Financial Statements and Management's Discussion and Analysis

December 31, 2015

Oncolytics Biotech Inc.
Message to Shareholders
2015

To the Shareholders of Oncolytics Biotech Inc.:

In 2015, Oncolytics selected its first registration indication, continued with the rest of our clinical trial program to identify new registration opportunities, and initiated clinical trials of REOLYSIN® combined with two different classes of immunotherapies.

Advancing Immunotherapeutic Story

We now know that REOLYSIN® has not one, but two, modes of action. First, REOLYSIN® acts as a directed cytotoxin that reduces tumour burden in cancer cells with Ras pathway activating mutations, which include Braf, Kras, and EGFR. This has been now demonstrated in a number of human clinical studies.

Second, we now know that REOLYSIN® also interacts with the immune system by upregulating both immune responses and PD-1 and PD-L1 expression.

In March, at the 2015 Immune Checkpoint Inhibitors meeting held in Boston, MA, data was presented from two human studies showing that REOLYSIN® up-regulated PD-1 and PD-L1 in target tissues in patients with primary glioblastomas or brain metastases (REO 013b), and that the combination of REOLYSIN® and gemcitabine induced PD-L1 expression in tumour samples from pancreatic cancer patients (REO 017). Combined with some of our preclinical data, this suggests that REOLYSIN® may be a potentiator for this intriguing new class of drugs. At a subsequent conference in the UK, additional data was presented suggesting that treatment with REOLYSIN® causes immunological changes that are conducive to novel immune targeting interventions in both the tumor cells and the tumor microenvironment.

In May, we announced that a Phase 1 study of REOLYSIN® in combination with GM-CSF in pediatric patients with relapsed or refractory brain tumours (MC1472) had begun to enroll patients. This is our first immune combination study, exploiting the ability of GM-CSF and REOLYSIN® to upregulate immune responses.

In early 2016, we announced that the first patients had been treated in a Phase 1b study of pembrolizumab (KEYTRUDA®) in combination with REOLYSIN® and chemotherapy in patients with advanced pancreatic adenocarcinoma (REO 024). This is Oncolytics' first study using a checkpoint inhibitor in combination with REOLYSIN® and will be our first study assessing the clinical benefit of REOLYSIN®'s ability to upregulate PD-1 and PD-L1.

Clinical Study Update

At the 15th International Myeloma Workshop in September, we reported initial data from a pilot study assessing the combination of REOLYSIN® and carfilzomib in patients with relapsed or refractory multiple myeloma (NCI-9603). Additional data from the study was subsequently reported at the 57th American Society of Hematology Annual Meeting in December. All seven patients treated at the full clinical dose, and 11 of 12 patients treated, had a clinical response (as measured by a decrease in dominant monoclonal protein). The combination of carfilzomib and REOLYSIN® produced a significant ($p=0.005$) increase in caspase-3, a marker associated with

apoptotic (programmed) cell death, In addition, the treatment combination was associated with an increased infiltration of $CD8^+$ T-cells and the significant (p=0.005) upregulation of PD-L1, suggesting that the addition of a PD-1 or PD-L1 inhibitor may further optimize the treatment regimen.

In November we commenced enrollment in a Phase Ib study of REOLYSIN® combined with standard doses of bortezomib and dexamethasone in patients with relapsed or refractory multiple myeloma (REO 019). Our aim is to identify the optimum treatment combination to advance into later stage clinical testing. This study was predicated on an earlier single-agent study in this patient population, which showed that REOLYSIN® was well tolerated, and as preclinical investigations that demonstrated the combination of REOLYSIN® and carfilzomib synergistically increased the killing of multiple myeloma cells.

We now await data from a series of sponsored randomized Phase 2 studies being conducted by the NCI in the U.S. and the NCIC Clinical Trials Group in Canada. In 2015, we announced the completion of enrollment in three of the NCIC studies in non-small cell lung cancer, colorectal cancer, and prostate cancer. In 2014, enrollment was completed in two NCI sponsored studies in ovarian cancer and pancreatic cancer. Pending completion of the patient follow-up and data analysis by the sponsors, we expect to report data from several of these studies in 2016.

Enacting Registration Pathway

In 2015, we filed an Investigational New Drug Application (IND) to conduct a run-in study in patients with muscle-invasive bladder cancer. We are currently working with the investigator and clinical site to begin the process of patient enrollment. Pre-operative patients will be treated with a combination of gemcitabine, cisplatin and REOLYSIN® and, subsequent to undergoing surgery, assessed for histopathological response and safety. Subject to confirmation of histopathological responses attributable to REOLYSIN®, we intend to conduct a larger registration study in patients in this indication.

Orphan Drug Status

Through late 2014 and early 2015, we applied for Orphan Drug Status in key markets for certain indications. During the first half of 2015, the U.S. FDA granted us Orphan Drug Status to REOLYSIN® for the treatment of pancreatic, gastric, ovarian, primary peritoneal and fallopian tube cancers, and malignant gliomas. In Europe, the European Medicines Agency granted Orphan Drug Status to REOLYSIN® for the treatment of ovarian and pancreatic cancers.

Managing Our Financial Resources

In 2015, we accessed capital from both our share purchase agreement with Lincoln Park Capital Fund, LLC ("LPC") and our at-the-market ("ATM") equity distribution agreement with Canaccord Genuity Inc., raising net proceeds of US$3.5 million with LPC and net proceeds of US$15.5 million through Canaccord. At December 31, 2015, we reported cash and cash equivalents of $26.1 million. At current activity levels, we expect we have sufficient funds to support both our ongoing run-in, and anticipated registration, studies in muscle-invasive bladder cancer, as well as several immunotherapy combination studies in pancreatic cancer and glioma. Subsequent to year-end, we announced a new ATM facility with Canaccord Genuity Corp. that will allow us to raise aggregate proceeds up to $4.6 million through March 16, 2018, providing us with additional financial flexibility in the year ahead.

The Year Ahead

In closing, I want to thank all of you for your interest in, and support of, Oncolytics. We are very excited to be commencing our registration program for REOLYSIN® and look forward to sharing our progress with you as 2016 unfolds.

Yours very truly,

Dr. Brad Thompson,
President and CEO

MANAGEMENT DISCUSSION & ANALYSIS

2015

ONCOLYTICS BIOTECH INC.

MANAGEMENT DISCUSSION & ANALYSIS

2015

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March 10, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BASIS OF PRESENTATION

Our Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our 2015 audited consolidated financial statements and notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A along with our consolidated financial statements for the year ended December 31, 2015, were authorized for issue in accordance with a resolution of the Board of Directors (the "Board") on March 10, 2016.

FORWARD-LOOKING STATEMENTS

The following discussion contains forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended and under applicable Canadian provincial securities legislation. Forward-looking statements, including our belief as to the potential of REOLYSIN®, a therapeutic reovirus, as a cancer therapeutic and our expectations as to the success of our research and development and manufacturing programs in 2016 and beyond, future financial position, business strategy and plans for future operations, and statements that are not historical facts, involve known and unknown risks and uncertainties, which could cause our actual results to differ materially from those in the forward-looking statements.

Such risks and uncertainties include, among others, the need for and availability of funds and resources to pursue research and development projects, the efficacy of REOLYSIN® as a cancer treatment, the success and timely completion of clinical studies and trials, our ability to successfully commercialize REOLYSIN®, uncertainties related to the research, development and manufacturing of REOLYSIN®, uncertainties related to competition, changes in technology, the regulatory process and general changes to the economic environment.

With respect to the forward-looking statements made within this MD&A, we have made numerous assumptions regarding among other things: our ability to obtain financing to fund our development program, our ability to receive regulatory approval to commence enrollment in our clinical trial program, the final results of our co-therapy clinical trials, our ability to maintain our supply of REOLYSIN® and future expense levels being within our current expectations.

Investors should consult our quarterly and annual filings with the Canadian and US securities commissions for additional information on risks and uncertainties relating to the forward-looking statements. Forward-looking statements are based on assumptions, projections, estimates and expectations of management at the time such forward-looking statements are made, and such assumptions, projections, estimates and/or expectations could change or prove to be incorrect or inaccurate. Investors are cautioned against placing undue reliance on forward-looking statements. We do not undertake to update these forward-looking statements except as required by applicable law.

REOLYSIN® Development Update For 2015

Oncolytics Biotech Inc. is a Development Stage Company

Since our inception in April of 1998, Oncolytics Biotech® Inc. has been a development stage company and we have focused our research and development efforts on the development of REOLYSIN®, our potential cancer therapeutic. We have not been profitable since our inception and expect to continue to incur substantial losses as we continue research and development efforts. We do not expect to generate significant revenues until, and unless, our cancer product becomes commercially viable.

Our goal each year is to advance REOLYSIN® through the various steps and stages of development required for potential pharmaceutical products. In order to achieve this goal, we believe that we have to actively manage the development of our clinical trial program, our pre-clinical and collaborative programs, our manufacturing process and REOLYSIN® supply, and our intellectual property.

Clinical Trial Program

Our overall clinical program is made up of a registration program that currently includes muscle-invasive bladder cancer and glioma cancer (our "Registration Program"), six randomized Phase II clinical trials (our "Randomized Program") and six other investigative clinical trials for a total of 12 clinical trials. During 2015, we announced our planned registration program, commenced our first check point inhibitor clinical study, completed enrollment in three randomized clinical trials, received orphan drug designations for six cancer indications (pancreatic, ovarian, fallopian tube, primary peritoneal, malignant gliomas and gastric cancers) and commenced clinical studies involving pediatric brain cancer and further investigating multiple myeloma.

Registration Program for REOLYSIN®

In the first half of 2015, we presented an update to our planned registration program for REOLYSIN®. Initially, we plan to focus on pursuing registration for REOLYSIN® in two indications: the neoadjuvant treatment of muscle-invasive bladder cancer and the treatment of glioblastoma. In addition, we will determine further indications and treatment types in which to pursue registration subject to clinical data from our ongoing Randomized Program and other investigative clinical studies.

Planned Registration Program - Muscle-Invasive Bladder Cancer
We have filed an Investigational New Drug Application ("IND") to conduct a small run-in study in patients with muscle-invasive bladder cancer. Pre-operative patients will be treated with a combination of gemcitabine, cisplatin and REOLYSIN® and assessed for histopathological response and safety. Subject to confirmation of histopathological responses attributable to REOLYSIN®, we would intend to conduct a larger registration study in this indication. As well, we plan to investigate the potential combination of immunotherapy, specifically checkpoint inhibitors, and REOLYSIN® in the treatment of bladder cancer.

Planned Registration Program - Gliomas
We also intend to conduct a separate small run-in study combining the standard of care (surgery followed by radiotherapy and temozolomide) with REOLYSIN® in adult patients. Subject to confirmation of responses, we would conduct a larger registration study using the better therapeutic regime in either pediatric or adult patients.

Evolving Registration Program
Based on the evolving clinical data from our multiple myeloma clinical work in 2015, (see - *"Clinical Trial Results - Multiple Myeloma"*) and input received from key opinion leaders, we believe multiple myeloma is becoming a compelling registration target. We intend to investigate the design of a potential registration study with regulatory agencies expanding our Registration Program to possibly include multiple myeloma.

Checkpoint Inhibitor Program

During 2015, we discovered that REOLYSIN® helped induce the up-regulation of PD-1 and PD-L1 (see - *"Immune Checkpoint Inhibitor Data")* and we reported clinical data from our pancreatic cancer studies suggesting increases in one and two year survival rates (see *"Clinical Trial Results - Pancreatic Cancer"*). As a result of this clinical data and that we had received Orphan Drug Designation from the FDA and the European Medicines Agency for the use of REOLYSIN® in the treatment of pancreatic cancer, we announced that the protocol titled "A Phase Ib study of pembrolizumab (KEYTRUDA®) in combination with REOLYSIN® and chemotherapy in patients with advanced pancreatic adenocarcinoma" was active. This becomes the first study that examines the effects of REOLYSIN® in combination with a checkpoint inhibitor in human patients.

The study will enroll patients 18 years or older with histologically confirmed advanced or metastatic pancreatic adenocarcinoma who have failed, or did not tolerate, first line treatment. It is an open-label Phase Ib trial designed to determine the safety and dose-limiting toxicities of REOLYSIN® and chemotherapy (gemcitabine or irinotecan or fluorouracil, at the treating physician's preference) in combination with pembrolizumab. Secondary endpoints include overall response rate and progression free survival by immune-related response criteria; overall survival; and effects of REOLYSIN® and pembrolizumab when administered in combination as determined by analysis of pre- and post-treatment treatment biopsies and blood based immune markers. Following an initial six to nine patient safety run-in, up to an additional 15 patients may be enrolled for further evaluation of safety and efficacy.

Immune Checkpoint Inhibitor Data

In 2015, a presentation titled "REOLYSIN® and Immune Therapy: Rationale for Combination Therapy" was made first at the 2015 Immune Checkpoint Inhibitors held in Boston, MA and then again at the Royal Society of Medicine's Immuno-oncology: Using the Body's Own Weapons conference, held in London, UK. Our presentation included data from our single arm clinical study examining the use of REOLYSIN® in combination with gemcitabine in patients with advanced pancreatic cancer, PD-1 and PD-L1 up regulation data from a single arm clinical study examining the use of REOLYSIN® in patients with primary glioblastomas or brain metastases, as well as preclinical data and included:

- that REOLYSIN® induced the up-regulation of PD-1 and PD-L1 in target tissues in patients with primary glioblastomas or brain metastases, and that this up-regulation is strongly associated with productive reoviral infection;
- the combination of REOLYSIN® and gemcitabine induced PD-L1 expression in tumour samples from pancreatic cancer patients;
- the combination of REOLYSIN®, GM-CSF, anti-PD-1 and anti-CTLA-4 improved survival in immune competent mice versus REOLYSIN® and GM-CSF alone and REOLYSIN® and GM-CSF plus either one of the checkpoint inhibitors alone;
- clinical evidence that REOLYSIN® treatment results in immunological changes to both the tumor cells and the tumor microenvironment that is conducive to novel immune targeting interventions; and
- updated results from our single arm pancreatic study in which pancreatic cancer patients received combination therapy with REOLYSIN® and gemcitabine demonstrated a median overall survival of 10.2 months, and one- and two-year survival rates of 45% and 24%, respectively.

Impact of Findings

We believe the discovery that PD-1 and PD-L1 are up-regulated or increased in tumours in patients treated with REOLYSIN®, combined with our animal model data findings to this point, may indicate that REOLYSIN® is a potentiator for the entire anti-PD-1/PD-L1 drug class. We intend to incorporate these findings into our clinical program.

Clinical Trial Results

Multiple Myeloma

During 2015, clinical results from our multiple myeloma study in patients with relapsed or refractory multiple myeloma treated using the combination of carfilzomib and REOLYSIN® with the US National Cancer Institute ("NCI") (NCI-9603) were presented by Dr. D.W. Sborov and colleagues at two scientific conferences.

The first poster presentation was made at the 15th International Myeloma Workshop (IMW). The poster presentation, entitled "Combination Carfilzomib and the Viral Oncolytic Agent REOLYSIN® in Patients with Relapsed Multiple Myeloma: A Pilot Study Investigating Viral Proliferation," disclosed initial findings from NCI-9603.

Highlights of the data presented included:

- 100% of patients (8 of 8) experienced an objective response as measured by changes in blood monoclonal protein. Of these, 2 patients had a very good partial response (VGPR), 3 patients had a partial response (PR) and 3 patients had a minor response (MR);
- Only one patient has progressed to date and five of eight remain on study;
- The combination of carfilzomib and REOLYSIN® produced a significant ($p=0.005$) increase in caspase-3, a marker associated with apoptotic (programmed) cell death; and
- The treatment combination was associated with an increased infiltration of CD8+ T-cells and the significant ($p=0.005$) upregulation of PD-L1, suggesting that the addition of a PD-1 or PD-L1 inhibitor may further optimize the treatment regimen.

The investigators noted that this is the first time a REOLYSIN®-based combination had been tested in relapsed multiple myeloma patients. A previous single-agent study conducted by the collaborators in this patient population showed that REOLYSIN® was well tolerated. The collaborators and others were noted to have conducted preclinical investigations that demonstrated that the combination of REOLYSIN® and carfilzomib synergistically increased the killing of multiple myeloma cells. This provided the clinical rationale for this study.

The second presentation, in December 2015, was made at the 57th American Society of Hematology (ASH) Annual Meeting. This poster presentation, titled "REOLYSIN® Combined with Carfilzomib for Treatment of Relapsed Multiple Myeloma Patients," disclosed updated findings from NCI-9603.

Highlights from the updated data presented included:

- All seven patients treated at the full clinical dose had a clinical response. Patients treated at the full clinical dose (dose level 1) had a deeper and more prolonged response than those treated at dose level minus 1. Of the 12 total patients treated, 11 had a decrease in dominant monoclonal protein during treatment (used to measure clinical response), including all seven patients treated at the full clinical dose;
- The combination of carfilzomib and REOLYSIN® produced a significant (p=0.005) increase in caspase-3, a marker associated with apoptotic (programmed) cell death, but to a higher degree in those patients treated at dose level 1; and
- The treatment combination was associated with an increased infiltration of CD8+ T-cells and the significant (p=0.005) upregulation of PD-L1, suggesting that the addition of a PD-1 or PD-L1 inhibitor may further optimize the treatment regimen.

NCI-9603 is a U.S. National Cancer Institute sponsored single-arm, open-label study of intravenously administered REOLYSIN® with dexamethasone and carfilzomib to patients with relapsed or refractory multiple myeloma clinical study. Patients receive treatment on days 1, 2, 8, 9, 15 and 16 of a 28-day cycle, to be repeated in the absence of disease progression or unacceptable toxicity. Approximately 12 patients will be enrolled in the study. The primary outcomes include measuring reovirus replication, safety, and tolerability. Secondary outcomes include examining objective response, duration of response, clinical benefit, progression-free survival, and time to progression. Other outcomes will include the measurement of immunologic correlative markers.

Impact of Findings

We believe these findings are compelling as we continue to see a strong clinical benefit rate in multiple myeloma, a difficult to treat cancer. As well, this data presented clear evidence of a dose response, with patients at the higher dosing level seeing improved outcomes. We plan on testing higher dosage levels to determine the extent of this improvement and enter into other combination studies in multiple myeloma in an attempt to identify the best standard of care combination to advance into later stage clinical testing.

Non-small Cell Lung Cancer

During 2015, we reported a near tripling of two-year survival compared to historical controls from our single arm US Phase 2 non-small cell lung cancer (NSCLC) trial. Dr. Miguel A. Villalona-Calero made an oral presentation at the International Association for the Study of Lung Cancer's (IASLC) 16th World Conference on Lung Cancer on September 9, 2015. The presentation, titled "Oncolytic Reovirus in Combination with Paclitaxel/Carboplatin in NSCLC Patients with Ras Activated Malignancies, Long Term Results," covers updated results, including longer-term survival data, from our US Phase 2 study in Non-Small Cell Lung Cancer.

Highlights of the data presented included:

- A survival analysis for 37 Stage IV patients showing a median progression free survival (PFS) of four months and median overall survival (OS) of 13.1 months;
- One- and two-year survival rates of 57% and 30%, respectively, with the authors concluding that the survival of 11 patients longer than two years was substantial; and
- Seven patients, at the time of the oral presentation, remained alive after a median follow up of 34.2 months (range 26.9-71.5 months), with two patients showing no evidence of disease progression (50 and 37 months).

Historical control data as per Schiller et al., 2002, reported a median PFS of 3.1 months, median OS of 8.1 months, one-year survival rates of 34%, and two-year survival rates of 11%. The historical control data included 290 patients which were treated with carboplatin and paclitaxel, 86% of which were Stage IV and 14% Stage IIIB.

Of the 35 patients evaluable for clinical response in this NSCLC trial, 11 patients (5 Kras mutant) had a partial response (PR), 20 had stable disease (SD) and four had progressive disease by RECIST for an objective response rate (ORR) of 31%. Four patients with SD had a >40% PET standardized uptake value reduction after two cycles, yielding an ORR considering PET of 43%.

This study is a US single arm, two-stage, open-label, Phase 2 study of REOLYSIN® given intravenously with paclitaxel and carboplatin every three weeks. Patients received four to six cycles of paclitaxel and carboplatin in conjunction with REOLYSIN®, at which time REOLYSIN® may have been continued as a monotherapy. The primary objectives of the trial were to determine the ORR of REOLYSIN® in combination with paclitaxel and carboplatin in patients with metastatic or recurrent NSCLC with

Kras or EGFR-activated tumours, and to measure PFS at six months. The secondary objectives were to determine the median survival and duration of PFS in patients, and to evaluate the safety and tolerability of REOLYSIN® in combination with paclitaxel and carboplatin in this patient population.

Pancreatic Cancer

In 2015, we reported a more than doubling in one-year survival and nearly five-fold increase in two-year survival as compared to historical controls from our single arm US Phase 2 pancreatic cancer trial. Dr. Devalingam Mahalingam of the Cancer Therapy and Research Centre, University of Texas Health Science Centre San Antonio, made a poster presentation at the ESMO World Congress on Gastrointestinal Cancer. The poster, titled "Oncolytic Virus Therapy in Pancreatic Cancer: Clinical Efficacy and Pharmacodynamic Analysis of REOLYSIN® in Combination with Gemcitabine in Patients with Advanced Pancreatic Adenocarcinoma," covers final results from this pancreatic cancer study.

Highlights of the data presented include:

- A survival analysis for 33 patients showing a median progression free survival (PFS) of four months and median overall survival (OS) of 10.2 months;
- Data showing one- and two-year survival rates of 45% and 24%, respectively; and
- An analysis demonstrating upregulation of immune checkpoint marker PD-L1 in post treatment tumours suggesting the potential to combine oncolytic viral therapy with anti-PD-L1 inhibitors in future trials.

A summary of the overall data compared to historical controls is shown below:

Treatment	Number of patients	Median PFS (months)	Median OS (months)	1-year survival (%)	2-year survival (%)
Gemcitabine (ACCORD 11) (Conroy et al., 2011)	171	3.3	6.8	20	2
Gemcitabine (MPACT) (Von Hoff et al., 2013; Goldstein et al., 2015)	430	3.7	6.6	22	5
Gemcitabine/REOLYSIN® (REO 017)	33	4.0	10.2	45	24

Of the 29 patients evaluable for clinical response, one patient had a partial response (PR), 23 had stable disease (SD) and five had progressive disease as their best response. This translated into a clinical benefit rate (CBR) (complete response (CR) + PR + SD) of 83%.

This was a U.S. Phase 2, single-arm clinical trial using intravenous administration of REOLYSIN® in combination with gemcitabine (Gemzar®) in chemotherapy-naïve patients with advanced or metastatic pancreatic cancer. Eligible patients were treated with gemcitabine at 800 mg/m2 on days 1 and 8, and REOLYSIN® at $1x10^{10}$ $TCID_{50}$ administered IV on days 1, 2, 8 and 9 every 3 weeks. Tumor assessment was performed every two cycles. The trial enrolled 33 evaluable patients (34 total) using a one sample, two-stage design. In the first stage, 17 patients were to be enrolled, and best response noted. If three or more responses were observed (defined as CR, PR, or SD for 12 weeks or more) among the 17 patients, the study would enroll an additional 16 patients for a total of at least 33 evaluable patients. As previously disclosed, this initial endpoint was met after six evaluable patients were enrolled. The primary objective of the trial was to determine the CBR of intravenous multiple doses of REOLYSIN® in combination with gemcitabine in patients with advanced or metastatic pancreatic cancer. The secondary objectives were to determine PFS, and to determine the safety and tolerability of REOLYSIN® when administered in combination with gemcitabine.

Randomized Phase II Clinical Program

During 2015, we continued to progress through our Randomized Program that includes six randomized Phase II clinical trials investigating lung, ovarian, colorectal, pancreatic, prostate, and breast cancers and is currently in varying stages of enrollment. The objective of our Randomized Program is to examine the potential efficacy of REOLYSIN® over multiple indications in a randomized setting to determine which indication may be most susceptible to REOLYSIN® therapy, which predictive biomarkers can possibly be used, and the registration path for product approval. The randomized clinical trials included in our Randomized Program do not pre-screen patient tumors for certain biomarkers, but are considered "all comer" trials with respect to the histology of the patients' tumors. The primary objective for each of the randomized clinical trials within our Randomized Program is an analysis of progression free survival along with an analysis of overall survival as a secondary endpoint comparing the control and test arms within each trial. As well, each randomized clinical trial includes other multiple secondary endpoints dependent on the particular cancer indication, but in all cases includes an analysis of molecular factors that may be predictive of response (biomarker analysis). The National Cancer Institute of Canada ("NCIC") Clinical Trials Group sponsor our randomized Phase II colorectal,

lung, prostate, and breast cancer trials. The US National Cancer Institute sponsor our randomized Phase II ovarian and pancreatic cancer trials.

We believe that as we progress through our Randomized Program we will develop a scientific understanding of REOLYSIN® that will include which cancer indications should be pursued in a Phase III setting, if progression free survival is a reasonable proxy for overall survival, and which predictive biomarkers should be used for screening patients.

During 2015, we completed enrollment in our randomized Phase II studies of REOLYSIN® in patients with recurrent or metastatic castration resistant prostate cancer, in patients with previously treated advanced or metastatic non-small cell lung cancer and in patients with advanced or metastatic colorectal cancer. Although patient accrual has been completed, patient follow-up will continue until planned analyses have been conducted for these three clinical trials.

Portfolio of Orphan Drug Designations

Orphan Designation Applications

During 2015, we submitted applications for Orphan Designations to the FDA and EMA for REOLYSIN® for the treatment of pancreatic, ovarian cancers, malignant gliomas, and gastric cancer. In the US, an Orphan Drug Designation provides the sponsor with certain benefits and incentives, including a period of marketing exclusivity if regulatory approval is ultimately received for the designated indication, potential tax credits for certain activities, eligibility for orphan drug grants, and the waiver of certain administrative fees. In the EU, Orphan Drug Status allows for access to a number of incentives including protocol assistance, market exclusivity for a ten-year period following approval and potential fee reductions. The receipt of Orphan Drug Designation status does not change the regulatory requirements or process for obtaining marketing approval in either jurisdiction.

Orphan Drug Designations

Throughout 2015, the FDA granted us Orphan Drug Designation for pancreatic cancer, divided our ovarian cancer application into multiple indications granting Orphan Drug Designation for ovarian, fallopian tube, and primary peritoneal cancers separately, malignant gliomas and gastric cancer. As well in 2015, the EMA granted us Orphan Drug Status for ovarian and pancreatic cancers.

Clinical Program Expansion

US Phase 1b Multiple Myeloma

In 2015, we announced that enrollment had commenced in a Phase Ib study of REOLYSIN® combined with standard doses of bortezomib (VELCADE®) and dexamethasone in patients with relapsed or refractory multiple myeloma. Dr. Kevin Kelly, M.D., Ph.D. of the Keck School of Medicine of the University of Southern California (USC), is the principal investigator.

This study is a two-stage open-label Phase Ib trial of adult patients with relapsed or refractory multiple myeloma following at least one line of therapy. The study objectives include determining the maximum tolerated dose ("MTD") and the safety profile of REOLYSIN® in combination with bortezomib and dexamethasone, as well as exploring the toxicities and the pharmacodynamics of the treatment combination, and determining the preliminary response rate in patients with relapsed or refractory multiple myeloma.

Adult patients will receive REOLYSIN® on days 1, 2, 8, 9, 15 and 16 of each 28-day cycle. Patients will also receive bortezomib and dexamethasone on days 1, 8 and 15.The first stage of the study will enroll three to six patients in each of two cohorts, with each cohort at a different dose level. The second stage of the study will enroll up to 12 patients at the MTD reached in the first stage.

Our goal is to examine and compare the clinical data from this study and our study examining REOLYSIN® in combination with carfilzomib to determine how REOLYSIN® performs with the standard of care options and then take the best combination forward into later-stage testing.

US Phase 1 Pediatric Patients with Brain Tumors

During 2015, we announced that an IND containing the protocol titled "MC1472: Phase 1 Study of Replication Competent Reovirus (REOLYSIN®) in Combination with GM-CSF in Pediatric Patients with Relapsed or Refractory Brain Tumors" was active. The study sponsor is the Mayo Clinic based in Rochester, Minnesota, and the Study Chair is Dr. Richard Bram of the Mayo Clinic.

The study is an open-label Phase 1 trial to clarify the safety, and determine possible efficacy, of GM-CSF given prior to administration of intravenous REOLYSIN® for children with malignant high grade brain tumors. GM-CSF will be administered on days one and two of each cycle with REOLYSIN® administered on days three, four and five. Cycles will be given every 28 days for up to 12 cycles if patients remain without evidence of tumor progression and without intolerable toxicity. The primary outcome for the nine to 18 patients of the Phase 1 study will be safety and tolerability. Secondary goals include median progression free and overall survival in this patient population.

Eligible patients include those between the ages of 10 and 21 with histologically confirmed high grade (grade 3 or 4) primary brain tumor either classified as a glioma (including astrocytoma, anaplastic oligodendroglioma and glioblastoma multiforme), medulloblastoma, atypical teratoid/rhabdoid tumor or primitive neuroectodermal tumor. Patients must have no known curative therapy available and can have had up to two chemotherapy regimens for the brain tumor previously.

Other Third Party Clinical Trials

In addition to sponsoring our Randomized Program, third party sponsored clinical trials ("Third Party Trials") have been a significant part of our overall clinical program. Third Party Trials have allowed us to expand our clinical program to include randomized and non-randomized clinical trials in additional cancer indications (pancreatic, ovarian, colorectal, prostate, breast, squamous cell carcinoma, lung cancer and multiple myeloma) while allowing us to remain focused on our company sponsored trials. Our Third Party Trials require that we supply enough REOLYSIN® for the enrollment requirements of each trial, sufficient intellectual capital to support the principal investigators and in some cases cost sharing of patient enrollment activities. The institutions involved provide the rest of the required activities to operate the clinical trial. These activities include patient screening and enrollment, treatment, monitoring and overall clinical trial management and reporting. The result is a larger clinical program investigating more cancer indications at a significantly reduced financial cost to Oncolytics. Our Third Party Trials are sponsored by the US National Cancer Institute (“NCI”), the National Cancer Institute of Canada Clinical Trials Group ("NCIC"), the Cancer Therapy & Research Center at The University of Texas Health Center in San Antonio (“CTRC”), and the University of Leeds (“Leeds”).

Manufacturing and Process Development

Throughout 2015, we continued to fill and label product from our existing supply of REOLYSIN® in order to supply our Clinical Program. As well, we continued our validation activities designed to demonstrate that our manufacturing process for the commercial production of REOLYSIN® is robust and reproducible as part of a process validation master plan. Process validation is required to ensure that the resulting product meets required specifications and quality standards and will form part of the Company’s submission to regulators, including the FDA, for product approval.

Intellectual Property

At the end of 2015, we had been issued over 410 patents including 60 US and 20 Canadian patents as well as issuances in other jurisdictions. We have an extensive patent portfolio covering the oncolytic reovirus that we use in our clinical trial program including a composition of matter patent that expires in 2028. Our patent portfolio also includes methods for treating proliferative disorders using modified adenovirus, HSV, parapoxvirus and vaccinia virus.

Financing Activity

US Share Purchase Agreement
During the year ending December 31, 2015, we issued 5,778,674 common shares under our share purchase agreement with Lincoln Park Capital, LLC for net cash proceeds of US$3,490,272.

"At the Market" Equity Distribution Agreement
During the year ended December 31, 2015, we issued 18,860,454 common shares under our "At the Market" equity distribution agreement with Canaccord Genuity Inc. for net cash proceeds of US$15,455,344.

NASDAQ Listing
In October, 2015, we received notice from the NASDAQ OMX Group (“NASDAQ”) stating that, in accordance with NASDAQ listing rules, our common shares would be delisted from the NASDAQ Capital Market, effective from the opening of trading on November 5, 2015 for not maintaining the minimum $1.00 per share required for continued listing under Listing Rule 5550(a)(2).

As a result, effective November 5, 2015, we no longer are be able to use our Share Purchase Agreement or our ATM which were both conditional on maintaining a NASDAQ listing.

Financial Impact

We estimated that our cash requirements for 2015 to fund our operations would be approximately $14.0 million. Our cash usage for the year was $15,034,830 for operating activities and $108,268 for the acquisition of property and equipment. Our net loss for the year was $13,722,995.

Cash Resources

We exited 2015 with cash, cash equivalents and short-term investments totaling $26,077,252 (see *"Liquidity and Capital Resources")*.

Expected REOLYSIN® Development For 2016

Our planned development activity for REOLYSIN® in 2016 is made up of clinical, manufacturing, and intellectual property programs. Our 2016 clinical program includes the commencement of patient enrollment in our Registration and Checkpoint Inhibitor Programs and the anticipated release of clinical data. We also expect to use our clinical data to assist in the implementation of our overall Clinical Program.

Our 2016 manufacturing program includes continued production of 100-litre cGMP production runs along with the related fill, labeling, packaging and shipping of REOLYSIN® to our various clinical sites. We also plan to continue progressing through our process validation master plan and related conformity testing in 2016. Finally, our intellectual property program includes filings for additional patents along with monitoring activities required to protect our patent portfolio.

We currently estimate the cash requirements to fund our operations for 2016 will be approximately $19 million, but will depend on our ultimate clinical program. (see *"Liquidity and Capital Resources"*).

REOLYSIN® Development Update For 2016

Financing Activities

Subsequent to the end of 2015, we entered into an "at-the-market" ("ATM") equity distribution agreement with Canaccord Genuity Inc. acting as sole agent in Canada. Under the terms of the distribution agreement, we may, from time to time, sell shares of our common stock having an aggregate offering value of up to $4.6 million through Canaccord Genuity Inc. Sales of common shares, if any, pursuant to the ATM, will be made in transactions that are deemed to be "at-the-market distributions", through the facilities of the Toronto Stock Exchange or other "marketplace" (as defined in National Instrument 21-101 Marketplace Operation) in Canada. We will determine, at our sole discretion, the timing and number of shares to be sold under this ATM facility.

Our Accounting Policies

In preparing our financial statements we use International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. IFRS requires that we make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available in selecting our accounting policies. Our selection of accounting policies, along with our estimates and assumptions affect the reported amounts of our assets and liabilities at the date of the financial statements and the reported amounts of expenses during the periods presented.

Critical Accounting Policies

In preparing our financial statements, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets at the date of the financial statements and the reported amounts of expenses during the periods presented. Significant estimates are used for, but not limited to, the treatment of our research and development expenditures, the assessment of realizable value of long-

lived assets, the amortization period of intellectual property and the calculation of stock based compensation (see Note 4 *"Significant Judgments, Estimates and Assumptions*") of our audited consolidated financial statements.

The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Research and Development

Research costs are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility will be capitalized. To date, all of our activities have been expensed.

We account for our research and development activity in conjunction with the IAS 38 *"Intangible Assets"* of IFRS. IAS 38 makes a distinction between the research phase of a project and the development phase of an internal project and requires that all costs incurred during the research phase are to be expensed. However, an intangible asset arising from the development phase of an internal project shall be recognized if, and only if, we can demonstrate all of the following:

1. The technical feasibility of completing the intangible asset so that it will be available for use or sale.
2. Our intention to complete the intangible asset and use or sell it.
3. Our ability to use or sell the intangible asset.
4. How the intangible asset will generate probable future economic benefits. Among other things, that we can demonstrate the existence of a market for our product that results from the use of the intangible asset or of the intangible asset itself.
5. The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
6. The ability to measure reliably the expenditure attributable to the intangible asset during its development.

We believe that we do not meet all of the above criteria and for this reason, our research and development costs are expensed and not capitalized. We will monitor our progress against these criteria and will capitalize our development costs once we can conclude we meet the above criteria.

Future Accounting Changes

Accounting Standards and Interpretations Issued but Not Yet Effective

IFRS 9 - *Financial Instruments*
In July 2014, on completion of the impairment phase of the project to reform accounting for financial instruments and replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 includes guidance on the classification and measurement of financial assets and financial liabilities and impairment of financial assets (i.e. recognition of credit losses).

Under the classification and measurement requirements for financial assets, financial assets must be classified and measured at either amortized cost or at fair value through profit or loss or through other comprehensive income, depending on the basis of the entity's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

The classification requirements for financial liabilities are unchanged from IAS 39. IFRS 9 requirements address the problem of volatility in net earnings arising from an issuer choosing to measure certain liabilities at fair value and require that the portion of the change in fair value due to changes in the entity's own credit risk be presented in other comprehensive income, rather than within net earnings.

The new requirements for impairment of financial assets introduce an expected loss impairment model that requires more timely recognition of expected credit losses. IAS 39 impairment requirements are based on an incurred loss model where credit losses are not recognized until there is evidence of a trigger event. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. We are assessing the impact of adopting this standard on our consolidated financial statements.

IFRS 16 - *Leases*
In January 2016, the IASB issued IFRS 16 - *Leases* ("IFRS 16"), which replaces IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor

accounting in IAS 17 with the distinction between operating leases and finance leases being retained. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted under certain circumstances. We are assessing the potential impact of adopting this standard on our consolidated financial statements.

IAS 12 - *Income taxes*
In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12 – Income Taxes. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. We are assessing the potential impact of adopting these amendments.

Significant Estimates

Share Based Payments
As required by IFRS, share based payments are to be recorded at their fair value at the date of grant. We have chosen to use the Black Scholes Option Pricing Model ("Black Scholes" or the "Model") to calculate the fair value of our stock options and warrants. Though there are other models available to calculate the option values (for example, the binomial model), Black Scholes is currently widely used and accepted by other publicly traded companies. Therefore, we have concluded that Black Scholes is the appropriate option pricing model to use for our stock options at this time.

Black Scholes uses inputs in its calculation of fair value that require us to make certain estimates and assumptions. For 2015, we used the following weighted average assumptions for the calculation of the fair value of the stock options granted during the year:

	2015
Risk-free interest rate	**0.63%**
Expected hold period to exercise	**3.0 years**
Volatility in the price of the Company's shares	**90%**
Rate of forfeiture	**3.67%**
Dividend yield	**Nil**
Weighted average fair value of options	**$0.24**

A change in these estimates and assumptions will impact the value calculated by the model. For instance, the volatility in the price of our shares is based on the quoted trading price. We assume that weekly trading prices best reflect our trading price volatility. However, an entity can choose between daily, weekly, or monthly trading prices in the volatility calculation.

The Model also uses an expected hold period to exercise in its calculation of fair value. When we are estimating the expected hold period to exercise we take into consideration past history, the current trading price, the volatility of our common shares and the progress in our clinical program. Our conclusions resulted in an expected hold period for the stock options issued in 2015 to be 3.0 years and we believe this is an appropriate estimate. However, our options have a 10-year life and given the fluctuations in our stock price the expected hold period could be different.

Consequently, in complying with IFRS and selecting what we believe are the most appropriate assumptions under the circumstances, we have recorded non-cash share based payment expense for the year of $429,537. However, given the above discussion, this expense could have been different and still be in accordance with IFRS.

Selected Annual Information

	2015 $	2014 $	2013 $
Revenue	—	—	—
Consolidated net loss[1]	(13,722,995)	(18,619,335)	(23,532,647)
Basic and diluted loss per share[1], [2]	(0.12)	(0.21)	(0.28)
Total assets [2]	27,383,798	17,193,190	28,222,027
Cash dividends declared per share[3]	Nil	Nil	Nil

Notes:

(1) Included in consolidated net loss and loss per common share for 2015, 2014, and 2013 are share based payment expenses of $429,537, $980,325, and $424,384, respectively.

(2) We issued 24,639,128 common shares for net cash proceeds of $23.7 million in 2015 (2014 - 8,708,676 common shares for net cash proceeds of $9.0 million; 2013 - 8,093,533 common shares for net cash proceeds of $30.4 million).

(3) We have not declared or paid any dividends since incorporation.

Results of Operations

Net loss for the year was $13,722,995 compared to $18,619,335 and $23,532,647 for the years ending December 31, 2014 and December 31, 2013, respectively.

Research and Development Expenses ("R&D")

	2015 $	2014 $	2013 $
Clinical trial expenses	**1,323,610**	4,983,644	7,852,322
Manufacturing and related process development expenses	**2,306,024**	2,705,296	4,745,479
Intellectual property expenditures	**1,032,227**	1,077,552	1,247,854
Research collaboration expenses	**698,909**	621,936	436,302
Other R&D expenses	**4,098,180**	3,703,798	4,220,126
Scientific research and development repayment (refund)	**(62,144)**	(84,762)	(82,494)
Foreign exchange (gain) loss	**(1,051,958)**	228,130	(56,497)
Share based payments	**257,016**	588,658	142,972
Research and development expenses	**8,601,864**	13,824,252	18,506,064

Clinical Trial Program

Clinical trial expenses include those costs associated with our Clinical Trial Program that includes our Registration, Checkpoint Inhibitor, Randomized Phase II, and our Other Third Party Clinical Trial Programs. Included in clinical trial expenses are direct patient enrollment costs, contract research organization ("CRO") expenses, clinical trial site selection and initiation costs, data management expenses and other costs associated with our clinical trial program.

	2015 $	2014 $	2013 $
Direct patient expenses	**1,323,610**	4,983,644	7,852,322
Clinical trial expenses	**1,323,610**	4,983,644	7,852,322

During 2015, our clinical trial expenses decreased to $1,323,610 compared to $4,983,644 and $7,852,322 for the years ended December 31, 2014 and December 31, 2013, respectively. In 2015, our clinical trial program activities have continued to decline as we completed enrollment in our Randomized Program and close out fully enrolled clinical trials. As well, during the three year period 2013 - 2015 we benefited from the use of Third Party Trials which has allowed us to operate a broad clinical program at a lower overall cost.

In 2014, our clinical trial program activities declined as we continued to complete enrollment and close out fully enrolled clinical trials. Specifically, activities from stage 1 of our randomized Phase III head and neck trial along with the other clinical trials sponsored by Oncolytics have declined compared to 2013.

In 2013, we incurred direct patient costs primarily associated with our Randomized Program and the re-treatment and completion of stage 1 of our randomized Phase III head and neck trial. The clinical trial program activities associated with stage 1 of our randomized Phase III head and neck trial declined as a result of the completion of stage 1 enrollment in 2012 and the related pause in enrollment.

We expect our clinical trial expenses to increase in 2016 compared to 2015. In 2016, we expect to commence enrollment in our Registration Program which will include a mix of Company and Third Party sponsored clinical trials. As well, we expect to expand our Checkpoint Inhibitor Program and we believe, in order to ensure timely completion of this program, we will need to directly sponsor certain clinical trials including our pancreatic cancer trial in combination with pembrolizumab (KEYTRUDA®). We also expect to incur regulatory consulting activities and associated costs in order to support our decisions pertaining to our Clinical Programs.

Manufacturing & Related Process Development ("M&P")

M&P expenses include product manufacturing and process development activities. Product manufacturing expenses include third party direct manufacturing costs, quality control testing, fill, label and packaging costs and are net of any recoveries that are received from any R&D collaborators. Process development expenses include costs associated with studies that examine components of our manufacturing process looking for improvements and costs associated with the creation of our process validation master plan and related conformity testing.

	2015 $	2014 $	2013 $
Product manufacturing expenses	**1,618,165**	1,713,649	3,485,493
Process development expenses	**687,859**	991,647	1,259,986
Manufacturing and related process development expenses	**2,306,024**	2,705,296	4,745,479

Our M&P expenses for 2015 were $2,306,024 compared to $2,705,296 and $4,745,479 for the years ending December 31, 2014 and December 31, 2013. During 2015, our production manufacturing activities remained relatively consistent compared to 2014 and mainly related to supplying our Clinical Programs with sufficient REOLYSIN®. These activities also included the fill, labeling and lot release testing of product and the shipping and storage of our bulk and vialed product. During 2013, we completed two 100-litre cGMP production runs along with the related testing activities. We also incurred packaging and shipping activities required to supply our clinical program with previously filled product.

Our process development expenses for 2015 were $687,859 compared to $991,647 and $1,259,986 for the years ending December 31, 2014 and December 31, 2013, respectively. During the years ending 2015, 2014, and 2013 our process development activities focused on our validation master plan. These activities included assay development, optimization, validation and stability studies.

We expect our M&P expenses for 2016 to increase compared to 2015. In 2016, we expect to fill, label and store sufficient product in preparation for a registration study. We also expect to continue to perform conformity testing related to our process validation master plan.

Intellectual Property Expenses

Intellectual property expenses include legal and filing fees associated with our patent portfolio.

	2015 $	2014 $	2013 $
Intellectual property expenses	**1,032,227**	1,077,552	1,247,854

Our intellectual property expenses for 2015 were $1,032,227 compared to $1,077,552 and $1,247,854 for the years ending December 31, 2014 and December 31, 2013, respectively. The change in intellectual property expenditures reflects the timing

of filing costs associated with our expanded patent base. At the end of 2015, we had been issued over 410 patents including 60 US and 20 Canadian patents, as well as issuances in other jurisdictions. We expect that our intellectual property expenses will remain consistent in 2016 compared to 2015.

Research Collaborations

Research collaborations are intended to expand our intellectual property related to reovirus and identify potential licensing opportunities arising from our technology base.

	2015 $	2014 $	2013 $
Research collaborations	**698,909**	621,936	436,302

During 2015, our research collaboration expenses were $698,909 compared to $621,936 and $436,302 for the years ending December 31, 2014 and December 31, 2013, respectively. In 2015 and 2014, our research collaborations activities mainly included biomarker studies along with studies investigating the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation. During 2013, we had started to commence biomarker studies as part of our research collaboration program along with studies investigating the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation.

We expect that our research collaborations in 2016 will remain consistent with 2015. We expect to complete our ongoing collaborative program carried over from 2015 and will continue to be selective in the types of new collaborations we enter into in 2016.

Other Research and Development Expenses

Other research and development expenses include compensation expenses for employees (excluding stock based compensation), consultant fees, travel and other miscellaneous R&D expenses.

	2015 $	2014 $	2013 $
R&D consulting fees	**229,427**	247,685	362,263
R&D salaries and benefits	**3,388,272**	2,989,970	3,425,122
Other R&D expenses	**480,481**	466,143	432,741
Other research and development expenses	**4,098,180**	3,703,798	4,220,126

In 2015, our Other Research and Development expenses were $4,098,180 compared to $3,703,798 and $4,220,126 for the years ending December 31, 2014 and December 31, 2013, respectively. During the years ending 2015, 2014 and 2013, our Other Research and Development activities focused on supporting our Clinical Program which includes our Randomized Program, our Checkpoint Inhibitor Program along with other Third Party trials and clinical trials sponsored by Oncolytics. With our shift to Third Party Trials and the completion of enrollment in a number of our Company sponsored clinical trials the support required by our Clinical Program has decreased. As well, in 2014, cash bonuses were not paid to officers or employees but were paid in 2015 and 2013.

We expect that our Other R&D expenses in 2016 will remain consistent compared to 2015.

Scientific Research and Development Refund

	2015 $	2014 $	2013 $
Scientific research and development refund	**(62,144)**	**(84,762)**	(82,494)

In 2015, 2014, and 2013, we received Alberta and Quebec scientific research and development refunds totaling $62,144, $84,762, and $82,494, respectively.

Foreign Exchange (Gain) Loss

	2015 $	2014 $	2013 $
Foreign exchange (gain) loss	**(1,051,958)**	**228,130**	(56,497)

For the year ending December 31, 2015, our foreign exchange (gain) loss was $(1,051,958) compared to $228,130 for the year ending December 31, 2014 and $(56,497) for the year ending December 31, 2013. In 2015, our foreign exchange gain was primarily a result of the strengthening of the US dollar and that the proceeds from our financing activities were in US dollars. The foreign exchange gains and losses incurred in 2014 and 2013 were primarily a result of the fluctuations in the US dollar, Euro and Pound Sterling exchange rates.

Share Based Payments

	2015 $	2014 $	2013 $
Share based payments	**257,016**	588,658	142,972

Non-cash share based payments for the year ending December 31, 2015, was $257,016 compared to $588,658 and $142,972 for the years ending December 31, 2014 and December 31, 2013, respectively. We incurred stock based compensation associated with the grant of stock options to employees associated with our research and development activities.

Operating Expenses

	2015 $	2014 $	2013 $
Public company related expenses	**2,932,436**	2,761,374	2,567,056
Office expenses	**2,030,469**	1,682,152	2,412,569
Amortization of property and equipment	**180,411**	163,501	131,623
Stock based compensation	**172,521**	391,667	281,412
Operating expenses	**5,315,837**	4,998,694	5,392,660

Public company related expenses include costs associated with investor relations and business development activities, legal and accounting fees, corporate insurance, director fees and transfer agent and other fees relating to our US and Canadian stock listings. In 2015, we incurred public company related expenses of $2,932,436 compared to $2,761,374 and $2,567,056 for the years ending December 31, 2014 and December 31, 2013, respectively. During the year ending December 31, 2015, the costs associated with our public company listing fees, our investor relations activities, associated professional fees and the cost of our Annual General Meeting increased compared to the year ending December 31, 2014. For the years ending December 31, 2014 and 2013 our public company related expenses remained relatively consistent.

Office expenses include compensation costs (excluding stock based compensation), office rent, and other office related costs. In 2015, we incurred office expenses of $2,030,469 compared to $1,682,152 and $2,412,569 for the years ending December 31, 2014 and December 31, 2013, respectively. In 2015, our office expenses increased compared to 2014 mainly due to the cash bonuses paid to officers and employees. In 2014, our office expenses decreased compared to 2013 mainly due to a reduction in salaries associated with a decrease in our head count and no cash bonus paid to the officers and employees. In 2013, the level of our office expenses mainly related to investor relations support activity along with an increase in salaries associated with the change in our general counsel and cash bonuses paid to officers and employees.

In 2015, our non-cash share based payment expenses were $172,521 compared to $391,667 and $281,412 for the year ending December 31, 2014 and December 31, 2013, respectively. In 2015, we incurred stock based compensation associated with stock option grants to officers, employees and new directors, grants of restricted stock units to the board of directors, and the vesting of previously granted stock options. In 2014 and 2013, we incurred stock based compensation associated with the vesting of previously

granted stock options along with the grant of stock options to our new directors elected at the 2014 and 2013 Annual General Meetings along with stock option grants to our employees.

We expect our operating expenses in 2016 to remain consistent with 2015.

Summary of Quarterly Results

	2015				2014			
	Dec.	Sept.	June	March	Dec.	Sept.	June	March
Revenue	—	—	—	—	—	—	—	—
Net loss[2]	3,497	2,824	3,850	3,552	3,779	4,637	4,718	5,485
Basic and diluted loss per common share[2]	$ 0.03	$ 0.02	$ 0.03	$ 0.04	$ 0.04	$ 0.05	$ 0.05	$ 0.06
Total assets[3]	27,384	31,001	33,190	31,445	17,193	18,079	20,047	23,036
Total cash[1], [3]	26,077	30,023	32,079	30,639	16,185	17,045	18,912	22,188
Total long-term debt	—	—	—	—	—	—	—	—
Cash dividends declared[4]	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

(1) Included in total cash are cash and cash equivalents plus short-term investments.
(2) Included in net loss and loss per common share between December 2015 and January 2014 are quarterly stock based compensation expenses (recovery) of $248,101, $10,791, $55,675, $114,970, $109,902, $199,821, $366,005, and $304,597, respectively.
(3) We issued 24,639,128 common shares for net cash proceeds of $23.7 million in 2015 (2014 - 8,708,676 common shares for net cash proceeds of $9.0 million).
(4) We have not declared or paid any dividends since incorporation.

Fourth Quarter

Statement of loss for the three month period ended December 31, 2015 and 2014:

For the three month periods ending December 31,	2015 $	2014 $
Expenses		
Research and development	**1,999,987**	2,518,924
Operating	**1,535,025**	1,292,351
Loss before the following	**(3,535,012)**	(3,811,275)
Interest	**44,546**	32,213
Loss before income taxes	**(3,490,466)**	(3,779,062)
Income taxes	**(6,456)**	(51)
Net loss	**(3,496,922)**	(3,779,113)
Other comprehensive gain (loss) - translation adjustment	**103,875**	91,903
Net comprehensive loss	**(3,393,047)**	(3,687,210)
Basic and diluted loss per common share	**(0.03)**	(0.04)
Weighted average number of shares (basic and diluted)	**118,121,424**	91,080,495

Fourth Quarter Review of Operations

For the three month period ended December 31, 2015 our net loss was $3,496,922 compared to $3,779,113 for the three month period ended December 31, 2014.

Research and Development Expenses ("R&D")

	2015 $	2014 $
Clinical trial expenses	202,214	900,105
Manufacturing and related process development expenses	185,104	414,797
Intellectual property expenses	217,097	229,911
Research collaboration expenses	199,118	169,205
Other R&D expenses	1,291,464	840,882
Scientific research and development repayment (refund)	344	(76,095)
Foreign exchange (gain)	(262,150)	(13,112)
Share based payments	166,796	53,231
Research and development expenses	1,999,987	2,518,924

Clinical Trial Expenses

	2015 $	2014 $
Direct clinical trial expenses	202,214	900,105
Clinical trial expenses	202,214	900,105

During the fourth quarter of 2015, our clinical trial expenses were $202,214 compared to $900,105 for the fourth quarter of 2014. In the fourth quarter of 2015, our clinical trial program activities declined as we continued to complete enrollment in our Randomized Program and close out fully enrolled clinical trials while implementing our Registration Program. During the fourth quarter of 2014, we incurred direct clinical trial expenses primarily associated with the enrollment in our Randomized Program, re-treatment of patients in the clinical trials sponsored by Oncolytics, and activities associated with our three European regulatory agency meetings.

Manufacturing & Related Process Development Expenses ("M&P")

	2015 $	2014 $
Product manufacturing expenses	57,319	246,516
Process development expenses	127,785	168,281
Manufacturing and related process development expenses	185,104	414,797

During the fourth quarter of 2015, our M&P expenses were $185,104 compared to $414,797 for the fourth quarter of 2014. In the fourth quarters of 2015 and 2014, our product manufacturing costs mainly related to the fill, labeling and lot release testing of product to be used in our clinical trial program. As well, costs were incurred associated with shipping and storage of our bulk and vialed product.

Our process development activity for the fourth quarters of 2015 and 2014 focused on our process validation master plan and included validation studies of our upstream and downstream processes. These activities included assay development, optimization, validation and stability studies.

Intellectual Property Expenses

	2015 $	2014 $
Intellectual property expenses	217,097	229,911

Our intellectual property expenses for the fourth quarter of 2015 were $217,097 compared to $229,911 for the fourth quarter of 2014. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. At the end of the fourth quarter of 2015, we had been issued over 410 patents including 60 US and 20 Canadian patents, as well as issuances in other jurisdictions.

Research Collaboration Expenses

	2015 $	2014 $
Research collaboration expenses	199,118	169,205

Our research collaboration expenses were $199,118 in the fourth quarter of 2015 compared to $169,205 for the fourth quarter of 2014. During the fourth quarters of 2015 and 2014 , our research collaboration activities have included biomarker studies along with studies investigating the interaction of the immune system and the reovirus and the use of the reovirus as a co-therapy with existing chemotherapeutics and radiation.

Other Research and Development Expenses

	2015 $	2014 $
R&D consulting fees	63,203	55,374
R&D salaries and benefits	1,138,266	709,611
Other R&D expenses	89,995	75,897
Other research and development expenses	1,291,464	840,882

Our other research and development expenses were $1,291,464 in the fourth quarter of 2015 compared to $840,882 in the fourth quarter of 2014. In the fourth quarter of 2015, our salaries and benefits costs included cash bonus compensation for officers and employees that was not paid in 2014.

Share Based Payments

	2015 $	2014 $
Stock based compensation	166,796	53,231

During the fourth quarters of 2015 and 2014, we incurred share based payment expense associated with the grant of stock options to employees associated with our research and development activities.

Operating Expenses

	2015 $	2014 $
Public company related expenses	737,889	765,774
Office expenses	670,163	424,478
Amortization of property and equipment	45,668	45,428
Stock based compensation	81,305	56,671
Operating expenses	1,535,025	1,292,351

Our operating expenses in the fourth quarter of 2015 were $1,535,025 compared to $1,292,351 for the fourth quarter of 2014. Office expenses include compensation costs (excluding share based payments), office rent, and other office related costs. During the fourth quarter of 2015, compensation costs increased as cash bonus compensation was paid to officers and employees which was not paid in the the fourth quarter of 2014. As well, stock based compensation included restricted share units granted to the independent directors along with the grant of stock options to the officers and employees.

Liquidity and Capital Resources

2015 Financing Activities

US Share Purchase Agreement
During 2015, under the terms of the Share Purchase Agreement, we issued 5,778,674 common shares for net proceeds of approximately US$3.5 million. As well, we issued 78,674 commitment shares with a fair value of US$50,024 which has been recorded as additional share issue costs.

"At the Market" Equity Distribution Agreement
During 2015, we issued 18,860,454 common shares for net proceeds of approximately US$15.5 million.

2014 Financing Activities

US Share Purchase Agreement
During 2014, under the terms of the Share Purchase Agreement, we issued 7,037,216 common shares for net proceeds of approximately US$7.1 million. As well, we issued 536,254 commitment shares consisting of 292,793 initial commitment fee common shares, 146,397 commitment shares in consideration for the October 2014 amendments, and 97,064 additional commitment fee common shares. The commitment shares have been valued at fair value of US$654,267 and have been recorded as additional share issue costs.

"At the Market" Equity Distribution Agreement
During 2014, we issued 1,671,460 common shares for net proceeds of approximately US$1.1 million.

Liquidity

As at December 31, 2015 and 2014, we had cash and cash equivalents, short-term investments and working capital positions as follows:

	2015 $	2014 $
Cash and cash equivalents	**24,016,275**	14,152,825
Short-term investments	**2,060,977**	2,031,685
Working capital position	**24,214,488**	13,293,817

The decrease in our cash and cash equivalent and short term investment positions reflects the cash usage from our operating activities of $15.0 million along with the cash provided by our financing activities of $23.7 million for the year ending December 31, 2015.

We desire to maintain adequate cash and short-term investment reserves to support our planned activities which include our clinical trial program, product manufacturing, administrative costs, and our intellectual property expansion and protection. To date, we have funded our operations mainly through the issue of additional capital via public and private offerings and through the exercise of warrants and stock options. During 2015 and 2014, we were able to raise funds through our Share Purchase Agreement with LPC and our "at the market" equity distribution agreement with Canaccord Genuity Inc. (our "Financing Arrangements").

We have no assurances that we will be able to raise additional funds through the sale of our common shares, consequently, we will continue to evaluate all types of financing arrangements. In an effort to be able to evaluate all types of financing arrangements, we maintain a current short form base shelf prospectus (the “Base Shelf”) that qualifies for distribution of up to $150,000,000 of common shares, subscription receipts, warrants, or units (the “Securities”). Under our Base Shelf, we may sell Securities to or through underwriters, dealers, placement agents or other intermediaries and also may sell Securities directly to purchasers or through agents, subject to obtaining any applicable exemption from registration requirements. The distribution of Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers and as set forth in an accompanying Prospectus Supplement. Our Base Shelf expires on September 1, 2016.

Maintaining our Base Shelf provides us with additional flexibility when managing our cash resources as, under certain circumstances, it shortens the time period required to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our company. Our Base Shelf allowed us to enter into our Financing Arrangements in 2014 which were our primary sources of financing in 2015. Our Financing Arrangements allowed us to raise, subject to the terms and conditions of each arrangement, $23.7 million (US$18.9 million) in 2015. One of the conditions of our Financing Arrangements was to maintain our NASDAQ listing. In October 2015, we received notice from the NASDAQ stating that, in accordance with NASDAQ listing rules, our common shares would be delisted from the NASDAQ Capital Market, effective from the opening of trading on November 5, 2015 for not maintaining the minimum $1.00 per share required for continued listing under Listing Rule 5550(a)(2). As a result, effective November 5, 2015, we were no longer able to use our Financing Arrangements. In 2016, we expect to continue to investigate financing opportunities similar to our Financing Arrangements that are not conditional on a NASDAQ listing.

We anticipate that the expected cash usage from our operations in 2016 will be approximately $19 million. Despite the anticipated change in our cash requirements compared to 2015, we continue to manage our research and development plan with the objective of ensuring optimal use of our existing resources. Additional activities continue to be subject to adequate resources and we believe we will have sufficient cash resources and access to additional cash resources through our Financing Arrangements to fund our presently planned operations into 2017. Factors that will affect our anticipated cash usage in 2016 and 2017, and for which additional funding might be required include, but are not limited to, expansion of our clinical trial program, the timing of patient enrollment in our approved clinical trials, the actual costs incurred to support each clinical trial, the number of treatments each patient will receive, the timing of R&D activity with our clinical trial research collaborations, the number, timing and costs of manufacturing runs required to conclude the validation process and supply product to our clinical trial program, and the level of collaborative activity undertaken.

Contractual Obligations

We have the following contractual obligations as at December 31, 2015:

Contractual Obligations	Payments Due by Period				
	Total $	Less than 1 year $	2 -3 years $	4 - 5 years $	More than 5 years $
Alberta Heritage Foundation[1]	Nil	—	—	—	—
Capital lease obligations	Nil	—	—	—	—
Operating lease [2]	659,823	154,377	255,292	207,024	43,130
Purchase obligations	2,083,331	2,083,331	—	—	—
Other long term obligations	Nil	—	—	—	—
Total contractual obligations	2,743,154	2,237,708	255,292	207,024	43,130

Note:

(1) On May 25, 2015, we entered into a termination and release agreement with the Alberta Heritage Foundation for Medical Research ("AHFMR") whereby the AHFMR released the Company from its obligation to repay the loan.

(2) Our operating leases are comprised of our office leases and exclude our portion of operating costs.

We expect to fund our capital expenditure requirements and commitments with existing working capital.

Investing Activities

Under our Investment Policy, we are permitted to invest in short-term instruments with a rating no less than R-1 (DBRS) with terms less than two years. Our portfolio consists of guarantee investment certificates. As of December 31, 2015, we had $2.1 million invested under this policy, currently earning interest at an effective rate of 1.35%.

Off-Balance Sheet Arrangements

As at December 31, 2015, we had not entered into any off-balance sheet arrangements.

Transactions with Related Parties

In 2015, 2014 and 2013, we did not enter into any related party transactions other than compensation paid to Key Management Personnel disclosed in Note 20 of our audited consolidated financial statements.

Financial Instruments and Other Instruments

Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable. As at December 31, 2015, there are no significant differences between the carrying values of these amounts and their estimated market values. These financial instruments expose us to the following risks:

Credit risk

Credit risk is the risk of financial loss if a counter-party to a financial instrument fails to meet its contractual obligations. We are exposed to credit risk on our cash and cash equivalents and short-term investments in the event of non-performance by counterparties, but we do not anticipate such non-performance. Our maximum exposure to credit risk at the end of the period is the carrying value of our cash and cash equivalents and short-term investments.

We mitigate our exposure to credit risk by maintaining our primary operating and investment bank accounts with Schedule I banks in Canada. For our foreign domiciled bank accounts, we use referrals or recommendations from our Canadian banks to open foreign bank accounts and these accounts are used solely for the purpose of settling accounts payable or payroll.

We also mitigate our exposure to credit risk by restricting our portfolio to investment grade securities with short-term maturities and by monitoring the credit risk and credit standing of counterparties. Currently, 100% of our short-term investments are in guaranteed investment certificates.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk through our cash and cash equivalents and our portfolio of short-term investments. We mitigate this risk through our investment policy that only allows investment of excess cash resources in investment grade vehicles while matching maturities with our operational requirements.

Fluctuations in market rates of interest do not have a significant impact on our results of operations due to the short term to maturity of the investments held.

Currency risk

Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to currency risk from the purchase of goods and services primarily in the US, the U.K and the European Union and to the extent cash is held in foreign currencies. The impact of a $0.01 increase in the value of the US dollar against the Canadian dollar would have decreased our net loss in 2015 by approximately $35,053. The impact of a $0.10 increase in the value of the British pound against the Canadian dollar would have increased our net loss in 2015 by approximately $28,769. The impact of a $0.10 increase in the value of the Euro against the Canadian dollar would have increased our net loss in 2015 by approximately $19,830.

We mitigate our foreign exchange risk through the purchase of foreign currencies in sufficient amounts to settle our foreign accounts payable.

Balances in foreign currencies at December 31, 2015 are as follows:

	US dollars $	**British pounds £**	**Euro €**
Cash and cash equivalents	8,438,344	66,554	35,029
Accounts payable	(233,063)	(12,274)	—
	8,205,281	54,280	35,029

Liquidity risk
Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We manage liquidity risk through the management of our capital structure as outlined in the notes to our audited financial statements. Accounts payable are all due within the current operating period.

Risk Factors Affecting Future Performance

General Risk Factors

Prospects for biotechnology companies in the research and development stage should generally be regarded as speculative. It is not possible to predict, based upon studies in animals, or early studies in humans, whether a new therapeutic will ultimately prove to be safe and effective in humans, or whether necessary and sufficient data can be developed through the clinical trial process to support a successful product application and approval.

If a product is approved for sale, product manufacturing at a commercial scale and significant sales to end users at a commercially reasonable price may not be successful. There can be no assurance that we will generate adequate funds to continue development, or will ever achieve significant revenues or profitable operations. Many factors (e.g. competition, patent protection, appropriate regulatory approvals) can influence the revenue and product profitability potential.

In developing a pharmaceutical product, we rely upon our employees, contractors, consultants and collaborators and other third party relationships, including the ability to obtain appropriate product liability insurance. There can be no assurance that this reliance and these relationships will continue as required.

In addition to developmental and operational considerations, market prices for securities of biotechnology companies generally are volatile, and may or may not move in a manner consistent with the progress we have made or are making.

Our product REOLYSIN® is in the research and development stage and will require further development and testing before it can be marketed commercially.

Prospects for companies in the biotechnology industry generally may be regarded as uncertain given the nature of the industry and, accordingly, investments in biotechnology companies should be regarded as speculative. We are currently in the research and development stage on one product, REOLYSIN®, for human application, the riskiest stage for a company in the biotechnology industry. It is not possible to predict, based upon studies in animals, or early studies in humans, whether REOLYSIN® will prove to be safe and effective in humans. REOLYSIN® will require additional research and development, including extensive clinical testing, before we will be able to obtain the approval of the United States Food and Drug Administration (the "FDA") or from similar regulatory authorities in other countries to market REOLYSIN® commercially. There can be no assurance that the research and development programs conducted by us will result in REOLYSIN® or any other products becoming commercially viable products, and in the event that any product or products result from the research and development program, it is unlikely they will be commercially available for a number of years.

To achieve profitable operations, we, alone or with others, must successfully develop, introduce and market our products. To obtain regulatory approvals for products being developed for human use, and to achieve commercial success, human clinical trials must demonstrate that the product is safe for human use and that the product shows efficacy. Unsatisfactory results obtained from a particular study relating to a program may cause us to abandon our commitment to that program or the product being tested. No assurances can be provided that any current or future animal or human test, if undertaken, will yield favorable results. If we are unable to establish that REOLYSIN® is a safe, effective treatment for cancer, we may be required to abandon further development of the product and develop a new business strategy.

There are inherent risks in pharmaceutical research and development.

Pharmaceutical research and development is highly speculative and involves a high and significant degree of risk. The marketability of any product developed by us will be affected by numerous factors beyond our control, including:

- the discovery of unexpected toxicities or lack of sufficient efficacy of products which make them unattractive or unsuitable for human use;
- preliminary results as seen in animal and/or limited human testing may not be substantiated in larger controlled clinical trials;
- manufacturing costs or other factors may make manufacturing of products impractical and non-competitive;

- proprietary rights of third parties or competing products or technologies may preclude commercialization;
- requisite regulatory approvals for the commercial distribution of products may not be obtained; and
- other factors may become apparent during the course of research, up-scaling or manufacturing which may result in the discontinuation of research and other critical projects.

Our product under development has never been manufactured on a commercial scale, and there can be no assurance that such products can be manufactured at a cost or in a quantity to render such products commercially viable. Production and utilization of our products may require the development of new manufacturing technologies and expertise. The impact on our business in the event that new manufacturing technologies and expertise are required to be developed is uncertain. There can be no assurance that we will successfully meet any of these technological challenges, or others that may arise in the course of development.

Pharmaceutical products are subject to intense regulatory approval processes.

The regulatory process for pharmaceuticals, which includes preclinical studies and clinical trials of each compound to establish its safety and efficacy, takes many years and requires the expenditure of substantial resources. Moreover, if regulatory approval of a drug is granted, such approval may entail limitations on the indicated uses for which it may be marketed. Failure to comply with applicable regulatory requirements can, among other things, result in suspension of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution. Further, government policy may change, and additional government regulations may be established that could prevent or delay regulatory approvals for our products. In addition, a marketed drug and its manufacturer are subject to continual review. Later discovery of previously unknown problems with the product or manufacturer may result in restrictions on such product or manufacturer, including withdrawal of the product from the market.

The FDA in the United States and other relevant regulatory authorities may deny approval of a new drug application ("NDA") or its equivalent in the relevant jurisdiction if required regulatory criteria are not satisfied, or may require additional testing. Product approvals may be withdrawn if compliance with regulatory standards are not maintained or if problems occur after the product reaches the market. The FDA may require further testing and surveillance programs to monitor the pharmaceutical product that has been commercialized. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including product withdrawals, product seizures, injunction actions and criminal prosecutions.

In addition to our own pharmaceuticals, we may supply active pharmaceutical ingredients and advanced pharmaceutical intermediates for use in or with our customers' other drug products. The final drug products in which the pharmaceutical ingredients and advanced pharmaceutical intermediates are used, however, are subject to regulation for safety and efficacy by the FDA and other jurisdictions, as the case may be. Such products must be approved by such agencies before they can be commercially marketed. The process of obtaining regulatory clearance for marketing is uncertain, costly and time consuming. We cannot predict how long the necessary regulatory approvals will take or whether our customers will ever obtain such approval for their products. To the extent that our customers do not obtain the necessary regulatory approvals for marketing new products, our product sales could be adversely affected.

The FDA and other governmental regulators have increased requirements for drug purity and have increased environmental burdens upon the pharmaceutical industry. Because pharmaceutical drug manufacturing is a highly regulated industry, requiring significant documentation and validation of manufacturing processes and quality control assurance prior to approval of the facility to manufacture a specific drug, there can be considerable transition time between the initiation of a contract to manufacture a product and the actual initiation of manufacture of that product. Any lag time in the initiation of a contract to manufacture product and the actual initiation of manufacture could cause us to lose profits or incur liabilities.

The pharmaceutical regulatory regime in Europe and other countries is, by and large, generally similar to that of Canada and the United States. We could face similar risks in these other jurisdictions, as the risks described above.

Our operations and products may be subject to other government manufacturing and testing regulations.

Securing regulatory approval for the marketing of therapeutics by the FDA in the United States and similar regulatory agencies in other countries is a long and expensive process, which can delay or prevent product development and marketing. Approval to market products may be for limited applications or may not be received at all.

The products anticipated to be manufactured by us will have to comply with the FDA's cGMP and other FDA and local government guidelines and regulations, including other international regulatory requirements and guidelines. Additionally, certain of our customers may require the manufacturing facilities contracted by us to adhere to additional manufacturing standards, even if not required by the FDA. Compliance with cGMP regulations requires manufacturers to expend time, money and effort in production,

and to maintain precise records and quality control to ensure that the product meets applicable specifications and other requirements. The FDA and other regulatory bodies periodically inspect drug-manufacturing facilities to ensure compliance with applicable cGMP requirements. If the manufacturing facilities contracted by us fail to comply with the cGMP requirements, the facilities may become subject to possible FDA or other regulatory action and manufacturing at the facility could consequently be suspended. We may not be able to contract suitable alternative or back-up manufacturing facilities on terms acceptable to us or at all.

The FDA or other regulatory agencies may also require the submission of any lot of a particular product for inspection. If the lot product fails to meet the FDA requirements, then the FDA could take any of the following actions: (i) restrict the release of the product; (ii) suspend manufacturing of the specific lot of the product; (iii) order a recall of the lot of the product; or (iv) order a seizure of the lot of the product.

We are subject to regulation by governments in many jurisdictions and, if we do not comply with healthcare, drug, manufacturing and environmental regulations, among others, our existing and future operations may be curtailed, and we could be subject to liability.

In addition to the regulatory approval process, we may be subject to regulations under local, provincial, state, federal and foreign law, including requirements regarding occupational health, safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, provincial, state, federal and foreign regulations.

Our products may fail or cause harm, subjecting us to product liability claims, which are uninsured.

The sale and use of our products entail risk of product liability. We currently do not have any product liability insurance. There can be no assurance that we will be able to obtain appropriate levels of product liability insurance prior to any sale of our pharmaceutical products. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by us. The obligation to pay any product liability claim or a recall of a product could have a material adverse effect on our business, financial condition and future prospects.

Our technologies may become obsolete.

The pharmaceutical industry is characterized by rapidly changing markets, technology, emerging industry standards and frequent introduction of new products. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render our products obsolete, less competitive or less marketable. The process of developing our products is extremely complex and requires significant continuing development efforts and third party commitments. Our failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect our business.

We may be unable to anticipate changes in our potential customer requirements that could make our existing technology obsolete. Our success will depend, in part, on our ability to continue to enhance our existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our proprietary technology entails significant technical and business risks. We may not be successful in using our new technologies or exploiting the respective niche markets effectively or adapting our businesses to evolving customer or medical requirements or preferences or emerging industry standards.

We have no operating revenues and a history of losses.

To date, we have not generated sufficient revenues to offset our research and development costs and accordingly have not generated positive cash flow or made an operating profit. As of December 31, 2015, we had an accumulated deficit of $263.7 million and we incurred net losses of $13.7 million, $18.6 million and $23.5 million, for the years ended December 31, 2015, 2014 and 2013, respectively. We anticipate that we will continue to incur significant losses during 2016 and in the foreseeable future. We do not expect to reach profitability at least until after successful and profitable commercialization of one or more of our products. Even if one or more of our products are profitably commercialized, the initial losses incurred by us may never be recovered.

We may need additional financing in the future to fund the research and development of our products and to meet our ongoing capital requirements.

We anticipate that we may need additional financing in the future to fund research and development and to meet our ongoing capital requirements. The amount of future capital requirements will depend on many factors, including continued scientific

progress in our drug discovery and development programs, progress in our pre-clinical and clinical evaluation of drug candidates, time and expense associated with filing, prosecuting and enforcing our patent claims and costs associated with obtaining regulatory approvals. In order to meet such capital requirements, we will consider contract fees, collaborative research and development arrangements, and additional public or private financings (including the incurrence of debt and the issuance of additional equity securities) to fund all or a part of particular programs as well as potential partnering or licensing opportunities. There can be no assurance that additional funding will be available or, if available, that it will be available on acceptable terms. If adequate funds are not available on terms favorable to us, we may have to reduce substantially or eliminate expenditures for research and development, testing, production and marketing of our proposed product, or obtain funds through arrangements with corporate partners that require us to relinquish rights to certain of our technologies or product. There can be no assurance that we will be able to raise additional capital if our current capital resources are exhausted.

The cost of director and officer liability insurance may continue to increase substantially or may not be available to us and may affect our ability to retain quality directors and officers.

We carry liability insurance on behalf of our directors and officers. Given a number of large director and officer liability insurance claims in the US equity markets, director and officer liability insurance had until recently become increasingly more expensive with increased restrictions. Consequently, there is no assurance that we will continue to be offered this insurance or be able to obtain adequate coverage. The inability to acquire the appropriate insurance coverage will limit our ability to attract and maintain directors and officers as required to conduct our business.

We incur some of our expenses in foreign currencies and therefore are exposed to foreign currency exchange rate fluctuations.

We incur some of our manufacturing, clinical, collaborative and consulting expenses in foreign currencies, primarily the US dollar, the Pound Sterling and the Euro. We are therefore exposed to foreign currency rate fluctuations. Also, as we expand to other foreign jurisdictions there may be an increase in our foreign exchange exposure.

We earn interest income on our excess cash reserves and are exposed to changes in interest rates.

We invest our excess cash reserves in investment vehicles that provide a rate of return with little risk to principle. As interest rates change the amount of interest income we earn will be directly impacted.

Other MD&A Requirements

We have 118,173,622 common shares outstanding at March 10, 2016. If all of our options and restricted share units (8,930,225) were exercised we would have 127,103,847 common shares outstanding.

Our 2015 Annual Information Form on Form 20-F will be available on www.sedar.com.

Disclosure Controls and Procedures

Evaluation of Disclosure Controls and Procedures:
Our chief executive and financial officers reviewed and evaluated our disclosure controls and procedures. Based on that evaluation, they have concluded that our disclosure controls and procedures are effective in providing them with timely material information relating to the Company.

Management's Annual Report on Internal Control Over Financial Reporting:
Our management is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards.

Management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and procedures over financial reporting will prevent all error and all fraud. A control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons,

by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of our internal control over financial reporting as of December 31, 2015, and has concluded that such internal control over financial reporting is effective as of December 31, 2015. There are no material weaknesses that have been identified by management in this regard. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

Changes in Internal Controls over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Consolidated Financial Statements

Oncolytics Biotech® Inc.
December 31, 2015 and 2014

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the consolidated financial statements, Management's Discussion and Analysis ("MD&A") and all other information in the Annual Report.

In management's opinion, the accompanying consolidated financial statements have been properly prepared within reasonable limits of materiality and in accordance with the appropriately selected International Financial Reporting Standards as issued by the International Accounting Standards Board consistently applied and summarized in the consolidated financial statements.

The MD&A has been prepared in accordance with the requirements of securities regulators as applicable to Oncolytics Biotech Inc.

The consolidated financial statements and information in the MD&A generally include estimates that are necessary when transactions affecting the current accounting period cannot be finalized with certainty until future periods. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements and MD&A. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources and risks and uncertainty. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

Systems of internal controls, including organizational and procedural controls and internal controls over financial reporting, assessed as reasonable and appropriate in the circumstances, are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable records for financial purposes.

We, as the Chief Executive Officer and Chief Financial Officer, will certify to our annual filings with the CSA and the SEC as required in Canada by National Instrument 52-109 (Certification of Disclosure in Issuers' Annual Interim Filings) and in the United States by the Sarbanes-Oxley Act.

The external auditors conducted an independent examination of corporate and accounting records in accordance with generally accepted auditing standards to express their opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly. The external auditors have full and free access to our Board of Directors and its Committees to discuss audit, financial reporting and related matters.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements and MD&A before they are presented to the Board of Directors for approval.

/s/ Brad Thompson

Brad Thompson, Ph.D
Chief Executive Officer

/s/ Kirk Look

Kirk Look, CA
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of **Oncolytics Biotech Inc.**

We have audited the accompanying consolidated financial statements of **Oncolytics Biotech Inc.**, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

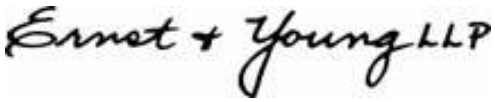
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oncolytics Biotech Inc. as at December 31, 2015 and 2014, and its financial performance and cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Oncolytics Biotech Inc.'s internal control over financial reporting as at December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), and our report dated March 10, 2016 expressed an unqualified opinion on Oncolytics Biotech Inc.'s internal control over financial reporting.



Calgary, Canada
March 10, 2016

Chartered Professional Accountants

Independent Auditors' Report on Internal Controls Under Standards of the Public Company Accounting Oversight Board (United States)

To the Shareholders of **Oncolytics Biotech Inc.**

We have audited **Oncolytics Biotech Inc.**'s internal control over financial reporting as at December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 Framework (the COSO criteria). Oncolytics Biotech Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Oncolytics Biotech Inc. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of Oncolytics Biotech Inc. as at December 31, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015 and our report dated March 10, 2016 expressed an unqualified opinion thereon.

Calgary, Canada
March 10, 2016

Chartered Professional Accountants

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31,	Notes	2015 $	2014 $
Assets			
Current assets			
Cash and cash equivalents	5	**24,016,275**	14,152,825
Short-term investments	5	**2,060,977**	2,031,685
Accounts receivable		**340,059**	191,751
Prepaid expenses		**506,669**	291,553
Total current assets		**26,923,980**	16,667,814
Non-current assets			
Property and equipment	6	**459,818**	525,376
Total non-current assets		**459,818**	525,376
Total assets		**27,383,798**	17,193,190
Liabilities And Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**2,709,492**	3,373,997
Total current liabilities		**2,709,492**	3,373,997
Commitments and contingencies	*10, 11, 16 and 17*		
Shareholders' equity			
Share capital Authorized: unlimited Issued: December 31, 2015 – 118,151,622 December 31, 2014 – 93,512,494	*7*	**261,324,692**	237,657,056
Contributed surplus	*7, 8*	**26,277,966**	25,848,429
Accumulated other comprehensive income		**760,978**	280,043
Accumulated deficit		**(263,689,330)**	(249,966,335)
Total shareholders' equity		**24,674,306**	13,819,193
Total liabilities and equity		**27,383,798**	17,193,190

See accompanying notes

On behalf of the Board:

/s/ Angela Holtham — Director

/s/ Bob Schultz — Director

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ending December 31,	Notes	2015 $	2014 $	2013 $
Expenses				
Research and development	8, 19, 20	**8,601,864**	13,824,252	18,506,064
Operating	8, 19, 20	**5,315,837**	4,998,694	5,392,660
Loss before the following		**(13,917,701)**	(18,822,946)	(23,898,724)
Interest		**197,859**	210,390	371,485
Loss before income taxes		**(13,719,842)**	(18,612,556)	(23,527,239)
Income tax (expense) recovery	12	**(3,153)**	(6,779)	(5,408)
Net loss		**(13,722,995)**	(18,619,335)	(23,532,647)
Other comprehensive income items that may be reclassified to net loss				
Translation adjustment		**480,935**	200,345	136,813
Net comprehensive loss		**(13,242,060)**	(18,418,990)	(23,395,834)
Basic and diluted loss per common share	**9**	**(0.12)**	(0.21)	(0.28)
Weighted average number of shares (basic and diluted)		**112,613,845**	87,869,149	83,530,981

See accompanying notes

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share Capital $	Warrants $	Contributed Surplus $	Accumulated Other Comprehensive Income $	Accumulated Deficit $	Total $
As at December 31, 2012	198,155,091	376,892	24,126,265	(57,115)	(207,814,353)	14,786,780
Net loss and other comprehensive income	—	—	—	136,813	(23,532,647)	(23,395,834)
Issued, pursuant to a bought deal financing	30,218,796	—	—	—	—	30,218,796
Exercise of stock options	238,677	—	(59,437)	—	—	179,240
Share based compensation	—	—	424,384	—	—	424,384
As at December 31, 2013	228,612,564	376,892	24,491,212	79,698	(231,347,000)	22,213,366
Net loss and other comprehensive income	—	—	—	200,345	(18,619,335)	(18,418,990)
Issued, pursuant to Share Purchase Agreement	7,830,409	—	—	—	—	7,830,409
Issued, pursuant to "At the Market" Agreement	1,214,083	—	—	—	—	1,214,083
Expired warrants	—	(376,892)	376,892	—	—	—
Share based compensation	—	—	980,325	—	—	980,325
As at December 31, 2014	**237,657,056**	**—**	**25,848,429**	**280,043**	**(249,966,335)**	**13,819,193**
Net loss and other comprehensive income	—	—	—	480,935	(13,722,995)	(13,242,060)
Issued, pursuant to Share Purchase Agreement	4,305,396	—	—	—	—	4,305,396
Issued, pursuant to "At the Market" Agreement	19,362,240	—	—	—	—	19,362,240
Share based compensation	—	—	429,537	—	—	429,537
As at December 31, 2015	**261,324,692**	**—**	**26,277,966**	**760,978**	**(263,689,330)**	**24,674,306**

See accompanying notes

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ending December 31,	Notes	2015 $	2014 $	2013 $
Operating Activities				
Net loss for the year		**(13,722,995)**	(18,619,335)	(23,532,647)
Amortization - property and equipment		**180,411**	163,501	131,623
Share based compensation	*8, 19, 20*	**429,537**	980,325	424,384
Unrealized foreign exchange (gain) loss	*19*	**(816,319)**	242,542	(89,721)
Net change in non-cash working capital	*15*	**(1,105,464)**	(2,443,988)	(1,374,172)
Cash used in operating activities		**(15,034,830)**	(19,676,955)	(24,440,533)
Investing Activities				
Acquisition of property and equipment	*6*	**(108,268)**	(152,750)	(254,834)
Redemption (purchase) of short-term investments	*5*	**(29,292)**	(30,041)	(32,416)
Cash used in investing activities		**(137,560)**	(182,791)	(287,250)
Financing Activities				
Proceeds from exercise of stock options and warrants	*7, 8*	**—**	—	179,240
Proceeds from Share Purchase Agreement	*7*	**4,305,396**	**7,830,409**	—
Proceeds from "At the Market" equity distribution agreement	*7*	**19,362,240**	**1,214,083**	—
Proceeds from public offering	*7*	**—**	—	30,218,796
Cash provided by financing activities		**23,667,636**	9,044,492	30,398,036
(Decrease) increase in cash		**8,495,246**	(10,815,254)	5,670,253
Cash and cash equivalents, beginning of year		**14,152,825**	25,220,328	19,323,541
Impact of foreign exchange on cash and cash equivalents		**1,368,204**	(252,249)	226,534
Cash and cash equivalents, end of year		**24,016,275**	14,152,825	25,220,328

See accompanying notes

Note 1: Incorporation and Nature of Operations

Oncolytics Biotech Inc. was incorporated on April 2, 1998 under the Business Corporations Act (Alberta) as 779738 Alberta Ltd. On April 8, 1998, we changed our name to Oncolytics Biotech Inc.

Our consolidated financial statements for the year ended December 31, 2015, were authorized for issue in accordance with a resolution of the Board of Directors (the "Board") on March 10, 2016. We are a limited company incorporated and domiciled in Canada. Our shares are publicly traded and our registered office is located at 210, 1167 Kensington Crescent NW, Calgary, Alberta, Canada.

We are a development stage biopharmaceutical company that focuses on the discovery and development of pharmaceutical products for the treatment of cancers that have not been successfully treated with conventional therapeutics. Our product being developed may represent a novel treatment for Ras mediated cancers which can be used as an alternative to existing cytotoxic or cytostatic therapies, as an adjuvant therapy to conventional chemotherapy, radiation therapy, or surgical resections, or to treat certain cellular proliferative disorders for which no current therapy exists.

Note 2: Basis of Financial Statement Presentation

Our consolidated financial statements include our financial statements and the financial statements of our subsidiaries Oncolytics Biotech (Barbados) Inc., Oncolytics Biotech (US) Inc., and Oncolytics Biotech (UK) Inc. and are presented in Canadian dollars, our functional currency.

The accounts are prepared on the historical cost basis, except for certain assets and liabilities which are measured at fair value as explained in the notes to these financial statements.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of consolidation
Our accounts include the accounts of Oncolytics Biotech Inc. and our subsidiaries. Subsidiaries are entities over which we have control which is achieved when we are exposed, or have the rights, to variable returns from our involvement with the investee and has the ability to affect those returns through our power to govern. Accounting policies of subsidiaries are consistent with our accounting policies and all intra-group transactions, balances, income and expenses are eliminated on consolidation.

A change in ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction.

Note 3: Summary of Significant Accounting Policies

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Property and equipment

Property and equipment are recorded at cost. Depreciation is provided on bases and at rates designed to amortize the cost of the assets over their estimated useful lives. Depreciation is recorded using the declining balance method at the following annual rates:

Office equipment and furniture	20%
Medical equipment	20%
Computer equipment	30%
Leasehold improvements	Straight-line over the term of the lease

Foreign currency translation

The financial statements for each of our subsidiaries are prepared using their functional currency. Our presentation currency is the Canadian dollar which is also Oncolytics Biotech Inc.'s functional currency. Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Exchange differences resulting from the settlement of such transactions and from the translation at exchange rates ruling at the statement of financial position date of monetary assets and liabilities denominated in currencies other than the functional currency are recognized directly in the consolidated statement of loss and comprehensive loss.

Exceptions to this are where the monetary items form part of the net investment in a foreign operation and the foreign operation's functional currency is the local currency. These exchange differences are initially recognized in equity. The statement of financial position of foreign operations is translated into Canadian dollars using the exchange rate at the statement of financial position date and the income statements are translated into Canadian dollars using the average exchange rate for the period. Where this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, the exchange rate on the transaction date is used. Exchange differences on translation into Canadian dollars are recognized as a separate component of equity. On disposal of a foreign operation, any cumulative exchange differences held in equity are transferred to the consolidated statement of loss and comprehensive loss.

Research and development costs

Research costs are expensed as incurred, net of recoveries. Development costs that meet specific criteria related to technical, market and financial feasibility will be capitalized. To date, all development costs have been expensed.

Investment tax credits

Investment tax credits ("ITCs") relating to qualifying scientific research and experimental development expenditures that are refundable are accounted for as a reduction in research and development expenditures. ITCs that are non-refundable, but are recoverable against future taxes payable, are accrued only when there is reasonable assurance that the credits will be realized.

ITCs are subject to technical and financial review by the Canadian tax authorities on a project-by-project basis. Therefore, amounts ultimately received may vary significantly from the amounts recorded. Any such differences are recorded as an adjustment to the recognized amount in the year the review by the Canadian tax authority is completed and the results are made known us.

Loss per common share

Basic loss per common share is determined using the weighted average number of common shares outstanding during the period.

We use the treasury stock method to calculate diluted loss per common share. Under this method, diluted loss per common share is computed in a manner consistent with basic loss per common share except that the weighted average common shares outstanding are increased to include additional common shares from the assumed exercise of options and warrants, if dilutive. The number of additional common shares is calculated by assuming that any outstanding “in the money” options and warrants were exercised at the later of the beginning of the period or the date of issue and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period.

Share based payments

Stock option plan
We have one stock option plan (the “Option Plan”) available to officers, directors, employees, consultants and suppliers with grants under the Option Plan approved from time to time by our Board of Directors (the “Board”). Under the Option Plan, the exercise price of each option is set at equal to or higher than the trading price of our stock on the date of grant in accordance with Toronto Stock Exchange guidelines. Vesting is provided for at the discretion of the Board and the expiration of options is to be no greater than 10 years from the date of grant. Exercised stock options are settled with common shares issued from treasury.

We use the fair value based method of accounting for stock option awards granted under the Option Plan. We recognize compensation expense and a corresponding adjustment to contributed surplus equal to the fair value of the stock options granted using the Black Scholes Option Pricing Model. The fair value of stock options with a graded vesting schedule is determined based on different expected lives for the options that vest each year, as it would be if the award were viewed as several separate awards, each with a different vesting date, and it is accounted for over the respective vesting period taking into consideration forfeiture estimates. Compensation expense is adjusted for subsequent changes in management's estimate of the number of options that are expected to vest.

Share based payments to non-employees are measured at the date we obtain the goods or the date the counterparty renders the service.

Incentive share award plan

On June 8, 2015, our shareholders approved our incentive share award plan. Our incentive share award plan (the "Share Plan") is available to directors, officers and employees. Under our Share Plan, performance share units and restricted share units may be approved from time to time by the Board. Performance share units ("PSUs") are an award to eligible employees to which common shares shall be issued based upon achieving the applicable performance criteria. Restricted share units ("RSUs") are an award to non-employee directors to which common shares shall be issued in accordance with the Share Plan.

We recognize compensation expense and a corresponding adjustment to contributed surplus equal to the market value of our common shares at the date of grant based on the number of PSUs/RSUs expected to vest, recognized over the term of the vesting period. Compensation expense is adjusted for subsequent changes in management's estimate of the number of PSUs/RSUs that are expected to vest. The effect of these changes is recognized in the period of the change.

Financial instruments

Financial assets

Financial assets are comprised of cash and cash equivalents, accounts receivable, and short-term investments. Financial assets are initially recorded at fair market value and are classified as follows:

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and interest bearing deposits with our bank and have been designated as held for trading.

Accounts receivable

Accounts receivable have been classified as loans and receivables.

Short-term investments

We determine the appropriate classification of our short-term investments at the time of purchase and re-evaluate such classification as of each reporting date. We classify our short-term investments as held-to-maturity as we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at original cost, adjusted for amortization of premiums and accretion of discounts to maturity computed under the effective interest rate method. Such amortization and interest on securities classified as held-to-maturity are included in interest income.

Impairment of financial assets

We assess at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Financial liabilities

Trade accounts payable

Trade accounts payable are non interest-bearing and recorded at fair market value. They are classified as other financial liabilities and are subsequently measured at amortized cost using the effective interest rate method.

Fair Value Measurement

Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. In determining the fair value measurement of our financial instruments we prioritize the related inputs used in measuring fair value into the following hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable;

Level 3 - Unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Transaction Costs

Transaction costs are expensed as incurred for financial instruments designated as held for trading. Transaction costs for other financial instruments are recognized as part of the financial instrument's carrying value.

Deferred income taxes

We follow the liability method of accounting for income taxes. Under the liability method, deferred income taxes are recognized for the difference between financial statement carrying values and the respective income tax basis of assets and liabilities (temporary differences). Deferred income tax assets and liabilities are measured using substantively enacted income tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is charged or credited to income, except when it is related to items charged or credited to either other comprehensive income or directly to equity.

Accounting Standards and Interpretations Issued but Not Yet Effective

IFRS 9 - *Financial Instruments*

In July 2014, on completion of the impairment phase of the project to reform accounting for financial instruments and replace IAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 includes guidance on the classification and measurement of financial assets and financial liabilities and impairment of financial assets (i.e. recognition of credit losses).

Under the classification and measurement requirements for financial assets, financial assets must be classified and measured at either amortized cost or at fair value through profit or loss or through other comprehensive income, depending on the basis of the entity’s business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

The classification requirements for financial liabilities are unchanged from IAS 39. IFRS 9 requirements address the problem of volatility in net earnings arising from an issuer choosing to measure certain liabilities at fair value and require that the portion of the change in fair value due to changes in the entity’s own credit risk be presented in other comprehensive income, rather than within net earnings.

The new requirements for impairment of financial assets introduce an expected loss impairment model that requires more timely recognition of expected credit losses. IAS 39 impairment requirements are based on an incurred loss model where credit losses are not recognized until there is evidence of a trigger event. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. We are assessing the impact of adopting this standard on our consolidated financial statements.

IFRS 16 - *Leases*
In January 2016, the IASB issued IFRS 16 - *Leases* ("IFRS 16"), which replaces IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained. IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted under certain circumstances. We are assessing the potential impact of adopting this standard on our consolidated financial statements.

IAS 12 - *Income taxes*
In January 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses as an amendment to IAS 12 – Income Taxes. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. We are assessing the potential impact of adopting these amendments.

Note 4: Significant Judgments, Estimates and Assumptions

Judgments

The preparation of our consolidated financial statements requires us to make judgments, estimates and assumptions that affect the reported amount of expenses, assets, liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include:

Share based payments
We measure our share based payment expense by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share based payment expense for the year along with the assumptions and model used for estimating fair value for share based compensation transactions are disclosed in note 8.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Currently, we are accumulating tax loss carry forward balances in various tax jurisdictions creating a deferred tax asset. Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

To date we have determined that none of our deferred tax assets should be recognized. Our deferred tax assets are mainly comprised of our net operating losses from prior years, prior year research and development expenses, and non-refundable investment tax credits. These tax pools relate to entities that have a history of losses, have varying expiry dates, and may not be used to offset taxable income within our other subsidiaries. As well, there are no taxable temporary differences or any tax planning opportunities available that could partly support the recognition of these losses as deferred tax assets.

Note 5: Cash Equivalents and Short Term Investments

Cash Equivalents

Cash equivalents consist of interest bearing deposits with our bank totaling $21,742,300 (December 31, 2014 - $7,620,520). The current annual interest rate earned on these deposits is 0.76% (December 31, 2014 – 1.38%).

Short-Term Investments

Short-term investments which consist of guaranteed investment certificates are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The objectives for holding short-term investments are to invest our excess cash resources in investment vehicles that provide a better rate of return compared to our interest bearing bank account with limited risk to the principal invested. We intend to match the maturities of these short-term investments with the cash requirements of the Company's activities and treat these as held-to-maturity short-term investments.

	Face Value $	**Original Cost** $	**Accrued Interest** $	**Carrying Value** $	**Fair Value** $	**Effective Interest Rate** %
December 31, 2015						
Short-term investments	**2,060,977**	**2,060,977**	**—**	**2,060,977**	**2,060,977**	**1.35%**
December 31, 2014						
Short-term investments	2,031,685	2,031,685	—	2,031,685	2,031,685	1.44%

Fair value is determined by using published market prices provided by our investment advisor.

Note 6: Property and Equipment

	Medical Equipment	Computer Equipment	Office Furniture	Office Equipment	Leasehold Improvements	Total
Cost						
As at December 31, 2013	188,539	589,702	173,644	78,055	349,850	1,379,790
Additions, net of foreign exchange impact	3,027	34,393	34,899	8,240	75,859	156,418
As at December 31, 2014	191,566	624,095	208,543	86,295	425,709	1,536,208
Additions, net of foreign exchange impact	6,304	61,182	5,542	1,669	40,156	114,853
As at December 31, 2015	**197,870**	**685,277**	**214,085**	**87,964**	**465,865**	**1,651,061**
Amortization						
As at December 31, 2013	103,909	397,988	104,718	46,002	194,714	847,331
Amortization for the year	15,726	54,652	10,209	6,379	76,535	163,501
As at December 31, 2014	119,635	452,640	114,927	52,381	271,249	1,010,832
Amortization for the year	13,842	52,605	12,456	6,378	95,130	180,411
As at December 31, 2015	**133,477**	**505,245**	**127,383**	**58,759**	**366,379**	**1,191,243**
Net book value						
As at December 31, 2015	**64,393**	**180,032**	**86,702**	**29,205**	**99,486**	**459,818**
As at December 31, 2014	71,931	171,455	93,616	33,914	154,460	525,376

Note 7: Share Capital

Authorized:
Unlimited number of no par value common shares

Issued:	Shares		Warrants	
	Number	Amount $	Number	Equity Amount $
Balance, December 31, 2012	76,710,285	198,155,091	303,945	376,892
Issued for cash pursuant to February 25, 2013 public offering[(a)]	8,000,000	32,848,000	—	—
Exercise of stock options	93,533	238,676	—	—
Share issue costs	—	(2,629,203)	—	—
Balance, December 31, 2013	84,803,818	228,612,564	303,945	376,892
Issued pursuant to Share Purchase Agreement[(b)]	7,037,216	8,861,652	—	—
Issued pursuant to "at the market" sales agreement[(c)]	1,671,460	1,468,668	—	—
Expiry of warrants	—	—	(303,945)	(376,892)
Share issue costs	—	(1,285,828)	—	—
Balance, December 31, 2014	93,512,494	237,657,056	—	—
Issued pursuant to "at the market" sales agreement[(c)]	18,860,454	20,049,693	—	—
Issued pursuant to Share Purchase Agreement[(b)]	5,778,674	4,371,687		
Share issue costs	—	(753,744)	—	—
Balance, December 31, 2015	**118,151,622**	**261,324,692**	**—**	**—**

(a) Pursuant to a public offering, we issued 8,000,000 commons shares at an issue price of US$4.00 per common share for gross proceeds of US$32,000,000.

(b) On February 27, 2014, we entered into a share purchase agreement (the "Share Purchase Agreement") with Lincoln Park Capital Fund, LLC ("LPC") to sell up to US$26,000,000 of common stock. Subject to the terms and conditions of the Share Purchase Agreement and at our sole discretion, we may sell up to US$26.0 million worth of common shares to LPC over the 30-month term. The purchase price of the common shares will be based on prevailing market prices of our common shares immediately preceding the notice of a sale without any fixed discount. Subject to the Share Purchase Agreement, we control the timing and amount of any future investment and LPC is obligated to make such purchases, if and when we elect. The Share Purchase Agreement does not impose any upper price limit restrictions, negative covenants or restrictions on our future financing activities, but requires that we maintain our NASDAQ listing. We can terminate the Purchase Agreement at any time at our sole discretion without any monetary cost or penalty. Under the Share Purchase Agreement, we issued an initial commitment fee of 292,793 common shares to LPC valued at fair value of US$455,000. An additional 292,793 common shares will be issued on a pro rata basis under the terms of the Share Purchase Agreement as an additional commitment fee.

On October 20, 2014, we announced that we had reached an agreement on amendments to the Share Purchase Agreement. The specific amendments include allowing the Company to sell shares to LPC at the Company's sole option independent of the closing price of the Common Stock, increasing the number of shares that may be sold to LPC at certain price levels and changes to the way the number of Commitment Shares issuable are calculated. In consideration of the amendments to the Agreement, the Company issued 146,397 shares of Common Stock to LPC. All other terms and conditions of the Agreement remain in force without amendment.

During 2015, under the terms of the Share Purchase Agreement, we issued 5,778,674 common shares (2014 - 7,037,216 common shares) for net proceeds of approximately US$3.5 million (2014 - US$7.1 million). As part of the shares issued, we issued 78,674 commitment shares (2014 - 536,254 commitment shares consisting of 292,793 initial commitment fee common shares, 146,397 commitment shares in consideration for the October 2014 amendments, and 97,064 additional commitment fee common shares). The commitment shares have been valued at fair value of US$50,024 (2014 - US$654,267)and have been recorded as additional share issue costs. On November 5, 2015, we were delisted from the NASDAQ Capital Market and as a result we were unable to sell common shares under the Share Purchase Agreement.

(c) On October 24, 2014, we entered into an "at-the-market" ("ATM") equity distribution agreement with Canaccord Genuity Inc. acting as sole agent. Under the terms of the distribution agreement, we may, from time to time, sell shares of our common stock having an aggregate offering value of up to US$20 million through Canaccord Genuity Inc. directly to investors in the US through our NASDAQ listing. We will determine, at our sole discretion, the timing and number of shares to be sold under this ATM facility. During 2015, we issued 18,860,454 common shares (1,671,460 common shares) for net proceeds of approximately US$15.5 million (2014 - US$1.1 million). On November 5, 2015, we were delisted from the NASDAQ Capital Market and as a result we were unable to sell common shares under our existing ATM.

(d) On February 25, 2016, we entered into a new ATM agreement with an aggregate offering value of up to $4.6 million that allows us to sell our common shares through the facilities of the Toronto Stock Exchange or other "marketplace" (as defined in National Instrument 21-101 Marketplace Operation) in Canada (see Note 21).

Note 8: Share Based Payments

Stock Option Plan

We have issued stock options to acquire common stock through our stock option plan of which the following are outstanding at December 31:

	2015		2014		2013	
	Stock Options	Weighted Average Exercise Price $	Stock Options	Weighted Average Exercise Price $	Stock Options	Weighted Average Exercise Price $
Outstanding, beginning of the year	**5,446,394**	**3.19**	5,918,678	3.75	5,925,377	4.31
Granted during the year	**3,280,000**	**0.43**	500,000	1.26	1,666,000	2.12
Forfeited during the year	**(100,000)**	**1.69**	—	—	(151,666)	4.57
Expired during the year	**(65,000)**	**1.49**	(972,284)	5.56	(1,427,500)	4.20
Exercised during the year	—	—	—	—	(93,533)	1.92
Outstanding, end of the year	**8,561,394**	**2.17**	5,446,394	3.19	5,918,678	3.75
Options exercisable, end of the year	**6,476,394**	**2.73**	4,841,060	3.37	4,597,678	4.32

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2015:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
$0.41-$0.41	400,000	9.94	0.41	400,000	0.41
$0.42-$0.57	2,780,000	9.92	0.42	695,000	0.42
$0.58-$1.87	1,840,667	7.72	1.57	1,840,667	1.57
$1.88-$3.95	1,995,727	4.20	3.08	1,995,727	3.08
$3.96-$6.72	1,545,000	5.17	5.30	1,545,000	5.30
	8,561,394	7.26	2.17	6,476,394	2.73

Non-exercisable options vest annually over periods ranging from one to three years.

The estimated fair value of stock options issued during the year was determined using the Black Scholes Option Pricing Model using the following weighted average assumptions and fair value of options:

	2015	2014	2013
Risk-free interest rate	**0.63%**	1.05%	1.08%
Expected hold period to exercise	**3.0 years**	2.7 years	2.9 years
Volatility in the price of the Company's shares	**90%**	72.55%	62.62%
Rate of forfeiture	**3.67%**	2.5%	2.5%
Dividend yield	**Nil**	**Nil**	**Nil**
Weighted average fair value of options	**$0.24**	$0.54	$0.85

We use historical data to estimate the expected dividend yield and expected volatility of our stock in determining the fair value of the stock options. The risk-free interest rate is based on the Government of Canada marketable bond rate in effect at the time of grant and the expected life of the options represents the estimated length of time the options are expected to remain outstanding.

Incentive Share Award Plan

We have issued restricted share units to non-employee directors through our incentive share award plan of which the following are outstanding at December 31:

	2015	2014	2013
Outstanding, beginning of the year	—	—	—
Granted during the year[1, 2]	**368,831**	—	—
Outstanding, end of the year	**368,831**	—	—
Exercisable, end of the year	—	—	—

(1) The weighted average fair value of the restricted share units granted was $0.40 in 2015.
(2) Grants issued in 2015 vest over three years.

We have reserved 11,412,394 common shares for issuance relating to our outstanding equity compensation plans. Compensation expense related to stock options granted to employees, directors and consultants and restricted share units to independent directors for the year ended December 31, 2015 was $429,537 (2014 - $980,325; 2013 - $424,384).

Note 9: Loss Per Common Share

Loss per common share is calculated using net loss for the year and the weighted average number of common shares outstanding for the year ended December 31, 2015 of 112,613,845 (2014 - 87,869,149; 2013 - 83,530,981). The effect of any potential exercise of our stock options and warrants outstanding during the year has been excluded from the calculation of diluted loss per common share, as it would be anti-dilutive.

Note 10: Commitments

We are committed to payments totaling $2,083,331 during 2016 for activities related to our clinical trial, manufacturing and collaboration programs.

We are committed to rental payments (excluding our portion of operating costs and rental taxes) under the terms of our office leases. Annual payments under the terms of these leases are as follows:

	Amount $
2016	154,377
2017	151,780
2018	103,512
2019	103,512
2020	103,512
Thereafter	43,130
	659,823

Under a clinical trial agreement entered into with the Alberta Cancer Board ("ACB"), we have agreed to repay the amount funded under the agreement together with a royalty, to a combined maximum amount of $400,000 plus an overhead repayment of $100,000, upon sales of a specified product. We agreed to repay the ACB in annual installments in an amount equal to the lesser of: (a) 5% of gross sales of a specified product; or (b) $100,000 per annum once sales of a specified product commence.

Note 11: Contingencies

Assumption Agreement
In 1999, we entered into an agreement that assumed certain obligations (the "Assumption Agreement") in connection with a Share Purchase Agreement (the "Agreement") between SYNSORB and our former shareholders to make milestone payments and royalty payments.

As of December 31, 2015, a milestone payment was still outstanding for $1.0 million, due within 90 days of the first receipt from an Appropriate Regulatory Authority, for marketing approval to sell REOLYSIN® to the public or the approval of a new drug application for REOLYSIN®.

This milestone payment, when payable, will be accounted for as research and development expense and will not be deductible for income tax purposes.

In addition to the milestone payment, payments may become due and payable in accordance with the Agreement upon realization of sales of REOLYSIN®. If we receive royalty payments or other payments as a result of entering into partnerships or other arrangements for the development of the reovirus technology, we are obligated to pay to the founding shareholders 11.75% of the royalty payments and other payments received. Alternatively, if we develop the reovirus treatment to the point where it may be marketed at a commercial level, the payments referred to in the foregoing sentence will be amended to a royalty payment of 2.35% of Net Sales received for such products.

BRI "Work in Kind" Contribution

We entered into an engineering and process development agreement with the Biotechnology Research Institute of the National Research Council of Canada ("BRI"). The terms of this Agreement include a "work in kind" contribution from BRI. In exchange for this "work in kind" contribution, we agreed to provide a royalty, contingent upon receiving Sales Revenue, at the lesser of 0.5% of Sales Revenue or $20,000 per year. The total royalty under this Agreement is equal to two times the "work in kind" contribution. As of December 31, 2015, we estimate that the accumulated work in kind totals approximately $301,000.

Note 12: Income Taxes

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the statutory income tax rate to the loss before income taxes as follows:

	2015	2014	2013
Loss before income taxes	**(13,719,842)**	(18,612,556)	(23,527,239)
Statutory Canadian corporate tax rate	**26.00%**	25.00%	25.00%
Anticipated tax recovery	**(3,567,159)**	(4,653,139)	(5,881,810)
Foreign jurisdiction tax rate difference	**2,659,145**	3,319,210	4,567,094
Employee stock based compensation	**111,680**	245,081	106,096
Change in tax rate	**(1,336,941)**	—	—
Adjustment to opening tax pools	**(1,339,467)**	(316,193)	114,629
Other permanent differences	**23,620**	(48,092)	29,432
Change in deferred tax benefits deemed not probable to be recovered	**3,455,622**	1,462,572	1,098,159
Deferred income tax recovery	—	—	—
Current income taxes	**6,500**	9,439	33,600
Adjustment in respect to prior periods	**(3,347)**	(2,660)	(28,192)
Net current tax expense	**3,153**	6,779	5,408

As at December 31, 2015, we have the following non-capital losses for income tax purposes in Canada:

Expiry	$
2026	9,809,000
2027	12,170,000
2029	4,009,000
2030	4,774,000
2031	4,343,000
2032	2,873,000
2033	2,457,000
2034	2,472,000
2035	3,070,000
	45,977,000

As at December 31, 2015, we have the following non-refundable federal investment tax credits for income tax purposes in Canada:

Expiry	$
2020	189,000
2021	471,000
2022	465,000
2023	361,000
2024	228,000
2025	271,000
2026	520,000
2027	596,000
2028	622,000
2029	173,000
2030	91,000
2031	114,000
2032	381,000
2033	487,000
2034	270,000
2035	222,900
	5,461,900

As well, we have unclaimed scientific research and experimental development expenditures available to reduce future years' taxable income of approximately $27,000,000. We have not recorded the potential benefits of these tax pools in these consolidated financial statements.

Deferred tax assets are recognized, to the extent that it is probable that taxable income will be available, against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. The components of our unrecognized deferred tax asset are as follows:

	2015 $	2014 $	2013 $
Net operating losses carried forward	**15,950,044**	13,130,052	12,180,030
Scientific research and experimental development	**7,278,284**	6,424,359	5,851,177
Investment tax credits	**3,987,214**	4,083,046	3,820,063
Undepreciated capital costs in excess of book value of property and equipment and intellectual property	**1,839,107**	1,720,154	1,784,713
Share issue costs	**619,066**	655,787	853,578
Net capital losses carried forward	**7,598**	7,035	7,035
Unrecognized deferred tax asset	**29,681,313**	26,020,433	24,496,596

Note 13: Capital Disclosures

Our objective when managing capital is to maintain a strong statement of financial position. We achieve our objective by obtaining adequate cash resources to support planned activities which include the clinical trial program, product manufacturing, administrative costs and intellectual property expansion and protection. We include shareholders' equity, cash and cash equivalents and short-term investments in the definition of capital.

	2015 $	2014 $
Cash and cash equivalents	**24,016,275**	14,152,825
Short-term investments	**2,060,977**	2,031,685
Shareholders' equity	**24,674,306**	13,819,193

We do not have any debt other than trade accounts payable and we have potential contingent obligations relating to the completion of our research and development of REOLYSIN®.

In managing our capital, we estimate our future cash requirements by preparing a budget and a multi-year plan annually for review and approval by our Board . The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multi-year plan estimates future activity along with the potential cash requirements and is based on our assessment of our current clinical trial progress along with the expected results from the coming year's activity. Budget to actual variances are prepared and reviewed by management and are presented quarterly to the Board.

Historically, funding for our plan is primarily managed through the issuance of additional common shares and common share purchase warrants that upon exercise are converted to common shares. Management regularly monitors the capital markets attempting to balance the timing of issuing additional equity with our progress through our clinical trial program, general market conditions, and the availability of capital. There are no assurances that funds will be made available to us when required.

In 2014, we renewed our short form base shelf prospectus (the "Base Shelf") that qualifies for distribution of up to $150,000,000 of common shares, subscription receipts, warrants, or units (the "Securities") in either Canada, the US or both. Under our Base Shelf, we may sell Securities to or through underwriters, dealers, placement agents or other intermediaries and also may sell Securities directly to purchasers or through agents, subject to obtaining any applicable exemption from registration requirements. The distribution of Securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, or at prices related to such prevailing market prices to be negotiated with purchasers and as set forth in an accompanying Prospectus Supplement.

Renewing our Base Shelf provides us with additional flexibility when managing our cash resources as, under certain circumstances, it shortens the time period required to close a financing and is expected to increase the number of potential investors that may be prepared to invest in our company. Funds received from a Prospectus Supplement will be used in line with our Board approved budget and multi-year plan. Our renewed Base Shelf expires on September 1, 2016.

Our Base Shelf allowed us to enter into our Share Purchase Agreement and our ATM equity distribution agreement (see Note 7). We use these two equity arrangements to assist us in achieving our capital objective and are both conditional on us maintaining our NASDAQ listing. On November 5, 2015, our common shares were delisted from the NASDAQ Capital Market. As a result, we are unable to use our existing Share Purchase Agreement or our existing ATM equity distribution agreement. Prior to November 5, 2015, each arrangement provided us with the opportunity to regularly raise capital at our sole discretion providing us with the ability to better manage our cash resources. On February 25, 2016, we entered into a new ATM with an aggregate offering value of up to $4.6 million that allows us to sell our common shares through the facilities of the Toronto Stock Exchange or other "marketplace" (as defined in National Instrument 21-101 Marketplace Operation) in Canada (see Note 21).

We are not subject to externally imposed capital requirements and there have been no changes in how we define or manage our capital in 2015.

Note 14: Financial Instruments

Our financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable. As at December 31, 2015, there are no significant differences between the carrying values of these amounts and their estimated market values.

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. We are exposed to credit risk on our cash and cash equivalents and short-term investments in the event of non-performance by counterparties, but we do not anticipate such non-performance. Our maximum exposure to credit risk at the end of the period is the carrying value of our cash and cash equivalents and short-term investments.

We mitigate our exposure to credit risk by maintaining our primary operating and investment bank accounts with Schedule I banks in Canada. For our foreign domiciled bank accounts, we use referrals or recommendations from our Canadian banks to open foreign bank accounts and these accounts are used solely for the purpose of settling accounts payable or payroll.

We also mitigate our exposure to credit risk by restricting our portfolio to investment grade securities with short-term maturities and by monitoring the credit risk and credit standing of counterparties. Currently, 100% of our short-term investments are in guaranteed investment certificates.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk through our cash and cash equivalents and our portfolio of short-term investments. We mitigate this risk through our investment policy that only allows investment of excess cash resources in investment grade vehicles while matching maturities with our operational requirements.

Fluctuations in market rates of interest do not have a significant impact on our results of operations due to the short term to maturity of the investments held.

Currency risk

Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. We are exposed to currency risk from the purchase of goods and services primarily in the US and the UK and to the extent cash is held in foreign currencies. The impact of a $0.01 increase in the value of the US dollar against the Canadian dollar would have decreased our net loss in 2015 by approximately $35,053. The impact of a $0.10 increase in the value of the British pound against the Canadian dollar would have increased our net loss in 2015 by approximately $28,769. The impact of a $0.10 increase in the value of the Euro against the Canadian dollar would have increased our net loss in 2015 by approximately $19,830.

We mitigate our foreign exchange risk through the purchase of foreign currencies in sufficient amounts to settle our foreign accounts payable.

Balances in foreign currencies at December 31, 2015 are as follows:

	US dollars $	**British pounds** £	**Euro** €
Cash and cash equivalents	8,438,344	66,554	35,029
Accounts payable	(233,063)	(12,274)	—
	8,205,281	54,280	35,029

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting obligations associated with financial liabilities. We manage liquidity risk through the management of our capital structure as outlined in Note 13. Accounts payable are all due within the current operating period.

Note 15: Additional Cash Flow Disclosures

Net Change In Non-Cash Working Capital

	2015 $	2014 $	2013 $
Change in:			
Accounts receivable	**(148,308)**	(85,898)	(60,874)
Prepaid expenses	**(215,116)**	70,190	(30,649)
Accounts payable and accrued liabilities	**(664,505)**	(2,634,664)	(1,282,649)
Non-cash impact of foreign exchange	**(77,535)**	206,384	—
Change in non-cash working capital related to operating activities	**(1,105,464)**	(2,443,988)	(1,374,172)

Other Cash Flow Disclosures

	2015 $	2014 $	2013 $
Cash interest received	**197,859**	210,390	371,485
Cash taxes paid	**3,421**	9,715	6,102

Note 16: Alberta Heritage Loan

We received a loan of $150,000 from the Alberta Heritage Foundation for Medical Research ("AHFMR"). Pursuant to the terms of the agreement, we are required to repay this amount in annual installments from the date of commencement of sales in an amount equal to the lesser of: (a) 5% of the gross sales generated by the Company; or (b) $15,000 per annum until the entire loan has been paid in full. On May 25, 2015, we entered into a termination and release agreement with the AHFMR whereby the AHFMR released the Company from its obligation to repay the loan. There was no impact on our financial statements.

Note 17: Indemnification of Officers and Directors

Our corporate by-laws require that, except to the extent expressly prohibited by law, we will indemnify our officers and directors against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment reasonably incurred in respect of any civil, criminal or administrative action or proceeding as it relates to their services to the Company. The by-laws provide no limit to the amount of the indemnification. We have purchased directors' and officers' insurance coverage to cover claims made against the directors and officers during the applicable policy periods. The amounts and types of coverage have varied from period to period as dictated by market conditions. We believe that we have adequate insurance coverage; however, there is no guarantee that all indemnification payments will be covered under our existing insurance policies.

There is no pending litigation or proceeding involving any of our officers or directors as to which indemnification is being sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Note 18: Economic Dependence

We are economically dependent on our toll manufacturers. We primarily use one toll manufacturer in the US to produce the clinical grade REOLYSIN® required for our clinical trial program. Any significant disruption of the services provided by our primary toll manufacturer has the potential to delay the progress of our clinical trial program. We have used another toll manufacturer in the U.K. that has also produced clinical grade REOLYSIN® at a smaller scale. We have attempted to mitigate this risk by producing sufficient REOLYSIN® in advance of patient enrollment in a particular clinical trial.

Note 19: Other Expenses and Adjustments

We present our expenses based on the function of each expense and therefore include realized foreign exchange gains and losses, unrealized non-cash foreign exchange gains and losses, and non-cash stock based compensation associated with research and development activity as a component of research and development expenses and amortization of property and equipment and stock based compensation associated with operating activities as a component of operating expenses.

	2015 $	2014 $	2013 $
Included in research and development expenses:			
Realized foreign exchange loss (gain)	**238,709**	273,996	170,036
Unrealized non-cash foreign exchange (gain) loss	**(816,319)**	242,542	(89,721)
Non-cash share based compensation	**257,016**	588,658	142,972
Included in operating expenses			
Amortization of property and equipment	**180,411**	163,501	131,623
Non-cash share based compensation	**172,521**	391,667	281,412
Office minimum lease payments	**196,601**	94,888	91,332

Note 20: Related Party Transactions

Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling our activities as a whole. We have determined that key management personnel consists of the members of the Board of Directors along with certain officers of the Company.

	2015 $	2014 $	2013 $
Short-term employee benefits	2,941,342	2,535,167	2,950,984
Share-based payments	353,419	771,438	184,037
	3,294,761	3,306,605	3,135,021

Note 21: Subsequent Event

Subsequent to the end of 2015, we entered into an "at-the-market" ("ATM") equity distribution agreement with Canaccord Genuity Inc. acting as sole agent in Canada. Under the terms of the distribution agreement, we may, from time to time, sell shares of our common stock having an aggregate offering value of up to $4.6 million through Canaccord Genuity Inc. Sales of common shares, if any, pursuant to the ATM, will be made in transactions that are deemed to be "at-the-market distributions", through the facilities of the Toronto Stock Exchange or other "marketplace" (as defined in National Instrument 21-101 Marketplace Operation) in Canada. We will determine, at our sole discretion, the timing and number of shares to be sold under this ATM facility.

Shareholder Information

For public company filings please go to www.sedar.com or contact us at:

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Matt Coffey, PhD
Chief Operating Officer
Kirk Look, CA
Chief Financial Officer
George M. Gill, MD
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Chief Safety Officer
Alan Tuchman, MD, MBA (FAAN)
Senior Vice President, Medical and Clinical Affairs
Chief Medical Officer

Directors

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