Financial Statements and Management's Discussion and Analysis

December 31, 2014

Oncolytics Biotech Inc.
Message to Shareholders
Fourth Quarter 2014

To the Shareholders of Oncolytics Biotech Inc.:

2014 was a very productive and important year for Oncolytics and has laid the groundwork enabling us to plan and execute our late stage clinical strategy. Our primary focus throughout the year was determining and preparing to initiate our registration pathway for REOLYSIN®. Our planning process incorporated the results from ongoing and completed clinical studies, regulatory initiatives such as seeking orphan drug status in a variety of indications, regulatory meetings held at the national level in several countries in the European Union, clinical research, and preclinical research on REOLYSIN® used as an immune therapy. During the course of 2014:

- We advanced our clinical program, completing enrollment in our NCI-sponsored randomized Phase II clinical studies in metastatic pancreatic cancer and ovarian, fallopian tube and primary peritoneal cancers, and announcing a variety of clinical trial results. These included preliminary data from our ongoing study of REOLYSIN® in patients with brain cancer (REO 013b) and from our NCI-sponsored pancreatic cancer study, and additional data from our randomized head and neck cancer study (REO 018).
- We furthered our understanding of REOLYSIN®'s therapeutic potential and mode of action through our ongoing preclinical research collaborations, presenting data including our first preclinical research results using checkpoint inhibitors in combination with REOLYSIN®.
- We strengthened our access to capital, entering into a US$26 million Share Purchase Agreement with Lincoln Park Capital Fund, LLC and a US$20 million "At the Market" equity distribution agreement with Canaccord Genuity Inc. We were able to raise $9.0 million in 2014 through the use of these two mechanisms, and to add a further $14.2 million to our balance sheet so far in 2015.
- We made important progress along our regulatory pathway, filing for Orphan Drug Designations for REOLYSIN® for the treatment of both ovarian and pancreatic cancers in the United States and the European Union. Subsequent to year-end, we announced that we had been granted U.S. designations in pancreatic, ovarian, fallopian tube and primary peritoneal cancers.

I would also like to specifically mention the efforts of our staff, who have truly outdone themselves this year. I cannot thank them enough for their tireless work throughout the year and for their ongoing dedication to Oncolytics' success.

Regulatory Progress

In late 2014, we applied for Orphan Drug Designations for both pancreatic and ovarian cancers with the U.S. Food and Drug Administration ("FDA") and for Orphan Designation for pancreatic and ovarian cancers with the European Medicines Agency ("EMA"). These designations are granted to drugs that treat rare diseases, providing the sponsor with certain benefits and incentives – including a period of marketing exclusivity – if the drug ultimately receives regulatory approval in the designation indication. Early in 2015, we received Orphan Drug Designations from the FDA for the treatment of pancreatic cancer, and subsequently ovarian, fallopian tube and primary peritoneal cancers, with REOLYSIN®. While these gynecologic cancers are typically treated as a single indication, the FDA elected to treat them as three distinct indications under separate applications for the purposes of the Orphan Drug Designation. In February 2015, we also applied to the FDA for Orphan Drug Designation for high grade gliomas in pediatric patients. We look forward to learning the outcome of this application, in addition to those made to the EMA for pancreatic and ovarian cancers.

In tandem with our applications for orphan drug status, we have completed a series of consultations with a variety of national-level regulators in the European Union to discuss the structure and endpoints for our first registration study.

Advancing Clinical and Preclinical Research

In April 2014, we were pleased to announce preliminary clinical data showing that intravenously delivered REOLYSIN® can cross the blood brain barrier to access brain tumours. This is a critical finding, as it will enable us to treat patients with both primary and metastatic brain lesions with REOLYSIN® via an ordinary IV line rather than the more invasive method of intracranial delivery.

We also released data from two randomized clinical studies: a double-blinded study of REOLYSIN® in combination with carboplatin and paclitaxel in patients with second-line, platinum-refractory, taxane-naïve head and neck cancers (REO 018) and a two-arm Phase 2 study of REOLYSIN® in combination with carboplatin and paclitaxel in patients with recurrent or metastatic pancreatic cancer (NCI-8601), sponsored by the U.S. National Cancer Institute.

The additional data we released from REO 018 was comprised of an intent-to-treat analysis using appropriate censoring to mitigate the confounding effect of disparate patient populations and additional post-discontinuation treatment. We saw statistically significant improvements in both progression free survival and overall survival in the test arm versus the control arm in patients with loco-regional head and neck disease with or without distal metastases. We also saw a statistical trend towards tumour stabilization (defined as 0% tumour growth) or shrinkage in this group and statistically significantly better performance using the same parameters in the patients with distal metastases alone group.

In the preliminary data from NCI-8601, we noted a trend towards improved median progression-free survival in test arm patients (those who received carboplatin, paclitaxel and REOLYSIN®) with a specific KRAS mutation when compared with control arm patients (those who received carboplatin and paclitaxel alone) with the same mutation. This type of biomarker data is very

important to our understanding of which patient populations are most likely to benefit from treatment with REOLYSIN®, and we are exploring the significance of biomarkers in our other ongoing studies and preclinical research as well.

Our clinical program is supported by ongoing preclinical research by Company collaborators, which continues to inform our understanding of REOLYSIN®'s therapeutic potential and mode of action. In 2014, our collaborators made a series of presentations and publications disclosing their preclinical work with REOLYSIN®. The preclinical research they presented variously demonstrated that REOLYSIN® increases the therapeutic activity of checkpoint inhibitors, preclinical research examined the synergies associated with treatment in animal models with GM-CSF prior to administering REOLYSIN®, focused on identifying biomarkers predictive of sensitivity/resistance to reovirus in head and neck cancer cell lines, and explored the treatment of hepatocellular carcinoma associated with infection by Hepatitis B and Hepatitis C. As a result of these data, we now know of additional agents with potentially synergies with REOLYSIN®, new indications that may be worthy of further study and biomarkers that may be predictive of either sensitivity or resistance to treatment with REOLYSIN®.

Accessing Capital and Funding Ongoing Operations

Throughout the year, we were able to improve our access to capital and to strengthen our cash position in order to continue to fund our operations and our development and commercialization program for REOLYSIN®. Early in the year, we entered into a Share Purchase Agreement with Lincoln Park Capital Fund, LLC ("LPC"). The agreement provided us with an initial investment of US$1.0 million and makes available up to an additional US$25.0 million in periodic investments over its 30-month term. The purchase price of the common shares is based upon the prevailing price of our common shares immediately preceding the notice of a sale, without any fixed discount. Oncolytics controls the timing and amount of all future investments, and LPC is obliged to make such purchases, if and when we elect. In October, we were able to amend the terms of our Share Purchase Agreement with LPC, enabling us to continue to use the equity line independent of the price of our common stock. By the end of the fourth quarter, we had raised over US$7.0 million with LPC.

Later in October, we further improved our access to capital by entering into an at-the-market ("ATM") equity distribution agreement with Canaccord Genuity Inc. ("Canaccord"). Under the terms of our ATM, we may, from time to time, sell shares of our common stock with an aggregate offering value of up to US$20.0 million. By the end of the fourth quarter, we had raised over US$1.1 million with Canaccord under the auspices of our ATM.

All in all, as a result of our ongoing use of these two financing vehicles, we exited the fourth quarter with cash and cash equivalents of $16.2 million. I am very happy to report that, at March 13, 2015, we had increased this number to approximately $27.5 million. This ensures that, at our current burn rates, we will be able to fund our ongoing operations, including our clinical, manufacturing and regulatory development programs, to the fourth quarter of 2016.

Looking Ahead

In February 2015, we announced that enrollment had been completed in our ongoing randomized Phase II colorectal cancer study being sponsored National Cancer Institute of Canada, Clinical Trials Group (NCIC CTG). As the study sponsor, the NCIC is responsible for following patients and collecting and compiling all patient data. Once this process is complete, the data will be provided to Oncolytics and we eagerly look forward to reporting these early results. In addition, the NCIC CTG is currently sponsoring a further three randomized Phase II studies of REOLYSIN®. These studies continue to enroll well, and we intend to provide you with updates on their progress as they become available.

In the meantime, we will continue the ongoing process of defining our pathway to registration. Our objective is to design a registration study or group of registration studies that take into consideration our understanding of REOLYSIN® and our clinical trial experiences to date. We expect that the registration study or studies will take into account the profile of the respective patient populations, the stability of the standard of care for the particular indication, the type of endpoint and the speed at which they can be achieved, and the ability to use genetic markers. We expect to announce elements of our registration pathway during the course of 2015.

I would like to extend my sincere thanks to every one of our shareholders for your continued support. My colleagues and I are very excited about REOLYSIN®'s prospects and we look forward to sharing the development process with you over the coming quarters.

Yours very truly,

Brad Thompson, PhD
President & CEO

MANAGEMENT DISCUSSION & ANALYSIS

2014

ONCOLYTICS BIOTECH INC.

MANAGEMENT DISCUSSION & ANALYSIS

2014

TABLE OF CONTENTS

March 13, 2015

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 2014 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, 2014, were authorized for issue in accordance with a resolution of the Board of Directors (the "Board") on March 13, 2015.

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 2015 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 2014

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 clinical trial program is made up of a six randomized Phase II clinical trial program (our "Randomized Program") and nine other investigative clinical trials. In 2014, we presented final clinical data from stage 1 of our randomized phase III head and neck trial completing this stage of the trial and expanded our clinical program to include a translational myeloma study sponsored by the US National Cancer Institute ("NCI"). We exited 2014 with 15 clinical trials including our Randomized Program, five other trials sponsored by third parties and two clinical trials sponsored by Oncolytics.

Randomized Phase II Clinical Program

We are progressing 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 comparing the control and test arms within each trial. As well, each randomized clinical trial includes 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 and which predictive biomarkers should be used for screening patients.

Randomized Program - Clinical Results

US Randomized Phase II Pancreatic Cancer Study

On September 16, 2014, we announced interim overall and KRAS-mutated (mutation in the KRAS gene) patient progression free survival ("PFS") data from our two-arm randomized Phase II study of carboplatin, paclitaxel plus REOLYSIN (test arm) versus carboplatin and paclitaxel alone (control arm) in the first line treatment of patients with recurrent or metastatic pancreatic cancer (NCI-8601). The trial was sponsored by the NCI through a clinical trials agreement between the Cancer Therapy Evaluation Program, Division of Cancer Treatment and Diagnosis and Oncolytics. The primary objective of the study was to determine the PFS of the overall patient population and a secondary objective of the study was to determine the PFS of the patient population according to KRAS mutation status.

Summary Findings

Overall patient population

The study enrolled 73 patients; 37 were in the control arm, 36 were in the test arm. The median progression free survival for the control arm was 5.16 months (95% confidence interval (CI) of the Kaplan Meier curve = 2.267 to 6.176) versus 5.26 months for the test arm (95% CI of the Kaplan Meier curve = 3.187 to 6.307).

KRAS mutated patient population

As part of the study design, patients were screened for KRAS status at codon 12. Of the 60 patients where KRAS status could be determined (mutant vs wild type), 44 (73%) had mutations in the KRAS gene (n = 23 in the control arm, n = 21 in the test arm). Median progression free survival in the test arm was 5.72 months (95% CI of the Kaplan Meier curve = 3.187 to 6.767) versus 4.11 months in the control arm (95% CI of the Kaplan Meier curve = 1.938 to 6.176). This translates into a 1.61 month (39%) improvement in median progression free survival in the test arm versus the control arm. Three patients on the test arm and one on the control arm had not progressed as of the time of analysis.

Crossover patient population

Patients on the control arm who progressed on carboplatin and paclitaxel had the option of adding REOLYSIN® to their regimen. At the time of the analysis, 16 patients crossed over to the test arm regime. The best responses after crossover were one partial

response (PR), six stable disease (SD), seven progressive disease (PD), and two not evaluable, giving a disease control rate (complete response (CR) + PR + SD) of 50% in the evaluable patients of the carboplatin and paclitaxel failed group.

Impact of Findings
The results from this clinical study are starting to establish, in a randomized setting, that a KRAS mutation at codon 12 may become a predictive biomarker for REOLYSIN. Though there were slight differences in PFS between the control and the test arms on an overall basis, there was a 39% PFS improvement for those patients with a KRAS mutation at codon 12 (representing 73% of the clinical trial's patient population) supporting our belief that tumors with an activated Ras pathway may be susceptible to REOLYSIN therapy.

Randomized Program - Completion of Enrollment

In 2014, enrollment was completed in our randomized Phase II study of paclitaxel plus REOLYSIN versus paclitaxel alone in patients with persistent or recurrent ovarian, fallopian tube or primary peritoneal cancer (GOG186H). The trial is sponsored by the NCI through a Clinical Trials Agreement between the Cancer Therapy Evaluation Program, Division of Cancer Treatment and Diagnosis, NCI and Oncolytics.

This clinical study is a randomized Phase II trial of weekly paclitaxel versus weekly paclitaxel with REOLYSIN in patients with persistent or recurrent ovarian, fallopian tube or primary peritoneal cancer. Patients were randomized to receive either paclitaxel alone or paclitaxel plus REOLYSIN. Patients in both arms received treatment with paclitaxel, with the second arm also receiving intravenous REOLYSIN. Patients received standard doses of paclitaxel on days one, eight, and 15 during a 28 day cycle. In the second arm, patients received, on days one through five of each 28-day cycle, intravenous REOLYSIN at a dose of $3x10^{10}$ $TCID_{50}$.

The primary objectives of the trial are to estimate the progression-free survival hazard ratio of the combination of weekly paclitaxel with REOLYSIN to weekly paclitaxel alone in patients with persistent or recurrent ovarian, fallopian tube, or primary peritoneal cancer and to determine the frequency and severity of adverse events associated with treatment with weekly paclitaxel alone and weekly paclitaxel with REOLYSIN as assessed by Common Terminology Criteria for Adverse Events (CTCAE). The secondary objectives are to estimate the progression-free survival and overall survival of patients treated with weekly paclitaxel alone and weekly paclitaxel with REOLYSIN; to estimate (and compare) the proportion of patients who respond to the regimen on each arm of the study (according to RECIST 1.1 with measurable patients and by CA-125 for those patients with detectible disease only); and to characterize and compare progression-free survival and overall survival in patients with measurable disease (RECIST 1.1 criteria) and patients with detectable (nonmeasurable) disease. The study enrolled approximately 110 patients.

NRG Oncology is responsible for following patients and collecting and collating all patient data. Once complete, the data will be analyzed and provided to NCI and Oncolytics.

Randomized Program - Enrollment

National Cancer Institute of Canada Clinical Trials Group ("NCIC") Clinical Trials
Throughout 2014, our four randomized NCIC clinical trials continued to enroll, treat and re-treat patients. These four randomized NCIC clinical trials include metastatic breast cancer, previously-treated advanced or metastatic non-small cell lung cancer, advanced or metastatic colorectal cancer, and recurrent or metastatic castration resistant prostate cancer.

Other Third Party Clinical Trials

In addition to sponsoring our Randomized Program, third party sponsored clinical trials ("Third Party Trials") have become 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”). In 2014, our Third Party Clinical Trials expanded to include a translational study investigating REOLYSIN in

combination with dexamethasone and carfilzomib for patients with relapsed or refractory myeloma. This trial is sponsored by the NCI and is their 5th currently active clinical trial with us.

Orphan Designation Applications

In 2014, we submitted applications for Orphan Designation to the US Food and Drug Administration ("FDA") and the European Medicines Agency ("EMA") for REOLYSIN for the treatment of pancreatic and ovarian cancers. In the US, Orphan Drug Designation provides the sponsor 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 Designation 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.

Clinical Trial Results - Stage 1 of our Randomized Phase III Head and Neck Trial

In 2014, we announced additional data from stage 1 of our randomized, double-blinded clinical study examining REOLYSIN in combination with carboplatin and paclitaxel in patients with second-line, platinum-refractory, taxane-naïve head and neck cancers. This study enrolled a total of 167 patients. Patients on the control arm were treated with carboplatin, paclitaxel and a placebo, while those on the test arm were treated with carboplatin, paclitaxel and REOLYSIN. Data was available for 165 patients, and was analyzed on an intent-to-treat basis.

Summary clinical results included:

Patients with Loco-Regional Head and Neck Disease, With or Without Distal Metastases

- 118 patients had loco-regional head and neck disease, with or without distal metastases. As previously disclosed in 2013, under these study conditions, test arm patients in this group had a progression-free survival (PFS) benefit over control arm patients through five cycles of therapy;
- An intent-to-treat analysis of the 118 loco-regional patients using Type II censoring from the median PFS in each arm (48 days in the control arm and 95 days in the test arm) showed a statistically significant improvement in PFS for the test arm versus the control arm ($p=0.0072$, hazard ratio=0.5360);
- An intent-to-treat analysis of the overall survival (OS) of the 118 patients with loco-regional disease was performed on all patients to the median PFS in each arm, censoring any patients who received post-discontinuation therapy at the date at which they commenced the first of these therapies. This analysis demonstrated a statistically significant improvement in OS for the test arm versus the control arm ($p=0.0146$, hazard ratio=0.5099); and
- The 118 patients with loco-regional head and neck disease, with or without distal metastases, were evaluated for percentage magnitude of tumour shrinkage at the first post-treatment scan (performed at approximately six weeks). The test arm showed a statistical trend towards better tumour stabilization (defined as 0% growth) or shrinkage over the control arm ($p=0.076$).

Patients with Distal Metastases Alone

- There were 47 patients with distal metastases alone. At the time of the analysis, eight of the 47 patients were still alive. The test arm patients in this group maintained a PFS benefit over control arm patients for five cycles of therapy. There are too few patients to power a statistical analysis of the PFS and OS of this patient group; and
- The 47 patients with distal metastases alone were evaluated for percentage magnitude of tumour shrinkage at the first post-treatment scan (performed at approximately six weeks). The test arm demonstrated statistically significantly better tumour stabilization (defined as 0% growth) or shrinkage than the control arm ($p=0.021$).

Other Clinical Trial Results

Phase I Intravenous Administration of REOLYSIN in Patients Prior to Surgical Resection of Recurrent High Grade Primary or Metastatic Brain Tumors

In 2014, an abstract detailing early results from a translational study looking at the intravenous administration of REOLYSIN to patients with primary or metastatic brain tumors was released at the April 2014 ASCO Annual Meeting held in Chicago, Illinois. The abstract, titled "Oncolytic wild-type reovirus infection in brain tumors following intravenous administration in patients,"

contends that intravenous delivery to brain tumors would be easier, cheaper and more acceptable to patients than intralesional administration. To date, no oncolytic virus has been shown to infect brain tumors following intravenous delivery. The trial aims to identify whether wild-type reovirus can cross the blood brain barrier and infect brain tumors following intravenous administration. It is an open-label, non-randomized, single centre study of intravenous wild-type reovirus administered to patients prior to planned surgery for recurrent high grade glioma or metastatic brain tumors. In total, 12 patients will be treated with a single infusion of $1x10^{10}$ $TCID_{50}$ of wild-type reovirus. The primary objective is to determine the presence of wild-type reovirus in the resected tumours as assessed by immunohistochemistry, RNA in-situ hybridization and retrieval of infectious virions.

Three patients had completed the study at the time of the abstract, including one with glioblastoma multiforme, one with grade 3 oligodendroglioma and one with colorectal brain metastasis. Two of the three patients were taking high dose steroids. All three resected patient tumours contained wild-type reovirus RNA and protein. There was evidence for wild-type reovirus productive infection in two of the tumours. Grade 3-4 adverse reactions were neutropenia in one patient and lymphopenia in all three patients. Based on the findings, the researchers concluded they have shown for the first time that an oncolytic virus, wild-type reovirus, infects and replicates in brain tumors following intravenous administration. It is anticipated this trial could pave the way for phase I/II trials and combination studies using wild-type reovirus in patients with high grade gliomas and brain metastases.

Biomarker Studies

Our objective for biomarker studies is to determine if there are predictive biomarkers that will allow us to better target REOLYSIN as a cancer therapy in a number of indications. In 2014, we announced that a poster authored by Bolton, et al was presented at the 8th Annual International Conference on Oncolytic Virus Therapeutics held in Oxford, UK. The poster, titled "Resistance to oncolytic reovirus is associated with high expression of Yes-Associated Protein (YAP-1) in head and neck cancer," covered preclinical research focused on identifying biomarkers predictive of sensitivity/resistance to reovirus in head and neck cancer cell lines.

Researchers examined reovirus in panels of head and neck cancer cell lines to determine their sensitivity to reovirus-induced oncolysis. The study results showed that high YAP-1 protein expression correlated with reovirus resistance, whereas low YAP-1 expression correlated with sensitivity to reovirus infection. They also indicated that knocking the YAP-1 gene down resulted in certain cells becoming significantly more sensitive to reovirus infection. The researchers concluded that YAP-1 is a possible biomarker for sensitivity/resistance to reovirus infection in head and neck cancer and that further investigation into the crosstalk between chemical signaling pathways upstream and downstream of YAP-1 and its cellular localization, is important in understanding how it may be impeding reovirus oncolysis.

Registration Pathway

In 2014, we began the process of determining our registration pathway. While our Third Party Trial investigators are ultimately responsible for the pace of enrollment, we work closely with them to support enrollment, monitoring, data collection and analysis. Part way through 2014, in the second quarter, we began the consultation process to determine our registration pathway with our regulatory advisors, our investigators on our existing randomized clinical studies and key opinion leaders. We met with two European regulatory agencies in 2014 seeking advice and input on our registration path. Our objective is to define a path to registration that consists of a study or group of studies that takes into consideration our understanding of REOLYSIN and our clinical trial experiences to date. We expect the registration study or studies will consider the profile of the respective patient populations, the stability of the standard of care for the particular indication, the type of endpoint and the speed at which we can achieve each endpoint, and the ability to use genetic markers.

Though we expected to finalize and commence elements of our registration pathway by the end of 2014, we await additional preclinical and clinical data from our Randomized Program before we finalize our registration pathway.

Manufacturing and Process Development

Throughout 2014, we continued to finish the fill and labeling of product from our 100-litre production runs manufactured in 2013. Our filled and labeled product is used to supply our clinical trial 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 US Food and Drug Administration, for product approval.

Intellectual Property

At the end of 2014, we had been issued over 400 patents including 56 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

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. 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 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

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. We will determine, at our sole discretion, the timing and number of shares to be sold under this ATM facility. During 2014, we issued 1,671,460 common shares for net proceeds of approximately US$1.1 million.

Financial Impact

We estimated that our cash requirements for 2014 to fund our operations would be approximately between $21.0 million and $23.0 million. Our cash usage for the year was $19,676,955 for operating activities and $152,750 for the acquisition of property and equipment. Our net loss for the year was $18,619,335.

Cash Resources

We exited 2014 with cash, cash equivalents and short-term investments totaling $16,184,510 (see *"Liquidity and Capital Resources")*.

Expected REOLYSIN Development For 2015

Our planned development activity for REOLYSIN in 2015 is made up of clinical, manufacturing, and intellectual property programs. Our 2015 clinical program includes the anticipated release of clinical data from our randomized NCIC Phase II colorectal clinical

trial and our randomized US Phase II ovarian cancer trial. As well, we expect to complete patient enrollment in at least two of our randomized Phase II studies sponsored by the NCIC. We also expect to use our clinical data to assist in the determination of our regulatory path and the next steps for our clinical program.

Our 2015 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 2015. 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 2015 will be approximately $16 million, but will depend on our ultimate clinical program. (see *"Liquidity and Capital Resources"*).

REOLYSIN Development Update For 2015

Orphan Drug Designations

Subsequent to the end of 2014, the FDA granted our Orphan Drug Designation application for pancreatic cancer. Also, our Orphan Drug Designation application for ovarian cancer was divided into multiple indications and we were granted additional Orphan Drug Designations for ovarian, fallopian tube, and primary peritoneal cancers. Finally, in February 2015, we applied to the US FDA for a fifth Orphan Drug Designation for high grade gliomas in paediatric patients.

Financing Activities

Subsequent to the end of 2014, we issued 13,860,175 common shares for net proceeds of $14.2 million (US$11.3 million) through the use of our ATM and Share Purchase Agreement. As of March 13, 2015, we have cash and cash equivalents of approximately $27.5 million.

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.

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 2014, we used the following weighted average assumptions for the calculation of the fair value of the stock options granted during the year:

	2014
Risk-free interest rate	**1.05%**
Expected hold period to exercise	**2.7 years**
Volatility in the price of the Company's shares	**72.55%**
Rate of forfeiture	**2.5%**
Dividend yield	**Nil**
Weighted average fair value of options	**$0.54**

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 2014 to be 2.7 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 $980,325. However, given the above discussion, this expense could have been different and still be in accordance with IFRS.

Selected Annual Information

	2014 $	2013 $	2012 $
Revenue	—	—	—
Consolidated net loss[1]	(18,619,335)	(23,532,647)	(36,373,521)
Basic and diluted loss per share[1], [2]	(0.21)	(0.28)	(0.48)
Total assets [2]	17,193,190	28,222,027	22,078,090
Cash dividends declared per share[3]	Nil	Nil	Nil

Notes:

(1) Included in consolidated net loss and loss per common share for 2014, 2013, and 2012 are share based payment expenses of $980,325, $424,384, and $730,751, respectively.

(2) We issued 8,708,676 common shares for net cash proceeds of $9.0 milion in 2014 (2013 - 8,093,533 common shares for net cash proceeds of $30.4 million; 2012 - 5,458,950 common shares for net cash proceeds of $20.8 million).

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

Results of Operations

Net loss for the year was $18,619,335 compared to $23,532,647 and $36,373,521 for the years ending December 31, 2013 and December 31, 2012, respectively.

Research and Development Expenses ("R&D")

	2014 $	2013 $	2012 $
Clinical trial expenses	**4,983,644**	7,852,322	19,813,849
Manufacturing and related process development expenses	**2,705,296**	4,745,479	5,834,894
Intellectual property expenditures	**1,077,552**	1,247,854	841,133
Research collaboration expenses	**621,936**	436,302	248,970
Other R&D expenses	**3,703,798**	4,220,126	4,379,894
Scientific research and development repayment (refund)	**(84,762)**	(82,494)	(78,549)
Foreign exchange loss	**228,130**	(56,497)	(43,695)
Share based payments	**588,658**	142,972	406,129
Research and development expenses	**13,824,252**	18,506,064	31,402,625

Clinical Trial Program

Clinical trial expenses include those costs associated with our Clinical Trial Program that includes costs associated with those clinical trials we sponsor along with costs associated with our Third Party trials. 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.

	2014 $	2013 $	2012 $
Direct patient expenses	**4,983,644**	7,852,322	19,430,751
Phase III start up expenses	**—**	—	383,098
Clinical trial expenses	**4,983,644**	7,852,322	19,813,849

During 2014, our clinical trial expenses decreased to $4,983,644 compared to $7,852,322 and $19,813,849 for the years ended December 31, 2013 and December 31, 2012, respectively. 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 and 2012.

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.

In 2012, we incurred direct patient costs primarily associated with the enrollment in stage 1 of our randomized Phase III head and neck trial along with the other clinical trials that we are sponsoring. At the peak of enrollment, we were enrolling patients in over 80 clinical sites in 14 countries. Also, during the first part of 2012, we incurred Phase III start up costs as we increased the number of enrolling clinical centers throughout the first half of 2012. In addition, we incurred related support costs associated with our Third Party Trials which included the beginning of four randomized clinical studies that are part of the clinical research agreement with the NCIC which became part of our Randomized Program.

We expect our clinical trial expenses to continue to decrease in 2015 compared to 2014 until we determine our regulatory path and the next steps in our clinical program. Though we do not control the clinical operations of our Third Party Trials, we expect to continue to incur expenses associated with patient enrollment as well as related support costs. These expenses are expected to be less than the typical costs associated with directly funding similar clinical trials. We also expect to incur regulatory consulting activities and associated costs in order to support our decisions pertaining to our regulatory path and the next steps for our clinical program. Finally, we expect to continue to incur patient enrollment costs for the two clinical trials that we are directly funding.

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. 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.

	2014 $	2013 $	2012 $
Product manufacturing expenses	**1,713,649**	3,485,493	4,670,186
Process development expenses	**991,647**	1,259,986	1,164,708
Manufacturing and related process development expenses	**2,705,296**	4,745,479	5,834,894

Our M&P expenses for 2014 were $2,705,296 compared to $4,745,479 and $5,834,894 for the years ending December 31, 2013 and December 31, 2012.

During 2014, our product manufacturing activities mainly related to supplying our clinical program with sufficient REOLYSIN. Specifically, product manufacturing expenses in 2014 consisted of vial filling, labeling and lot release testing of product. As well, costs were incurred associated with 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. In 2012, in addition to completing two 100-litre cGMP production runs and related testing, we incurred costs associated with vial, fill, and packaging activities along with shipping activities required to supply our clinical trial program.

Our process development expenses for 2014 were $991,647 compared to $1,259,986 and $1,164,708 for the years ending December 31, 2013 and December 31, 2012, respectively. During the years ending 2014, 2013 and 2012 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 2015 to increase compared to 2014. In 2015, 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.

	2014 $	2013 $	2012 $
Intellectual property expenses	**1,077,552**	1,247,854	841,133

Our intellectual property expenses for 2014 were $1,077,552 compared to $1,247,854 and $841,133 for the years ending December 31, 2013 and December 31, 2012, respectively. The change in intellectual property expenditures reflects the timing of filing costs associated with our expanded patent base. At the end of 2014, we had been issued over 400 patents including 56 US and 20 Canadian patents, as well as issuances in other jurisdictions. We expect that our intellectual property expenses will remain consistent in 2015 compared to 2014.

Research Collaborations

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

	2014 $	2013 $	2012 $
Research collaborations	**621,936**	436,302	248,970

During 2014, our research collaboration expenses were $621,936 compared to $436,302 and $248,970 for the years ending December 31, 2013 and December 31, 2012, respectively. In 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. In 2012, we were focused primarily on 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 2015 will remain consistent with 2014. We expect to complete our ongoing collaborative program carried over from 2014 and will continue to be selective in the types of new collaborations we enter into in 2015.

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.

	2014 $	2013 $	2012 $
R&D consulting fees	**247,685**	362,263	404,622
R&D salaries and benefits	**2,989,970**	3,425,122	3,394,770
Other R&D expenses	**466,143**	432,741	580,502
Other research and development expenses	**3,703,798**	4,220,126	4,379,894

In 2014, our Other Research and Development expenses were $3,703,798 compared to $4,220,126 and $4,379,894 for the years ending December 31, 2013 and December 31, 2012, respectively. During the years ending 2014 and 2013, our Other Research and Development activities focused on supporting our Clinical Program which includes our Randomized 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 2013. In 2012, we were supporting stage 1 of our global randomized Phase III head and neck trial that was actively enrolling in over 80 clinical sites in 14 countries up to September 2012.

We expect that our Other R&D expenses in 2015 will remain consistent compared to 2014.

Scientific Research and Development Refund

	2014 $	2013 $	2012 $
Scientific research and development refund	**(84,762)**	**(82,494)**	(78,549)

In 2014, 2013, and 2012, we received Alberta and Quebec scientific research and development refunds totaling $84,762, $82,494, and $78,549, respectively.

Foreign Exchange (Gain) Loss

	2014 $	2013 $	2012 $
Foreign exchange (gain) loss	**228,130**	**(56,497)**	(43,695)

For the year ending December 31, 2014, our foreign exchange loss (gain) was $228,130 compared to $(56,497) for the year ending December 31, 2012 and $(43,695) for the year ending December 31, 2012. The foreign exchange gains and losses incurred are primarily a result of the fluctuations in the US dollar, Euro and Pound Sterling exchange rates.

Share Based Payments

	2014 $	2013 $	2012 $
Share based payments	**588,658**	142,972	406,129

Non-cash share based payments for the year ending December 31, 2014, was $588,658 compared to $142,972 and $406,129 for the years ending December 31, 2013 and December 31, 2012, respectively. We incurred stock based compensation associated with the grant of stock options to employees associated with our research and development activities.

Operating Expenses

	2014 $	2013 $	2012 $
Public company related expenses	**2,761,374**	2,567,056	2,716,982
Office expenses	**1,682,152**	2,412,569	2,134,546
Amortization of property and equipment	**163,501**	131,623	109,275
Stock based compensation	**391,667**	281,412	324,622
Operating expenses	**4,998,694**	5,392,660	5,285,425

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 2014, we incurred public company related expenses of $2,761,374 compared to $2,567,056 and $2,716,982 for the years ending December 31, 2013 and December 31, 2012, respectively. For the years ending December 31, 2014, 2013, and 2012 our public company related expenses have remained relatively consistent.

Office expenses include compensation costs (excluding stock based compensation), office rent, and other office related costs. In 2014, we incurred office expenses of $1,682,152 compared to $2,412,569 and $2,134,546 for the years ending December 31, 2013 and December 31, 2012, respectively. In 2014, our office expenses have 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, our office expenses increased compared to 2012 in an effort to support our investor relations activity along with an increase in salaries associated with the change in our general counsel and cash bonus compensation paid to officers and employees.

In 2014, our non-cash share based payment expenses were $391,667 compared to $281,412 and $324,622 for the year ending December 31, 2013 and December 31, 2012, respectively. 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 and stock option grants to the employees.

We expect our operating expenses in 2015 to remain consistent with 2014.

Summary of Quarterly Results

	2014				2013			
	Dec.	**Sept.**	**June**	**March**	**Dec.**	**Sept.**	**June**	**March**
Revenue	—	—	—	—	—	—	—	—
Net loss[2]	3,779	4,637	4,718	5,485	5,792	6,114	5,020	6,607
Basic and diluted loss per common share[2]	$ 0.04	$ 0.05	$ 0.05	$ 0.06	$ 0.07	$ 0.07	$ 0.06	$ 0.08
Total assets[3]	17,193	18,079	20,047	23,036	28,222	32,549	39,267	44,272
Total cash[1], [3]	16,185	17,045	18,912	22,188	27,222	31,474	38,155	43,521
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 2014 and January 2013 are quarterly stock based compensation expenses (recovery) of $109,902, $199,821, $366,005, $304,597, 233,028, (59,497), $129,997, and $120,856, respectively.

(3) We issued 8,708,676 common shares for net cash proceeds of $9.0 million in 2014 (2013 - 8,093,533 common shares for net cash proceeds of $30.4 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, 2014 and 2013:

For the three month periods ending December 31,	**2014 $**	**2013 $**
Expenses		
Research and development	**2,518,924**	4,582,741
Operating	**1,292,351**	1,285,010
Loss before the following	**(3,811,275)**	(5,867,751)
Interest	**32,213**	80,679
Loss before income taxes	**(3,779,062)**	(5,787,072)
Income taxes	**(51)**	(5,408)
Net loss	**(3,779,113)**	(5,792,480)
Other comprehensive gain (loss) - translation adjustment	**91,903**	62,687
Net comprehensive loss	**(3,687,210)**	(5,729,793)
Basic and diluted loss per common share	**(0.04)**	(0.07)
Weighted average number of shares (basic and diluted)	**91,080,495**	84,771,535

Fourth Quarter Review of Operations

For the three month period ended December 31, 2014 our net loss was $3,779,113 compared to $5,792,480 for the three month period ended December 31, 2013.

Research and Development Expenses ("R&D")

	2014 $	2013 $
Clinical trial expenses	900,105	583,496
Manufacturing and related process development expenses	414,797	1,920,022
Intellectual property expenses	229,911	372,357
Research collaboration expenses	169,205	166,409
Other R&D expenses	840,882	1,545,019
Scientific research and development repayment (refund)	(76,095)	(82,494)
Foreign exchange loss	(13,112)	(57,365)
Share based payments	53,231	135,297
Research and development expenses	2,518,924	4,582,741

Clinical Trial Expenses

	2014 $	2013 $
Direct clinical trial expenses	900,105	583,496
Clinical trial expenses	900,105	583,496

During the fourth quarter of 2014, our clinical trial expenses were $900,105 compared to $583,496 for the fourth quarter of 2013. In 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. In fourth quarter of 2013, we incurred direct clinical trial expenses primarily associated with the enrollment in our Randomized Program.

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

	2014 $	2013 $
Product manufacturing expenses	246,516	1,551,941
Process development expenses	168,281	368,081
Manufacturing and related process development expenses	414,797	1,920,022

During the fourth quarter of 2014, our M&P expenses were $414,797 compared to $1,920,022 for the fourth quarter of 2013. In the quarter of 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. During the fourth quarter of 2013, we completed the bulk production of our second 100-litre cGMP production run for 2013.

Our process development activity for the fourth quarters of 2014 and 2013 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

	2014 $	2013 $
Intellectual property expenses	229,911	372,357

Our intellectual property expenses for the fourth quarter of 2014 were $229,911 compared to $372,357 for the fourth quarter of 2013. 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 2014, we had been issued over 400 patents including 56 US and 20 Canadian patents, as well as issuances in other jurisdictions.

Research Collaboration Expenses

	2014 $	2013 $
Research collaboration expenses	169,205	166,409

Our research collaboration expenses were $169,205 in the fourth quarter of 2014 compared to $166,409 for the fourth quarter of 2013. During the fourth quarters of 2014 and 2013, 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

	2014 $	2013 $
R&D consulting fees	55,374	59,965
R&D salaries and benefits	709,611	1,333,207
Other R&D expenses	75,897	151,847
Other research and development expenses	840,882	1,545,019

Our other research and development expenses were $840,882 in the fourth quarter of 2014 compared to $1,545,019 in the fourth quarter of 2013. In the fourth quarter of 2013, our salaries and benefits costs included cash bonus compensation for officers and employees that was not paid in 2014. As well, the support required by our Clinical Program has declined as enrollment in our various clinical trials finish.

Share Based Payments

	2014 $	2013 $
Stock based compensation	53,231	135,297

During the fourth quarters of 2014 and 2013, we incurred share based payment expense associated with the grant of stock options to employees associated with our research and development activities.

Operating Expenses

	2014 $	2013 $
Public company related expenses	765,774	466,276
Office expenses	424,478	680,731
Amortization of property and equipment	45,428	40,272
Stock based compensation	56,671	97,731
Operating expenses	1,292,351	1,285,010

Our operating expenses in the fourth quarter of 2014 were $1,292,351 compared to $1,285,010 for the fourth quarter of 2013. In the fourth quarter of 2014 our professional fees and our investor relations activities increased compared to the fourth quarter of 2013. Office expenses include compensation costs (excluding share based payments), office rent, and other office related costs. During the fourth quarter of 2014, compensation costs decreased as cash bonus compensation was not paid in 2014 and there was a reduction in our head count compared to the fourth quarter of 2013.

Liquidity and Capital Resources

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.

2013 Financing Activities

In 2013, we received cash inflow from financing activities of $30.4 million:

US Underwritten Public Offering

In 2013, we closed a US underwritten public offering whereby we issued 8,000,000 common shares at an issue price of US$4.00 per common share for gross proceeds of US$32,000,000.

Options

Throughout 2013, we received cash proceeds of $0.2 million with respect to the exercise of 93,533 stock options.

Liquidity

As at December 31, 2014 and 2013, we had cash and cash equivalents, short-term investments and working capital positions as follows:

	2014 $	2013 $
Cash and cash equivalents	**14,152,825**	25,220,328
Short-term investments	**2,031,685**	2,001,644
Working capital position	**13,293,817**	21,680,907

The decrease in our cash and cash equivalent and short term investment positions reflects the cash usage from our operating activities of $19.7 million along with the cash provided by our financing activities of $9.0 million for the year ending December 31, 2014.

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 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"). In 2013, we were able to raise funds through a US underwritten public offering and the exercise of existing stock options and in 2012, we were able to raise funds through a bought deal financing and the exercise of existing stock options.

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. Utilizing our Base Shelf in 2014, we were able to enter into our Financing Arrangements.

The combination of our Financing Arrangements provide us with access, subject to the terms and conditions of each arrangement, to US$46 million of which we raised approximately $9.0 million (US$8.2 million) in 2014. We expect to continue to access our Financing Arrangements to help support our current clinical trial, manufacturing, intellectual property and collaboration programs. We anticipate that the expected cash usage from our operations in 2015 will be approximately $16 million. Despite the anticipated change in our cash requirements compared to 2014, 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 2016. Factors that will affect our anticipated cash usage in 2015 and 2016, 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, 2014:

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]	150,000	—	—	—	150,000
Capital lease obligations	Nil	—	—	—	—
Operating lease [2]	329,853	174,160	155,693	—	—
Purchase obligations	4,176,218	4,176,218	—	—	—
Other long term obligations	Nil	—	—	—	—
Total contractual obligations	4,656,071	4,350,378	155,693	—	150,000

Note:

(1) Our Alberta Heritage Foundation obligation requires repayments upon the realization of sales (see notes to our audited 2014 consolidated financial statements).

(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, 2014, we had $2.0 million invested under this policy, currently earning interest at an effective rate of 1.44%.

Off-Balance Sheet Arrangements

As at December 31, 2014, we had not entered into any off-balance sheet arrangements.

Transactions with Related Parties

In 2014, 2013 and 2012, 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, 2014, 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 increased our net loss in 2014 by approximately $19,471. 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 2014 by approximately $35,522. The impact of a $0.10 increase in the value of the Euro against the Canadian dollar would have increased our net loss in 2014 by approximately $93,695.

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, 2014 are as follows:

	US dollars $	**British pounds £**	**Euro €**
Cash and cash equivalents	5,010,733	83,290	20,212
Accounts payable	(271,176)	(47,563)	(78,533)
	4,739,557	35,727	(58,321)

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 they 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, 2014, we had an accumulated deficit of $250.0 million and we incurred net losses of $18.6 million, $23.5 million and $36.4 million, for the years ended December 31, 2014, 2013 and 2012, respectively. We anticipate that we will continue to incur significant losses during 2015 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 107,372,669 common shares outstanding at March 13, 2015. If all of our options (5,446,394) were exercised we would have 112,819,063 common shares outstanding.

Our 2014 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, 2014, and has concluded that such internal control over financial reporting is effective as of December 31, 2014. 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 (1992 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, 2014 and 2013

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, 2014 and 2013, 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, 2014, 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.

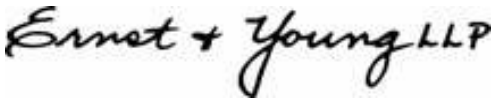
We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and its financial performance and cash flows for each of the years in the three-year period ended December 31, 2014 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, 2014, 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 13, 2015 expressed an unqualified opinion on Oncolytics Biotech Inc.'s internal control over financial reporting.



Calgary, Canada
March 13, 2015

Chartered 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, 2014, 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, 2014, 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, 2014 and 2013 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, 2014 and our report dated March 13, 2015 expressed an unqualified opinion thereon.

Calgary, Canada
March 13, 2015

Chartered Accountants

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31,	Notes	2014 $	2013 $
Assets			
Current assets			
Cash and cash equivalents	5	**14,152,825**	25,220,328
Short-term investments	5	**2,031,685**	2,001,644
Accounts receivable		**191,751**	105,853
Prepaid expenses		**291,553**	361,743
Total current assets		**16,667,814**	27,689,568
Non-current assets			
Property and equipment	6	**525,376**	532,459
Total non-current assets		**525,376**	532,459
Total assets		**17,193,190**	28,222,027
Liabilities And Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities		**3,373,997**	6,008,661
Total current liabilities		**3,373,997**	6,008,661
Commitments and contingencies	*10, 11, 16 and 17*		
Shareholders' equity			
Share capital Authorized: unlimited Issued: December 31, 2014 – 93,512,494 December 31, 2013 – 84,803,818	*7*	**237,657,056**	228,612,564
Warrants	*7*	**—**	376,892
Contributed surplus	*7, 8*	**25,848,429**	24,491,212
Accumulated other comprehensive income		**280,043**	79,698
Accumulated deficit		**(249,966,335)**	(231,347,000)
Total shareholders' equity		**13,819,193**	22,213,366
Total liabilities and equity		**17,193,190**	28,222,027

See accompanying notes

On behalf of the Board:

/s/ Angela Holtham */s/ Bob Schultz*

Director Director

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ending December 31,	Notes	2014 $	2013 $	2012 $
Expenses				
Research and development	8, 19, 20	**13,824,252**	18,506,064	31,402,625
Operating	8, 19, 20	**4,998,694**	5,392,660	5,285,425
Loss before the following		**(18,822,946)**	(23,898,724)	(36,688,050)
Interest		**210,390**	371,485	345,003
Loss before income taxes		**(18,612,556)**	(23,527,239)	(36,343,047)
Income tax expense	12	**(6,779)**	(5,408)	(30,474)
Net loss		**(18,619,335)**	(23,532,647)	(36,373,521)
Other comprehensive income items that may be reclassified to net loss				
Translation adjustment		**200,345**	136,813	60,386
Net comprehensive loss		**(18,418,990)**	(23,395,834)	(36,313,135)
Basic and diluted loss per common share	**9**	**(0.21)**	(0.28)	(0.48)
Weighted average number of shares (basic and diluted)		**87,869,149**	83,530,981	76,102,062

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, 2011	177,282,566	2,653,627	21,142,519	(117,501)	(171,440,832)	29,520,379
Net loss and other comprehensive income	—	—	—	60,386	(36,373,521)	(36,313,135)
Issued, pursuant to a bought deal financing	19,386,903	376,892	—	—	—	19,763,795
Expiry of warrants	—	(2,653,627)	2,653,627	—	—	—
Exercise of stock options	1,485,622	—	(400,632)	—	—	1,084,990
Share based compensation	—	—	730,751	—	—	730,751
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
Expiry of warrants	—	—	—	—	—	—
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**

See accompanying notes

ONCOLYTICS BIOTECH INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ending December 31,	Notes	2014 $	2013 $	2012 $
Operating Activities				
Net loss for the year		**(18,619,335)**	(23,532,647)	(36,373,521)
Amortization - property and equipment		**163,501**	131,623	109,275
Share based compensation	*8, 19, 20*	**980,325**	424,384	730,751
Unrealized foreign exchange loss	*19*	**242,542**	(89,721)	89,890
Net change in non-cash working capital	*15*	**(2,443,988)**	(1,374,172)	1,187,967
Cash used in operating activities		**(19,676,955)**	(24,440,533)	(34,255,638)
Investing Activities				
Acquisition of property and equipment	*6*	**(152,750)**	(254,834)	(126,412)
Redemption (purchase) of short-term investments	*5*	**(30,041)**	(32,416)	(32,441)
Cash used in investing activities		**(182,791)**	(287,250)	(158,853)
Financing Activities				
Proceeds from exercise of stock options and warrants	*7, 8*	**—**	179,240	1,084,990
Proceeds from Share Purchase Agreement	*7*	**7,830,409**	**—**	**—**
Proceeds from "At the Market" equity distribution agreement	*7*	**1,214,083**	**—**	**—**
Proceeds from public offering	*7*	**—**	30,218,796	19,763,795
Cash provided by financing activities		**9,044,492**	30,398,036	20,848,785
(Decrease) increase in cash		**(10,815,254)**	5,670,253	(13,565,706)
Cash and cash equivalents, beginning of year		**25,220,328**	19,323,541	32,918,751
Impact of foreign exchange on cash and cash equivalents		**(252,249)**	226,534	(29,504)
Cash and cash equivalents, end of year		**14,152,825**	25,220,328	19,323,541

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, 2014, were authorized for issue in accordance with a resolution of the Board of Directors (the "Board") on March 13, 2015. 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 and government assistance

Investment tax credits and government assistance relating to qualifying scientific research and experimental development expenditures that are recoverable in the current period are accounted for as a reduction in research and development expenditures. Investment tax credits not recoverable in the current period are accrued provided there is reasonable assurance that the credits will be realized.

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 “Plan”) available to officers, directors, employees, consultants and suppliers with grants under the Plan approved from time to time by our Board of Directors (the “Board”). Under the 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 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.

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 Adopted on January 1, 2014

Offsetting Financial Assets and Liabilities
On January 1, 2014, we adopted the amendments to IAS 32 Financial Instruments: Presentation. There was no impact on our consolidated financial statements as a result of adopting these amendments.

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.

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 and warrants
We measure our share based payment expense and our warrant value 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 and warrants 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 and for the warrants for the year along with the assumptions and model used for estimating fair value for share based compensation transactions are disclosed in notes 7 and 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 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 $7,620,520 (December 31, 2013 - $22,032,832). The current annual interest rate earned on these deposits is 1.38% (December 31, 2013 – 1.08%).

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, 2014						
Short-term investments	**2,031,685**	**2,031,685**	**—**	**2,031,685**	**2,031,685**	**1.44%**
December 31, 2013						
Short-term investments	2,001,644	2,001,644	—	2,001,644	2,001,644	1.50%

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, 2012	188,539	505,195	170,025	78,055	183,142	1,124,956
Additions, net of foreign exchange impact	—	84,507	3,619	—	166,708	254,834
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**
Amortization						
As at December 31, 2012	87,504	338,261	95,532	38,840	155,571	715,708
Amortization for the year	16,405	59,727	9,186	7,162	39,143	131,623
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**
Net book value						
As at December 31, 2014	**71,931**	**171,455**	**93,616**	**33,914**	**154,460**	**525,376**
As at December 31, 2013	84,630	191,714	68,926	32,053	155,136	532,459

Note 7: Share Capital

Authorized:
Unlimited number of no par value common shares

Issued:	Shares		Warrants	
	Number	Amount $	Number	Equity Amount $
Balance, December 31, 2011	71,251,335	177,282,566	2,170,110	2,653,627
Exercise of stock options	393,200	1,485,622	—	—
Issued for cash, pursuant to February 8, 2012 bought deal financing [(a)]	5,065,750	21,276,150	303,945	376,892
Expired warrants	—	—	(2,170,110)	(2,653,627)
Share issue costs	—	(1,889,247)	—	—
Balance, December 31, 2012	**76,710,285**	**198,155,091**	**303,945**	**376,892**
Issued for cash pursuant to February 25, 2013 public offering[(b)]	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[(c)]	7,037,216	8,861,652	—	—
Issued pursuant to "at the market" sales agreement[(d)]	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**	**—**	**—**

(a) Pursuant to a bought deal financing, we issued 5,065,750 common shares at an issue price of $4.20 per common share for gross proceeds of $21,276,150. In connection with this bought deal financing, we issued 303,945 compensation options to the underwriters with an exercise price of $4.20 expiring on February 8, 2014 ("Broker Warrants"). The fair value of the Broker Warrants was $376,892 ($1.24 per Broker Warrant) and has been included in the share issue costs of the financing. The fair value was determined using the Black Scholes Option Pricing Model.

(b) 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.

(c) 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. 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 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.

(d) 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. We will determine, at our sole discretion, the timing and number of shares to be sold under this ATM facility. During 2014, we issued 1,671,460 common shares for net proceeds of approximately US$1.1 million.

The following table summarizes our outstanding warrants as at December 31, 2014:

Exercise Price	Outstanding, Beginning of the Period	Granted During the Period	Exercised During the Period	Expired During the Period	Outstanding, End of Period	Weighted Average Remaining Contractual Life (years)
$4.20	303,945	—	—	(303,945)	—	—
	303,945	—	—	(303,945)	—	—

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:

	2014		2013		2012	
	Stock Options	Weighted Average Exercise Price $	Stock Options	Weighted Average Exercise Price $	Stock Options	Weighted Average Exercise Price $
Outstanding, beginning of the year	**5,918,678**	**3.75**	5,925,377	4.31	5,677,577	4.35
Granted during the year	**500,000**	**1.26**	1,666,000	2.12	1,155,500	3.57
Forfeited during the year	—	—	(151,666)	4.57	(274,500)	5.10
Expired during the year	**(972,284)**	**5.56**	(1,427,500)	4.20	(240,000)	3.90
Exercised during the year	—	—	(93,533)	1.92	(393,200)	2.76
Outstanding, end of the year	**5,446,394**	**3.19**	5,918,678	3.75	5,925,377	4.31
Options exercisable, end of the year	**4,841,060**	**3.37**	4,597,678	4.32	5,744,044	4.37

The following table summarizes information about the stock options outstanding and exercisable at December 31, 2014:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
$0.72-$1.08	200,000	9.9	0.72	200,000	0.72
$1.45 - $2.37	2,431,894	7.8	1.85	1,826,560	1.89
$2.70 - $3.89	1,269,500	6.0	3.59	1,269,500	3.59
$4.00 - $5.92	882,500	7.4	4.23	882,500	4.23
$6.72 - $9.76	662,500	6.0	6.72	662,500	6.72
	5,446,394	7.2	3.19	4,841,060	3.37

Non-exercisable options vest annually over periods ranging from one to three years or upon satisfaction of certain performance conditions. We have reserved 7,382,208 common shares for issuance relating to outstanding stock options.

Compensation expense related to options granted to employees, directors and consultants for the year ended December 31, 2014 was $980,325 (2013 - $424,384; 2012 - $730,751).

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:

	2014	2013	2012
Risk-free interest rate	**1.05%**	1.08%	1.15%
Expected hold period to exercise	**2.7 years**	2.89 years	2.13 years
Volatility in the price of the Company's shares	**72.55%**	62.62%	56.58%
Rate of forfeiture	**2.5%**	2.5%	—%
Dividend yield	**Nil**	Nil	Nil
Weighted average fair value of options	**$0.54**	$0.85	$0.80

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.

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, 2014 of 87,869,149 (2013 - 83,530,981; 2012 - 76,102,062). 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 $4,176,218 during 2015 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 $
2015	174,160
2016	117,327
2017	38,366
	329,853

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, 2014, 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, 2014, 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:

	2014	2013	2012
Loss before income taxes	**(18,612,556)**	(23,527,239)	(36,343,047)
Statutory Canadian corporate tax rate	**25.00%**	25.00%	25.00%
Anticipated tax recovery	**(4,653,139)**	(5,881,810)	(9,085,762)
Foreign jurisdiction tax rate difference	**3,319,210**	4,567,094	7,218,015
Employee stock based compensation	**245,081**	106,096	182,688
Change in tax rate	**—**	—	(686,250)
Adjustment to opening tax pools	**(316,193)**	114,629	24,534
Other permanent differences	**(48,092)**	29,432	243,324
Change in deferred tax benefits deemed not probable to be recovered	**1,462,572**	1,098,159	2,133,925
Deferred income tax recovery	**—**	—	—
Current income taxes	**9,439**	33,600	30,474
Adjustment in respect to prior periods	**(2,660)**	(28,192)	—
Net current tax expense	**6,779**	5,408	30,474

As at December 31, 2014, 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	2,245,000
	42,680,000

As at December 31, 2014, we have non-refundable federal investment tax credits of approximately $5,400,000 which are available to reduce future taxes payable and unclaimed scientific research and experimental development expenditures available to reduce future years' taxable income of approximately $25,600,000 over an indefinite future period. We have not recorded the potential benefits of these tax pools in the 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:

	2014	2013	2012
	$	$	$
Net operating losses carried forward	**13,130,052**	12,180,030	11,874,273
Scientific research and experimental development	**6,424,359**	5,851,177	4,639,667
Investment tax credits	**4,083,046**	3,820,063	3,075,619
Undepreciated capital costs in excess of book value of property and equipment and intellectual property	**1,720,154**	1,784,713	1,764,604
Share issue costs	**655,787**	853,578	635,495
Net capital losses carried forward	**7,035**	7,035	7,035
Unrecognized deferred tax asset	**26,020,433**	24,496,596	21,996,693

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.

	2014	2013
	$	$
Cash and cash equivalents	**14,152,825**	25,220,328
Short-term investments	**2,031,685**	2,001,644
Shareholders' equity	**13,819,193**	22,213,366

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.

On August 1, 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"). 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.

In 2014, 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. Each arrangement provides us with the opportunity to regularly raise capital at our sole discretion providing us with the ability to better manage our cash resources.

We are not subject to externally imposed capital requirements and there have been no changes in how we define or manage our capital in 2014.

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, 2014, 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 increased our net loss in 2014 by approximately $19,471. 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 2014 by approximately $35,522. The impact of a $0.10 increase in the value of the Euro against the Canadian dollar would have increased our net loss in 2014 by approximately $93,695.

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, 2014 are as follows:

	US dollars $	British pounds £	Euro €
Cash and cash equivalents	5,010,733	83,290	20,212
Accounts payable	(271,176)	(47,563)	(78,533)
	4,739,557	35,727	(58,321)

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

	2014 $	2013 $	2012 $
Change in:			
Accounts receivable	**(85,898)**	(60,874)	10,413
Prepaid expenses	**70,190**	(30,649)	390,482
Accounts payable and accrued liabilities	**(2,634,664)**	(1,282,649)	787,072
Non-cash impact of foreign exchange	**206,384**	—	—
Change in non-cash working capital related to operating activities	**(2,443,988)**	(1,374,172)	1,187,967

Other Cash Flow Disclosures

	2014 $	2013 $	2012 $
Cash interest received	**210,390**	371,485	341,503
Cash taxes paid	**9,715**	6,102	22,800

Note 16: Alberta Heritage Loan

We received a loan of $150,000 from the Alberta Heritage Foundation for Medical Research. Pursuant to the terms of the agreement, the Company is 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.

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.

	2014 $	2013 $	2012 $
Included in research and development expenses:			
Realized foreign exchange loss (gain)	**273,996**	170,036	(123,749)
Unrealized non-cash foreign exchange (gain) loss	**(45,866)**	(89,721)	89,890
Non-cash share based compensation	**588,658**	142,972	406,129
Included in operating expenses			
Amortization of property and equipment	**163,501**	131,623	109,275
Non-cash share based compensation	**391,667**	281,412	324,622
Office minimum lease payments	**94,888**	91,332	88,792

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.

	2014 $	2013 $	2012 $
Short-term employee benefits	2,535,167	2,950,984	2,544,285
Share-based payments	771,438	184,037	809,381
	3,306,605	3,135,021	3,353,666

Note 21: Subsequent Event

Subsequent to the end of 2014, we have issued 13,860,175 common shares for net proceeds of $14.2 million (US$11.3 million) through the use of our ATM and Share Purchase Agreement. As of March 13, 2015, we have cash and cash equivalents of approximately $27.5 million.

Shareholder Information

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

Oncolytics Biotech Inc.
Suite 210, 1167 Kensington Crescent NW
Calgary, Alberta, Canada T2N 1X7
tel: 403.670.7377 fax: 403.283.0858
www.oncolyticsbiotech.com

Officers

Brad Thompson, PhD
Chairman, President and CEO
Matt Coffey, PhD
Chief Operating Officer
Kirk Look, CA
Chief Financial Officer
George M. Gill, MD
Senior Vice President, Regulatory Affairs and
Chief Safety Officer
Alan Tuchman, MD, MBA (FAAN)
Senior Vice President, Medical and Clinical Affairs
Chief Medical Officer
Mary Ann Dillahunty, JD, MBA
Vice President, Intellectual Property

Directors

Matt Coffey, PhD
Chief Operating Officer, Oncolytics Biotech Inc.
Jim Dinning
Chairman, Western Financial Group
Linda Hohol, FICB
Corporate Director
Angela Holtham, FCPA, FCMA, ICD.D
Corporate Director
Ed Levy, PhD
Adjunct Professor, University of British Columbia
J. Mark Lievonen, FCA
President, Sanofi Pasteur Limited
Wayne Pisano
President and CEO, VaxInnate Corporation
Bob Schultz, FCA
Corporate Director
Brad Thompson, PhD
Chairman, President and CEO, Oncolytics Biotech Inc.
Ger van Amersfoort
Biotech Consultant

Oncolytics Biotech Inc.
Suite 210, 1167 Kensington Crescent NW, Calgary, AB T2N 1X7
Phone: (403) 670.7377 Fax: (403) 283.0858
www.oncolyticsbiotech.com