# Annidis Corporation

# Condensed Interim Consolidated Financial Statements

[Unaudited]

For the three and six months ended June 30, 2016 and 2015

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of Annidis Corporation for the three and six months ended June 30, 2016 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

# Annidis Corporation

## Consolidated statements of financial position

## As at June 30, 2016 and December 31, 2015

(Unaudited in Canadian dollars)

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| Current assets | | |
| Cash | **253,419** | 155,625 |
| Restricted short-term investments | **59,376** | 60,804 |
| Trade accounts receivable | **88,861** | 179,928 |
| Inventories (Note 5) | **1,801,077** | 1,775,828 |
| Prepaids and other receivables | **217,926** | 242,650 |
| | **2,420,659** | 2,414,835 |
| Property and equipment | **278,455** | 450,465 |
| | **2,699,114** | 2,865,300 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **1,512,142** | 1,760,780 |
| Current portion of finance lease obligations | **1,200** | 8,073 |
| Deferred revenue (Note 6) | **1,385,915** | 1,699,271 |
| Convertible promissory notes (Note 7) | **2,786,130** | 259,479 |
| Promissory notes (Note 8) | **6,648,235** | 3,862,607 |
| Secured promissory note (Note 9) | **1,307,057** | - |
| | **13,640,679** | 7,590,210 |
| Convertible promissory notes (Note7) | **-** | 2,235,791 |
| Promissory notes (Note 8) | **-** | 1,034,141 |
| Secured promissory note (Note 9) | **-** | 1,189,793 |
| Long-term liabilities | **103,707** | 122,009 |
| | **13,744,386** | 12,171,944 |
| **Shareholders' deficiency** | | |
| Share capital (Note 10) | **22,508,116** | 21,846,177 |
| Warrants (Note 10) | **408,173** | 1,271,177 |
| Share-based reserve | **3,699,893** | 2,739,486 |
| Deficit | **(37,661,454)** | (35,163,484) |
| | **(11,045,272)** | (9,306,644) |
| | **2,699,114** | 2,865,300 |

On behalf of the Board of Directors

Gerald Slemko *[Signed]*
Director

*Michael Mueller [Signed]*
Director

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

# Annidis Corporation

## Condensed interim consolidated statements of comprehensive loss

## Three and six months ended June 30, 2016 and 2015

(Unaudited in Canadian dollars)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| **Revenue** | **98,182** | 381,893 | **470,564** | 946,025 |
| Cost of sales | **33,105** | 252,037 | **181,307** | 612,678 |
| | **65,077** | 129,856 | **289,257** | 333,347 |
| Expenses | | | | |
| Manufacturing and operations | **122,975** | 196,945 | **330,309** | 328,499 |
| Research and development | **316,878** | 249,047 | **632,304** | 519,879 |
| General and administration | **325,731** | 323,754 | **580,398** | 599,317 |
| Sales and marketing | **159,038** | 528,751 | **417,493** | 1,075,596 |
| | **924,622** | 1,298,497 | **1,960,504** | 2,523,291 |
| Loss from operations | **(859,545)** | (1,168,641) | **(1,671,247)** | (2,189,944) |
| Other expenses | | | | |
| Interest expense and financing charges | **233,338** | 214,969 | **477,708** | 414,566 |
| Accretion on promissory notes and convertible notes | **129,094** | 136,975 | **261,863** | 264,148 |
| Share-based compensation expense | **63,466** | - | **74,055** | - |
| Amortization of debt issue costs | **6,121** | 6,472 | **13,097** | 12,717 |
| | **432,019** | 358,416 | **826,723** | 691,431 |
| **Net loss and total comprehensive loss** | **(1,291,564)** | (1,527,057) | **(2,497,970)** | (2,881,375) |
| **Net loss per share** | | | | |
| Basic and diluted (Note 12) | **(0.01)** | (0.02) | **(0.02)** | (0.03) |
| **Weighted average number of common shares** | | | | |
| Basic and diluted (Note 12) | **109,949,204** | 91,640,283 | **106,512,820** | 90,195,744 |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

# Annidis Corporation

## Condensed interim consolidated statements of changes in deficiency

## Six months ended June 30, 2016 and 2015

(Unaudited in Canadian dollars)

| | Share capital | Warrants | Share-based reserve | Deficit | Total deficiency |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Balance, December 31, 2015 | 21,846,177 | 1,271,177 | 2,739,486 | (35,163,484) | (9,306,644) |
| Net loss and total comprehensive loss for the period | - | - | - | (2,497,970) | (2,497,970) |
| Issuance of common shares upon conversion of convertible promissory notes | 681,022 | - | (46,562) | - | 634,460 |
| Share issuance costs | (19,083) | - | - | - | (19,083) |
| Equity component of conversion right on convertible promissory notes issued | - | - | 69,910 | - | 69,910 |
| Value of warrants reclassified to share-based reserve on expiry | | (863,004) | 863,004 | | |
| Share-based compensation expense | - | - | 74,055 | - | 74,055 |
| **Balance, June 30, 2016** | **22,508,116** | **408,173** | **3,699,893** | **(37,661,454)** | **(11,045,272)** |

| | Share capital | Warrants | Share-based reserve | Deficit | Total deficiency |
|---|---|---|---|---|---|
| Balance, December 31, 2014 | 18,878,818 | 1,708,821 | 2,214,747 | (29,207,944) | (6,405,558) |
| Net loss and total comprehensive loss for the period | - | - | - | (2,881,375) | (2,881,375) |
| Issuance of common shares | 3,000,000 | - | - | | 3,000,000 |
| Share issuance costs | (32,641) | | | | (32,641) |
| Value of warrants reclassified to share-based reserve on expiry | - | (393,619) | 393,619 | - | - |
| Equity component of conversion right | | | | | - |
| on convertible promissory note | | | 384,107 | | 384,107 |
| **Balance, June 30, 2015** | **21,846,177** | **1,315,202** | **2,992,473** | **(32,089,319)** | **(5,935,467)** |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

# Annidis Corporation

## Condensed interim consolidated statements of cash flows

## Three and six months ended June 30, 2016 and 2015

(Unaudited in Canadian dollars)

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| **Operating activities** | | | | |
| Net loss | **(1,291,564)** | (1,527,057) | **(2,497,970)** | (2,881,375) |
| Add items not involving cash | | | | |
| Interest on promissory notes and convertible notes | **242,157** | 207,038 | **479,218** | 404,177 |
| Accretion of promissory notes and convertible notes | **129,094** | 136,975 | **261,863** | 264,148 |
| Amortization of debt issue costs | **6,121** | 6,472 | **13,098** | 12,717 |
| Amortization of property and equipment | **39,510** | 64,289 | **92,042** | 130,830 |
| Impairment loss on property and equipment | **-** | 12,738 | | 12,738 |
| Share-based compensation | **63,466** | - | **74,055** | - |
| Lease inducement | **(9,150)** | (9,152) | **(18,301)** | (18,303) |
| | **(820,366)** | (1,108,697) | **(1,595,995)** | (2,075,068) |
| Change in non-cash working capital items (Note 13) | **(350,725)** | (554,951) | **(419,926)** | 353,958 |
| | **(1,171,091)** | (1,663,648) | **(2,015,921)** | (1,721,110) |
| **Investing activity** | | | | |
| Acquisition of property and equipment | **(330)** | (5,282) | **(330)** | (5,282) |
| **Financing activities** | | | | |
| Proceeds from the issuance of convertible promissory notes | **-** | - | **840,000** | - |
| Proceeds from the issuance of grid notes | **1,300,000** | - | **1,300,000** | |
| Proceeds form issuance of share units | **-** | 3,000,000 | | 3,000,000 |
| Share issuance costs | **-** | (32,641) | **(19,082)** | (32,641) |
| Repayment of financing leases | **(3,493)** | (4,081) | **(6,873)** | (22,763) |
| | **1,296,507** | 2,963,278 | **2,114,045** | 2,944,596 |
| Net cash inflow (outflow) | **125,086** | 1,294,348 | **97,794** | 1,218,204 |
| Cash, beginning of period | **128,333** | 3,872 | **155,625** | 80,016 |
| **Cash, end of period** | **253,419** | 1,298,220 | **253,419** | 1,298,220 |

The accompanying notes to the consolidated financial statements are an integral part of this consolidated financial statement.

## 1. DESCRIPTION OF BUSINESS

Annidis Corporation's principal activities relate to the research, development and sale of a medical device to eye-care professionals in Canada, the United States and China.

Annidis Corporation ("Annidis" or the "Company") 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".

## 2. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2016 and 2015 were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ["IAS 34"] as issued by the International Accounting Standards Board ["IASB"].

The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as were followed in the preparation of the annual consolidated financial statements for the year ended December 31, 2015 prepared in accordance with International Financial Reporting Standards ["IFRS"] as issued by the IASB. Accordingly, these condensed interim consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015 should be read together with the annual consolidated financial statements for the year ended December 31, 2015.

## 3. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been approved for issuance by the Board of Directors on August 22, 2016.

The preparation of interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2015.

The consolidated financial statements include the accounts of Annidis Corporation and its wholly-owned United States subsidiary, Annidis Inc. The accounting policies of the subsidiary align with the policies adopted by the Company. All intercompany transactions have been eliminated.

The preparation of financial statements in accordance with IAS 34 contemplates the continuation of the Company as a going concern. As at June 30, 2016, the Company had not yet achieved profitable operations and had accumulated losses of $37,661,454 and for the six months then ended had incurred a net loss of $2,497,970 and had negative operating cash flows of $2,015,921. In the absence of raising additional debt or equity financing or attaining sufficient revenues to achieve and sustain profitability, there is substantial doubt regarding the Company's ability to continue as a going concern. The Company continues to explore potential sales-related efforts and financing initiatives which should 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 condensed interim 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in preparing these condensed interim consolidated financial statements are unchanged from those disclosed in the Company’s 2015 annual consolidated financial statements, and have been applied consistently to all periods presented in these condensed interim consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read together with the annual consolidated financial statements for the year ended December 31, 2015.

### 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. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective January 1, 2018. The impact of this ongoing project will be assessed by the Company as remaining phases of the project are complete.

*IFRS 15 Revenue from Contracts with Customers*
IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

*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 this new standard has not yet been determined.

## 5. INVENTORIES

Inventories consist of the following:

| | June 30<br>2016<br>$ | December 31<br>2015<br>$ |
|---|---|---|
| Raw materials | 661,940 | 839,761 |
| Work-in-process | 576,400 | 494,595 |
| Finished goods | 562,736 | 441,472 |
| | 1,801,077 | 1,775,828 |

For the three and six month periods ended June 30, 2016, the Company has expensed inventory costs of $Nil and $147,501 respectfully (three and six months periods ended June 30, 2015 - $196,471 and $512,183, respectfully). The Company recorded an inventory write-down of $20,000 and $20,000, respectfully for the three and six month periods ended June 30, 2016 (three and six month periods ended June 30, 2015 - $NIL and $NIL, respectfully). No write-downs have been subsequently reversed in either fiscal 2016 or 2015.

## 6. DEFERRED REVENUES

Deferred revenues consist of the following:

| | June 30<br>2016<br>$ | December 31<br>2015<br>$ |
|---|---|---|
| Payment received on future deliveries from Yimai Technology International Company ("Yimai") | 1,125,000 | 1,305,000 |
| Other deferred revenue | 260,915 | 394,271 |
| | 1,385,915 | 1,699,271 |

## 7. CONVERTIBLE PROMISSORY NOTES

In November 2014, the Company completed the private placement of a $2,003,589 convertible promissory note with Yimai including a previously existing 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 with all other terms of the agreement remaining unchanged. At Yimai's option, the convertible promissory note may be converted into common shares of Annidis at a conversion price of $0.35 per common share.

In December 2015, the Company completed the private placement of two convertible promissory notes with Yimai totaling $280,000. The convertible promissory notes were scheduled to mature one year from the date 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 were convertible into common shares 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 the first quarter of fiscal 2016, the Company completed the private placement of six additional convertible promissory notes with Yimai totaling $840,000. The convertible promissory notes were 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 were convertible 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 eight respective convertible promissory notes together with all accrued and unpaid interest, without penalty, at any time prior to their respective maturity dates.

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.

The convertible promissory notes contained a liability and an equity component represented by the conversion rights. 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 equity. Subsequent to initial recognition, the notes were amortized cost using the effective interest method.

## 7. CONVERTIBLE PROMISSORY NOTES (CONTINUED)

| | Due Date | June 30 2016 $ | December 31 2015 $ |
|---|---|---|---|
| Subscription by Yimai | 4-Mar-17 to 31-Mar-17 | 450,000 | 280,000 |
| Less: Equity component of note (conversion rights) | | (37,500) | (23,333) |
| | | 412,500 | 256,667 |
| Interest on notes at 10% | | 13,274 | 1,533 |
| Accretion in the carrying value of the notes | | 11,062 | 1,279 |
| | | 436,836 | 259,479 |
| Subscription by Yimai | 17-May-17 | 2,101,550 | 2,101,550 |
| Interest on notes at 10% | | 247,744 | 134,241 |
| | | 2,349,294 | 2,235,791 |
| Total Convertible Promissory Notes | | 2,786,130 | 2,495,270 |
| Current | | 2,786,130 | 259,479 |
| Long Term | | - | 2,235,791 |
| Total Convertible Promissory Notes | | 2,786,130 | 2,495,270 |

## 8. PROMISSORY NOTES

*Promissory Notes*

Promissory notes issued on June 17, 2013 totaling $3,000,000 had a three-term, bear interest at 10% per annum compounded monthly and are payable at maturity or such earlier date upon which the promissory notes are prepaid, without penalty. In June 2016, the holders of the notes consented to an extension of the maturity date of the notes from Jun 17, 2016 to August 17, 2016 in order to provide the Company with sufficient time to renegotiate mutually acceptable terms in the context of existing financing plans. The promissory notes are secured by a general security agreement over the assets, including all intellectual property, of the Company.

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.

*Grid Promissory Notes*

On April 14, 2016, 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.

## 8. PROMISSORY NOTES (CONTINUED)

| | Due Date | June 30 2016 $ | December 31 2015 $ |
|---|---|---|---|
| *Promissory Notes* | | | |
| Promissory note advances converted to promissory notes | 17-Aug-16 | 2,000,000 | 2,000,000 |
| Subscription by Yimai | 17-Aug-16 | 1,000,000 | 1,000,000 |
| Subscription by Yimai | 22-May-17 | 1,000,000 | 1,000,000 |
| | | 4,000,000 | 4,000,000 |
| Less: Equity component of note (warrants) | | (936,251) | (936,251) |
| | | 3,063,749 | 3,063,749 |
| Interest on notes at 10% | | 1,275,228 | 1,033,315 |
| Accretion in the carrying value of the notes | | 840,587 | 642,498 |
| Debt issue costs | | (75,000) | (75,000) |
| Amortization of debt issue costs | | 75,000 | 61,900 |
| | | 5,179,564 | 4,726,462 |
| *Other Promissory Notes* | | | |
| Yimai | 25-Nov-16 | 150,000 | 150,000 |
| Other third parties | | | 179,244 |
| | | 150,000 | 329,244 |
| Interest on notes at 10% | | 8,959 | 5,844 |
| Payments to other third parties | | | (153,535) |
| Gain on favourable note terms | | (12,500) | (12,500) |
| Accretion in the carrying value of the notes | | 7,466 | 1,233 |
| | | 153,925 | 170,286 |
| *Grid Promissory Notes* | | | |
| Subscription by Yimai | 31-Dec-16 | 1,300,000 | - |
| Interest on notes at 10% | | 14,747 | - |
| | | 1,314,747 | - |
| Total Promissory Notes | | 6,648,236 | 4,896,748 |

## 8. PROMISSORY NOTES (CONTINUED)

| | June 30 2015 | December 31 2015 |
|---|---|---|
| | $ | $ |
| Current | 6,648,236 | 3,862,607 |
| Long Term | | 1,034,141 |
| Total Promissory Notes | 6,648,236 | 4,896,748 |

## 9. SECURED PROMISSORY NOTE

In 2011, the Company issued a subordinated secured convertible note in the amount of $1,000,000. In 2014, the Company reached an agreement with the convertible note holder whereby the convertible note 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. 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.

| | June 30 2016 | December 31 2015 |
|---|---|---|
| | $ | $ |
| Issuance of secured promissory note, at face value | 1,000,000 | 1,000,000 |
| Less: Equity component of secured promissory note | (173,915) | (173,915) |
| | 826,085 | 826,085 |
| Unpaid interest on convertible note exchanged | 71,361 | 71,361 |
| Interest on note at 12% | 290,001 | 211,314 |
| Accretion in the carrying value of the note | 119,610 | 81,033 |
| Total Secured Promissory Note | 1,307,057 | 1,189,793 |
| Current | 1,307,057 | - |
| Long Term | - | 1,189,793 |
| Total Secured Promissory Note | 1,307,057 | 1,189,793 |

## 10. SHARE CAPITAL

### [a] Authorized

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

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

### [b] Issued and outstanding

| | Number | $ |
|---|---|---|
| Common shares | | |
| Balance, December 31, 2014 | 88,735,155 | 18,878,818 |
| Issued to Yimai | 12,016,667 | 3,000,000 |
| Cost of issuance | - | (32,641) |
| Balance, December 31, 2015 | 100,751,822 | 21,846,177 |
| Issued to Yimai | 9,197,382 | 681,022 |
| Cost of issuance | - | (19,083) |
| **Balance, June 30, 2016** | 109,949,204 | 22,508,116 |

### [c] Warrants

| | Number of Warrants | $ | Exercise Price | Expiry Date |
|---|---|---|---|---|
| Balance, December 31, 2014 | 17,094,156 | 1,708,821 | | |
| Expiry of warrants | (6,789,571) | (437,644) | $0.30 to $0.80 | |
| Balance, December 31, 2015 | 10,304,585 | 1,271,177 | | |
| Expiry of warrants | (4,171,250) | (161,010) | $ 0.80 | 9-Jun-16 |
| Expiry of warrants | (3,000,000) | (701,994) | $ 0.40 | 28-Jun-16 |
| Balance, June 30, 2016 | 3,133,335 | 408,173 | $0.30 to $0.40 | |

The weighted average exercise price of the outstanding warrants as at June 30, 2016 is $0.332.

## 10. SHARE CAPITAL (CONTINUED)

### [d] Stock option plan

The Company maintains an Employee Stock Option Plan ("Plan") for the directors, officers, employees, and consultants of the Company. The Plan is administered by the Board of Directors of the Company who establish the exercise prices, vesting conditions and expiry date of the options in accordance with the requirements imposed by the Exchange. The aggregate number of shares assumable upon the exercise of all options granted under the Plan shall not exceed 10% of the issued and outstanding common shares.

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

| | Number of of Options | Weighted Average Exercise Price |
|---|---|---|
| | | $ |
| Balance, December 31, 2014 | 6,242,500 | 0.40 |
| Options granted | 2,850,000 | 0.20 |
| Options forfeited | (495,000) | 0.40 |
| Balance, December 31, 2015 | 8,597,500 | 0.33 |
| Options granted | 3,500,000 | 0.05 |
| Options forfeited | (955,000) | 0.35 |
| Balance, June 30, 2016 | 11,142,500 | 0.24 |
| Options exercisable, end of period | 7,897,500 | 0.29 |

## 10. SHARE CAPITAL (CONTINUED)

### [d] Stock option plan

The following is a summary of the outstanding stock options as at June 30, 2016:

| Expiry Date | Exercise Price $ | Number of Options Exercisable | Total | Weighted Average Remaining Life *(Years)* |
|---|---|---|---|---|
| 11-Jul-16 | $0.40 | 1,050,000 | 1,050,000 | |
| 28-Jul-16 | $0.40 | 1,225,000 | 1,225,000 | |
| 22-Sep-16 | $0.40 | 62,500 | 62,500 | |
| 30-Sep-16 | $0.40 | 2,705,000 | 2,705,000 | |
| 16-Oct-20 | $0.20 | 1,080,000 | 2,500,000 | |
| 16-Nov-20 | $0.20 | 25,000 | 100,000 | |
| 21-Apr-21 | $0.05 | 1,750,000 | 3,500,000 | |
| | | 7,897,500 | 11,142,500 | 2.6 |

On April 18, 2016, the Company announced that, 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 3,500,000 common shares in the capital stock of Annidis, 1,750,000 of which vest immediately and the remainder of which vest on April 18, 2017. The options are exercisable at a price of $0.05 per common share and expire on April 18, 2021.

## 11. 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 executive officer and the Board of Directors 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 the eye care professionals. All revenues earned and expenses incurred to date are related to this one operating segment.

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Revenues | | | | |
| United States | 82,511 | 278,915 | 261,539 | 571,072 |
| China | 800 | 84,000 | 180,800 | 336,240 |
| Canada | 14,871 | 18,978 | 28,225 | 38,713 |
| | 98,182 | 381,893 | 470,564 | 946,025 |

## 12. 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 June 30, 2016 and 2015, 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.

| | June 30 2016 | June 30 2015 |
|---|---|---|
| Escrowed common shares | 7,132,046 | 7,132,046 |
| Options | 7,897,500 | 6,232,500 |
| Warrants | 3,133,335 | 11,585,835 |
| Convertible promissory notes | 15,121,721 | 6,072,754 |
| | 33,284,602 | 31,023,135 |

## 13. SUPPLEMENTARY CASH FLOW INFORMATION

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Restricted short-term investments | 74 | 468 | 1,428 | (1,130) |
| Trade accounts receivable | (14,076) | 93,107 | 91,067 | 286,572 |
| Inventories | (52,092) | (45,063) | 55,049 | 36,659 |
| Prepaids and other receivables | (19,511) | 11,587 | 24,724 | 13,131 |
| Accounts payable and accrued liabilities | (238,741) | (615,050) | (278,838) | 18,726 |
| Deferred revenue | (26,379) | | (313,356) | |
| | (350,725) | (554,951) | (419,926) | 353,958 |

## 14. RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions with Yima, which holds a 38% interest in the Company and has three members appointed to the Board of Directors.

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | $ | $ | $ | $ |
| Sales | - | 84,000 | 180,000 | 363,240 |
| Recovery of expenses | - | 40,000 | - | 40,000 |
| Accounts receivable balance as at March 31 | 3,815 | 3,815 | 3,815 | 3,815 |
| Prepayments balance on units to be shipped as at June 30 | 1,125,000 | 504,000 | 1,125,000 | 420,000 |

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

Also see Notes 6, 7, 8 and 10.

## 15. SUBSEQUENT EVENTS

On July 29, 2016, the Company completed the private placement of a $221,000 promissory note with a company related to Yimai. The note will mature on the earlier of December 31, 2016 or at such date as the Company completes an equity financing of not less than $5,000,000 and bears interest at a rate of 10% per annum 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.