

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-33675

**VENAXIS, INC.**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**84-1553387**

(I.R.S. Employer Identification No.)

**1775 38<sup>th</sup> Street, Boulder, Colorado 80301**

(Address of principal executive offices) (Zip Code)

**(303) 545-5550**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of no par value common stock outstanding as of November 11, 2016 was 4,503,971.

VENAXIS, INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION AND STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q, including in Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created thereby. These statements relate to future events or the Company's future financial performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results, levels of activity, performance or achievements of the Company or its industry to be materially different from those expressed or implied by any forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "would," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or other comparable terminology. Please see the "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q and in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of certain important factors that relate to forward-looking statements contained in this report. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I — FINANCIAL INFORMATION**

**Item I. Condensed Consolidated Financial Statements**

**Venaxis, Inc.**  
**Consolidated Balance Sheets**

	<b>September 30,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
	<u>(Unaudited)</u>	<u></u>
<b>ASSETS</b>		
Current assets (Note 1):		
Cash and cash equivalents	\$ 2,447,320	\$ 2,012,283
Short-term investments	12,416,087	14,147,991
Accounts receivable, net	21,508	-
Inventories (Note 2)	412,106	-
Prepaid expenses and other current assets	322,867	251,778
	<u>15,619,888</u>	<u>16,412,052</u>
Property and equipment, net (Note 3)	95,387	1,954,496
Intangible rights acquired (Note 2)	2,291,966	-
Long-term investments (Note 1)	-	972,000
Other long term assets, net (Notes 1 and 4)	1,315,556	1,523,649
Total assets	<u>\$ 19,322,797</u>	<u>\$ 20,862,197</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 297,044	\$ 701,064
Accrued compensation	329,098	449,873
Accrued expenses	233,506	241,882
Notes and other obligations, current portion (Note 5)	222,135	301,250
Deferred revenue, current portion (Note 8)	96,698	96,698
	<u>1,178,481</u>	<u>1,790,767</u>
Notes and other obligations, less current portion (Note 5)	-	1,838,779
Deferred revenue, less current portion (Note 8)	1,089,490	1,162,015
	<u>2,267,971</u>	<u>4,791,561</u>
Commitments and contingencies (Notes 8 and 9)		
Stockholders' equity (Notes 2, 6 and 7):		
Venaxis' stockholders' equity:		
Common stock, no par value, 60,000,000 shares authorized; 4,503,971 and 3,876,961 shares issued and outstanding	124,598,545	121,653,075
Accumulated deficit	(107,568,735)	(105,582,439)
	<u>17,029,810</u>	<u>16,070,636</u>
Non-controlling interest	25,016	-
Total equity	<u>17,054,826</u>	<u>16,070,636</u>
Total liabilities and stockholders' equity	<u>\$ 19,322,797</u>	<u>\$ 20,862,197</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

**Venaxis, Inc.**  
**Consolidated Statements of Operations Three and Nine Months Ended September 30**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Sales (Note 1)	\$ 1,923	\$ 57,089	\$ 1,923	\$ 92,894
Cost of sales	<u>1,567</u>	<u>14,533</u>	<u>1,567</u>	<u>26,636</u>
Gross profit	356	42,556	356	66,258
Other revenue – fee (Note 8)	<u>24,175</u>	<u>24,175</u>	<u>72,524</u>	<u>72,524</u>
Operating expenses:				
Selling, general and administrative	1,715,475	1,231,101	3,568,436	4,249,560
Research and development	<u>54,458</u>	<u>426,263</u>	<u>500,129</u>	<u>1,686,413</u>
Total operating expenses	<u>1,769,933</u>	<u>1,657,364</u>	<u>4,068,565</u>	<u>5,935,973</u>
Operating loss	<u>(1,745,402)</u>	<u>(1,590,633)</u>	<u>(3,995,685)</u>	<u>(5,797,191)</u>
Other income (expense):				
Gain on sale of property and equipment (Note 3)	13,062	-	1,933,335	-
Interest expense	(2,384)	(25,393)	(28,130)	(74,652)
Investment income	<u>23,639</u>	<u>32,942</u>	<u>103,031</u>	<u>69,151</u>
Total other income (expense)	<u>34,317</u>	<u>7,549</u>	<u>2,008,236</u>	<u>(5,501)</u>
Net loss	(1,711,085)	(1,583,084)	(1,987,449)	(5,802,692)
Net loss attributable to non-controlling interest	<u>1,153</u>	<u>-</u>	<u>1,153</u>	<u>-</u>
Net loss attributable to Venaxis, Inc.	<u>\$ (1,709,932)</u>	<u>\$ (1,583,084)</u>	<u>\$ (1,986,296)</u>	<u>\$ (5,802,692)</u>
Basic and diluted net loss per share (Note 1)	<u>\$ (0.43)</u>	<u>\$ (0.41)</u>	<u>\$ (0.51)</u>	<u>\$ (1.50)</u>
Basic and diluted weighted average number of shares outstanding (Note 1)	<u>3,999,637</u>	<u>3,876,961</u>	<u>3,918,151</u>	<u>3,876,961</u>

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

**Venaxis, Inc.**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30**  
**(Unaudited)**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net loss	\$ (1,987,449)	\$ (5,802,692)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation for services	368,459	1,019,067
Depreciation and amortization	96,997	194,438
Amortization of license fees	(72,524)	(72,524)
Other non-cash charges	200,385	4,647
Gain on sale of property and equipment	(1,933,335)	-
Change in (net of BiOptix business acquisition):		
Accounts receivable	(602)	(59,677)
Prepaid expenses and other current assets	224,246	236,822
Accounts payable	(521,600)	(225,316)
Accrued compensation	(120,775)	(430,207)
Accrued expenses	(94,869)	(80,995)
Net cash (used in) operating activities	<u>(3,841,067)</u>	<u>(5,216,437)</u>
Cash flows from investing activities:		
Purchases of short-term investments	(13,818,949)	(21,208,206)
Sales of short-term investments	16,522,853	26,505,093
Proceeds from sale of property and equipment	1,799,143	-
Purchases of patent and trademark application costs	(14,378)	(59,914)
Cash acquired in purchase of BiOptix	16,673	-
Net cash provided by investing activities	<u>4,505,342</u>	<u>5,236,973</u>
Cash flows from financing activities:		
Repayment of notes payable and other obligations	(229,238)	(330,139)
Net cash (used in) financing activities	<u>(229,238)</u>	<u>(330,139)</u>
Net change in cash and cash equivalents	435,037	(309,603)
Cash and cash equivalents at beginning of period	<u>2,012,283</u>	<u>3,539,911</u>
Cash and cash equivalents at end of period	<u>\$ 2,447,320</u>	<u>\$ 3,230,308</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	<u>\$ 33,331</u>	<u>\$ 74,936</u>
Supplemental disclosure of investing information:		
Liability payoffs upon property sale	\$ 2,064,758	\$ -
Value of Common Shares issued for BiOptix purchase	\$ 2,577,011	\$ -

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

**Venaxis, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**INTERIM FINANCIAL STATEMENTS**

The accompanying consolidated financial statements of Venaxis, Inc. (the "Company," "we," or "Venaxis") have been prepared in accordance with the instructions to quarterly reports on Form 10-Q. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in financial position at September 30, 2016 and for all periods presented have been made. Certain information and footnote data necessary for fair presentation of financial position and results of operations in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted. It is therefore suggested that these consolidated financial statements be read in conjunction with the summary of significant accounting policies and notes to financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The results of operations for the period ended September 30, 2016 are not necessarily an indication of operating results for the full year.

**Management's plans and basis of presentation:**

The Company has experienced recurring losses and negative cash flows from operations. At September 30, 2016, the Company had approximate balances of cash and liquid investments of \$14,863,000, working capital of \$14,441,000, total stockholders' equity of \$17,030,000 and an accumulated deficit of \$107,569,000. To date, the Company has in large part relied on equity financing to fund its operations. The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as we incur increased costs and expenses associated with the BiOptix operations (see below), and continue to incur public company and administrative related expenses. The Company believes that its current working capital position will be sufficient to meet its estimated cash needs into 2017. The Company is closely monitoring its cash balances, cash needs and expense levels.

As of January 26, 2016, Venaxis publicly disclosed that it had entered into a series of agreements, including a Master Agreement, for a combination transaction (the "Strand transaction") with Strand Life Sciences Private Limited and its shareholders ("Strand"). Strand is privately-held, and operates clinical reference labs in the U.S. and in India, providing testing and lab services in India and other world-wide markets. Strand has commercialized a next generation sequencing (NGS) based, targeted, multi-gene, pan-cancer diagnostic panel in select international markets and has engaged in initial commercialization activities in the United States. On March 11, 2016, Venaxis and Strand entered into a Mutual Termination Agreement to terminate the series of agreements. Pursuant to the Mutual Termination Agreement, each of the parties was relieved of any obligations or responsibilities under the Master Agreement and other transaction agreements. Each party remains responsible for its respective transaction-related expenses. Following the termination of the Strand transaction, the Company began evaluating potential strategic alternatives.

Based upon the primary criteria established as part of the strategic evaluation process, as of September 12, 2016, the Company completed the strategic acquisition of BiOptix Diagnostics, Inc. ("BiOptix"), a privately-held entity. As a result, the Company now owns more than 98% of the outstanding voting stock of BiOptix, and BiOptix has become a majority-owned subsidiary of the Company. Under the terms of a Stock Purchase Agreement, dated September 12, 2016, among the Company and the holders of all of the BiOptix preferred stock (the "Purchase Agreement"), the consideration consisted of an aggregate of 627,010 shares of the Company's common stock valued at approximately \$2,577,000.

BiOptix, located in Boulder, Colorado, has developed an Enhanced Surface Plasmon Resonance ("SPR") instrument designed to increase the flexibility and reliability of SPR, in order to address the increasing demand for instruments suitable for a broader range of applications, while offering far greater performance per dollar than other instruments commercially available.

Management's strategic plans include the following:

- focusing on the BiOptix business plan to advance on commercial and development activities to increase the value of the operation;
- exploring prospective partnering or licensing opportunities with appreciable opportunities and technologies;
- continuing to evaluate options to monetize, partner or license the Company's appendicitis product portfolio; and
- continuing to implement cost control initiatives to conserve cash.

As part of the Company's process to identify possible strategic partners, several targets were identified that the Company assessed as possibly having a business model that could be interested in discussions with Venaxis for potentially acquiring or licensing the appendicitis assets. Venaxis has made initial contact with several of these parties to gauge their interest level, which initially is more focused on the *APPY2* development assets. Management believes that the estimated potential market for an appendicitis test continues to be significant. If Venaxis is unable to locate a new strategic target, a partner or other third-party interested in advancing development and commercial activities of the Venaxis appendicitis portfolio, the capitalized costs on the Company's balance sheet, totaling approximately \$335,000, as of September 30, 2016 for the acute appendicitis patents may be deemed impaired.

## **Note 1. Significant accounting policies:**

### **Principles of consolidation**

The consolidated financial statements of the Company include the accounts of Venaxis and its majority-owned and controlled subsidiary, BiOptix. Intercompany accounts and transactions have been eliminated in the consolidation.

### **Cash, cash equivalents and investments:**

The Company considers all highly liquid investments with an original maturity of three months or less at the date of acquisition to be cash equivalents. From time to time, the Company's cash account balances exceed the balances as covered by the Federal Deposit Insurance System. The Company has never suffered a loss due to such excess balances.

The Company invests excess cash from time to time in highly-liquid debt and equity investments of highly-rated entities, which are classified as trading securities. Historically, the purpose of the investments has been to fund research and development, product development, FDA clearance-related activities and general corporate purposes. Such amounts are recorded at market values using Level 1 inputs in determining fair value and are generally classified as current, as the Company does not intend to hold the investments beyond twelve months. Investment securities classified as trading are those securities that are bought and held principally for the purpose of selling them in the near term, with the objective of preserving principal and generating profits. These securities are reported at fair value with unrealized gains and losses reported as an element of other (expense) income in current period earnings. The Company's Board of Directors has approved an investment policy covering the investment parameters to be followed with the primary goals being the safety of principal amounts and maintaining liquidity. The policy provides for minimum investment rating requirements as well as limitations on investment duration and concentrations. Based upon market conditions, the investment guidelines have been tightened to increase the minimum acceptable investment ratings required for investments and shorten the maximum investment term. As of September 30, 2016, approximately 9% of the investment portfolio was in cash and cash equivalents, which is presented as such on the accompanying balance sheet, and the remaining funds were invested in marketable securities with none individually representing a material amount of the portfolio. Investments with a scheduled maturity beyond one year are classified as long-term investments on the balance sheet. To date, the Company's cumulative realized market loss from the investments has not been significant. For the nine months ended September 30, 2016 and 2015, there was approximately \$17,000 and \$23,000, respectively, in management fee expenses.

### **Fair value of financial instruments:**

The Company accounts for financial instruments under Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 820, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1— quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 — observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 — assets and liabilities whose significant value drivers are unobservable.

Observable inputs are based on market data obtained from independent sources, while unobservable inputs are based on the Company's market assumptions. Unobservable inputs require significant management judgment or estimation. In some cases, the inputs used to measure an asset or liability may fall into different levels of the fair value hierarchy. In those instances, the fair value measurement is required to be classified using the lowest level of input that is significant to the fair value measurement. Such determination requires significant management judgment. There were no financial assets or liabilities measured at fair value, with the exception of cash, cash equivalents and short-term investments as of September 30, 2016 and December 31, 2015.

The carrying amounts of the Company's financial instruments (other than cash, cash equivalents and short-term investments as discussed above) approximate fair value because of their variable interest rates and/or short maturities combined with the recent historical interest rate levels.

**Revenue recognition and accounts receivable:**

We recognize sales of goods under the provisions of ASC 605 and the U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") 104, *Revenue Recognition*. Future revenue is expected to be generated primarily from the sale of products. Product revenue primarily consists of sales of instrumentation and consumables.

Revenue is recognized when the following four basic criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and risk of loss has passed; (iii) the seller's price to the buyer is fixed or determinable; and (iv) collectability is reasonably assured.

Revenues are recorded less a reserve for estimated product returns and allowances which to date has not been significant. Determination of the reserve for estimated product returns and allowances is based on management's analyses and judgments regarding certain conditions. Should future changes in conditions prove management's conclusions and judgments on previous analyses to be incorrect, revenue recognized for any reporting period could be adversely affected.

The Company extends credit to customers generally without requiring collateral. As of September 30, 2016, the Company had accounts receivable of \$21,500. As of December 31, 2015, the Company did not have any accounts receivable. During the three and nine months ended September 30, 2016, nominal sales were recorded associated with the BiOptix operations. During the nine months ended September 30, 2015, three European-based customers accounted for the total net sales, representing 48%, 29% and 23%, respectively.

**Inventories:**

Inventories acquired as part of the BiOptix purchase are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method. The elements of cost in inventories include materials, labor and overhead.

**Recently issued and adopted accounting pronouncements:**

The Company has considered recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on their consolidated financial statements.

**Income (loss) per share:**

ASC 260, *Earnings Per Share*, requires dual presentation of basic and diluted earnings per share ("EPS") with a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic EPS excludes dilution. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.



Basic net earnings (loss) per share includes no dilution and is computed by dividing net earnings (loss) available to shareholders by the weighted average number of common shares outstanding for the period. Diluted net earnings (loss) per share reflect the potential dilution of securities that could share in the Company's earnings (loss). The effect of the inclusion of the dilutive shares would have resulted in a decrease in loss per share for the three and nine months ended September 30, 2016 and 2015 respectively. Accordingly, the weighted average shares outstanding have not been adjusted for dilutive shares for any period presented. Outstanding stock options and warrants are not considered in the calculation, as the impact of the potential common shares (totaling approximately 1,061,000 shares and 776,000 shares for each of the three and nine month periods ended September 30, 2016 and 2015, respectively) would be anti-dilutive.

See Note 6 regarding a Reverse Stock Split effected on March 31, 2016.

**Note 2. Acquisition:**

On September 12, 2016, the Company completed the strategic acquisition of BiOptix, a privately-held entity. Pursuant to the Purchase Agreement, through a wholly-owned subsidiary, the Company acquired all of the outstanding shares of Series 1 Preferred Stock of BiOptix from the selling stockholders. No BiOptix common shares were acquired in the transaction. As a result, the Company now owns more than 98% of the outstanding voting stock of BiOptix, and BiOptix has become a majority owned subsidiary of the Company.

Under the terms of the Purchase Agreement, the consideration consisted of an aggregate of 627,010 shares of the Company's common stock (the "Shares") which Shares were distributed in accordance with the liquidation preferences set forth in the BiOptix Fifth Amended and Restated Certificate of Incorporation, as amended. The Shares were valued at approximately \$2,577,000 (based upon the closing value of our common stock on the acquisition date) and the issuance represented approximately 14% of the outstanding Venaxis common stock at the closing. The Purchase Agreement contains customary representations and warranties of the parties, including BiOptix, and the selling stockholders have customary indemnification obligations to the Company relating to BiOptix, which are subject to certain limitations described further in the Purchase Agreement. The issuance of the Shares was effected as a private placement of securities. The Company also entered into a Registration Rights Agreement with the selling stockholders.

The purchase price allocation is preliminary and subject to change, as an analysis has not been completed as of the date of this report as Venaxis is still reviewing all of the underlying assumptions and calculations used in the allocation. However, the table below summarizes the provisional estimated fair values assigned to the assets and liabilities acquired:

Cash and cash equivalents	\$ 17,000
Accounts receivable	21,000
Inventory	413,000
Prepaid and other assets	52,000
Equipment	93,000
Intangible rights acquired	2,312,000
Accounts payable	(118,000)
Accrued and other liabilities	(187,000)
Non-controlling interest	(26,000)
Purchase price	<u>\$ 2,577,000</u>

The purchase price allocation is preliminary and subject to change. The intangible assets acquired are estimated to have an average life of 4-6 years, resulting in annual estimated future amortization of approximately \$460,000 per year. On the acquisition date, the provisional fair value of the non-controlling interest was estimated to be approximately \$26,000. This amount was based upon the gross consideration that would have been paid assuming 100% of the outstanding stock had been acquired.

From the September 12, 2016 acquisition date through September 30, 2016, BiOptix revenues and net loss were approximately \$1,900 and \$107,000, respectively. Amortization expense amounted to approximately \$20,000 for each of the three and nine months ended September 30, 2016.

The following unaudited pro forma information presents the results of operations for the nine months ended September 30, 2016 and 2015, as if the acquisition of BiOptix had occurred on each of January 1, 2016 and 2015, respectively:

	Year to Date period ended September 30,	
	2016	2015
Total revenues	\$ 191,577	639,944
Net (loss) attributable to Venaxis	\$ (4,527,483)	\$ (8,380,348)
Basic and diluted loss per share	\$ (1.01)	\$ (1.86)

As of September 30, 2016, Venaxis incurred a total of approximately \$106,000 in advisory and legal fees related to the acquisition of BiOptix, which, are reported in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations for the three and nine months ended September 30, 2016.

As of September 30, 2016 inventories acquired in connection with the BiOptix acquisition totaled \$412,106, consisting of \$118,734 in raw materials, \$27,553 in work in process and \$265,819 in finished goods.

### Note 3. Property and equipment:

Property and equipment consisted of the following:

	September 30, 2016 (Unaudited)	December 31, 2015
Land and improvements	\$ -	\$ 1,107,508
Building	-	2,589,231
Building improvements	-	253,526
Laboratory equipment	92,402	848,014
Office and computer equipment	117,259	318,254
	209,661	5,116,533
Less accumulated depreciation	114,274	3,162,037
	\$ 95,387	\$ 1,954,496

Depreciation expense totaled approximately \$5,200 and \$36,000, and \$5,900 and \$114,000, for the three and nine month periods ended September 30, 2016 and 2015, respectively.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land, building and certain fixtures and equipment to a third party for a purchase price of approximately \$4,000,000. The sale resulted in a gain of approximately \$1,900,000 and generated approximately \$1,700,000 in net cash after expenses and mortgage payoffs. The Company is leasing back space in the building under a short-term lease agreement that provide storage space.

**Note 4. Other long-term assets:**

Other long-term assets consisted of the following:

	<b>September 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
Patents, trademarks and applications, net of accumulated amortization of \$575,092 and \$548,327, respectively	\$ 891,317	\$ 1,136,410
Long-term deposits	37,000	-
Goodwill	387,239	387,239
	<u>\$ 1,315,556</u>	<u>\$ 1,523,649</u>

The Company capitalizes legal costs and filing fees associated with obtaining patents on its new discoveries. Once the patents have been issued, the Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. Based upon the current status of the above intangible assets, the aggregate amortization expense is estimated to be approximately \$81,000 for each of the next five fiscal years. The Company tests intangible assets with finite lives for impairment upon significant changes in the Company's business environment. The testing resulted in net patent impairment charges of \$32,000 and \$200,000 for the three and nine month periods, respectively, ended September 30, 2016 and no patent impairment charges for the three month period ended September 30, 2015 and \$5,000 in patent impairment charges for the nine month period ended September 30, 2015. The impairment charges are related to the Company's ongoing analysis of which specific country patents in its portfolio are determined as potentially worth pursuing.

**Note 5. Notes and Other Obligations:**

Notes payable and other obligations consisted of the following:

	<b>September 30, 2016 (Unaudited)</b>	<b>December 31, 2015</b>
Mortgage notes	\$ -	\$ 1,997,701
Other short-term installment obligations	222,135	142,328
	222,135	2,140,029
Less current portion	222,135	301,250
	<u>\$ -</u>	<u>\$ 1,838,779</u>

**Mortgage notes:**

Prior to the February 2016 sale of the corporate headquarters, the Company had a permanent mortgage on its land and building that was refinanced in May 2013. The mortgage was held by a commercial bank and included a portion guaranteed by the U. S. Small Business Administration ("SBA"). The loan was collateralized by the real property and the SBA portion was also personally guaranteed by a former officer of the Company. The commercial bank loan terms included a payment schedule based on a fifteen year amortization, with a balloon maturity at five years. The commercial bank portion had an interest rate fixed at 3.95%, and the SBA portion bore interest at the rate of 5.86%. The commercial bank portion of the loan required total monthly payments of approximately \$11,700, which included approximately \$4,500 per month in interest. The SBA portion of the loan required total monthly payments of approximately \$9,000 through July 2023, which included approximately \$3,500 per month in interest and fees in 2016.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land and building, and also paid off its mortgage obligations. See Note 3.

**Future maturities:**

The Company's total debt obligations require minimum annual principal payments of approximately \$82,000 for the remainder of 2016 and \$140,000 in 2017, through the terms of the applicable debt agreements.

**Note 6. Stockholders' equity:**

On September 12, 2016, the Company issued an aggregate of 627,010 shares of common stock of the Company as consideration for the acquisition of the Preferred Stock of BiOptix, thereby making BiOptix a majority-owned subsidiary of the Company. The sale of the Shares was effected as a private placement transaction. See Note 2.

Upon the completion of a special shareholders meeting on March 24, 2016, where such action was approved by shareholders, the Board of Directors authorized the Reverse Stock Split at a ratio of one-for-eight, whereby each eight shares of common stock were combined into one share of common stock. The Reverse Stock Split was implemented and effective on March 31, 2016. All historical references to shares and share amounts in this report have been retroactively revised to reflect the Reverse Stock Split. Following the Reverse Stock Split, the Company regained its compliance with the Nasdaq minimum bid price requirement, allowing its common stock to continue to be listed on the Nasdaq Capital Market.

**Note 7. Stock options and warrants:****Stock options:**

The Company currently provides stock-based compensation to employees, directors and consultants, both under the Company's 2002 Stock Incentive Plan, as amended (the "Plan"), and non-qualified options and warrants issued outside of the Plan. During September 2015, the Company's shareholders approved amendments to the Plan to increase the number of shares reserved under the Plan from 459,141 to 709,141. The Company estimates the fair value of the share-based awards on the date of grant using the Black-Scholes option-pricing model (the "Black-Scholes model"). Using the Black-Scholes model, the value of the award that is ultimately expected to vest is recognized over the requisite service period in the statement of operations. Option forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company attributes compensation to expense using the straight-line single option method for all options granted.

The Company's determination of the estimated fair value of share-based payment awards on the date of grant is affected by the following variables and assumptions:

- Grant date exercise price – the closing market price of the Company's common stock on the date of the grant;
- Estimated option term – based on historical experience with existing option holders;
- Estimated dividend rates – based on historical and anticipated dividends over the life of the option;
- Term of the option – based on historical experience, grants have lives of approximately 3-5 years;
- Risk-free interest rates – with maturities that approximate the expected life of the options granted;
- Calculated stock price volatility – calculated over the expected life of the options granted, which is calculated based on the daily closing price of the Company's common stock over a period equal to the expected term of the option; and
- Option exercise behaviors – based on actual and projected employee stock option exercises and forfeitures.

The Company recognized total expenses for stock-based compensation during the three and nine months ended September 30, 2016 and 2015, which are included in the accompanying condensed consolidated statements of operations, in the following categories:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Selling, general and administrative expenses	\$ 144,187	\$ 214,848	\$ 365,899	\$ 910,854
Research and development expenses	-	23,236	2,560	108,213
<b>Total stock-based compensation</b>	<b>\$ 144,187</b>	<b>\$ 238,084</b>	<b>\$ 368,459</b>	<b>\$ 1,019,067</b>

During the nine months ended September 30, 2016 and 2015, respectively, no options were exercised.

**Stock incentive plan options:**

The Company currently provides stock-based compensation to employees, directors and consultants under the Plan. The Company utilized assumptions in the estimation of fair value of stock-based compensation for the nine months ended September 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Dividend yield	0%	0%
Expected price volatility	99-100%	93%
Risk free interest rate	1.20%	1.39%
Expected term	5 years	5 years

A summary of activity under the Plan for the nine months ended September 30, 2016 is presented below:

	<u>Shares Underlying Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2016	332,560	\$ 35.36		
Granted	227,000	2.89		
Exercised	-	-		
Forfeited	(25,445)	36.30		
Outstanding at September 30, 2016	<u>534,115</u>	<u>\$ 21.55</u>	7.9	<u>\$ 31,780</u>
Exercisable at September 30, 2016	<u>355,403</u>	<u>\$ 30.61</u>	7.0	<u>\$ 8,085</u>

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on September 30, 2016.

During the nine months ended September 30, 2016, 77,000 options were issued to non-employee directors under the Plan, exercisable at an average of \$2.89 per share. The options expire ten years from the date of grant and vest 50% upon on the date of grant, and 25% on each of July 1, 2016 and October 1, 2016.

During the nine months ended September 30, 2016, 150,000 options were issued to officers and employees under the Plan, exercisable at an average of \$2.89 per share. The options expire ten years from the date of grant and vest 50% upon each of the nine month and the one year anniversary of the grant date.

During the nine months ended September 30, 2015, 43,000 options were issued to non-employee directors under the Plan, exercisable at an average of \$15.12 per share. The options expire ten years from the date of grant and vested over one year, with 25% vesting on the date of grant, and an additional 25% vesting on each of April 1, 2015, July 1, 2015, and October 1, 2015.

During the nine months ended September 30, 2015, 93,813 options were issued to officers and employees under the Plan, exercisable at an average of \$15.12 per share. The options expire ten years from the date of grant and vest over two years with 50% vesting upon the nine month anniversary of grant date and the remaining balance vesting over the following nine quarters in arrears.

During the nine months ended September 30, 2016, a total of 25,445 options that were granted under the Plan were forfeited, of which 21,825 were vested and 3,620 were unvested. The vested options were exercisable at an average of \$39.81 per share and the unvested options were exercisable at an average of \$15.13 per share. During the nine months ended September 30, 2015, a total of 27,178 options that were granted under the Plan were forfeited, of which 4,644 were vested and 22,534 were unvested. The vested options were exercisable at an average of \$90.88 per share and the unvested options were exercisable at an average of \$16.40 per share.

The total fair value of stock options granted to employees, directors and consultants that vested and became exercisable during the nine months ended September 30, 2016 and 2015, was approximately \$363,000 and \$461,000, respectively. Based upon the Company's experience, approximately 80% of the outstanding nonvested stock options, or approximately 143,000 options, are expected to vest in the future, under their terms.

A summary of the activity of nonvested options under the Plan to acquire common shares granted to employees, officers, directors and consultants during the nine months ended September 30, 2016 is presented below:

<b>Nonvested Shares</b>	<b>Nonvested Shares Underlying Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at January 1, 2016	33,336	\$ 15.54	\$ 11.41
Granted	227,000	2.89	2.13
Vested	(78,004)	6.25	4.65
Forfeited	(3,620)	15.13	10.75
Nonvested at September 30, 2016	<u>178,712</u>	<u>\$ 3.54</u>	<u>\$ 2.59</u>

At September 30, 2016, based upon employee, officer, director and consultant options granted under the Plan to that point, there was approximately \$201,000 of additional unrecognized compensation cost related to stock options that will be recorded over a weighted average future period of one year.

**Other common stock purchase options and warrants:**

As of September 30, 2016, in addition to the Plan options discussed above, the Company had outstanding 527,003 non-qualified options and warrants in connection with offering warrants, an officer's employment, and options issued to six new employees, hired in connection with the Company's acquisition of BiOptix that were not issued under the Plan.

During the nine month period ended September 30, 2016, 95,000 options were granted outside of the Plan and during the nine month period ended September 30, 2015, no stock options were granted outside of the Plan. Operating expenses for the nine months ended September 30, 2016 included \$2,961 related to stock-based compensation and the nine months ended September 30, 2015 did not include any value related to stock-based compensation of non-qualified options and warrants.

Following is a summary of outstanding options and warrants that were issued outside of the Plan for the nine months ended September 30, 2016:

	<u>Shares Underlying Options / Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at January 1, 2016	432,003	\$ 15.47		
Granted	95,000	3.78		
Exercised	-	-		
Forfeited	-	-		
Outstanding at September 30, 2016	<u>527,003</u>	<u>\$ 13.36</u>	3.0	<u>\$ -</u>
Exercisable at September 30, 2016	<u>432,003</u>	<u>\$ 15.47</u>	1.5	<u>\$ -</u>

During September 2016, non-qualified stock options made outside of the Company's 2002 Stock Incentive Plan, were issued to six new employees, hired in connection with the Company's acquisition of BiOptix, to purchase an aggregate of 95,000 shares of common stock. The exercise price of the stock options granted is \$3.78 per share, the options are subject to a two year vesting schedule with 50% of each of the stock options vesting and becoming exercisable at the six month anniversary of the date of grant, and the balance of the options vesting ratably in quarterly installments over the following six quarters. The stock options have a term of ten years after the date of grant, subject to earlier termination of employment or cessation of service with the Company. At September 30, 2016, based upon compensatory options granted outside of the Plan to that point, there was approximately \$234,000 of additional unrecognized compensation cost related to stock options that will be recorded over a weighted average future period of approximately two years.

During the nine months ended September 30, 2016 and 2015, no warrants were exercised. Included at September 30, 2016 in the 527,003 total outstanding options are 429,503 non-compensatory rights, exercisable at an average of \$15.40 per common share, expiring through May 2018, granted in connection with public offerings, and 97,500 rights exercisable at an average of \$4.38 per common share, expiring through September 2021, issued under compensatory arrangements.

The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing stock price on September 30, 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders, had all option holders been able to, and in fact had, exercised their options on September 30, 2016.

## Note 8. Animal Health License Agreements:

Effective May 1, 2004, Washington University in St. Louis ("WU") and Venaxis entered into an Exclusive License Agreement ("WU License Agreement"), which grants Venaxis exclusive license and right to sublicense WU's technology (as defined under the WU License Agreement) for veterinary products worldwide, except where such products are prohibited under U.S. laws for export. The term of the WU License Agreement continues until the expiration of the last of WU's patents (as defined in the WU License Agreement) expire. Venaxis has agreed to pay minimum annual royalties of \$20,000 during the term of the WU License Agreement and such amounts are creditable against future royalties. Royalties payable to WU under the WU License Agreement for covered product sales by Venaxis carry a mid-single digit royalty rate and for sublicense fees received by Venaxis carry a low double-digit royalty rate. The WU License Agreement contains customary terms for confidentiality, prosecution and infringement provisions for licensed patents, publication rights, indemnification and insurance coverage. The WU License Agreement is cancelable by Venaxis with ninety days advance notice at any time and by WU with sixty days advance notice if Venaxis materially breaches the WU License Agreement and fails to cure such breach.

In July 2012, the Company entered into an Exclusive License Agreement (the "License Agreement") with Ceva Santé Animale S.A. ("Licensee"), pursuant to which the Company granted the Licensee an exclusive royalty-bearing license, until December 31, 2028, to the Company's intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (the "Company's Animal Health Assets"). The License Agreement is subject to termination by the Licensee (a) for convenience on 180 days prior written notice, (b) in the Licensee's discretion in the event of a sale or other disposal of the Company's animal health assets, (c) in the Licensee's discretion upon a change in control of the Company, (d) for a material breach of the License Agreement by the Company, or (e) in the Licensee's discretion, if the Company becomes insolvent. The License Agreement is also terminable by the Company if there is a material breach of the License Agreement by the Licensee, or if the Licensee challenges the Company's ownership of designated intellectual property. The License Agreement includes a sublicense of the technology licensed to the Company by WU. Under the terms of the WU License Agreement, a portion of license fees and royalties Venaxis receives from sublicensing agreements will be paid to WU. The obligation for such license fees due to WU is included in accrued expenses at September 30, 2016.

Under the License Agreement, the Licensee obtained a worldwide exclusive license to develop, seek regulatory approval for and offer to sell, market, distribute, import and export luteinizing hormone ("LH") and/or follicle-stimulating hormone ("FSH") products for bovine (cattle), equine and swine in the field of the assistance and facilitation of reproduction in bovine, equine and swine animals.

Under the License Agreement, as of September 30, 2016, the following future milestone payments are provided, assuming future milestones are successfully achieved:

- Milestone payments, totaling up to a potential of \$1.1 million in the aggregate, based on the satisfactory conclusion of milestones as defined in the License Agreement;
- Potential for milestone payments of up to an additional \$2 million for development and receipt of regulatory approval for additional licensed products; and
- Royalties, at low double digit rates, based on sales of licensed products.

Revenue recognition related to the License Agreement and WU License Agreement is based primarily on the Company's consideration of ASC 808-10-45, *"Accounting for Collaborative Arrangements."* For financial reporting purposes, the license fees and milestone payments received from the License Agreement, net of the amounts due to third parties, including WU, have been recorded as deferred revenue and are amortized over the term of the License Agreement. License fees and milestone revenue totaling a net of approximately \$1,500,000 commenced being amortized into income upon the July 2012 date of milestone achievement. As of September 30, 2016, deferred revenue of \$96,698 has been classified as a current liability and \$1,089,490 has been classified as a long-term liability. The current liability represents the next twelve months' portion of the amortizable milestone revenue. During the nine months ended September 30, 2016 and 2015, \$72,524 and \$72,524, respectively was recorded as the amortized license fee revenue arising from the Ceva License Agreement. During the three months ended September 30, 2016 and 2015, \$24,175 and \$24,175, respectively was recorded as the amortized license fee revenue arising from the Ceva License Agreement.



A tabular summary of the revenue categories and cumulative amounts of revenue recognition associated with the License Agreement follows:

Category	Totals
License fees and milestone amounts paid / achieved	\$ 1,920,000
Third party obligations recorded, including WU	(363,700)
Deferred revenue balance	1,556,300
Revenue amortization to September 30, 2016	(370,112)
Net deferred revenue balance at September 30, 2016	\$ 1,186,188

Commencement of license fees revenue recognition	Upon signing or receipt
Commencement of milestone revenue recognition	Upon milestone achievement over then remaining life
Original amortization period	197 months

#### **Note 9. Commitments and contingencies:**

##### **Commitments:**

BiOptix has a lease commitment on its office and laboratory space that expires March 31, 2018. The agreement requires monthly base rent of \$15,711 and common area maintenance costs are currently \$10,145 per month.

As of September 30, 2016, the Company had employment agreements with two officers providing aggregate annual minimum commitments totaling \$655,000. The agreements automatically renew at the end of each year unless terminated by either party and contain customary confidentiality and benefit provisions.

Venaxis determined in the first quarter of 2016 to begin winding down and ceasing its *APPY1* commercial activities, due to continuing limited sales and losses from the European operations. This decision also resulted in a reduction of the Company's workforce, which was implemented as of January 31, 2016. In February 2016, Venaxis sent notices to its four European distributors informing them of the wind-down and, therefore, the termination of their distribution agreements. Two of the distributors, linked by common management / ownership, subsequently communicated to Venaxis that they disputed that Venaxis had the right to terminate the agreements. In August 2016, the parties resolved their dispute, with no admission of liability by either party. The terms of the settlement are confidential.

##### **Contingencies:**

In the ordinary course of business and in the general industry in which the Company is engaged, it is not atypical to periodically receive a third party communication which may be in the form of a notice, threat, or "cease and desist" letter concerning certain activities. For example, this can occur in the context of the Company's pursuit of intellectual property rights. This can also occur in the context of operations such as the using, making, having made, selling, and offering to sell products and services, and in other contexts. The Company makes rational assessments of each situation on a case-by-case basis as such may arise. The Company periodically evaluates its options for trademark positions and considers a full spectrum of alternatives for trademark protection and product branding.

We are currently not a party to any legal proceedings, the adverse outcome of which would, in our management's opinion, have a material adverse effect on our business, financial condition and results of operations.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Management's plans and basis of presentation:

The Company has experienced recurring losses and negative cash flows from operations. At September 30, 2016, the Company had approximate balances of cash and liquid investments of \$14,863,000, working capital of \$14,441,000, total stockholders' equity of \$17,030,000 and an accumulated deficit of \$107,569,000. To date, the Company has in large part relied on equity financing to fund its operations. The Company expects to continue to incur losses from operations for the near-term and these losses could be significant as we incur increased costs and expenses associated with the BiOptix operations (see below), and public company and administrative related expenses are incurred. The Company believes that its current working capital position will be sufficient to meet its estimated cash needs into 2017. The Company is closely monitoring its cash balances, cash needs and expense levels.

As of January 26, 2016, Venaxis publicly disclosed that it had entered into a series of agreements, including a Master Agreement, for a combination transaction (the "Strand transaction") with Strand Life Sciences Private Limited and its shareholders ("Strand"). Strand is privately-held, and operates clinical reference labs in the U.S. and in India, providing testing and lab services in India and other worldwide markets. Strand has commercialized a next generation sequencing (NGS) based, targeted, multi-gene, pan-cancer diagnostic panel in select international markets and has engaged in initial commercialization activities in the United States. On March 11, 2016, Venaxis and Strand entered into a Mutual Termination Agreement to terminate the series of agreements. Pursuant to the Mutual Termination Agreement, each of the parties was relieved of any obligations or responsibilities under the Master Agreement and other transaction agreements. Each party remains responsible for its respective transaction-related expenses. Following the recent termination of the Strand transaction, the Company began evaluating potential strategic alternatives.

Based upon the primary criteria established as part of the strategic evaluation process, as of September 12, 2016, the Company completed the strategic acquisition of BiOptix Diagnostics, Inc. ("BiOptix"), a privately-held entity. As a result, the Company now owns more than 98% of the outstanding voting stock of BiOptix, and BiOptix has become a majority-owned subsidiary of the Company. Under the terms of a Stock Purchase Agreement, dated September 12, 2016, among the Company and all of the holders of the BiOptix preferred stock (the "Purchase Agreement"), the consideration consisted of an aggregate of 627,010 shares of the Company's common stock valued at approximately \$2,577,000.

Management's strategic plans include the following:

- focusing on the BiOptix business plan to advance on commercial and development activities to increase the value of the operation;
- exploring prospective partnering or licensing opportunities with appreciable opportunities and technologies;
- continuing to evaluate options to monetize, partner or license the Company's appendicitis product portfolio; and
- continuing to implement cost control initiatives to conserve cash.

As part of the Company's process to identify possible strategic partners, several targets were identified that the Company assessed as possibly having a business model that could be interested in discussions with Venaxis for potentially acquiring or licensing the appendicitis assets. Venaxis has made initial contact with several of these parties to gauge their interest level, which initially is more focused on the *APPY2* development assets. Management believes that the estimated potential market for an appendicitis test continues to be significant. If Venaxis is unable to locate a new strategic target, a partner or other third-party interested in advancing development and commercial activities of the Venaxis appendicitis portfolio, the capitalized costs on the Company's balance sheet, totaling approximately \$335,000, as of September 30, 2016 for the acute appendicitis patents may be deemed impaired.

## Acquisition of BiOptix Diagnostics, Inc.

As part of our business strategy, we completed the acquisition of BiOptix as of September 12, 2016. The accompanying consolidated results of operations and cash flows include the results of BiOptix from the September 12, 2016 acquisition date through September 30, 2016.

## Results of Operations

### Comparative Results for the Nine Months Ended September 30, 2016 and 2015

Sales of \$1,900 were recorded for the nine months ended September 30, 2016, related to the activities of BiOptix, as compared to sales of \$93,000 in the 2015 period related to *APPY1* sales in the EU. The decrease in the 2016 period is attributed to the wind-down of the *APPY1* activities.

Cost of sales were \$1,500 (81% of revenue) for the nine months ended September 30, 2016 related to the activities of BiOptix, and \$27,000 (29% of revenue) for the nine months ended September 30, 2015 related to *APPY1* sales in the EU. The decrease in the 2016 period is attributed to the wind-down of the *APPY1* activities.

During each of the nine month periods ended September 30, 2016 and 2015, \$73,000 of license payments under the Exclusive License Agreement (the "License Agreement") with Ceva Santé Animale S.A. ("Licensee") was recognized as revenue. See further discussion regarding the License Agreement below under the heading "Liquidity and Capital Resources."

Selling, general and administrative expenses in the nine months ended September 30, 2016 totaled \$3,568,000, which is an approximately \$681,000, or 16%, decrease as compared to the 2015 period. Commercialization and marketing expenses decreased by approximately \$145,000 and compensation related expenses decreased by approximately \$589,000 in the 2016 period as the Company wound down *APPY1* commercialization activities. These decreases were offset by expenses attributable to the BiOptix operations of approximately \$129,000, for the period after acquisition and increases in accrued incentives of \$524,000 over the prior year's period. Stock based compensation also decreased by approximately \$545,000 for the nine months ended September 30, 2016, as compared to the 2015 period due to fewer options being granted to directors, management and employees. Legal expenses decreased by \$67,000 for the 2016 period due to less legal services on various matters. A decrease of \$271,000 in general overhead expenses was due to the continued wind down of the Venaxis operations. These decreases were offset by an increase in strategic evaluation costs of approximately \$283,000 related to the termination of the Strand transaction and evaluation of possible alternatives.

Research and development expenses in the nine months ended September 30, 2016 totaled \$500,000, which is an approximately \$1,186,000, or 70%, decrease as compared to the 2015 period. A decrease of \$1,365,000 was due primarily to winding down development and commercialization of *APPY2* and *APPY1* operations, including a decrease of \$659,000 due to staff reductions. These decreases were partially offset by an increase in patent impairment costs of approximately \$179,000.

Interest expense for the nine months ended September 30, 2016 decreased to \$28,000, compared to \$75,000 in the 2015 period. The decrease is attributed to the payoff of the mortgage loans through the sale of the land and building in the first quarter of 2016. For the nine months ended September 30, 2016, the Company recorded investment income of approximately \$103,000, compared to investment income of \$69,000 in the 2015 period.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land, building and certain fixtures and equipment to a third party at a purchase price of \$4,053,000. The sale resulted in a gain of approximately \$1,900,000 and generated approximately \$1,700,000 in net cash after expenses and mortgage payoffs. The Company is leasing back space in the building under a short-term lease agreement that provide storage space.

No income tax benefit was recorded on the net loss for the nine months ended September 30, 2016 and 2015, as management was unable to determine that it was more likely than not that such benefit would be realized.

## Comparative Results for the Three Months Ended September 30, 2016 and 2015

Sales of \$1,900 were recorded for the three months ended September 30, 2016, related to the activities of BiOptix, as compared to sales of \$57,000 in the 2015 period related to *APPY1* sales in the EU. The decrease in the 2016 period is attributed to the wind-down of the *APPY1* activities.

Cost of sales were \$1,500 (81% of revenue) for the three months ended September 30, 2016 related to the activities of BiOptix, and \$15,000 (26% of revenue) for the three months ended September 30, 2015 related to *APPY1* sales in the EU. The decrease in the 2016 period is attributed to the wind-down of the *APPY1* activities.

During each of the three month periods ended September 30, 2016 and 2015, \$24,000 of license payments under the License Agreement was recognized as revenue.

Selling, general and administrative expenses in the three months ended September 30, 2016 totaled \$1,715,000, which is an approximately \$484,000, or 39%, increase, compared to the 2015 period. Commercialization, marketing, and public related expenses decreased by approximately \$17,000 in the 2016 period as the Company scaled back on its U.S. commercialization activities due to the FDA's January 2015 determination that the Company's *APPY1* Test did not meet the criteria for market clearance as a class II medical device. Stock based compensation also decreased by approximately \$71,000 due to fewer options being granted to directors, management and employees. General operating expenses decreased by \$119,000 primarily due to the sale of the land and building in early 2016. These decreases were offset by expenses attributable to the BiOptix operations of approximately \$129,000 for the period after acquisition and increased accrued incentives of \$524,000 over the prior year's period. Additionally, legal expenses increased by approximately \$276,000 for the 2016 period due to costs associated with shareholder matters and related to the acquisition of BiOptix. Strategic evaluation costs decreased by \$134,000 for the current period due to lower level of strategic and diligence activities in the 2016 period. Compensation related expenses decreased by approximately \$104,000 due to staff reductions in early 2016.

Research and development expenses in the three months ended September 30, 2016 totaled \$54,000, which is an approximately \$372,000, or 87%, decrease, compared to the 2015 period. A decrease of \$406,000 was due primarily to winding down development and commercialization of *APPY2* and *APPY1* operations, including a decrease of \$245,000 due to staff reductions. These decreases were partially offset by an increase in patent impairment costs of approximately \$34,000.

Interest expense for the three months ended September 30, 2016 decreased to \$2,000, compared to \$25,000 in the 2015 period. For the three months ended September 30, 2016, the Company recorded an investment income of approximately \$24,000, compared to an investment loss of \$33,000 in the 2015 period.

## Liquidity and Capital Resources

At September 30, 2016, we had working capital of \$14,441,000, which included cash, cash equivalents and short-term investments of \$14,863,000. We reported a net loss of \$1,987,000 during the nine months ended September 30, 2016, which included \$1,340,000 in non-cash items consisting of stock-based compensation totaling \$368,000, depreciation and amortization totaling \$97,000, and impairment of patent costs of \$200,000, a net of gain on sale of property and equipment totaling \$1,933,000, and amortization of license fees totaling \$72,000.

We expect to continue to incur losses from operations for the near-term and these losses could be significant as we incur increased costs and expenses associated with the BiOptix operations. We believe that our current working capital position will be sufficient to meet our estimated cash needs into 2017. We may pursue potential additional financing opportunities. However, there can be no assurance that we will be able to obtain sufficient additional financing on terms acceptable to us, if at all. We are closely monitoring our cash balances, cash needs and expense levels. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that might result in our possible inability to continue as a going concern.

In July 2012, we entered into the License Agreement with the Licensee, pursuant to which we granted the Licensee an exclusive royalty-bearing license, until December 31, 2028, to our intellectual property and other assets, including patent rights and know-how, relating to recombinant single chain reproductive hormone technology for use in non-human mammals (the "Company's Animal Health Assets"). The License Agreement is subject to termination by the Licensee (a) for convenience on 180 days prior written notice, (b) in the Licensee's discretion in the event of a sale or other disposal of the Company's Animal Health Assets, (c) in the Licensee's discretion upon a change in control of the Company, (d) for a material breach of the License Agreement by us, or (e) in the Licensee's discretion, if we become insolvent. The License Agreement is also terminable by us if there is a material breach of the License Agreement by the Licensee, or if the Licensee challenges our ownership of designated intellectual property. The License Agreement includes a sublicense of the technology licensed to the Company by WU. Under the terms of the WU License Agreement, a portion of license fees and royalties we receive from sublicensing agreements will be paid to WU. The obligation for such license fees due to WU is included in accrued expenses at September 30, 2016.

Under the License Agreement, as of September 30, 2016, the following future milestone payments are provided, assuming future milestones are successfully achieved:

- Milestone payments, totaling up to a potential of \$1.1 million in the aggregate, based on the satisfactory conclusion of milestones as defined in the License Agreement;
- Potential for milestone payments of up to an additional \$2 million for development and receipt of regulatory approval for additional licensed products; and
- Royalties, at low double digit rates, based on sales of licensed products.

The Company periodically enters into generally short-term consulting agreements, which at this time are primarily for assistance with our strategic evaluations. Such commitments at any point in time may be significant but the agreements typically contain cancellation provisions.

Prior to the February 2016 sale of its corporate headquarters, the Company had a permanent mortgage on its land and building that was refinanced in May 2013. The mortgage was held by a commercial bank and included a portion guaranteed by the U. S. Small Business Administration ("SBA"). The loan was collateralized by the real property and the SBA portion was also personally guaranteed by a former officer of the Company. The commercial bank loan terms included a payment schedule based on a fifteen year amortization, with a balloon maturity at five years. The commercial bank portion had an interest rate fixed at 3.95%, and the SBA portion bore interest at the rate of 5.86%. The commercial bank portion of the loan required total monthly payments of approximately \$11,700, which included approximately \$4,500 per month in interest. The SBA portion of the loan required total monthly payments of approximately \$9,000 through July 2023, which included approximately \$3,500 per month in interest and fees in 2016.

On February 25, 2016, the Company completed the sale of its corporate headquarters, land, building and certain fixtures and equipment to a third party at a purchase price of \$4,053,000. The sale resulted in a gain of approximately \$1,900,000 and generated approximately \$1,700,000 in net cash after expenses and mortgage payoffs. The Company is leasing back space in the building under a short-term lease agreement that provide storage space.

Venaxis determined in the first quarter of 2016 to begin winding down and ceasing its *APPY1* commercial activities, due to continuing limited sales and losses from the European operations. This decision also resulted in a reduction of the Company's workforce, which was implemented as of January 31, 2016. In February 2016, Venaxis sent notices to its four European distributors informing them of the wind-down and therefore the termination of their distribution agreements. Two of the distributors, linked by common management / ownership, subsequently communicated to Venaxis that they disputed that Venaxis had the right to terminate the agreements. In August 2016, the parties resolved their dispute, with no admission of liability by either party. The terms of the settlement are confidential.

Due to recent market events that have adversely affected all industries and the economy as a whole, management has placed increased emphasis on monitoring the risks associated with the current environment, particularly the investment parameters of the short-term investments, the recoverability of current assets, the fair value of assets, and the Company's liquidity. At this point in time, there has not been a material impact on the Company's assets and liquidity. Management will continue to monitor the risks associated with the current environment and their impact on the Company's results.

## Operating Activities

Net cash consumed by operating activities was \$3,841,000 during the nine months ended September 30, 2016. Cash was consumed by the loss of \$1,987,000, less non-cash expenses of \$665,000 for stock-based compensation, depreciation and amortization, and impairment of patent costs, offset by the gain on sale of property and equipment of \$1,933,000 and amortization of license fees totaling \$73,000. Increases in prepaid and other current assets of \$224,000 used cash, primarily related to routine changes in operating activities. There was a \$738,000 decrease in accounts payable and accrued expenses in the nine months ended September 30, 2016, primarily due to the payment of 2015 accrued incentives in early 2016, and a reduction in overall expenses due to the wind-down of the *APPY1* activities.

Net cash consumed by operating activities was \$5,216,000 during the nine months ended September 30, 2015. Cash was consumed by the loss of \$5,803,000, less non-cash expenses of \$1,218,000 for stock-based compensation, depreciation and amortization, and other non-cash charges, offset by the amortization of license fees totaling \$73,000. The overall net decrease in prepaid and other current assets provided cash of \$237,000, which is related due primarily to routine changes in operating activities. There was a \$737,000 decrease in accounts payable and accrued expenses in the nine months ended September 30, 2015, primarily due to a decrease in the level of development activities, clinical and regulatory operations and accrued compensation.

## Investing Activities

Net cash inflows from investing activities provided \$4,505,000 during the nine months ended September 30, 2016. Sales of marketable securities investments totaling approximately \$16,523,000 provided cash net of marketable securities purchased totaling approximately \$13,819,000. A \$14,000 use of cash was attributable to additional costs incurred from patent filings. The sale of the land, building and assets generated approximately \$1,799,000 in cash. As part of the BiOptix acquisition \$17,000 in cash was acquired.

Net cash inflows from investing activities provided \$5,237,000 during the nine months ended September 30, 2015. Sales of marketable securities investments totaled approximately \$26,505,000 and marketable securities purchased totaled approximately \$21,208,000. A \$60,000 use of cash was attributable to additional costs incurred from patent filings.

## Financing Activities

Net cash outflows from financing activities consumed \$229,000 during the nine months ended September 30, 2016 in scheduled payments under debt agreements.

Net cash outflows from financing activities consumed \$330,000 during the nine months ended September 30, 2015 in scheduled payments under its debt agreements.

## Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements. The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with revenue recognition, impairment analysis of intangibles and stock-based compensation.

The Company's financial position, results of operations and cash flows are impacted by the accounting policies the Company has adopted. In order to get a full understanding of the Company's financial statements, one must have a clear understanding of the accounting policies employed. A summary of the Company's critical accounting policies follows:

**Investments:** The Company invests excess cash from time to time in highly liquid debt and equity securities of highly rated entities which are classified as trading securities. Such amounts are recorded at market and are generally classified as current, as the Company does not intend to hold the investments beyond twelve months. Such excess funds are invested under the Company's investment policy but an unexpected decline or loss could have an adverse and material effect on the carrying value, recoverability or investment returns of such investments. Our Board has approved an investment policy covering the investment parameters to be followed with the primary goals being the safety of principal amounts and maintaining liquidity of the fund. The policy provides for minimum investment rating requirements as well as limitations on investment duration and concentrations.

**Inventories:** Inventories acquired as part of the BiOptix purchase are stated at the lower of cost or market. Cost is determined on the first-in, first-out (FIFO) method. The elements of cost in inventories include materials, labor and overhead. The Company does not have supply agreements in place for the certain of the BiOptix raw material and in-process purchases but believes that there are alternative suppliers for our materials. Management believes that its relationship with its suppliers is good. If certain of the relationship were needed to be replaced they may be a short term disruption to the base business and operations, a period of time in which products would not be available and additional expenses may be incurred.

**Intangible Assets:** Intangible assets primarily represent legal costs and filings associated with obtaining patents on the Company's new discoveries. The Company amortizes these costs over the shorter of the legal life of the patent or its estimated economic life using the straight-line method. The Company tests intangible assets with finite lives upon significant changes in the Company's business environment. The testing resulted in \$200,000 net patent impairment charges written off during the nine month periods ended September 30, 2016 and \$5,000 for the nine months ended September 30, 2015.

**Long-Lived Assets:** The Company records property and equipment at cost. Depreciation of the assets is recorded on the straight-line basis over the estimated useful lives of the assets. Dispositions of property and equipment are recorded in the period of disposition and any resulting gains or losses are charged to income or expense when the disposal occurs. The Company reviews for impairment whenever there is an indication of impairment.

**Revenue Recognition:** The Company's revenues are recognized when products are shipped or delivered to unaffiliated customers. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104 provides guidance on the application of GAAP to select revenue recognition issues. The Company has concluded that its revenue recognition policy is appropriate and in accordance with SAB No. 104. Revenue is recognized under sales, license and distribution agreements only after the following criteria are met: (i) there exists adequate evidence of the transactions; (ii) delivery of goods has occurred or services have been rendered; and (iii) the price is not contingent on future activity; and (iv) collectability is reasonably assured.

**Stock-based Compensation:** ASC 718, *Share-Based Payment*, defines the fair-value-based method of accounting for stock-based employee compensation plans and transactions used by the Company to account for its issuances of equity instruments to record compensation cost for stock-based employee compensation plans at fair value as well as to acquire goods or services from non-employees. Transactions in which the Company issues stock-based compensation to employees, directors and consultants and for goods or services received from non-employees are accounted for based on the fair value of the equity instruments issued. The Company utilizes pricing models in determining the fair values of options and warrants issued as stock-based compensation. These pricing models utilize the market price of the Company's common stock and the exercise price of the option or warrant, as well as time value and volatility factors underlying the positions.

**Recently issued and adopted accounting pronouncements :**

The Company has evaluated all recently issued accounting pronouncements and believes such pronouncements do not have a material effect on the Company's financial statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **General**

We have limited exposure to market risks from instruments that may impact the Balance Sheets, Statements of Operations, and Statements of Cash Flows. Such exposure is due primarily to changing interest rates.

#### **Interest Rates**

The primary objective for our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This is accomplished by investing excess cash in highly liquid debt and equity investments of highly rated entities which are classified as trading securities. As of September 30, 2016, approximately 9% of the investment portfolio was in cash and cash equivalents with very short-term maturities and therefore not subject to any significant interest rate fluctuations. We have no investments denominated in foreign currencies and therefore our investments are not subject to foreign currency exchange risk.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Management of the Company, including the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of the last day of the period of the accompanying financial statements. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of September 30, 2016.

### **Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are not a party to any legal proceedings, the adverse outcome of which would, in our management's opinion, have a material adverse effect on our business, financial condition and results of operations.

### Item 1A. Risk Factors

*The following risk factors supplement and update the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2015. If any of the following risks actually occur, they could materially adversely affect our business, financial condition or operating results. In that case, the trading price of our common stock could decline.*

#### Risks Related to Our Business

*We may not be successful in growing the BiOptix business.*

Following termination of the Strand transactions in the first quarter of 2016, management promptly turned its attention to an evaluation of other strategic alternatives available to us. Following such evaluation, we acquired majority voting control of BiOptix. BiOptix has developed an Enhanced Surface Plasmon Resonance ("SPR") instrument designed to increase the flexibility and reliability of SPR. BiOptix is in the early stages of commercializing its initial products. We need to recruit experienced sales and marketing personnel and develop strategies for marketing products outside of our traditional scope of experience. We may not be successful in identifying and successfully recruiting the necessary personnel, advancing the commercialization of the BiOptix products or increasing our revenues. If we are not able to make progress in our commercialization plans and grow the BiOptix business, our financial condition and results of operations will be materially adversely affected.

*If we cannot achieve sufficient margins for our BiOptix products, we may not be able to grow our revenues sufficiently to sustain our business.*

The commercial viability of our BiOptix products is the most significant factor impacting our future growth. Competition in our industry is intense and we need to provide commercially sustainable products. We are in the beginning stages of manufacturing our products. If we are not able to manufacture our products efficiently, and/or match customer demand, our margins may be below expectations and our revenue growth may be slower than expected, which could have a material adverse impact on our business.

*BiOptix is a small participant in a large market with a number of competitors, many of which are substantially larger than BiOptix. It will be difficult to establish a market position in such competitive market.*

BiOptix is a small participant in a large market with a number of competitors, many of which are substantially larger than BiOptix. Although the market for SPR products, such as the BiOptix products is large, there are a number of large market competitors, including GE Healthcare (Biacore), Ametek (Reichert SPR Sytem) and Danaher (ForteBio/Pall Corporation). It will be difficult for us to establish a market position in such competitive market. A number of our competitors have significantly greater financial, manufacturing, marketing and product development resources than we do. In addition there are a number of other competitors in the SPR market including SensiQ Technologies, Wasatch Microfluidics and Sierra Sensors GmbH.

We believe that our ability to successfully compete will depend on, among other things our ability to identify and gain access to potential customers, successfully manufacture and service our products, develop new or updated products to meet customer demand, competitively price our products in the current marketplace, and effectively sell and market our products. If our competitors market products that are more effective, easier to use or less expensive than our products or future products, or that reach the market sooner than our products, we may not achieve commercial success. In addition, the pharmaceutical, life science and industrial industries are characterized by rapid technological change. It may be difficult for us to stay abreast of the rapid changes. If we fail to stay competitive with technological changes, we may be unable to compete effectively. Technological advances or products developed by our competitors may render our technologies or products obsolete or less competitive.

***We may fail to realize some or all of the anticipated benefits of the BiOptix acquisition, which may adversely affect the value of our common stock.***

Our ability to successfully assume and grow the BiOptix business will depend on the successful execution of our commercialization and product development plans. If we are not able to achieve these objectives within a reasonable time frame, or at all, the anticipated benefits and cost savings of the acquisition may not be realized fully, or at all, or may take longer to realize than expected, and the value of our common stock may be adversely affected.

In addition, the shift to a new businesses is a complex, time-consuming and expensive process that, without proper planning and effective and timely implementation, could significantly adversely affect us.

***We have a history of operating losses, and we may not be able to achieve or sustain profitability.***

We were a diagnostics company and are now a research tools company with a limited operating history. We are not profitable and have incurred losses since our inception. We believe that our existing cash and cash equivalents, together with cash received from sales of our products, will be sufficient to meet our anticipated cash needs for at least the next 12 months.

We expect to continue to incur losses for the foreseeable future, and these losses will likely increase as we continue to develop and commercialize our products and product candidates. If our products fail in development, or if our products do not achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. We anticipate that, if needed, we will seek capital from other sources, such as equity offerings, at some point in the future. However, we cannot assure you that we will be successful in obtaining such additional financing on terms acceptable to the Company or at all. In addition, any sale of a substantial number of additional shares may cause dilution to our existing shareholders and could also cause the market price of our common stock to decline.

***We may be unable to retain key employees or recruit additional qualified personnel.***

Following our entry into the Master Agreement with Strand in January 2016, we were focused on trying to consummate the Strand transactions, therefore, we terminated the employment of all of our employees except for our CEO, CFO and a few other finance employees. We added 14 employees associated with the acquisition of BiOptix and have recently added three more and anticipate adding additional personnel in manufacturing, sales and other operational areas. Loss of personnel vital to the operations could have a significant material adverse effect on us.

#### **Risks Related to our Securities**

***Our common stock is listed on the NASDAQ Capital Market and we need to maintain the requisite qualitative and quantitative requirements for continued listing.***

In the past, the trading price of our common stock, no par value, did not meet the \$1.00 minimum bid price required by the NASDAQ Capital Market pursuant to NASDAQ Marketplace Rule 5550(a)(2), and we needed to effect a reverse stock split to regain compliance with the minimum bid price requirement. If the trading price of our common stock falls below the \$1.00 minimum bid requirement, or other changes cause us to lose our listing, that could result in negative consequences, such as a limited availability of market quotations for our common stock, a determination that the common stock is a "penny stock" which would require brokers trading in the common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for the common stock, a limited amount of analyst coverage and a decreased ability to issue additional securities or obtain additional financing in the future.

***We do not anticipate paying any dividends in the foreseeable future and, as a result, our investors' sole source of gain, if any, will depend on capital appreciation, if any.***

The Company does not intend to declare any dividends on our shares of common stock in the foreseeable future and currently intends to retain any future earnings for funding growth. As a result, investors should not rely on an investment in our securities if they require the investment to produce dividend income. Capital appreciation, if any, of our shares may be investors' sole source of gain for the foreseeable future. Moreover, investors may not be able to resell their shares of our common stock at or above the price they paid for them.

***Shareholders holding approximately 18% of our outstanding common stock have made a demand for a special meeting of shareholders, and made filings on Schedule 13D indicating their intent to effect a change in control of Venaxis. If such shareholders take action to effect a change of control of Venaxis in a transaction that we believe is not in the best interests of all of our shareholders, the resulting process will be public and expensive, will distract management from their focus on the operations of the Company and could have a material adverse effect on the trading price of our common stock and financial condition.***

Shareholders holding approximately 18% of our outstanding common stock have made a demand for a special meeting of shareholders, and made filings on Schedule 13D indicating their intent to effect a change in control of Venaxis. Our Board of Directors has determined that the demand for a special meeting was invalid when made. It is possible that such shareholders will make another demand for a special meeting, even though we have noticed and called for the 2016 Annual Meeting of Shareholders to be held on November 30, 2016. In addition, such shareholders, including Barry Honig and Catherine DeFrancesco, have expressed to the Company a number of ideas and suggestions for the future of the Company. Although we have evaluated such suggestions, to date we have not determined that any such potential paths were in the best interests of all of our shareholders. If such shareholders take action to effect a change of control of Venaxis in a transaction that we believe is not in the best interests of all of our shareholders, the resulting process will be public and expensive, will distract management from their focus on the operations of the Company and could have a material adverse effect on the trading price of our common stock and financial condition.

***Our stock price is volatile.***

Our common stock is currently traded on the NASDAQ Capital Market. The trading price of our common stock from time to time has fluctuated widely and may be subject to similar volatility, in the future. For example in the calendar year 2016 to date, our trading price has ranged from \$1.64 to \$4.54, and in the year ended December 31, 2015, our common stock traded as low as \$2.16 and as high as \$16.32. The trading price of our common stock in the future may be affected by a number of factors, including events described in these "Risk Factors." In recent years, broad stock market indices, in general, and smaller capitalization companies, in particular, have experienced substantial price fluctuations. In a volatile market, we may experience wide fluctuations in the market price of our common stock. These fluctuations may have a negative effect on the market price of our common stock. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A securities class action suit against us could result in substantial costs, potential liabilities and the diversion of management's attention and resources, and could have a material adverse effect on our financial condition.

*As a public company we are subject to complex legal and accounting requirements that require us to incur substantial expenses, and our financial controls and procedures may not be sufficient to ensure timely and reliable reporting of financial information, which, as a public company, could materially harm our stock price and listing on the NASDAQ Capital Market.*

As a public company, we are subject to numerous legal and accounting requirements that do not apply to private companies. The cost of compliance with many of these requirements is substantial, not only in absolute terms but, more importantly, in relation to the overall scope of the operations of a small company. Failure to comply with these requirements can have numerous adverse consequences including, but not limited to, our inability to file required periodic reports on a timely basis, loss of market confidence, delisting of our securities and/or governmental or private actions against us. We cannot assure you that we will be able to comply with all of these requirements or that the cost of such compliance will not prove to be a substantial competitive disadvantage vis-a-vis our privately held and larger public competitors.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") requires, among other things, that we maintain effective internal controls over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of Sarbanes-Oxley. Our compliance with Section 404 of Sarbanes-Oxley requires that we incur substantial accounting expense and expend significant management efforts. The effectiveness of our controls and procedures may in the future be limited by a variety of factors, including:

- faulty human judgment and simple errors, omissions or mistakes;
- fraudulent action of an individual or collusion of two or more people;
- inappropriate management override of procedures; and
- the possibility that any enhancements to controls and procedures may still not be adequate to assure timely and accurate financial information.

If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, we may be subject to NASDAQ delisting, investigations by the SEC and civil or criminal sanctions.

Our ability to successfully implement our business plan and comply with Section 404 requires us to be able to prepare timely and accurate financial statements. We expect that we will need to continue to improve existing, and implement new operational, financial and accounting systems, procedures and controls to manage our business effectively.

Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls may cause our operations to suffer, and we may be unable to conclude that our internal control over financial reporting is effective as required under Section 404 of Sarbanes-Oxley. If we are unable to complete the required Section 404 assessment as to the adequacy of our internal control over financial reporting, if we fail to maintain or implement adequate controls, our ability to obtain additional financing could be impaired. In addition, investors could lose confidence in the reliability of our internal control over financial reporting and in the accuracy of our periodic reports filed under the Exchange Act. A lack of investor confidence in the reliability and accuracy of our public reporting could cause our stock price to decline.

## **Item 6. Exhibits**

### **EXHIBIT DESCRIPTION**

2.1	Stock Purchase Agreement, dated as of September 12, 2016, by and among Venaxis, Inc., Venaxis Sub, Inc., as purchaser, BiOptix Diagnostics, Inc., the Sellers who are parties thereto, and the Seller Representative (incorporated by reference to the Registrant's Current Report on Form 8-K, dated September 12, 2016, and filed September 13, 2016).
10.1	Registration Rights Agreement, dated as of September 12, 2016, by and among Venaxis, Inc. and the Sellers party thereto (incorporated by reference to the Registrant's Current Report on Form 8-K, dated September 12, 2016, and filed September 13, 2016).
10.2	Form of Lock-Up Agreement between Venaxis, Inc. and each of the Sellers (incorporated by reference to the Registrant's Current Report on Form 8-K, dated September 12, 2016, and filed September 13, 2016).
10.3	Offer Letter, dated September 15, 2016, to Richard J. Whitcomb (incorporated by reference to the Registrant's Current Report on Form 8-K, dated September 21, 2016, and filed September 27, 2016).
31.1	Rule 13a-14(a)/15d-14(a) - Certification of Chief Executive Officer. Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) - Certification of Chief Financial Officer. Filed herewith.
32	Section 1350 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Balance Sheets, (ii) the Statements of Operations, (iii) the Statement of Cash Flows and (iv) the Notes to Condensed Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Venaxis, Inc.  
(Registrant)

Dated: November 14, 2016

By: /s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal,  
Chief Financial Officer and duly authorized officer



## CERTIFICATION

I, Stephen T. Lundy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Venaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2016

/s/ Stephen T. Lundy  
Stephen T. Lundy, Chief Executive Officer and  
President

## CERTIFICATION

I, Jeffrey G. McGonegal, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Venaxis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2016

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal, Chief  
Financial Officer



CERTIFICATION PURSUANT  
TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q (the "Report") of Venaxis, Inc. (the "Company") for the quarter ended September 30, 2016, each of the undersigned Stephen T. Lundy and Jeffrey G. McGonegal, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2016

/s/ Stephen T. Lundy  
Stephen T. Lundy, Chief Executive Officer and  
President

November 14, 2016

/s/ Jeffrey G. McGonegal  
Jeffrey G. McGonegal, Chief Financial Officer

\* \* \* \* \*