Consolidated Financial Statements of Helix BioPharma Corp.
Years ended July 31, 2015 and 2014

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements of Helix BioPharma Corp. and other financial information contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards, using management's best estimates and judgments, where appropriate. In the opinion of management, these consolidated financial statements reflect fairly the financial position and the results of operations and cash flows of the Company within reasonable limits of materiality. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the consolidated financial statements.

To assist management in discharging these responsibilities, the Company maintains an effective system of procedures and internal controls which is designed to provide reasonable assurance that its assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and that the financial records form a reliable base for the preparation of accurate and reliable financial information.

The Board of Directors ensures that management fulfills its responsibilities for the financial reporting and internal control. The Board of Directors exercises this responsibility through its independent Audit Committee comprising a majority of unrelated and outside directors. The Audit Committee meets periodically with management and annually with the external auditors to review audit recommendations and any matters that the auditors believe should be brought to the attention of the Board of Directors. The Audit Committee also reviews the consolidated financial statements and recommends to the Board of Directors that the statements be approved for issuance to the shareholders.

The consolidated financial statements have been audited by BDO Canada LLP, Chartered Professional Accountants, Licensed Public Accountants, which has full and unrestricted access to the Audit Committee. BDO Canada LLP's report on the consolidated financial statements is presented herein.

/s/ Robert Verhagen
Robert Verhagen
President and Chief Executive Officer

/s/ Photios (Frank) Michalargias
Photios (Frank) Michalargias
Chief Financial Officer

October 27, 2015

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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Helix BioPharma Corp.

We have audited the accompanying consolidated financial statements of Helix BioPharma Corp., which comprise the consolidated statements of financial position as at July 31, 2015 and July 31, 2014, the consolidated statements of net loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Helix BioPharma Corp., as at July 31, 2015 and July 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that Helix BioPharma Corp.'s cash of $6,792,000 as at July 31, 2015 is insufficient to meet anticipated cash needs for working capital and capital expenditures through the next twelve months. This condition, along with other matters as set forth in Note 1 in the consolidated financial statements, indicates the existence of a material uncertainty that may cast significant doubt about Helix BioPharma Corp.'s ability to continue as a going concern.

/s/ BDO Canada LLP
Chartered Professional Accountants, Licensed Public Accountants
Markham, Ontario
October 27, 2015

HELIX BIOPHARMA CORP.

Consolidated Statement of Financial Position
In thousands of Canadian dollars
As at July 31, 2015 and 2014

As at:	July 31, 2015	July 31, 2014
ASSETS		
Non-current assets		
Property, plant and equipment (*note 4)*	$ 329	$ 448
	329	448
Current assets		
Prepaid expenses	184	82
Accounts receivable	491	343
Cash	6,792	6,980
	7,467	7,405
Total assets	$ 7,796	$ 7,853
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity (*note 5*)	6,827	6,811
Current liabilities		
Accrued liabilities	707	476
Accounts payable	262	566
	969	1,042
Total liabilities and shareholders' equity	$ 7,796	$ 7,853

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

On behalf of the Board of Directors:

/s/ Yvon Bastien
Yvon Bastien,
Chair, Board of Directors

/s/ Sven Rohmann
Sven Rohmann,
Chair, Audit Committee

HELIX BIOPHARMA CORP.

Consolidated Statement of Net Loss and Comprehensive Loss

Years ended July 31, 2015 and 2014 (In thousands of Canadian dollars, except per share amounts)

	2015	2014
Expenses		
Research and development	4,885	5,239
Operating, general and administration	3,892	3,496
Results from operating activities before finance items	(8,777)	(8,735)
Finance items		
Finance income	56	43
Finance expense	(13)	(19)
Foreign exchange gain (loss)	(46)	29
	(3)	53
Loss and total comprehensive loss from continuing operations	(8,780)	(8,682)
Gain from sale of discontinued operations *(note 12)*	50	-
Net loss and total comprehensive loss	$ (8,730)	$ (8,682)
Loss per common share from continuing operations		
Basic	$ (0.11)	$ (0.12)
Diluted	$ (0.11)	$ (0.12)
Loss per common share		
Basic	$ (0.11)	$ (0.12)
Diluted	$ (0.11)	$ (0.12)
Weighted average number of common shares used in the calculation of basic and diluted loss per share	78,592,444	70,955,132

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

HELIX BIOPHARMA CORP.

Consolidated Statement of Changes in Shareholders' Equity

Years ended July 31, 2015 and 2014 (In thousands of Canadian dollars, except per share amounts)

In thousands of Canadian dollars, except common share and warrant numbers

	Common shares		Share purchase warrants						
	Amount	Number	Amount	Number	Options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders equity
Balances, July 31, 2013	$ 101,407	67,226,337	$ 8,153	13,726,084	$4,632	$ 8,972	$(118,244)	$ –	$ 4,920
Net loss for the year	–	–	–	–	–	–	(8,682)	–	(8,682)
Common stock, issued	6,518	8,674,000	–	–	–	–	–	–	6,518
Warrants, issued		–	3,635	8,674,000	–	–	–	–	3,635
Warrants, expired unexercised	–	–	–	–	–	–	–	–	–
Warrants, amended terms	(846)	–	846	–	–	–	–	–	–
Stock-based compensation	–	–	–	–	420	–	–	–	420
Options, exercised	–	–	–	–	–	–	–	–	–
Options, expired unexercised	–	–	–	–	(993)	993	–	–	–
Balances, July 31, 2014	$ 107,079	75,900,337	$12,634	22,400,084	$4,059	$ 9,965	$(126,926)	$ –	$ 6,811
Net loss for the year	–	–	–	–	–	–	(8,730)	–	(8,730)
Common stock, issued	5,102	8,703,500	–	–	–	–	–	–	5,102
Warrants, issued	–	–	3,141	8,703,500	–	–	–	–	3,141
Warrants, expired unexercised	–	–	(6,950)	(11,155,000)	–	6,950	–	–	–
Warrants, amended terms	–	–	–	–	–	–	–	–	–
Stock-based compensation	–	–	–	–	436	–	–	–	436
Options, exercised	107	50,000	–	–	(40)	–	–	–	67
Options, expired unexercised	–	–	–	–	(1,540)	1,540	–	–	–
Balances, July 31, 2015	$ 112,288	84,653,837	$ 8,825	19,948,584	$2,915	$18,455	$(135,656)	$ –	$ 6,827

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

HELIX BIOPHARMA CORP.

Consolidated Statement of Cash Flows

Years ended July 31, 2015 and 2014 (In thousands of Canadian dollars)

	2015	2014
Cash flows from operating activities		
Net loss and total comprehensive loss from continuing operations	$ (8,780)	$ (8,682)
Items not involving cash:		
Depreciation of property, plant and equipment	133	232
Deferred lease credit	–	(23)
Stock-based compensation	436	420
Foreign exchange gain (loss)	46	(29)
Change in non-cash working capital:		
Accounts receivable	(148)	216
Prepaid expenses	(102)	57
Accounts payable	(304)	262
Accrued liabilities	231	(145)
Net cash used in operating activities	(8,488)	(7,692)
Cash flows from financing activities		
Proceeds from the issuance of common shares and share purchase warrants, net of issue costs	8,243	10,153
Proceeds from the exercise of stock options	67	–
Net cash provided by financing activities	8,310	10,153
Cash flows from investing activities		
Purchase of property, plant and equipment	(14)	(3)
Net cash used in investing activities	(14)	(3)
Foreign exchange loss on cash	(46)	29
Net increase (decrease) in cash from continuing operations	$ (238)	$ 2,487
Net increase in cash from discontinued operations	$ 50	$ –
Cash, beginning of period	6,980	4,493
Cash, end of period	$ 6,792	$ 6,980

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

Helix BioPharma Corp (the "Company"), incorporated under the *Canada Business Corporations Act,* is a biopharmaceutical company primarily focused in the areas of cancer prevention and treatment. The Company has funded its research and development activities, mainly through the issuance of common shares and warrants. The Company expects to incur additional losses and therefore will require additional financial resources, on an ongoing basis. It is not possible to predict the outcome of future research and development activities or the financing thereof.

1. Basis of presentation and going concern

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company's ability to continue as a going concern is dependent mainly on obtaining additional financing, which is always challenging for research and development companies. As at July 31, 2015, the Company does not have sufficient cash to meet anticipated cash needs for working capital and capital expenditures through the next twelve months. The Company will require additional financing in the near term and in the future to see the current research and development initiates through to completion. There can be no assurance however, that additional financing can be obtained in a timely manner, or at all. Not raising sufficient additional financing on a timely basis may result in delays and possible termination of all or some of the Company's research and development initiatives, and as a result, may cast significant doubt as to the ability of the Company to operate as a going concern and accordingly, the appropriateness of the use of the accounting principles applicable to a going concern. These consolidated financial statements do not include any adjustments to the carrying amount and classification of reported assets, liabilities and expenses that might be necessary should the Company not be successful in its aforementioned initiatives. Such adjustments could be material. The Company cannot predict whether it will be able to raise the necessary funds it needs to continue as a going concern.

Statement of compliance

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretation Committee.

The consolidated financial statements of the Company were approved and authorized for issue by the Board of Directors on October 27, 2015.

Use of estimates and assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Significant areas requiring the use of estimates include research and development tax credits associated with research and development expenditures, the determination of fair value of stock options granted for estimating stock-based compensation, the allocation of proceeds to share purchase warrants, estimates related to the determination of useful lives and assessment of impairment of long-lived assets such as property, plant and equipment. In determining these estimates, the Company relies on assumptions regarding applicable industry performance and prospects, as well as general business and economic conditions that prevail and are expected to prevail. These assumptions are limited by the availability of reliable comparable data and the uncertainty of predictions concerning future events. Actual results could differ from these estimates.

Functional and presentation currency

The functional and presentation currency of the Company is the Canadian dollar.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries listed below. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases. The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances.

As at July 31, 2015, the subsidiaries of the Company include: Helix BioPharma Inc., incorporated in the USA, Helix Polska sp.z.o.o., incorporated in Poland and Helix Product Development (Ireland) Limited, incorporated in Ireland. All these subsidiaries are 100% owned by Helix BioPharma Corporation.

Cash

The Company considers cash on hand, deposits in banks and bank term deposits with maturities of 90 days or less as cash.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Impairment charges are included in accumulated depreciation.

Depreciation is provided using the following methods and estimated useful life:

Asset	Basis	Rate
Computer equipment and software	Straight line	3 years
Furniture and fixtures	Straight line	5 years
Research and manufacturing equipment	Straight line	10 years
Leasehold improvements	Straight line	Lease term

Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred except for those which meet the criteria for deferral, in which case, the costs are capitalized and amortized to operations over the estimated period of benefit. No costs have been deferred to date.

Investment tax credits

The Company is entitled to Canadian federal and provincial investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a capital nature, provided that the Company has reasonable assurance that the tax credits will be realized.

Stock-based compensation

The Company accounts for stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees in accordance with the fair value method. The fair value of stock options granted is determined at the appropriate measurement date using the Black-Scholes option pricing model, and generally expensed over the options' vesting period for employee awards and non-employee awards. Awards with graded vesting are considered multiple awards for fair value measurement and stock-based compensation calculation. In determining the expense, the Company accounts for forfeitures using an estimate based on historical trends.

Foreign currency translation

The Company's currency of presentation is the Canadian dollar, which is also the Company's functional currency. Foreign currency-denominated items are translated into Canadian dollars. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet dates. Non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at the exchange rates prevailing at their respective transaction dates. Exchange gains and losses arising on translation are included in income.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of certain existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. Given the Company's history of net losses and expected future losses, the Company is of the opinion that it is probable that these tax assets will not be realized in the foreseeable future and therefore, the deferred tax asset has not been recognized.

Financial instruments

Financial assets and financial liabilities are initially recorded at fair value and their subsequent measurements are determined in accordance with their classification. The classification depends on the purpose for which the financial instruments were acquired or issued and their characteristics. Cash and cash equivalents are classified as held-for-trading assets and are accounted for at

fair value. Accounts receivable are classified as loans and receivables, and after initial recognition are recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, and after initial recognition are recorded at amortized cost.

Impairment

(i) Financial assets:
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment test is performed, on an individual basis, for each material financial asset. Other individually non-material financial assets are tested as groups of financial assets with similar risk characteristics. Impairment losses are recognized in income.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognized in income and reflected in an allowance account against the respective financial asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income for all financial assets except available-for-sale equity securities.

(ii) Non-financial assets:
The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the recoverable amount is estimated.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of cash inflows of other assets or cash-generating units. An impairment loss is recognized if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

Basic and diluted loss per common share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share, except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. The inclusion of the Company's stock options and warrants in the computation of diluted loss per share has an anti-dilutive effect on the loss per share and, therefore, they have been excluded from the calculation of diluted loss per share.

3. New accounting standards and pronouncements not yet adopted

New accounting standards and pronouncements issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. This listing includes standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

Certain pronouncements have been issued by the IASB or International Financial Reporting Interpretations Committee. Many of these updates are not applicable or are inconsequential to the Company and have been excluded from the discussion below:

IFRS 1, Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements as part of the IASB's disclosure initiative. These amendments encourage entities to apply professional judgment regarding disclosures and presentation in their financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

permitted. The Company is evaluating the impact of the new standard on its results of operations, financial position and disclosures.

IFRS 9, Financial Instruments

The IASB has issued a new standard, IFRS 9, Financial Instruments ("IFRS 9"), which will ultimately replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). The project had three main phases: classification and measurement, impairment and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. The Company is evaluating the impact of the new standard on its results of operations, financial position and disclosures.

IFRS 15, Revenue from Contracts with Customers

The IASB has issued a new standard, IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The standard becomes effective for annual periods beginning on or after January 1, 2017. The Company is evaluating the impact of the new standard on its results of operations, financial position and disclosures.

4. Property, plant and equipment

	2015			2014		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Research equipment	$ 1,303	$ 1,042	$ 261	$ 1,298	$ 980	$ 318
Manufacturing equipment	1,555	1,499	56	1,555	1,441	114
Leasehold improvements	370	370	–	370	370	–
Computer equipment	207	196	11	198	188	10
Computer software	89	89	–	89	85	4
Furniture and fixtures	19	18	1	19	17	2
	$ 3,543	$ 3,214	$ 329	$ 3,529	$ 3,081	$ 448

5. Shareholders' equity

Preferred shares

Authorized 10,000,000 preferred shares.
As at July 31, 2015 and 2014 the Company had nil preferred shares issued and outstanding.

Common shares and share purchase warrants

Authorized unlimited common shares without par value.
As at July 31, 2015 the Company had 84,653,837 (2014 – 75,900,337) common shares issued and outstanding.

On March 28, 2011, the Company completed a private placement, issuing 1,652,719 units at $2.39 per unit, for gross proceeds of $3,950,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $3.35 until March 27, 2016. Of the gross proceeds amount, $1,362,000 was allocated to the share purchase warrants based on fair value and the residual amount of $2,588,000 was allocated to common stock. Share issue costs totalling $34,000 were proportionately allocated to the share purchase warrants ($12,000) and common stock ($22,000), respectively.

On March 30, 2011, the Company completed a private placement, issuing 918,365 units at $2.39 per unit, for gross proceeds of $2,195,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $3.35 until March 29, 2016. Of the gross proceeds amount, $759,000 was allocated to the share purchase warrants based on fair value and the residual amount of $1,436,000 was allocated to common stock. Share issue costs totalling $175,000 were proportionately allocated to the share purchase warrants ($60,000) and common stock ($115,000), respectively.

On November 4, 2013, the Company completed a private placement, issuing 4,678,000 units at $1.15 per unit, for gross proceeds of approximately $5,380,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $1.61 until October 31, 2018. Of the gross proceeds amount, $1,897,000 was allocated to the share purchase warrants based on fair value and the residual amount of

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

$3,483,000 was allocated to common stock. Share issue costs totalling $708,000 were proportionately allocated to the share purchase warrants ($248,000) and common stock ($460,000), respectively.

On July 10, 2014 the company completed a private placement, issuing 3,996,000 units at $1.60 per unit, for gross proceeds of $6,394,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $2.24 until July 9, 2019. Of the gross proceeds amount, $2,317,000 was allocated to the share purchase warrants based on fair value and the residual amount of $4,077,000 was allocated to common stock. Share issue costs totalling $913,000 were proportionately allocated to the share purchase warrants ($331,000) and common stock ($582,000), respectively.

On April 1, 2015 the Company completed a private placement, issuing 5,430,000 units at $1.10 per unit, for gross proceeds of $5,973,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $1.54 until March 30, 2020. Of the gross proceeds amount, $2,266,000 was allocated to the share purchase warrants based on fair value and the residual amount of $3,707,000 was allocated to common stock. Share issue costs totalling $836,000 were proportionately allocated to the share purchase warrants ($317,000) and common stock ($519,000), respectively.

On April 29, 2015 the Company completed a private placement, issuing 3,273,500 units at $1.10 per unit, for gross proceeds of $3,601,000. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of $1.54 until April 28, 2020. Of the gross proceeds amount, $1,382,000 was allocated to the share purchase warrants based on fair value and the residual amount of $2,219,000 was allocated to common stock. Share issue costs totalling $495,000 were proportionately allocated to the share purchase warrants ($190,000) and common stock ($305,000), respectively.

The following table provides information on share purchase warrants outstanding as at:

	July 31, 2015		July 31, 2014	
Exercise Price	Weighted average remaining contractual life (in years)	Number of share purchase warrants outstanding	Weighted average remaining contractual life (in years)	Number of share purchase warrants outstanding
$1.54	4.67	5,430,000	–	–
$1.54	4.75	3,273,500	–	–
$1.61	3.25	4,678,000	4.25	4,678,000
$2.24	3.94	3,996,000	4.94	3,996,000
$3.35	.66	1,652,719	1.66	1,652,719
$3.35	.66	918,365	1.66	918,365
$3.51	–	–	0.10	6,625,000
$4.15	–	–	0.52	4,530,000
Outstanding, end of period		19,948,584		22,400,084

Stock options

The Company's equity compensation plan reserves up to 10% of the Company's outstanding common stock from time to time for granting to directors, officers and employees of the Company or any person or company engaged to provide ongoing management or consulting services. Based on the Company's current issued and outstanding common shares as at July 31, 2015, options to purchase up to 8,465,383 common shares may be granted under the plan. As at July 31, 2015, options to purchase a total of 2,730,084 common shares have been issued and are outstanding under the equity compensation plan.

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

The following table provides information on options outstanding and exercisable as at:

	July 31, 2015			July 31, 2014		
Exercise Price	Weighted average remaining contractual life (in years)	Number of options outstanding	Number of vested and exercisable options	Weighted average remaining contractual life (in years)	Number of options outstanding	Number of vested and exercisable options
$1.30	1.92	250,000	250,000	2.92	250,000	166,667
$1.34	2.90	425,000	425,000	3.97	525,000	50,000
$1.50	4.46	300,000	100,002	–	–	–
$1.65	4.26	150,000	50,001	–	–	–
$1.68	1.38	692,084	692,084	2.38	942,084	942,084
$2.00	4.77	60,000	–	–	–	–
$2.43	0.05	358,000	358,000	1.04	458,000	458,000
$2.74	–	–	–	0.37	518,000	518,000
$3.00	.99	495,000	495,000	1.99	645,000	645,000
Outstanding, end of period	1.99	2,730,084	2,370,087	2.10	3,338,084	2,779,751

The following table summarized activity under the Company's stock option plan for the fiscal years ended July 31, 2015 and 2014:

	July 31, 2015		July 31, 2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	3,338,084	$ 2.12	3,554,084	$ 2.24
Granted	510,000	1.60	525,000	1.34
Exercised	(50,000)	1.34	–	–
Expired	(1,068,000)	2.43	(741,100)	2.12
Outstanding, end of year	2,730,084	$ 1.92	3,338,084	$ 2.12
Vested and exercisable, end of year	2,370,087	$ 1.96	2,779,751	$ 2.28

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Grant Date	Number of options granted	Volatility factor	Risk free interest rate	Dividend rate	Expected life	Vesting period	Fair value of options granted
May 8, 2015	60,000	80.27 %	0.91 %	0.00 %	5 years	3 years	$ 72
January 16, 2015	300,000	79.56 %	1.02 %	0.00 %	5 years	3 years	$ 333
November 3, 2014	150,000	78.61 %	1.37 %	0.00 %	5 years	3 years	$ 160
November 1, 2013	50,000	97.99 %	1.13 %	0.00 %	2 years	immediate	$ 35
November 1, 2013	475,000	76.69 %	1.62 %	0.00 %	5 years	1 year	$ 379
July 3, 2012	250,000	62.16 %	1.25 %	0.00 %	5 years	3 years	$ 170
July 29, 2011	1,164,000	61.88 %	2.04 %	0.00 %	5 years	3 years	$ 1,781
August 17, 2010	893,000	67.10 %	2.18 %	0.00 %	5 years	3 years	$ 1,440
December 17, 2008	2,070,000	64.30 %	2.44 %	0.00 %	8 years	3 years	$ 2,525

For the year ended July 31, 2015, 708,336 stock options vested (2014 – 320,834) with a fair value of $600,142 (2014 – $367,387).

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

6. Commitments, contingent liabilities and contingent assets

The Company's commitments are summarized as follows:

	2016	2017	2018	2019	2020	2021 and beyond	Total
Royalty and in-licensing	$ 10	$ 10	$ 10	$ 10	$ 10	$ 40	$ 90
Clinical research organizations	3,687	291	–	–	–	–	3,978
Contract manufacturing organizations	167	83	81	34	–	–	365
R&D distribution services	60	–	–	–	–	–	60
Operating leases	77	–	–	–	–	–	77
Financial and investor relations	246	–	–	–	–	–	246
	$ 4,247	$ 384	$ 91	$ 44	$ 10	$ 40	$ 4,816

Royalty and in-licensing commitments

Pursuant to a Royalty Agreement dated March 27, 1997 with University of Saskatchewan Technologies Inc. ("UST"), the Company is required to pay UST a royalty of 2% of the net sales revenue generated from certain products containing prostaglandin E_1, and in the case of sub-licenses of such products, 15% of the non-royalty considerations (up-front payments) received from the sub-licensee.

Pursuant to an Amended Royalty Agreement, effective November 1, 1999, the Company is required to pay royalties of 2% of the Company's net sales revenue received from the marketing, manufacture, distribution or sale of certain products, or in the case of sub-license revenue, 2% of license fees or other revenue received by the Company related to the marketing, manufacture, distribution or sale of certain products, which revenue is not allocated by the Company to the further development of the product. Any future revenue generated through the commercialization of Topical Interferon Alpha-2b is subject to this royalty agreement, which expires on March 27, 2017.

Pursuant to an agreement dated April 28, 2005 with the National Research Council of Canada, the Company is required to pay a royalty of 3% of net sales, with a minimum royalty of $10,000 per annum generated from the use of a certain antibody to target cancerous tissues of the lung. In addition to the royalty payments, the Company is also required to make certain milestone payments: $25,000 upon successful completion of Phase I clinical trials; $50,000 upon successful completion of Phase IIb clinical trials; $125,000 upon successful completion of Phase III clinical trials; and $200,000 upon receipt of market approval by regulatory authority. L-DOS47 is subject to this agreement.

As at July 31, 2015, the Company has $90,000 (2014 – $90,000) in financial obligations outstanding related to royalty and in-licensing commitments.

Clinical Research Organization ("CRO") Commitments

The Company has two CRO supplier agreements in place for clinical research services related to the management of the Company's Phase I clinical study in Europe of L-DOS47.

As at July 31, 2015, the Company accrued $261,000 (2014 – $194,000) for services provided by these CRO's.

Contract Manufacturing Organization ("CMO") commitments

The Company has four separate CMO supplier agreements related to the Company's L-DOS47 program, all of which are inter-dependant in the manufacturing of L-DOS47.

As at July 31, 2015, the Company accrued $25,000 (2014 – $1,000) for CMO services it had received and is committed to pay $nil in for additional services.

Collaborative Research Organization Service Commitments

The Company has one collaborative research agreement relating to the Company's L-DOS47 program. The nature of the services includes assay development, animal studies and imaging and ongoing future clinical sample analysis.

As at July 31, 2015, the Company accrued $69,000 (2014 – nil) for collaborative research organizations services it had received.

Research and development distribution services

The Company has a distribution services agreement associated with the fulfillment of L-DOS47 and ancillary medical items in support of the Company's L-DOS47 European Phase I study.

As at July 31, 2015, the Company accrued $6,000 (2014 – $9,000) for research and development distribution services it had received and is committed to pay $60,000 for additional collaborative research services.

Operating lease commitments

The Company is committed to pay $77,000 under two facility lease agreements with lease terms up to February 2016 for office and research premises.

Financial and investor relations agreements

The Company engaged Cantor Fitzgerald & Co. ("Cantor"), effective December 1, 2014, to act as the Company's exclusive financial advisor with any transaction with or involving any acquiree by the Company. A non-refundable fee of USD75,000 was paid to Cantor upon execution of this agreement. The agreement may be terminated by either party at any time upon written notice to the other party. The agreement includes the following provisions:

(i) a flat fee of USD250,000 upon the signing of a definitive transaction agreement arranged by Cantor,

(ii) a transaction fee on the aggregate consideration on capital raised, as follows:

  a. 2.0% up to USD50 million, plus

  b. 1.5% from USD50 to USD100 million, plus

  c. 1.0% in excess of USD100 million, plus

(iii) Upon the first closing of any part of an equity and/or debt financing and upon each subsequent closing:

  a. a fee of 7.0% of the aggregate of any equity financing irrevocably committed at or in connection with such closing, whether or not drawn, and

  b. a fee of 3.0% of the aggregate of any debt financing irrevocably committed with such closing, whether or not drawn.

(iv) a fee of 3% of any debt financing irrevocably committed from an applicable transaction, and

(v) reimbursement of certain expenses.

As at July 31, 2015, the Company accrued $nil (2014 – $nil) for services by Cantor.

The Company engaged The Trout Group LLC ("Trout") as the Company's investor relations consultant, effective April 14, 2015. This agreement expires on April 13, 2016. Beginning 180 days after the effective date of the agreement, either party may terminate this agreement for any reason by providing 60 days' prior written notice. The agreement includes the following provisions:

(i) a monthly fee of USD12,500, and

(ii) bonus payments of:

  a. USD25,000 for each instance in which Trout introduces the Company to a research analyst that results in coverage of the Company within 180 days of such introduction;

  b. USD10,000 for each instance in which Trout introduces the Company to an investor that becomes a top 10 institutional shareholder of the Company within 180 days of such introduction;

  c. USD10,000 for each invitation the Company receives that is reasonably and directly attributable to Trout's efforts to conduct a presentation at a conference of U.S. based investors.

As at July 31, 2015, the Company accrued $nil (2014 – $nil) for services provided by Trout.

The Company entered into a non-exclusive financial and investor relations agreement with ACM Alpha Consulting Management EST ("ACMest"), effective May 1, 2012. The agreement may now be terminated by either party at any time upon ninety days written notice to the other party. On March 7, 2014, Mr. Andreas Kandziora was asked to act as an Observer on the Board of Directors of the Company. Mr. Kandziora is President and CEO of ACM. The agreement includes the following provisions:

(i) a monthly fee for investor relation services of CHF33,000 and reimbursement of certain expenses;

(ii) a 12.5% fee on the gross proceeds on any capital raised up to six months after the termination of this agreement from an ACMest introduced investor with residency outside Canada and the U.S.;

(iii) a 12.5% fee on the value of a transaction up to twelve months after the termination of this agreement from an ACMest introduced strategic partner, including but not limited to, any cash payments to the Company as an up-front payment, any co-development proceeds, any milestone payments and any royalties associated with the transaction; and

(iv) a 12.5% fee on the gross proceeds of any capital raised up to twelve months after the termination of this agreement from an ACMest introduced strategic partner.

At July 31, 2015, the Company accrued $45,000 (2014 – $40,000) for services provided by ACM. During fiscal 2015, the Company paid ACM $508,000 (2014 - $462,000) in monthly fees, $91,000 (2014 - $nil) for expense reimbursements and $1,228,000 (2014 - $1,452,000) in finders' fees on gross proceeds on capital raised from private placements.

Director and officers' indemnification

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

Given the nature of this indemnification, the Company is unable to reasonably estimate its maximum potential liability as this indemnification provision does not provide for a maximum potential amount and the amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Consequently, no amounts have been accrued in these consolidated financial statements relating to this indemnification.

Legal Services Agreement

(i) The Company engaged Sadkowski I Wspolinicy Spolka Akcnjna ("Sadkowski") to assist and advise the Company in the selection of other consultants and advisors connected with the potential filing of a prospectus and potential listing on the Warsaw Stock Exchange. The agreement may be terminated at any time by either party by giving notice in writing, subject to a two-week notice period. The fee for such services are as follows:

(ii) a monthly fee based on the number of hours and applicable hourly rate spent incurred by Sadkowski;

(iii) PLN300,000 for drawing up a prospectus to be invoiced as follows;

  a. PLN100,000 after the agreement is signed;

  b. PLN100,000 after prospectus submission to Polish Financial Supervision Authority ("PFSA"); and

  c. PLN100,000 after prospectus approval by the PFSA;

(iv) a fee of PLN7,500 for each supplemental prospectus files that includes financial data or PLN3,000 if no financial data is included;

(v) additional success fees after approval of a prospectus by the PFSA:

  a. PLN150,000 if approved by the PFSA by December 31, 2015

  b. PLN 100,000 if approved by the PFSA by March 31, 2016

As at July 31, 2015, the Company accrued $nil (2014 – $nil) for services provided by Sadkowski.

Legal proceedings and claims

One claim made against the Company in the normal course of operations during fiscal 2012 remains pending at the end of fiscal 2015 and at the date of this Annual Report. Management believes that this claim is without merit. The action is not sufficiently advanced for the outcome to be presently determinable and, accordingly, no provision for this claim has been made in these financial statements.

7. Capital risk management

The Company's main objectives when managing capital are to ensure sufficient liquidity to finance research and development activities, clinical trials, ongoing administrative costs, working capital and capital expenditures. The Company includes cash in the definition of capital. The Company endeavours not to unnecessarily dilute shareholders when managing the liquidity of its capital structure.

Since inception, the Company has financed its operations from public and private sales of equity, the exercise of warrants and stock options, and, to a lesser extent, from interest income from funds available for investment, government grants and investment tax credits. Since the Company does not have net earnings from its operations, the Company's long-term liquidity depends on its ability to access capital markets, which depends substantially on the success of the Company's ongoing research and development programs, as well as capital market conditions and availability.

The Company does not currently have enough cash reserves to fully fund its clinical trials nor does the Company have sufficient cash reserves to meet anticipated cash needs for working capital and capital expenditures through at least the next twelve months.

The Company does not have any credit facilities and is therefore not subject to any externally imposed capital requirements or covenants.

8. Financial instruments and risk management

The Company has classified its financial instruments as follows:

	2015		2014	
	Fair Value	Fair value hierarchy	Fair Value	Fair value hierarchy
Cash	$ 6,792	Level 1	$ 6,980	Level 1

Fair value hierarchy

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

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

Level 2 reflects valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means; and

Level 3 reflects valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The financial instrument in the Company's financial statements, measured at fair value, is cash and cash equivalents.

Fair value

The fair value of financial instruments as at July 31, 2015 and 2014 approximates their carrying value because of the near-term maturity of these instruments.

Financial risk management

The Company is exposed to a variety of financial risks by virtue of its activities: market risk (including currency and interest rate risk), credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management (the identification and evaluation of financial risk) is carried out by the finance department, in close cooperation with management. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies. The Company's Board of Directors has the overall responsibility for the oversight of these risks and reviews the Company's policies on an ongoing basis to ensure that these risks are appropriately managed.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, will affect the Company's income or the value of its financial instruments.

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

Currency risk

The Company has international transactions and is exposed to foreign exchange risks from various currencies, primarily the Euro and U.S. dollar. Foreign exchange risks arise from the foreign currency translation of the Company's integrated foreign operation in Ireland. In addition, foreign exchange risks arise from purchase transactions, as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company has maintained minimal cash balances denominated in both Euro and U.S. dollars due to Canadian dollar stability and strength against foreign currencies.

Balances in foreign currencies at July 31, 2015 and 2014 are as follows:

	2015		2014	
	Euros	US Dollars	Euros	US Dollars
Cash	8	7	102	162
Accounts payable	(9)	(30)	(64)	(242)
Accruals	(162)	(2)	(65)	–
Net foreign currencies	(163)	(25)	(27)	(80)
Closing exchange rate	1.4388	1.3047	1.4581	1.0890
Impact of 1% change in exchange rate	+/- 1	+/- 1	+/- 1	+/- 1

Any fluctuation in the exchange rates of the foreign currencies listed above could have an impact on the Company's results from operations; however, they would not impair or enhance the ability of the Company to pay its foreign-denominated expenses.

The following summary illustrates the fluctuations in the exchange rates during fiscal 2015 and 2014 to the Canadian dollar:

	2015		2014	
	Euros	US Dollars	Euros	US Dollars
High	1.4729	1.3060	1.3819	1.0343
Average	1.4005	1.1924	1.4610	1.0734
Low	1.3111	1.0857	1.5358	1.1107

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in interest rates, which are affected by market conditions. The Company is exposed to interest rate risk arising from fluctuations in interest rates received on its cash and cash equivalents. The Company does not have any credit facilities and is therefore not subject to any debt related interest rate risk.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct its operations on a day-to-day basis. Any investment of excess funds is limited to risk-free financial instruments. Fluctuations in the market rates of interest do not have a significant impact on the Company's results of operations due to the relatively short term maturity of any investments held by the Company at any given point in time and the low global interest rate environment. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation.

The table below breaks down the various categories that make up the Company's accounts receivable balances as at July 31:

	2015	2014
Government related – HST/VAT	96	51
Research and development investment tax credits	388	288
Other	7	4
	$ 491	$ 343

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due.

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

Since inception, the Company has mainly relied on financing its operations from public and private sales of equity. The Company does not have any credit facilities and is therefore not subject to any externally imposed capital requirements or covenants.

The Company manages its liquidity risk by continuously monitoring forecasts and actual cash flow from operations and anticipated investing and financing activities.

The Company's cash reserves of $6,792,000 as at July 31, 2015 are insufficient to meet anticipated cash needs for working capital and capital expenditures through the next twelve months, nor are they sufficient to see the current research and development initiates through to completion. To the extent that the Company does not believe it has sufficient liquidity to meet its current obligations, management considers securing additional funds primarily through equity arrangements to be of utmost importance.

The Company's long-term liquidity depends on its ability to access the capital markets, which depends substantially on the success of the Company's ongoing research and development programs, as well as economic conditions relating to the state of the capital markets generally. Accessing the capital markets is particularly challenging for companies that operate in the biotechnology industry.

The following are the contractual maturities of the undiscounted cash flows of financial liabilities as at July 31:

	2015			2014		
	Carrying amount	Less than one year	Greater than one year	Carrying amount	Less than one year	Greater than one year
Accounts payable and accruals	$ 969	$ 969	$ –	1,042	$ 1,042	$ –

This table only covers liabilities and obligations relative to financial instruments and does not anticipate any income associated with assets.

9. Related party transactions

The key management personnel of the Company are the President and Chief Executive Officer, former President and Chief Operating Officer, Chief Scientific Officer, Chief Financial Officer and Director of Clinical Development.

The following table summarizes for key management personnel compensation for the fiscal years ended:

	2015	2014
Compensation	$ 1,185	$ 1,750
Stock-based compensation	76	238
	$ 1,261	$ 1,988

Included in the 2014 Compensation number is a one-time payout of $500,000 related to the termination of the Company's former President and Chief Operating Officer.

The following table summarizes non-management Directors' compensation for the fiscal years ended:

	2015	2014
Directors' fees	$ 364	$ 291
Stock-based compensation	340	182
Consultancy fee	3	–
	$ 707	$ 473

During the year, a consultancy agreement was entered into with a current director of the Company to provide consulting services. The consultancy agreement has an initial term lasting three months and automatically renews for an additional three months unless the Company gives written notice not less than thirty days prior to the end of the initial term.

Related party transactions are at arm's length and recorded at the amount agreed to by the related parties.

10. Research and development projects

As at July 31, 2015, the Company has incurred research and development expenditures primarily on the L-DOS47 research and development program.

(Tabular dollar amounts in thousands of Canadian dollars, except per share amounts)

Included in research and development expenditures are costs directly attributable to the various research and development functions and initiatives the Company has underway and include: salaries; bonuses; benefits; stock based compensation; depreciation of property, plant and equipment; patent costs; consulting services; third party contract manufacturing, third party clinical research organization services; and all overhead costs associated with the Company's research facilities.

The following table outlines research and development costs expensed and investment tax credits for the Company's significant research and development projects for the fiscal years ended July 31:

	2015	2014
L-DOS47	$ 4,031	$ 2,730
Topical Interferon Alpha-2b	-	383
Corporate research and development expenses	567	1,407
Trademark and patent related expenses	339	612
Stock-based compensation expense	16	83
Depreciation expense	121	222
Research and development investment tax credit	(189)	(198)
	$ 4,885	$ 5,239

11. Income taxes

The Company recognizes deferred tax assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities and certain carry-forward balances. The Company's effective income tax rate in fiscal 2015 is 26.7% (2014 – 26.3%). The increase in the effective income tax rate is the result of changes to the allocation of provincial tax rates.

Current income tax expense and non-capital tax carry-forwards

The tax effects of temporary differences for the Company that gives rise to the unrecorded deferred tax asset presented in the following table:

	2015	2014
Deferred tax assets:		
Scientific Research & Experimental Development expenditure pool	$ 11,563	$ 11,048
Non-capital losses and other credits carried forward	16,222	14,076
Capital losses carried forward	161	159
Excess of tax basis over book basis of capital assets	1,400	1,257
Deductible share issue costs	544	434
Other	1	1
	29,891	26,975

As at July 31, 2015, the Company has Canadian tax losses that can be carried forward of approximately $60,840,000 (2014 – $53,475,000) and are available until 2035 as follows:

2025	862
2026	2,113
2027	2,904
2028	2,438
2029	9,188
2030	6,552
2031	6,793
2032	13,242
2033	2,437
2034	6,727
2035	7,584
	$ 60,840

Scientific Research & Experimental Development expenditures ("SR&ED")

Under the *Income Tax Act* (Canada), certain expenditures are classified as SR&ED expenditures and are grouped into a pool for tax purposes. This expenditure pool can be carried forward indefinitely and deducted in full in any subsequent year. The SR&ED expenditure pool at July 31, 2015 is approximately $43,367,000 (2014 – $41,974,000).

Investment tax credits

The Company has also earned investment tax credits in Canada, on eligible SR&ED expenditures at July 31, 2015 of approximately $10,740,000 (2014 – $10,213,000), which can offset Canadian income taxes otherwise payable in future years up to 2035. Investment tax credits are accounted for as a reduction of the related expenditure for items of a current nature and a reduction of the related asset cost for items of a capital nature, provided that the Company has reasonable assurance that the tax credits will be realized. During the year, the Company received cash refundable investment tax credits related to prior years in the amount of $89,000 (2014 – $345,000). At July 31, 2015, cash refundable investment tax credits total $388,000 (2014 – $288,000). The research and development investment tax credits recorded are based on management's estimates of amounts expected to be recovered and are subject to audit by the taxation authorities and, accordingly, these amounts may vary. Federal investment tax credits are non-refundable to the Company. Refundable investment tax credits reflect eligible SR&ED expenditures incurred in various provinces.

12. Other Items

A holdback amount of $200,000 was applied to the proceeds upon closing of the sale of the Company's distribution business back on December 10, 2012. This holdback amount was scheduled to be paid to the Company beginning at the end of 2014, subject to the achievement of certain sales objectives by the purchaser. The Company received a payment of $50,000 during the year as a partial payment of the holdback.