairing and building relationships with large US buying groups. This provides a forum to present the Annidis product to large audiences and leverage the sales effort,
- increasing customer service, education and support to ensure the installed units achieve maximum utilization,
- supporting our distribution partner's expansion in the Chinese market through presentations of the RHA at major trade and scientific events.

On April 15, 2015, the Company completed a private placement of an unsecured promissory note in the amount of \$500,000 with Yimai. The note was scheduled to mature upon the earlier of six months from the date of issuance or upon the closing by the Corporation of an equity financing of not less than \$3,000,000. The note bore interest at a rate of 10% per annum compounded monthly and was payable at maturity. The Company also held the option to 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.

Further to this financing, Annidis and Yimai agreed to extend the terms of the convertible promissory note with a carrying value \$2,101,550 at the date of its originally scheduled maturity. The note was previously issued in November 2014 via private placement and was originally set to mature on May 17, 2015 and has been extended by 24 months to May 17, 2017. All other terms of the convertible promissory note remain unchanged.

On June 9, 2015 the Company completed a non-brokered private placement of common shares whereby Yimai acquired 10,000,000 common shares of Annidis. The shares were issued at a share price of \$0.25 per share, resulting in gross proceeds of \$2,500,000. Concurrently, the Company completed a shares-for-debt transaction with Yimai and settled the \$500,000 amount due – plus the applicable interest – on the unsecured promissory note issued on April 15, 2015. This shares-for-debt transaction resulted in the issuance of an additional 2,016,667 common shares with an implicit share price of \$0.25 per share.

Yimai also provided additional financing in the fourth quarter of 2015 in the amount of \$430,000 as a result of the Company's issuance of convertible promissory notes, and a non-convertible promissory note in the amounts of \$280,000 and \$150,000 respectively. The notes are to be repaid in full, with all accrued interest, one year from their dates of issuance.

This financing was provided primarily to fulfill working capital requirements to support the Company's anticipated growth in customer demand.

Subsequent to year-end, the Company completed the private placement of six convertible promissory notes with Yimai totaling \$840,000. The convertible promissory notes are scheduled to mature one year from the respective dates of issuance, and bear compounding interest at a rate of 10% per annum, compounded annually, and payable at maturity. At Yimai's option, the convertible promissory notes may be converted into common shares of Annidis at conversion prices ranging from \$0.05 to \$0.09 per common share. The Company may prepay the outstanding principal amount of the respective convertible promissory notes together with all accrued and unpaid interest, without penalty, at any time prior to its maturity date. One of these private placements, dated March 31, 2017 in the amount of \$100,000, is still subject to the approval of the TSX Venture Exchange ("TSXV").

On March 8, 2016, Yimai elected to convert five convertible promissory notes totaling \$670,000, plus all outstanding interest, into common shares, which resulted in the issuance of 9,197,382 shares. Two of these convertible promissory notes, totaling \$280,000, were outstanding at December 31, 2015, while the remaining three convertible promissory notes converted into common shares were issued subsequent to December 31, 2015.

On April 14, 2016, subject to the approval of the TSXV, the Company completed the private placement of a \$1,300,000 grid promissory note (the "Grid Note") with Yimai pursuant to which the Company may draw upon for general working capital purposes. The Grid Note matures and becomes due and payable on the earlier of December 31, 2016 and the completion by the Company of an equity financing of not less than \$5,000,000. The Grid Note bears interest at rate of 10% per annum payable at maturity. The Corporation may prepay the outstanding principal amount of the Grid Note together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the Grid Note.

As at the date of this MD&A, \$100,000 has been drawn on the Grid Note.

**Key Financial Metrics**

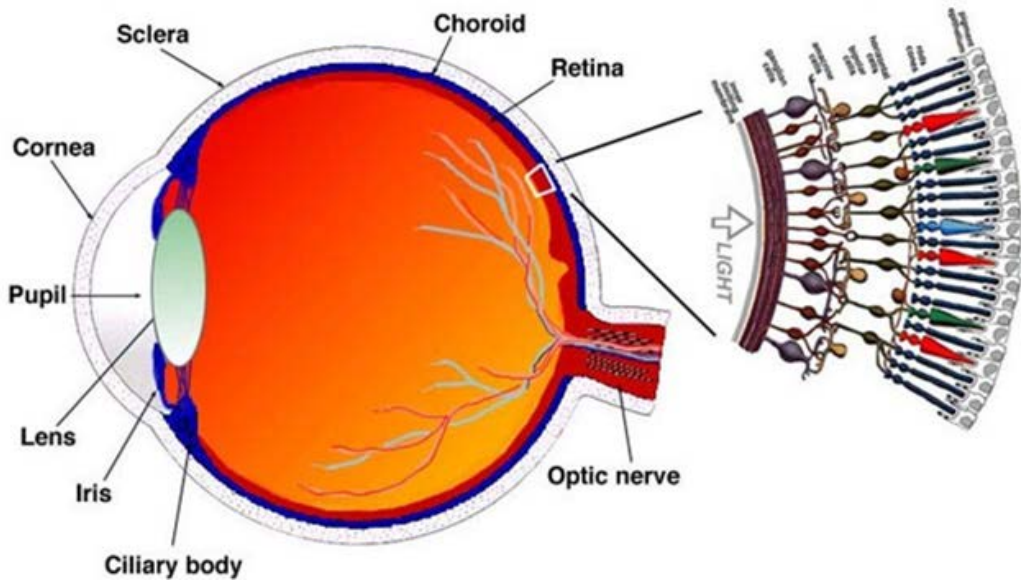
	Three months ended December 31			Twelve months ended December 31		
	2015	2014	% Change	2015	2014	% Change
<i>As at December 31</i>						
Installed Base (units in clinics)				106	77	37.7%
	\$	\$	%	\$	\$	%
Revenue	307,325	552,838	(44.4)	1,898,659	2,364,027	(19.7)
Net loss	(1,842,876)	(1,827,056)	(0.9)	(5,955,540)	(5,672,756)	(5.0)
Net loss per share	(0.02)	(0.02)	-	(0.06)	(0.06)	-

**BUSINESS OVERVIEW****Company Background**

Annidis was founded in 2007 to develop technology for early stage diagnosis of eye diseases. The Company saw the opportunity to improve eye healthcare by providing eye-care professionals with a device to screen, detect, diagnose, treat and manage ocular diseases. Annidis has achieved this by developing a multi-spectral imaging system for retinal and choroidal assessment (the "RHA™").

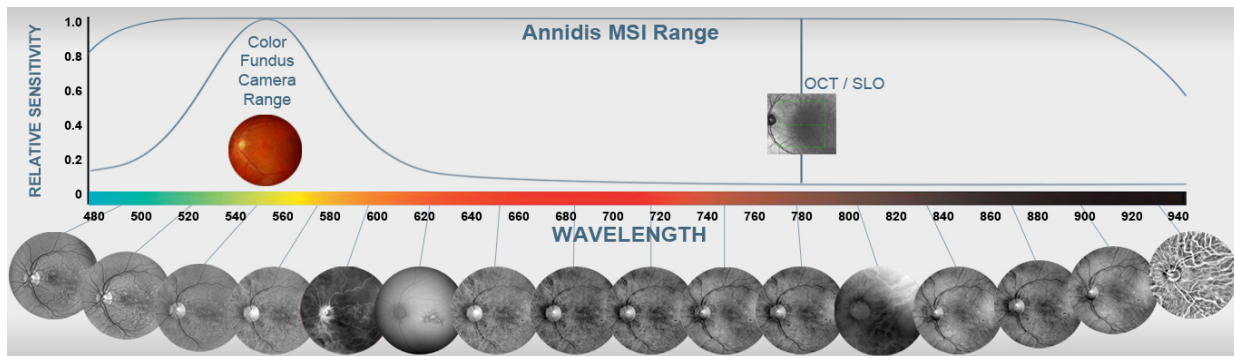
The RHA™ provides eye-care professionals with a broadly based screening tool for early detection and diagnosis of a variety of pathologies in a manner that is currently unavailable in the market. Early detection requires identifying initial metabolic changes, and the RHA™ addresses this need through collecting and combining multi-spectral information. The RHA™ is an ocular pathology management system that integrates advanced multi-spectral imaging with analytic software for early detection and management of ocular pathologies such as glaucoma, age-related macular degeneration ("AMD"), and diabetic retinopathy ("DR").

The RHA™ is a non-invasive instrument that uses multi-spectral imaging ("MSI") to take pictures of the retinal layers of your eye. The images are then processed using the RHA Report™ software to reveal the various layers in the back of the eye, allowing eye care professional to assess their patients' eye health.



*Multi-Spectral Imaging (MSI)*

The RHA™ system adds a new set of capabilities for fundus imaging through the expansion of the range of wavelengths used and the flexibility to use tuned spectral windows for specific probing - together known as multi-spectral imaging. The instrument has been designed to operate across the wavelength range of 500 to 940 nm which is over twice that available with traditional fundus photography. This wide range allows for the progressive examination of different depths in the retina and choroid. Deep retinal imaging is made possible by the use of longer wavelengths which penetrate deeper into the structures of the eye (as shown schematically in the figure below.)



The capability of capturing images at a number of wavelengths allows additional information to be extracted by comparing these images by visual inspection or automation. As one moves from the green through the amber to the red wavelengths, intraretinal hemorrhages are highlighted differently. The green wavelength highlights the nerve fiber layers while the red wavelength highlights the deep layers.

MSI enables improved visual discrimination of retinal and sub-retinal structures through spectral and depth-enhanced differential visibility, using manual and automated processing to highlight targeted features for examination.

### *Products*

The Company's existing RHA Gold, used by eye care professionals as a broad based tool for detecting early-onset of eye related diseases such as Dry AMD, has a potential market of over 20,000 optometric clinics in North America. Further opportunities exist in China, where the Company has entered into a distribution agreement.

The RHA Platinum, which is currently in development with beta units in clinical testing, will further strengthen the value proposition for the ophthalmology market, allowing doctors to visualize choroidal and retinal vasculature non-invasively.

### *Revenue*

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

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.

## QUARTERLY INFORMATION

	Revenue	Net loss	Basic and diluted loss per share
	\$	\$	\$
<b>Quarterly Results</b>			
<b>Fiscal 2015</b>			
Three months ended March 31	564,132	(1,354,318)	(0.02)
Three months ended June 30	381,893	(1,527,058)	(0.02)
Three months ended September 30	645,309	(1,231,290)	(0.01)
Three months ended December 31	307,325	(1,842,876)	(0.02)
<b>Fiscal 2014</b>			
Three months ended March 31	797,989	(1,242,265)	(0.01)
Three months ended June 30	532,982	(1,362,492)	(0.02)
Three months ended September 30	480,218	(1,240,943)	(0.01)
Three months ended December 31	552,838	(1,827,056)	(0.02)
<b>Fiscal 2013</b>			
Three months ended March 31	361,818	(966,373)	(0.01)
Three months ended June 30	130,049	(1,123,649)	(0.02)
Three months ended September 30	255,096	(1,113,439)	(0.02)
Three months ended December 31	319,844	(1,105,121)	(0.01)
<b>Cumulative Quarterly Results</b>			
<b>Fiscal 2015</b>			
Three months ended March 31	564,132	(1,354,318)	(0.02)
Six months ended June 30	946,025	(2,881,376)	(0.03)
Nine months ended September 30	1,591,334	(4,112,666)	(0.04)
Twelve months ended December 31	1,898,659	(5,955,540)	(0.06)
<b>Fiscal 2014</b>			
Three months ended March 31	797,989	(1,242,265)	(0.01)
Six months ended June 30	1,330,971	(2,604,757)	(0.03)
Nine months ended September 30	1,811,189	(3,845,700)	(0.04)
Twelve months ended December 31	2,364,027	(5,672,756)	(0.06)
<b>Fiscal 2013</b>			
Three months ended March 31	361,818	(966,373)	(0.01)
Six months ended June 30	491,867	(2,090,022)	(0.03)
Nine months ended September 30	746,963	(3,203,461)	(0.05)
Twelve months ended December 31	1,066,807	(4,308,582)	(0.06)

## DISCUSSION OF OPERATIONS

### REVENUE AND OPERATING EXPENSE ANALYSIS

	Three months ended December 31		Twelve months ended December 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Revenues</b>	307,325	552,838	1,898,659	2,364,027
Cost of sales	168,202	408,477	1,206,785	1,795,783
	139,123	144,361	691,874	568,244
<b>Expenses</b>				
Manufacturing and operations	332,756	349,036	721,044	728,671
Research and development	334,989	340,177	1,165,334	1,187,691
General and administration	507,776	380,207	1,404,774	1,402,782
Sales and marketing	442,832	597,750	1,931,558	1,951,063
	1,618,353	1,667,170	5,222,710	5,270,207
Loss from operations	(1,479,230)	(1,522,809)	(4,530,836)	(4,701,963)
<b>Other expenses</b>				
Interest expense and financing charges	237,924	174,308	875,442	579,180
Accretion on promissory notes and convertible notes	62,494	97,192	466,607	316,602
Share-based compensation expense	56,350	26,520	56,350	51,199
Amortization of debt issue costs	6,878	6,227	26,305	23,812
	363,646	304,247	1,424,704	970,793
Net loss and total comprehensive loss	(1,842,876)	(1,827,056)	(5,955,540)	(5,672,756)
Net loss per share				
Basic and diluted	(0.02)	(0.02)	(0.06)	(0.06)
Weighted average number of common shares				
Basic and diluted	100,751,822	88,735,155	95,517,164	88,735,155

For the three month period ended December 31, 2015, the Company incurred a net loss of \$1,842,876 or (\$0.02) per share, compared to a loss of \$1,827,056, or (\$0.02) per share, for the same period in 2014.

For the twelve month period ended December 31, 2015, the Company incurred a net loss of \$5,955,540 or (\$0.06) per share, compared to a loss of \$5,672,756, or (\$0.06) per share, for the same period in 2014.

Factors affecting results include:

*Three months ended December 31*

- Revenue decreased by 44% from \$552,838 in the fourth quarter of 2014 to \$307,325 in the fourth quarter of 2015 as the Company sold 4 units in 2015 compared to 9 units in 2014.
- The gross margin was higher in 2015 than 2014 as a result of lower inventory costs, and a higher selling price driven by the higher proportion of US sales in comparison to China sales that yield a lower selling price. The gross margin percentage increased from 26% to 45%.
- Operating expenses declined by 3% in the fourth quarter of 2015 over the prior, resulting in a decrease in the operating expenses from \$1,667,170 to \$1,618,353. This decrease resulted from a reduction in sales and marketing expense in the current year of \$154,918 that was offset by an increase in general and administration expenses. The decrease in sales and marketing expenses was largely attributed to the restructuring of the Company's US sales department that occurred in the second half of 2015. General and administration expenses were higher in fiscal 2015 due to restructuring costs associated with changes in senior management.
- Interest expense and related financing charges increased from \$174,308 to \$237,924 as a result of new debt issued by the Company over the course of the last 12 months. Accretion on promissory notes and convertible notes decreased from \$97,192 to \$62,494.

*Twelve months ended December 31*

- Revenue decreased by 20% from \$2,364,027 for the twelve months ended December 31, 2014 to \$1,898,659 for the corresponding period of 2015 as the Company sold 30 units in 2015 compared to 38 units in 2014.
- Despite the lower sales volume, the gross margin increased from \$568,244 to \$691,874 in comparing the twelve months ended December 31, 2014 and 2015 respectively. The lower gross margin percentage in 2014 (24%) was significantly lower than the gross margin percentage in 2015 (36%) primarily as a result of reductions in the unit cost.
- Total operating expenses remained relatively consistent year over year with an overall decrease of \$47,997 (1%) in the current fiscal year over the prior year. With the exception of general and administration expenses, all other operating expense categories reported decreases over the prior fiscal year.
- Interest expense and related financing charges increased from \$579,180 to \$875,442 as a result of new debt issued by the Company over the course of the last twelve months. Accretion on promissory notes and convertible notes increased from \$316,602 to \$466,607 as a result of the increased value of convertible and non-convertible promissory notes.

**Revenue**

The Company earns revenues from the sale of its devices directly to customers with a recurring fee charged for services rendered, sales to its distributor where there are no recurring revenues and from rental income for devices deployed at clinic offices through pay-per-use agreements based on the number of customer patients imaged.

	Three months ended December 31		Twelve months ended December 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
<b>Revenue by Source</b>				
Sales	199,145	474,220	1,526,300	1,994,542
Rentals, support and maintenance fees	108,180	78,698	372,359	369,485
	<u>307,325</u>	<u>552,838</u>	<u>1,898,659</u>	<u>2,364,027</u>
<b>Revenue by Geography</b>				
United States	254,439	356,571	1,034,364	1,465,418
China	45,000	168,080	801,240	672,080
Canada	7,886	28,187	63,055	226,529
	<u>307,325</u>	<u>552,838</u>	<u>1,898,659</u>	<u>2,364,027</u>

For the three month period ended December 31, 2015, the Company recorded the sale of 3 units in the United States, 1 in China, and nil in Canada. This is in comparison to the 5, 4, and nil units sold in the corresponding geographies in the three month period ended December 31, 2014.

For the twelve month period ended December 31, 2015, the Company recorded the sale of 11 units in the United States, 19 in China, and nil in Canada. This is in comparison to the 21, 16, and 1 units sold in the corresponding geographies in the twelve month period ended December 31, 2014.

### **Cost of sales**

Cost of sales represents the material and subcontract components incurred by the Company in the production and manufacture of the devices, amortization of rental units and royalties.

For the three month period ended December 31, 2015, the Company incurred \$168,202 of cost of sales compared to \$ 408,477 for the same period in 2014. The decrease in cost of sales reflects the lower number of units sold in the current period fiscal year (2015 – 4 units; 2014 – 9 units) combined with other cost-savings initiatives that were implemented to reduce the costs of the devices.

For the twelve months ended December 31, 2015, the Company incurred \$1,206,785 of cost of sales compared to \$1,795,783 for the same period in 2014. The decrease in cost of sales reflects the lower number of units sold in fiscal 2015 (2015 – 30 units; 2014 – 38 units) combined with the reduction in the unit cost of the new “Gold” units which the Company commenced selling in the third quarter of 2014.

## Gross margin

	Three months ended		Twelve months ended	
	December 31		December 31	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenue	307,325	552,838	1,898,659	2,364,027
Cost of sales	168,202	408,477	1,206,785	1,795,783
Gross profit - \$	139,123	144,361	691,874	568,244
Gross profit - %	45.3%	26.1%	36.4%	24.0%

The gross margin percentage for the three month period ended December 31, 2015 increased to 45.3% from 26.1% in the comparative period in the prior year. This increase was primarily a result of the higher proportion of total units sold that were sold to Yimai in 2014 at the lower distributor price (2015 – 25%; 2014 – 44%) in comparison to the three months ended December 31, 2015.

The gross margin percentage for the twelve month period ended December 31, 2015 increased to 36.4% from 24.0% over the comparative period in the prior year. This increase was primarily a result of the lower production costs of the “Gold” units, but was offset by the higher proportion of total units sold that were sold to Yimai in 2015 at the lower distributor price (2015 – 63%; 2014 – 42%) in comparison to the three months ended December 31, 2015.

## Expenses

### Manufacturing and operations

Manufacturing and operations expenses represent the personnel and other costs incurred by the Company in the production and manufacture of the devices, net of labour and overhead allocated to inventory.

For the three months ended December 31, 2015, the Company incurred \$ 332,756 in manufacturing and operations expenses compared to \$ 349,036 for the comparable period in 2014. The net decrease of \$16,280 is primarily due to an increase in the accrued liability for RHA feature upgrades promised to select customers of the Company as a result of higher than anticipated costs on the upgrades processed up to December 31, 2015. This was significantly offset by a higher capitalization of manufacturing costs as a result of a comparatively productive fourth quarter in the manufacturing of inventory, as well as the absence of a write-down of returned units of \$49,823 recorded in the fourth quarter of 2014.

For the twelve months ended December 31, 2015, the Company incurred \$721,044 in manufacturing and operations expenses compared to \$728,671 for the same period in 2014. The net increase of \$7,627 is relatively consistent period over period as manufacturing and operations activities remained consistent in the two periods.

### Research and development

Research and development expenses represent the costs incurred by the Company in the research activities undertaken in the development of retinal imaging technology. Reported research and development expenses are net of government assistance for research programs.

For the three month period ended December 31, 2015, the Company incurred \$334,989 in research and development expenses compared to \$340,177 for the same period in 2014. The net decrease in costs of \$5,188 was not significant, as the Company did not significantly alter its research and development activities in comparing the two quarters.

For the twelve month period ended December 31, 2015, the Company incurred \$1,165,335 in research and development expenses compared to \$1,187,691 for the same period in 2014. The net decrease in costs of \$22,356 is represented by a significant reduction in salaries and wages in the current fiscal year combined with lower expenditures on development materials, but is largely offset by IRAP grants of \$118,359 recorded in the first quarter of 2014 compared to \$nil in the current year. The Company also incurred higher amortization expense in fiscal 2015 resulting from additional capital assets used for research and development purposes as compared to the prior year.

### **General and administration**

General and administration expenses for the three months ended December 31, 2015 were \$507,776 compared to \$380,207 in 2014, an increase of \$127,569, stemming primarily from restructuring costs associated with changes in senior management.

General and administration expenses for the twelve months ended December 31, 2015 were \$1,404,774 compared to \$1,402,782 in 2014, an increase of \$1,992 driven primarily by reduced salaries, legal fees, and discretionary spending in comparison to 2014, offset by restructuring costs associated with changes in senior management.

### **Sales and marketing**

Sales and marketing expenses for the three month period ended December 31, 2015 were \$442,832 compared to \$597,750 for the corresponding period in 2014. The decrease of \$154,918 is the result of the reduced spending on trade shows, conferences, conventions, and travel, along with a restructuring of the US sales force that resulted in savings of \$37,784 after factoring in the weakening of the Canadian dollar.

Sales and marketing expenses for the twelve months ended December 31, 2015 were \$1,931,558 compared to \$1,951,063 for the corresponding period in 2014. The decrease in costs of \$19,505 is largely driven by the low activity in sales and marketing in the fourth quarter of 2015 as previously described. This significant decrease in spending more than offset what was otherwise an increased amount of spending on such activities in comparing the twelve months ended December 31, 2015 to the comparative period in 2014, most notably in expenses incurred by the US sales force which increased by \$134,598 from \$843,550 to \$978,148. A substantial portion of this increase however came as a result of a weakening of the Canadian dollar of 14% when comparing the two periods.

### **Interest expense and financing charges**

This expense category consists of the interest expense incurred on the convertible notes, promissory note advances, promissory notes, secured promissory note and financing related expenses.

The Company incurred interest and financing charges for the three month period ended December 31, 2015 of \$237,924 compared to \$174,308 in the prior year. The increase in financing costs reflects additional interest costs incurred on the higher debt levels resulting from the issuance of the promissory note and convertible promissory note financings undertaken in the latter half of 2014 and 2015.

The Company incurred interest and financing charges for the twelve month period ended December 31, 2015 of \$875,442 compared to \$579,180 in the prior year. The increase in financing costs reflects increased interest costs on the higher debt levels due to the promissory note and convertible promissory note financings undertaken in the latter half of 2014 and 2015.

### **Accretion on promissory notes and convertible notes**

In accordance with the Company's accounting policy, the carrying value of the debt component of the convertible notes and promissory notes are accreted to the original face value of the debt instrument over their corresponding terms using the effective interest rate method.

The amount of accretion recorded for the three month period ended December 31, 2015 was \$62,494 compared to \$97,192 in 2014. The accretion recorded in the three month period ended December 31, 2015 reflects the recording of the accretion on the promissory notes issued in May 2014, the convertible notes, and the secured promissory note.

The amount of accretion recorded for the twelve month period ended December 31, 2015 was \$466,607 compared to \$316,602 in 2014. The accretion recorded in the twelve month period ended December 31, 2015 reflects the recording of the accretion on the promissory notes issued in May 2014, the convertible notes, and the secured promissory note.

### **Amortization of debt issue costs**

The amount of amortization of debt issue costs recorded in the three and twelve month periods ended December 31, 2015 were \$6,878 and \$26,305 respectively, compared to \$6,227 and \$23,812 for the comparative 2014 periods. The amortization relates to costs incurred to obtain and issue the promissory notes in June 2013.

### **Share-based compensation**

Share-based compensation expense for the three and twelve month periods ended December 31, 2015 were \$56,350 and \$ 56,350 respectively, compared to \$26,520 and \$51,199 for the comparative 2014 periods. The change comes as a result of the previous options having fully vested by December 31, 2014, but with new options granted in the fourth quarter of 2015.

In the fourth quarter of 2015, the Board of Directors authorized the issuance of 2,850,000 stock options under the stock option plan with an exercise price of \$0.20, of which 1,205,000 vested immediately. Total share-based compensation expense for these stock options was \$56,350. These options were valued using the Black-Scholes option pricing model based on the following assumptions: expected life of 5 years, expected volatility of 85%, risk-free interest rate of 0.8%, and expected dividend of \$NIL

On April 18, 2016, subject to the approval of the TSXV, it has granted incentive stock options to certain directors, officers and employees of the Company for the purchase up to an aggregate of 3,000,000 common shares in the capital stock of Annidis, 1,500,000 of which vest immediately and the remainder of which vest on December 31, 2016. The options are exercisable at a price of \$0.05 per common share and expire on April 18, 2021.

## ASSET, LIABILITY AND SHARE CAPITAL ACTIVITIES

	December 31 2015	December 31 2014
	\$	\$
Assets	2,865,300	2,316,609
Liabilities	12,171,944	8,722,167
Deficiency	(9,306,644)	(6,405,558)
Common shares outstanding	100,751,822	88,735,155
Options and warrants outstanding	18,902,085	23,336,656
Shares held in escrow	7,132,046	7,132,046

### *Assets*

Total assets of the Company as at December 31, 2015 and December 31, 2014 were comprised of cash, restricted short-term investments, trade accounts receivable, inventories, prepaids and other receivables, and property and equipment.

Trade accounts receivable decreased from \$341,106 at December 31, 2014 to \$179,928 at December 31, 2015 due to ordinary invoicing and collection activities.

Inventories, which consist of finished goods, work-in-process and raw materials were \$1,775,828 at December 31, 2015 compared to \$1,116,745 at December 31, 2014. During the year, the Company's finished goods inventory increased from \$36,746 at December 31, 2014 to \$441,472 at December 31, 2015. This increase came as a result of disappointing fourth quarter sales results, where forecasted demand was not realized. Work in process decreased from \$602,758 as at December 31, 2014 to \$494,595. Although this represents a decrease of \$108,163 from the previous year, this represents 15 units – 10 of which are substantially completed and require only minor investment to bring to a completed status – and this represents a significant investment to the Company. This investment was made in anticipation of higher fourth quarter demand that did not materialize. Raw materials increased from \$477,241 at the end of 2014 to \$839,760 as at December 31, 2015 due to raw material purchases to be used in the production of new units, a significant amount of which were long lead-time items that were ordered well in advance of December 31, 2015 in anticipation of high demand and consequently production requirements.

Prepaids and other receivables increased from \$225,222 as at December 31, 2014 to \$242,650 at December 31, 2015. This increase is not considered to be significant, and comes as a result of the Company's ordinary business operations.

Property and equipment, net of accumulated amortization, decreased from \$496,119 as at December 31, 2014 to \$450,465 at December 31, 2015. This decrease came as a result of amortization of \$255,838 and net retirements of \$39,248. The amortization and retirements were offset by capital asset additions of \$41,882 and net transfers between inventory and medical equipment that resulted in an increase in net book value of \$207,549.

### *Liabilities*

As at December 31, 2015, the Company's liabilities totalled \$12,171,944 of which current liabilities represented \$7,590,210 and long term liabilities representing the remaining \$4,581,734. As at December 31, 2014, the Company reported total liabilities of \$8,722,167 of which current liabilities were \$3,646,793 and long term liabilities were \$5,075,374. A significant portion of the Company's liabilities relate to the convertible and promissory notes (December 31, 2015 promissory notes

including convertible and secured notes - \$8,581,811; December 31, 2014 promissory notes including convertible and secured notes – \$6,834,337).

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 Company may prepay the outstanding principal amount of the note together with all accrued and unpaid interest, without penalty, at any time after the first anniversary of the issuance date of the note. The note is secured by a general security agreement over the assets of the Company but is subordinated to all existing charges against the assets of the Company.

The Company reached an agreement with the 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. 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 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 new 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 will be secured by a general security agreement over the assets of the Company.

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. The convertible promissory note was scheduled to mature six months from the date of issuance and bear interest at a rate of 10% per annum, compounded monthly, payable at maturity. On April 15, 2015, the Company and Yimai agreed to extend the term of the convertible promissory note by an additional 24 months to May 2017. 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. This agreement to extend the term of the note resulted in a reclassification of this liability from current to non-current and required a revaluation of the conversion option.

In December 2015, the Company completed the private placement of two convertible promissory notes with Yimai totaling \$280,000. The convertible promissory notes are scheduled to mature one year from the date of issuance and bear non-compounding interest at a rate of 10% per annum, payable at maturity. At Yimai's option, the convertible promissory notes may be converted into common shares in the capital of Annidis at a conversion price of \$0.09 per common share. The Company may prepay the outstanding principal amount of the convertible promissory notes together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the notes.

In 2015 the Company also issued two promissory notes totaling \$329,244. One of these notes was in the amount of \$150,000 to Yimai, and the other was issued to a third party to settle amounts payable in the amount of \$179,244 for past services that were previously included in accounts payable and accrued liabilities.

The promissory note to Yimai was issued in November 2015 with a one year term. The note bears non-compounding interest at a rate of 10% per annum and is payable upon maturity. The promissory note to the third party was issued in May 2015 and has an eight month term. The note bears interest at a rate of 10% per annum on the outstanding balance, compounded monthly. The terms of the note required a payment of \$60,000 upon issuance of the note, and requiring a payment of \$14,905 in each of the eight months thereafter.

The Company began a lease financing program in 2011 and the finance lease obligations as at December 31, 2015 amounted to \$8,073 (\$8,073 due within one year) compared to \$37,270 (\$28,095 due within one year) as at December 31, 2014.

In September 2015, the Company received a purchase order from Yimai for 30 units to be delivered in 2016, and received payment in full for these units. This payment has been recorded in deferred revenue, and will be recognized into revenue by the Company as the units are shipped. Only one of these units was delivered at December 31, 2015.

### ***Deficiency***

As at December 31, 2015 the Company's deficiency was \$9,306,644 compared to a deficiency of \$6,405,558 as at December 31, 2014. This increase in the deficiency is due primarily to a cumulative loss of \$5,955,540 for the twelve months ended December 31, 2015, offset by the issuance of shares to Yimai for net proceeds of \$2,967,359, as well as the increase of the share-based reserve of \$30,745 as a result of the convertible notes issued in December 2015. The Company also recorded \$56,350 in share-based compensation expenses in the twelve months ended December 31, 2015.

As at April 27, 2016, the Company had 109,949,204 common shares issued and outstanding; 7,132,046 shares held in escrow; 10,304,585 warrants outstanding, exercisable at prices ranging from \$0.30 to \$0.80; and 11,597,500 options outstanding (8,452,500 exercisable), exercisable at prices ranging from \$0.05 to \$0.40.

## **LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES**

The Company is subject to risks including, but not limited to, the potential to raise additional funds through debt and/or equity financing to support the Company's development and continued operations and to meet the Company's liabilities and commitments as they come due. Specifically, the Company has a history of losses with an accumulated deficit of \$35,163,484, shareholders' deficiency of \$9,306,644 and negative cash flow from operations of \$3,250,670 for the twelve months ended December 31, 2015.

During 2012, the Company obtained promissory note advances of \$1,292,985 and, in the first quarter of 2013, the Company obtained additional advances of \$636,712. These advances were converted in June 2013 into promissory notes with a term of three 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 notes are repaid. Yimai subscribed for \$1,000,000 of promissory notes to complete the \$3,000,000 offering.

On October 4, 2013, the Company closed a private placement with the issuance of an aggregate of 27,965,379 common shares to Yimai for total consideration of \$5,000,000. Of these 27,965,379 common shares, 7,132,046 are 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 December 31, 2016. After such date, any escrowed shares not already released to Yimai will be cancelled.

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.

In July 2014, the Company received TSVX approval of 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. 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.

In September 2014, the Company entered into an agreement with Yimai whereby Yimai lent the Company the principal amount of \$500,000

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 \$3,549. In April 2015, this note's maturity date was extended from May 2015 to May 2017 as previously described.

On April 15, 2015, the Company completed a private placement of an unsecured promissory note in the amount of \$500,000 with Yimai. The note was scheduled to mature upon the earlier of six months from the date of issuance or upon the closing by the Corporation of an equity financing of not less than \$3,000,000. The note bore interest at a rate of 10% per annum compounded monthly and was payable at maturity. The Company also held the option to 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.

On June 9, 2015 the Company completed a non-brokered private placement of common shares whereby Yimai acquired 10,000,000 common shares of Annidis. The shares were issued at a share price of \$0.25 per share, resulting in gross proceeds of \$2,500,000. Concurrently, the Company completed a shares-for-debt transaction with Yimai and settled the \$500,000 amount due – plus the applicable interest – on the unsecured promissory note issued on April 15, 2015. This shares-for-debt transaction resulted in the issuance of an additional 2,016,667 common shares with an implicit share price of \$0.25 per share.

As previously described in the Liabilities section of this discussion and analysis, the Company also completed the private placement of convertible notes totalling \$280,000 to Yimai scheduled to mature one year from the date of issuance and bear non-compounding interest at a rate of 10% per annum, payable at maturity, as well as the issuance of two promissory notes totalling \$329,244, one of which was issued to Yimai in the amount of \$150,000.

As a result of the financing and excluding the escrowed shares, Yimai owns 32,850,000 common shares, resulting in an approximate 32.6% ownership interest in the Company.

The Company's principal capital needs include funds for the production of devices, to support sales and marketing activities, to support the continuing research and development activities of the medical device as well as for general working capital requirements. Since its formation, the Company has financed its cash requirements primarily through the issuance of securities, promissory notes, convertible debentures, short term debt instruments and government incentives. Management believes that over the short-term, there will be an increase in revenues as additional medical devices are deployed in clinics.

#### ***Cash used in operating activities***

During the three month period ended December 31, 2015, the Company used cash of \$967,498 for operating activities as compared to \$1,469,617 for the corresponding period of 2014. Cash consumption for the fourth quarter of 2015 was driven most significantly by losses of \$1,842,876 (2014 - \$1,827,056) offset by various non-cash items such as interest accruals, accretion, and amortization. The Company also noted a decrease in the amount of non-cash working capital of \$456,597 (2014 - an increase of \$116,759) which correspondingly impacted the net cash used in operating activities. This decrease in non-cash working capital was primarily driven by an increase in accounts payable and accrued liabilities of \$631,937 and a decrease in prepaids and other receivables of \$412,173 in the fourth quarter, offset by an increase of \$587,264 in inventory which largely related to inventory prepayments recorded in prepaids and other receivables.

During the twelve month period ended December 31, 2015, the Company used cash of \$3,250,620 for operating activities as compared to \$4,140,291 for the corresponding period of 2014. Cash

consumption for the twelve months of 2015 was driven by losses of \$5,955,540 (2014 - \$ 5,672,756) offset by non-cash items such as interest accruals, accretion, and amortization. The Company also noted a decrease in non-cash working capital of \$1,071,891 (2014 – a decrease of \$146,393) which correspondingly impacted the net cash used in operating activities. This decrease in non-cash working capital was primarily driven by an increase in deferred revenue of \$1,611,763 as a result of the prepayment for 30 units by Yimai that occurred in September 2015, offset in part by an increase in inventory of \$866,634 which stemmed from the purchasing of long lead-time items in anticipation of high fourth quarter demand .

#### ***Cash used in investing activities***

The Company acquired property and equipment of \$9,557 in the three month period ended December 31, 2015 and \$41,882 in the twelve month period ended December 31, 2015 compared to \$303,043 and \$494,298 in the comparative three and twelve months periods in 2014 respectively.

#### ***Cash used in financing activities***

The Company generated cash through financing activities of \$426,730 in the three month period ended December 31, 2015, and generated cash of \$3,368,161 for the twelve month period then ended. The activity for the three month period related to the financing received from Yimai of \$430,000 in connection with working capital requirements, as well as repayment of financing leases of \$3,270 (2014 - \$31,990). The activity for the twelve month period came primarily as a result of proceeds of \$3,000,000 received in exchange for common shares issued in the second quarter as well as the financing provided by Yimai through debt of \$430,000, offset by \$32,641 in share issuance costs and \$29,198 in repayment of financing leases (2014 - \$139,929). In the comparative 2014 periods, the financing activities resulted in cash inflows of \$1,768,010 and \$2,860,071 for the three and twelve months respectively, the sources of which are described in detail in the Liquidity, Financing Activity, and Capital Resources section of this discussion and analysis.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements that would require disclosure.

#### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The carrying amounts of cash, restricted short-term investments, trade accounts receivable, other receivables, accounts payable and accrued liabilities, and deferred revenue, approximate their fair values due to the short-term nature of these instruments.

Financial instruments that potentially subject the Company to credit risk consist of trade accounts receivable. As at December 31, 2015, one customer accounts for 58% (2014 - four customers accounted for 85%) of the Company's accounts receivable with the remaining customers individually accounting for less than 8% of the total accounts receivable. The aging of this receivable is under thirty days and is in compliance with the agreed-upon payment terms. As at December 31, 2015, the Company's aging of receivables was approximately 77% under sixty days (2014 - 95% under sixty days).

As at December 31, 2015, the Company had recorded a provision for doubtful accounts of \$11,408 (December 31, 2014 - \$NIL) to reflect the estimated collectability of the overdue accounts.

As at December 31, 2015, the Company's debt consisted of:

- Convertible promissory notes of \$2,495,270 consisting of the following:

- A convertible promissory issued in November 2014 and extended in April 2015 of \$2,235,791 consisting of a principal amount of \$2,101,550 and accrued and unpaid interest of \$134,241. The convertible promissory note will mature in May 2017 and bears interest at a rate of 10% per annum compounded monthly. The financier holds the option to convert the note into common shares in the capital of Annidis at a conversion price of \$0.35 per common share.
- Convertible promissory notes issued in December 2015 in the amount of \$259,479 consisting of a principal amount of \$280,000 and accrued and unpaid interest of \$1,533 less unamortized accretion in the carrying value of the notes of \$22,054. The promissory notes bear non-compounding interest at 10% per annum and is due in December 2016. The financier holds the option to convert the note into common shares in the capital of Annidis at a conversion price of \$0.09 per common share.
- Promissory notes of \$4,896,748 consisting of the following:
  - Promissory notes issued in June 2013 in the amount of \$3,692,321 consisting of a principal amount of \$3,000,000 and accrued and unpaid interest of \$861,256 less unamortized accretion in the carrying value of the notes of \$155,835 and unamortized debt issue costs of \$13,100. The promissory notes bear interest at 10% per annum compounded monthly and is due in June 2016.
  - A promissory note issued in May 2014 in the amount of \$1,034,141 consisting of a principal amount of \$1,000,000 and accrued and unpaid interest of \$172,059 less unamortized accretion in the carrying value of the notes of \$137,918. The promissory note bears interest at 10% per annum compounded monthly and is due in May 2017.
  - A promissory note issued in November 2015 in the amount of \$138,979 consisting of a principal amount of \$150,000 and accrued and unpaid interest of \$1,479 less the unamortized gain on issuance of the note of \$11,267 as the note was issued under terms more favourable than the market rate. The promissory note bears non-compounding interest at 10% per annum and is due in November 2016.
  - A promissory note issued in May 2015 in the amount of \$30,074 to replace amounts previously recorded in accounts payable and accrued liabilities. At December 31, 2015, the note consists of a principal amount of \$29,810 and accrued and unpaid interest of \$264. The promissory note bears interest on the outstanding balance at 10% per annum compounded monthly. The terms of the note required a payment of \$60,000 upon issuance of the note, and requires a payment of \$14,905 in each of the seven months thereafter.
- A secured promissory note of \$1,189,793 consisting of the principal amount of \$1,000,000, accrued and unpaid interest of \$282,675 less unamortized accretion in the carrying value of the notes of \$92,882. In July 2014, 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. 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.
- A financing lease of \$8,073 bearing interest at a rate of 12.8% and maturing in 2016.

## **CONTRACTUAL OBLIGATIONS**

At the end of April 2014, the Company moved its offices and entered into a new five year lease commencing May 1, 2014. Under the terms of the new lease, the Company received a lease inducement of seven months of free rent.

## **RISK FACTORS**

### ***Financial***

The Company recently commenced commercial operations, has no history of profits and is not expected to generate earnings in the short term. There is no assurance that the Company will earn any profits in the future or that profitability, if achieved, will be sustained. Annidis will require additional equity or debt financing, and there is no assurance that the Company will be able to obtain additional financial resources on favourable commercial terms or at all.

### ***Competitors***

There are companies already selling similar solutions which are larger and have a longer operating history than Annidis. Many of these companies are better financed, with larger sales staffs and marketing budgets than Annidis. There can be no guarantee that the Company will be able to effectively compete in the marketplace with such competition.

### ***Slow Acceptance of Annidis' Solutions***

The marketplace may be slow to accept or understand the significance of Annidis' product due to its unique nature and the competitive landscape. Market confusion may slow sales and acceptance of Annidis' product. If the Company is unable to promote, market and sell its products and secure relationships with optometrists and ophthalmologists, the Company's business and financial condition would be adversely affected.

### ***Technological Advancements***

The medical devices industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of Annidis will depend on its ability to secure technological superiority in its services and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the Company will not be required in order to meet demands or to remain competitive.

### ***Intellectual Property***

The success of Annidis will depend, in part, on its ability to maintain proprietary protection over its technology and operate without infringing the proprietary rights of third parties. Despite precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's technology without authorization. There can be no assurance that any steps taken by Annidis will prevent misappropriation of its technology.

### ***Government Regulation and Regulatory Approvals***

Future changes in government regulation could adversely affect the medical devices industry in jurisdictions in which Annidis operates or intends to operate.

As with any medical device company, the Company is dependent on regulatory approvals and the legal systems in the markets in which it operates, such as the U.S. Federal Food and Drug Administration ("FDA"), China Food and Drug Administration ("CFDA") and Health Canada. The Company currently has the necessary regulatory approvals in Canada, United States and China to market and sell the Annidis RHA™ device. Regulators could, even after granting such approvals, be

stringent on non-compliance with regulatory requirements or change such requirements, which could have a material adverse effect on the Company's business and result in adverse publicity.

### ***Customer Adoption***

The Company's revenues are highly dependent on the willingness of eye care professionals to market the Annidis products and on public awareness levels of the benefits of preventative or primary level eye and health care. The diverse nature of eye care professionals between different markets will require local adaptation of the Company's strategy and will likely lead to slower adoption of the Annidis products.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of these financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities at the end of the reporting period. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant assumptions about the future that management has made and that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- [a] The determination of whether leased assets constitute an operating lease or a financing lease;
- [b] The inputs used in measurement for warrants in the consolidated statements of financial position;
- [c] The inputs used in measurement for share-based compensation expense in the consolidated statements of comprehensive loss;
- [d] The estimated borrowing cost to the Company with no warrants or conversion feature in determining the allocation of a compound instrument between debt and equity;
- [e] The depreciation method and useful lives of property and equipment and intangible assets including assumptions and judgements used in the determination of impairment, if any;
- [f] The \$NIL provision for income taxes which is included in the consolidated statements of comprehensive loss and no recognition of deferred income tax assets and liabilities included in the consolidated statements of financial position at December 31, 2014.

## ACCOUNTING POLICY CHANGES

New and amended standards adopted by the Company

*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, 2018. 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.

### IFRS 16 Leases (IFRS 16)

The IASB issued a new standard, IFRS 16 on January 13, 2016, which supersedes IAS 17 *Leases*. The new standard brings most leases on the balance sheet for lessees under a single model and eliminates the distinction between operating and finance leases. Lessor accounting remains largely unchanged. The new standard will come into effect for periods beginning on or after January 1, 2019.

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