MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the three and nine months ended September 30, 2015

November 20, 2015

The following Management Discussion and Analysis ("MD&A") of Annidis Corporation ("Annidis" or the "Company") provides the consolidated financial position and consolidated results from operations for the three and nine months ended September 30, 2015 and 2014. This MD&A has been prepared by management of the Company and is derived from, and should be read in conjunction with, Annidis Corporation unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") for the three and nine months ended September 30, 2015, including the accompanying notes.

By their nature, the Interim Financial Statements do not include all the information required for full annual financial statements, and so should be read in conjunction with the Company's audited annual consolidated financial statements as at and for the years ended December 31, 2014 and December 31, 2013 prepared in accordance with IFRS.

Continuous disclosure documents, including the Company's press releases and quarterly reports, are available through its filings with the securities regulatory authorities in Canada at *www.sedar.com*.

Annidis reports its financial results under International Financial Reporting Standards ("IFRS") in Canadian dollars. Per share amounts are calculated using the weighted average number of shares outstanding for the applicable periods.

All amounts are expressed in Canadian dollars unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This MD&A contains "forward-looking statements" which may include, but are not limited to, statements with respect to the future financial or operating performance of the Company. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "believes" or variation (including negative variations) of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or to achieved. Forward-looking statements are based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "Risk Factors". Although the Company has attempted to identify important factors that could cause actions, events or results to differ materiality from those described in the forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as at the date of the MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

THE COMPANY

Annidis Corporation (TSXV:RHA) develops and markets imaging technologies to eye care professionals.

It is a North American based company founded on scientific concepts emerging from a decade of research and development by the Annidis team in consultation with respected eye care professionals in Canada and the United States. The Annidis RHA™ has evolved into an ocular pathology management system to aid in early detection and management of age related macular degeneration, diabetic retinopathy and glaucoma.

RECENT DEVELOPMENTS

Highlights

In 2014, the Company invested heavily in sales and marketing in the United States, and in 2015 continued this effort, and initiated organizational changes to strengthen the Company's senior management team with increased experience and relationships with key participants in the industry. The Company also increased its attendance at buying group shows and conferences utilizing key opinion leaders in the optometric profession to demonstrate the significant benefits of the Annidis device. While initial results have been below expectations, the Company believes that the investment was necessary to build brand awareness for a new and not yet widely known technology and to begin developing the sales momentum the Company believes is attainable in the US market.

In 2013, Annidis entered into a distribution agreement with Yimai Technology International Company ("Yimai") which has exclusive distribution rights to Annidis products in the People's Republic of China, Hong Kong, Macau and Taiwan. Yimai's affiliate, NIMO, distributes ophthalmology products in China through 13 nationwide offices. The term of the agreement is six years from receipt of Chinese regulatory approval.

In July 2014, the Company announced that it had received notice that the China Food and Drug Administration ("CFDA") had approved the Company's RHATM Gold Multi-Spectral Imaging instrument to be sold to eye-care professionals in the Chinese market.

The Company and its partner, Yimai, are optimistic about the opportunities in China and anticipate significant demand for its technology in the country, with an estimated market size of 1,500 to 2,000 instruments. Yimai is currently conducting clinical trials in nine major hospitals across China. Yimai has brought a number of key opinion leaders in the Chinese ophthalmology market to visit the Annidis offices in Ottawa and to participate in demonstrations of the instrument's capabilities. The Company shipped a total of 16 units to China in fiscal 2014, and for the nine month period ended September 30, 2015 has shipped 18 units. Furthermore, the Company has received a purchase order from Yimai for 30 additional units scheduled to be delivered by January 31, 2016 for which full payment was received as at September 30, 2015. The significant increase in sales volume is expected to reduce the cost of inventory by taking advantage of favourable payment terms and discounts from key vendors, and to leverage this presence in China into further establishing Annidis' brand in the North American market.

The Company believes that its technology is "leading edge" and has worked to obtain endorsements of the product's capabilities from key opinion leaders in both the optometry and ophthalmology fields. This continues to be a focal point of Annidis' strategy to further its growth in the US market.

In March 2015, the National Space Biomedical Research Institute (NSBRI) Industry Forum launched the 'Vision for Mars' Challenge to identify and advance critical medical technologies for ocular health selecting and funding three companies, one of which is Annidis, to further develop unique technologies that address visual problems in space as well as on Earth. Many astronauts experience eye problems related to space travel. This is just another confirmation that Annidis has world class technology. We are confident that the Annidis technology will be quickly adopted in North American clinics.

The Company's new RHA Platinum, targeting the ophthalmology market, is progressing well in clinical studies across Canada and the United States. Ongoing data shows encouraging new information not available with current instruments and helps it position imaging of the choroid as a superior approach to traditional technology available (ICG and OCT) in the market.

The Company is continuing to develop its international distribution strategy, and is currently in discussion with potential partners in other countries to expand its footprint in other high growth markets.

The Company's sales efforts are focused on:

- building relationships with large US buying groups. This provides a forum to present the Annidis product to large audiences and leverage the sales effort.
- maintaining a focus on customer service and support. Customers recognize the value of this service, resulting in increased customer satisfaction.
- continuing negotiations with potential strategic partners on a number of opportunities central to which is Annidis' world leading MSI Technology.
- expanding the Chinese market through presentations of the RHA Gold at major trade shows. Leaders in the Chinese ophthalmology market have presented the MSI technology at meetings throughout China and an MSI book has been published for the Chinese market.

On April 15, 2015, the Company completed a private placement of an unsecured promissory note in the amount of $500,000 with Yimai. The note was scheduled to mature upon the earlier of six months from the date of issuance or upon the closing by the Corporation of an equity financing of not less than $3,000,000. The note bore interest at a rate of 10% per annum compounded monthly and was payable at maturity. The Company also held the option to prepay the outstanding principal amount of the note together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date.

Further to this financing, Annidis and Yimai agreed to extend the terms of the convertible promissory note with a carrying value $2,101,550 at the date of its originally scheduled maturity. The note was previously issued in November 2014 via private placement and was originally set to mature on May 17, 2015 and has been extended by 24 months to May 17, 2017. All other terms of the secured note remain unchanged.

On June 9, 2015 the Company completed a non-brokered private placement of common shares whereby Yimai acquired 10,000,000 common shares of Annidis. The shares were issued at a share price of $0.25 per share, resulting in gross proceeds of $2,500,000. Concurrently, the Company completed a shares-for-debt transaction with Yimai and settled the $500,000 amount due – plus the applicable interest – on the unsecured promissory note issued on April 15, 2015. This shares-for-debt transaction resulted in the issuance of an additional 2,016,667 common shares with an implicit share price of $0.25 per share.

This financing was provided primarily to fulfill working capital requirements to support the Company's anticipated growth in customer demand.

Key Financial Metrics

	Three months ended September 30			Nine months ended September 30		
	2015	2014	% Change	2015	2014	% Change
As at September 30						
Installed Base (units in clinics)				102	67	52%
	$	$	%	$	$	%
Revenue	645,309	480,218	34.4	1,591,335	1,811,189	(12.1)
Net loss	(1,231,290)	(1,240,943)	(0.1)	(4,112,664)	(3,845,700)	6.9
Net loss per share	(0.01)	(0.01)	-	(0.04)	(0.04)	-

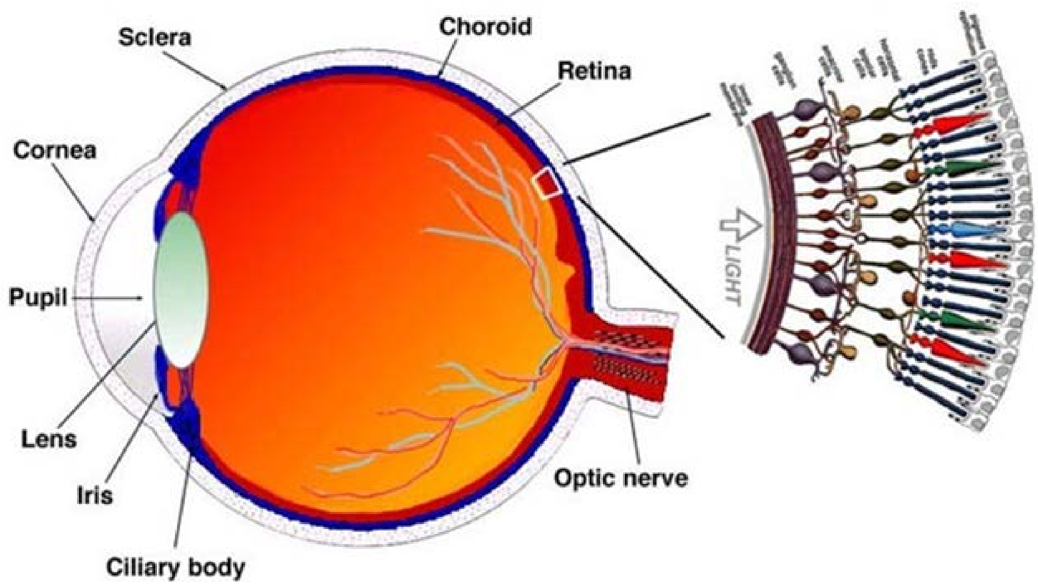
BUSINESS OVERVIEW

Company Background

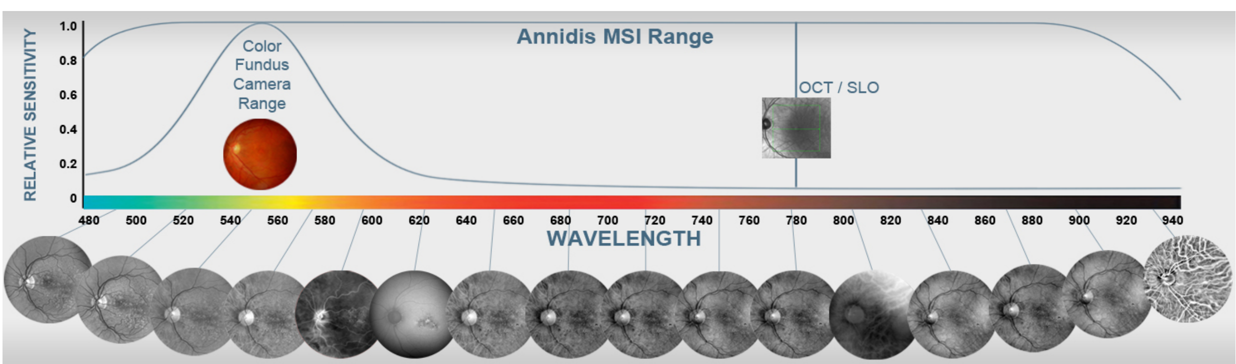
Annidis was founded in 2007 to develop technology for early stage diagnosis of eye diseases. The Company saw the opportunity to improve eye healthcare by providing eye-care professionals with a device to screen, detect, diagnose, treat and manage ocular diseases. Annidis has achieved this by developing a multi-spectral imaging system for retinal and choroidal assessment (the “RHA™”).

The RHA™ provides eye-care professionals with a broadly based screening tool for early detection and diagnosis of a variety of pathologies in a manner that is currently unavailable in the market. Early detection requires identifying initial metabolic changes, and the RHA™ addresses this need through collecting and combining multi-spectral information. The RHA™ is an ocular pathology management system that integrates advanced multi-spectral imaging with analytic software for early detection and management of ocular pathologies such as glaucoma, age-related macular degeneration (“AMD”), and diabetic retinopathy (“DR”).

The RHA™ is a non-invasive instrument that uses multi-spectral imaging (“MSI”) to take pictures of the retinal layers of your eye. The images are then processed using the RHA Report™ software to reveal the various layers in the back of the eye, allowing eye care professional to assess their patients’ eye health.



Multi-Spectral Imaging (MSI)
The RHA™ system adds a new set of capabilities for fundus imaging through the expansion of the range of wavelengths used and the flexibility to use tuned spectral windows for specific probing - together known as multi-spectral imaging. The instrument has been designed to operate across the wavelength range of 500 to 940 nm which is over twice that available with traditional fundus photography. This wide range allows for the progressive examination of different depths in the retina and choroid. Deep retinal imaging is made possible by the use of longer wavelengths which penetrate deeper into the structures of the eye (as shown schematically in the figure below.)



The capability of capturing images at a number of wavelengths allows additional information to be extracted by comparing these images by visual inspection or automation. As one moves from the green through the amber to the red wavelengths, intraretinal hemorrhages are highlighted differently. The green wavelength highlights the nerve fiber layers while the red wavelength highlights the deep layers.

MSI enables improved visual discrimination of retinal and sub-retinal structures through spectral and depth-enhanced differential visibility, using manual and automated processing to highlight targeted features for examination.

Products

The Company's existing RHA Gold, used by eye care professionals as a broad based tool for detecting early-onset of eye related diseases such as Dry AMD, has a potential market of over 20,000 optometric clinics in North America. Further opportunities exist in China, where the Company has entered into a distribution agreement.

The RHA Platinum, which is currently in development with beta units in clinical testing, will further strengthen the value proposition for the ophthalmology market, allowing doctors to visualize choroidal and retinal vasculature non-invasively.

Revenue

The Company derives revenue from the sale of its devices directly to customers, through pay-per-use agreements based on the customers' volume of transactions and maintenance and support fees.

Revenue derived from the use of the eye health technology owned by the Company and provided to the customer under multi-year rental arrangements for the purpose of performing retinal examinations on their patients is recognized as the services are rendered by the customer to its patients. The fee is based on the actual number of billable patients imaged in accordance with the terms of the agreement with the customer.

QUARTERLY INFORMATION

	Revenue	Net loss	Basic and diluted loss per share
	$	$	$
Quarterly Results			
Fiscal 2015			
Three months ended March 31	564,132	(1,354,318)	(0.02)
Three months ended June 30	381,893	(1,527,058)	(0.02)
Three months ended September 30	645,309	(1,231,290)	(0.01)
Fiscal 2014			
Three months ended March 31	797,989	(1,242,265)	(0.01)
Three months ended June 30	532,982	(1,362,492)	(0.02)
Three months ended September 30	480,218	(1,240,943)	(0.01)
Three months ended December 31	552,838	(1,827,056)	(0.02)
Fiscal 2013			
Three months ended March 31	361,818	(966,373)	(0.01)
Three months ended June 30	130,049	(1,123,649)	(0.02)
Three months ended September 30	255,096	(1,113,439)	(0.02)
Three months ended December 31	319,844	(1,105,121)	(0.01)
Cumulative Quarterly Results			
Fiscal 2015			
Three months ended March 31	564,132	(1,354,318)	(0.02)
Six months ended June 30	946,025	(2,881,375)	(0.03)
Nine months ended September 30	1,591,335	(4,112,664)	(0.04)
Fiscal 2014			
Three months ended March 31	797,989	(1,242,265)	(0.01)
Six months ended June 30	1,330,971	(2,604,757)	(0.03)
Nine months ended September 30	1,811,189	(3,845,700)	(0.04)
Twelve months ended December 31	2,364,027	(5,672,756)	(0.06)
Fiscal 2013			
Three months ended March 31	361,818	(966,373)	(0.01)
Six months ended June 30	491,867	(2,090,022)	(0.03)
Nine months ended September 30	746,963	(3,203,461)	(0.05)
Twelve months ended December 31	1,066,807	(4,308,582)	(0.06)

DISCUSSION OF OPERATIONS

REVENUE AND OPERATING EXPENSE ANALYSIS

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	$	$	$	$
Revenues	645,309	480,218	1,591,335	1,811,189
Cost of sales	425,905	364,944	1,038,583	1,387,306
	219,404	115,274	552,752	423,883
Expenses				
Manufacturing and operations	59,792	140,792	388,290	379,635
Research and development	310,466	268,121	830,345	847,514
General and administration	297,682	343,166	896,998	1,022,575
Sales and marketing	413,130	378,027	1,488,726	1,353,313
	1,081,070	1,130,106	3,604,359	3,603,037
Loss from operations	(861,666)	(1,014,832)	(3,051,607)	(3,179,154)
Other expenses				
Interest expense and financing charges	222,950	147,405	637,518	404,872
Accretion on promissory notes and convertible note	139,965	72,633	404,113	219,410
Amortization of debt issue costs	6,709	6,073	19,426	17,585
Share-based compensation expense	-	-	-	24,679
	369,624	226,111	1,061,057	666,546
Net loss and total comprehensive loss	(1,231,290)	(1,240,943)	(4,112,664)	(3,845,700)
Net loss per share Basic and diluted	(0.01)	(0.01)	(0.04)	(0.04)
Weighted average number of common shares Basic and diluted	100,751,822	88,735,155	93,753,104	88,735,155

For the three month period ended September 30, 2015, the Company incurred a net loss of $1,231,290, or ($0.01) per share, compared to a loss of $1,240,943, or ($0.01) per share, for the same period in 2014.

For the nine month period ended September 30, 2015, the Company incurred a net loss of $4,112,664, or ($0.04) per share, compared to a loss of $3,845,700, or ($0.04) per share, for the same period in 2014.

Factors affecting results include:

Three months ended September 30

- Revenue increased by 34% from $480,218 in the third quarter of 2014 to $645,309 in the third quarter of 2015 as the Company sold 12 units in 2015 compared to 8 units in 2014.
- The gross margin was higher in 2015 than 2014 as a result of the increased sales volume. The gross margin percentage increased from 24% to 34% primarily as a result of a decrease in the cost of inventory.
- Operating expenses remained relatively consistent in comparing the third quarter of 2015 to 2014.
- Interest expense and related financing charges increased from $147,405 to $222,950 as a result of new debt issued by the Company over the course of the last 12 months.

Nine months ended September 30

- Revenue decreased by 12% from $1,811,189 for the nine months ended September 30, 2014 to $1,591,335 for the corresponding period of 2015 as the Company sold 26 units in 2015 compared to 29 units in 2014.
- Despite the lower sales volume, the gross margin increased from $423,883 to $552,752 in comparing the nine months ended September 30, 2014 and 2015 respectively. The lower gross margin percentage in 2014 (23%) was significantly lower than the gross margin percentage in 2015 (35%) primarily as a result of reductions in the unit cost.
- Operating expenses remained relatively consistent in comparing 2015 to 2014, but involved a shift in the Company's focus towards sales and marketing costs resulting from the hiring of additional personnel, and increased spending on trade shows, conferences, conventions, and travel, in order to pursue further US market sales.
- Interest expense and related financing charges increased from $404,872 to $637,518 as a result of new debt issued by the Company over the course of the last 12 months.

Revenue

The Company earns revenues from the sale of its devices directly to customers with a recurring fee charged for services rendered, sales to its distributor where there are no recurring revenues and from rental income for devices deployed at clinic offices through pay-per-use agreements based on the number of customer patients imaged.

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	$	$	$	$
Revenue by Source				
Sales	552,242	375,727	1,346,905	1,540,845
Rentals, support and maintenance fees	93,067	104,491	244,430	270,344
	645,309	480,218	1,591,335	1,811,189
Revenue by Geography				
United States	208,853	264,970	779,925	1,108,847
China	420,000	168,000	756,240	504,000
Canada	16,456	47,248	55,170	198,342
	645,309	480,218	1,591,335	1,811,189

For the three month period ended September 30, 2015, the Company recorded the sale of 2 units in the United States, 10 in China, and nil in Canada. This is in comparison to the 4, 4, and nil units sold in the corresponding geographies in the three month period ended September 30, 2014.

For the nine month period ended September 30, 2015, the Company recorded the sale of 8 units in the United States, 18 in China, and nil in Canada. This is in comparison to the 16, 12, and 1 units sold in the corresponding geographies in the nine month period ended September 30, 2014.

Cost of sales

Cost of sales represents the material and subcontract components incurred by the Company in the production and manufacture of the devices, amortization of rental units and royalties.

For the three months ended September 30, 2015, the Company incurred $425,905 of cost of sales compared to $364,944 for the same period in 2014. The increase in cost of sales reflects the higher number of units sold in the current fiscal year (2015 – 12 units; 2014 – 8 units) offset by the reduction in the unit cost of the new “Gold” units which the Company commenced selling in the third quarter of 2014.

For the nine months ended September 30, 2015, the Company incurred $1,038,583 of cost of sales compared to $1,387,306 for the same period in 2014. The decrease in cost of sales reflects the lower number of units sold in fiscal 2015 (2015 – 26 units; 2014 – 29 units) combined with the reduction in the unit cost of the new “Gold” units which the Company commenced selling in the third quarter of 2014.

Gross margin

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
	$	$	$	$
Revenue	645,309	480,218	1,591,335	1,811,189
Cost of sales	425,905	364,944	1,038,583	1,387,306
Gross profit - $	219,404	115,274	552,752	423,883
Gross profit - %	*34.0%*	*24.0%*	*34.7%*	*23.4%*

The gross margin percentage for the three month period ended September 30, 2015 increased to 34.0% from 24.0% in the comparative period in the prior year. This increase was primarily a result of the lower production costs of the “Gold” units.

The gross margin percentage for the nine month period ended September 30, 2015 increased to 34.7% from 23.4% over the comparative period in the prior year. This increase was primarily a result of the lower production costs of the “Gold” units.

Expenses

Manufacturing and operations

Manufacturing and operations expenses represent the personnel and other costs incurred by the Company in the production and manufacture of the devices, net of labour and overhead allocated to inventory.

For the three months ended September 30, 2015, the Company incurred $59,792 in manufacturing and operations expenses compared to $140,792 for the same period in 2014. The net decrease of $81,000 is due primarily to an increase in the amount of wages and overhead allocated to production as more units were produced in the third quarter of 2015 compared to 2014.

For the nine months ended September 30, 2015, the Company incurred $388,290 in manufacturing and operations expenses compared to $379,635 for the same period in 2014. The net increase of $8,655 is relatively consistent period over period as manufacturing and operations activities remained consistent in the two periods.

Research and development

Research and development expenses represent the costs incurred by the Company in the research activities undertaken in the development of retinal imaging technology. Reported research and development expenses are net of government assistance for research programs.

For the three month period ended September 30, 2015, the Company incurred $310,466 in research and development expenses compared to $268,121 for the same period in 2014. The net increase in costs of $42,345 is due primarily to increased salaries and wages.

For the nine month period ended September 30, 2015, the Company incurred $830,345 in research and development expenses compared to $847,514 for the same period in 2014. The net decrease in costs of $17,169 is influenced heavily by significantly reduced salaries and wages and lower development materials, but is largely offset by IRAP grants of $118,359 recorded in the first quarter of 2014 against expenses, where no such grants have been recorded in 2015. The Company also increased the usage of its inventory for the purposes of research and development in 2015 resulting in a higher amortization being recorded than in the previous year.

General and administration

General and administration expenses for the three months ended September 30, 2015 were $297,682 compared to $343,166 in 2014, a decrease of $45,484, stemming from lower discretionary spending, and lower legal fees and travel costs.

General and administration expenses for the nine months ended September 30, 2015 were $896,998 compared to $1,022,575 in 2014, a decrease of $125,577 driven primarily by reduced salaries, legal fees, and discretionary spending in comparison to 2014.

Sales and marketing

Sales and marketing expenses for the three months ended September 30, 2015 were $413,130 compared to $378,027 for the corresponding period in 2014. The increase in costs of $35,103 is the result of increased spending on trade shows, conferences, conventions, and travel, along with a weakening of the Canadian dollar against the US dollar of 20%.

Sales and marketing expenses for the nine months ended September 30, 2015 were $1,488,726 compared to $1,353,313 for the corresponding period in 2014. The increase in costs of $135,413 is due primarily to increased sales personnel hired in the second half of 2014, a depreciation of the Canadian dollar against the U.S. dollar of 15%, and increased trade show and promotional activities in the first quarter of 2015 compared to 2014.

Interest expense and financing charges

This expense category consists of the interest expense incurred on the convertible note, promissory note advances, promissory notes, secured promissory note and financing related expenses.

The Company incurred interest and financing charges for the three month period ended September 30, 2015 of $222,950 compared to $147,405 in the prior year. The increase in financing costs reflects increased interest costs on the higher debt levels due to the promissory note and convertible promissory note financings undertaken in the latter half of 2014.

The Company incurred interest and financing charges for the nine month period ended September 30, 2015 of $637,518 compared to $404,872 in the prior year. The increase in financing costs reflects increased interest costs on the higher debt levels due to the promissory note and convertible promissory note financings undertaken in the latter half of 2014.

Accretion on convertible note

In accordance with the Company's accounting policy, the carrying value of the debt component of the convertible note and promissory notes are accreted to the original face value of the debt instrument over their corresponding terms using the effective interest rate method.

The amount of accretion recorded for the three month period ended September 30, 2015 was $139,965 compared to $72,633 in 2014. The accretion recorded in the three month period ended September 30, 2015 reflects the recording of the accretion on the promissory notes issued in May 2014, the convertible debt, and the secured promissory note.

The amount of accretion recorded for the nine month period ended September 30, 2015 was $404,113 compared to $219,410 in 2014. The accretion recorded in the nine month period ended September 30, 2015 reflects the recording of the accretion on the promissory notes issued in May 2014, the convertible debt, and the secured promissory note.

Amortization of debt issue costs

The amount of amortization of debt issue costs recorded in the three and nine month periods ended September 30, 2015 were $6,709 and $19,426 respectively, compared to $6,073 and $17,585 for the comparative 2014 periods. The amortization relates to costs incurred to obtain and issue the promissory notes in June 2013.

Share-based compensation

Share-based compensation expense for the three and nine month periods ended September 30, 2015 were $NIL and $NIL respectively, compared to $NIL and $24,679 for the comparative 2014 periods.

ASSET, LIABILITY AND SHARE CAPITAL ACTIVITIES

	September 30 2015 $	December 31 2014 $
Assets	3,225,375	2,316,609
Liabilities	10,392,131	8,722,167
Deficiency	(7,166,756)	(6,405,558)
Common shares outstanding	100,751,822	88,735,155
Options and warrants outstanding	16,768,335	23,336,656
Shares held in escrow	7,132,046	7,132,046

Assets

Total assets of the Company as at September 30, 2015 and December 31, 2014 were comprised of cash, restricted short-term investments, trade accounts receivable, inventories, prepaids and other receivables, and property and equipment.

Trade accounts receivable decreased from $341,106 at December 31, 2014 to $81,682 at September 30, 2015 due to ordinary invoicing and collection activities.

Inventories, which consist of finished goods, work-in-process and raw materials were $1,210,000 at September 30, 2015 compared to $1,116,745 at December 31, 2014. During this period, the Company's finished goods inventory increased from $36,746 at December 31, 2014 to $293,972 at September 30, 2015. This increase came as a result of inventory production exceeding the period's combined 26 unit sales and other net inventory outflows. Work in process decreased from $602,758 as at December 31, 2014 to $260,816 as units in production at the end of 2014 were completed. Raw materials increased from $477,241 at the end of 2014 to $655,212 as at September 30, 2015 due to raw material purchases to be used in the production of new units, a significant amount of which was delivered to the Company in the last week of the quarter. At September 30, 2015, the Company had 19 units in work in process, and made significant inventory purchases throughout the quarter to obtain the necessary inventory to bring the units to finished goods before year-end. The investment in inventory has been made by Annidis as a result of the anticipation of significant increases in sales volume over the remainder of 2015 and into 2016 in both China and the US

Prepaids and other receivables increased substantially to $654,822 as at September 30, 2015 from $225,222 as at December 31, 2014 due primarily to significant inventory purchase prepayments for the next build of units to begin subsequent to the completion of the existing 19 units classified under work in process. The inventory is scheduled to be delivered in the fourth quarter of 2015.

Property and equipment, net of accumulated amortization, increased from $496,119 as at December 31, 2014 to $512,756 at September 30, 2015. This increase occurred as a result of the transfer of 7 units from inventory to property and equipment as well as nominal capital expenditures, offset by amortization of $189,068 and impairment charges of $12,738.

Liabilities

As at September 30, 2015, the Company's liabilities totalled $10,392,131 of which current liabilities represented $6,247,685 and long term liabilities representing the remaining $4,144,446. As at December 31, 2014, the Company reported total liabilities of $8,722,167 of which current liabilities were $3,646,793 and long term liabilities were $5,075,374. A significant portion of the Company's liabilities relate to the convertible and promissory notes (September 30, 2015 promissory notes including convertible and secured notes - $7,549,749; December 31, 2014 promissory notes including convertible and secured notes – $6,834,337).

On May 22, 2014, the Company completed a private placement of a secured promissory note in the amount of $1,000,000 with Yimai. The note has a three-year term and bears interest at a rate of 10% per annum compounded monthly and payable at maturity. The Company may prepay the outstanding principal amount of the note together with all accrued and unpaid interest, without penalty, at any time after the first anniversary of the issuance date of the note. The note is secured by a general security agreement over the assets of the Company but is subordinated to all existing charges against the assets of the Company.

The Company reached an agreement with the note holder whereby the convertible note in the principal amount of $1,000,000 which matured on June 7, 2014 was cancelled and replaced with a new $1,000,000 secured promissory note. In connection with the surrender of the convertible note for cancellation, the Company paid to the lender in December 2013 all accrued and outstanding interest on the convertible note up to and including November 30, 2013, along with a one-time note replacement fee of $50,000. The new secured promissory note matures on January 31, 2017 and bears interest beginning December 1, 2013 at a rate of 12% per annum compounded monthly and payable at maturity. The Company may prepay the outstanding principal amount of the new secured promissory note together with all accrued and unpaid interest, without penalty, at any time after the first anniversary of the issuance date of the new secured promissory note. This note will be secured by a general security agreement over the assets of the Company.

In November 2014, the Company completed the private placement of a $2,003,589 convertible promissory note with Yimai including the note payable of $500,000 and accrued but unpaid interest on the note payable of $3,589. The convertible promissory note was scheduled to mature six months from the date of issuance and bear interest at a rate of 10% per annum, compounded monthly, payable at maturity. On April 15, 2015, the Company and Yimai agreed to extend the term of the convertible promissory note by an additional 24 months to May 2017. At Yimai's option, the convertible promissory note may be converted into common shares in the capital of Annidis at a conversion price of $0.35 per common share. The Company may prepay the outstanding principal amount of the convertible promissory note together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date of the note. This agreement to extend the term of the note resulted in a reclassification of this liability from current to non-current and required a revaluation of the conversion option.

The Company began a lease financing program in 2011 and the finance lease obligations as at September 30, 2015 amounted to $11,343 ($11,343 due within one year) compared to $37,270 ($28,095 due within one year) as at December 31, 2014.

In September 2015, the Company received a purchase order from Yimai for 30 units to be delivered by January 31, 2016 and received payment in full for these units. This payment has been reflected in deferred revenue, and will be recognized into revenue by the Company as the units are shipped.

Deficiency

As at September 30, 2015 the Company's deficiency was $7,166,756 compared to a deficiency of $6,405,558 as at December 31, 2014. This increase in the deficiency is due primarily to a cumulative loss of $4,112,664 for the first three quarters of 2015, offset by the issuance of shares to Yimai for net proceeds of $2,967,359, as well as the increase of the shared-based reserve of $384,107 as a result of the extension of the convertible promissory note with Yimai that resulted in a revaluation of the equity component of the instrument.

Outstanding Share Data

As at September 30, 2015, the Company had 100,751,822 common shares issued and outstanding; 7,132,046 shares held in escrow; 10,835,835 warrants outstanding, exercisable at prices ranging from $0.30 to $0.80; and 5,932,500 options outstanding, exercisable at $0.40.

LIQUIDITY, FINANCING ACTIVITY AND CAPITAL RESOURCES

The Company is subject to risks including, but not limited to, the potential to raise additional funds through debt and/or equity financing to support the Company's development and continued operations and to meet the Company's liabilities and commitments as they come due. Specifically, the Company has a history of losses with an accumulated deficit of $33,320,608, shareholders' deficiency of $7,166,756 and negative cash flow from operations of $2,283,122 for the first nine months of 2015.

During 2012, the Company obtained promissory note advances of $1,292,985 and, in the first quarter of 2013, the Company obtained additional advances of $636,712. These advances were converted in June 2013 into promissory notes with a term of three (3) years from the date of issuance bearing interest at 10% per annum compounded monthly and payable at maturity or such earlier date upon which the notes are repaid. Yimai subscribed for $1,000,000 of promissory notes to complete the $3,000,000 offering.

On October 4, 2013, the Company closed a private placement with the issuance of an aggregate of 27,965,379 common shares to Yimai for total consideration of $5,000,000. Of these 27,965,379 common shares, 7,132,046 are held in escrow by Annidis and will be released to Yimai on the basis of one escrowed share for each (approximately) 3.26 common shares which are issued upon exercise of certain of the Company's other outstanding convertible securities on or before December 31, 2016. After such date, any escrowed shares not already released to Yimai will be cancelled.

On May 22, 2014, the Company completed a private placement of a secured promissory note in the amount of $1,000,000 with Yimai. The note has a three-year term and bears interest at a rate of 10% per annum compounded monthly and payable at maturity.

In July 2014, the Company received TSVX approval of an agreement with the convertible note holder whereby the convertible note in the principal amount of $1,000,000 which matured on June 7, 2014 was cancelled and replaced with a new $1,000,000 secured promissory note. The new secured promissory note matures on January 31, 2017 and bears interest beginning December 1, 2013 at a rate of 12% per annum compounded monthly and payable at maturity.

In September 2014, the Company entered into an agreement with Yimai whereby Yimai lent the Company the principal amount of $500,000

In November 2014, the Company completed the private placement of a $2,003,589 convertible promissory note with Yimai including the note payable of $500,000 and accrued but unpaid interest on the note payable of $3,549. In April 2015, this note's maturity date was extended from May 2015 to May 2017 as previously described.

On April 15, 2015, the Company completed a private placement of an unsecured promissory note in the amount of $500,000 with Yimai. The note was scheduled to mature upon the earlier of six months from the date of issuance or upon the closing by the Corporation of an equity financing of not less than $3,000,000. The note bore interest at a rate of 10% per annum compounded monthly and was payable at maturity. The Company also held the option to prepay the outstanding principal amount of the note together with all accrued and unpaid interest, without penalty, at any time prior to the maturity date.

On June 9, 2015 the Company completed a non-brokered private placement of common shares whereby Yimai acquired 10,000,000 common shares of Annidis. The shares were issued at a share price of $0.25 per share, resulting in gross proceeds of $2,500,000. Concurrently, the Company completed a shares-for-debt transaction with Yimai and settled the $500,000 amount due – plus the applicable interest – on the unsecured promissory note issued on April 15, 2015. This shares-for-debt transaction resulted in the issuance of an additional 2,016,667 common shares with an implicit share price of $0.25 per share.

As a result of the financing and excluding the escrowed shares, Yimai owns 32,850,000 common shares, resulting in an approximate 32.6% ownership interest in the Company.

The Company's principal capital needs include funds for the production of devices, to support sales and marketing activities, to support the continuing research and development activities of the medical device as well as for general working capital requirements. Since its formation, the Company has financed its cash requirements primarily through the issuance of securities, promissory notes, convertible debentures, short term debt instruments and government incentives. Management believes that over the short-term, there will be an increase in revenues as additional medical devices are deployed in clinics.

Cash used in operating activities

During the three month period ended September 30, 2015, the Company used cash of $562,012 for operating activities as compared to $475,239 for the corresponding period of 2014. Cash consumption for the third quarter of 2015 was driven by losses of $1,231,290 (2014 - $1,240,943) offset by non-cash items such as non-cash interest and amortization totalling $407,942 (2014 - $367,532), and a decrease in non-cash working capital of $261,336 (2014 – a decrease of $398,172). The decrease in non-cash working capital was driven by a significant increase in deferred revenue, offset in apart by significant increases in purchase prepayments classified under prepaids and other receivables, as well a significant increase in net inventory accompanied by significant payments made to vendors previously included in accounts payable.

During the nine month period ended September 30, 2015, the Company used cash of $2,283,122 for operating activities as compared to $2,670,674 for the corresponding period of 2014. Cash consumption for the first three quarters of 2015 was driven by losses of $4,122,664 (2014 - $3,845,700) offset by non-cash items such as non-cash interest and amortization totalling $1,214,248 (2014 - $911,874), and a decrease in non-cash working capital of $615,294 (2014 – a decrease of $263,152) driven primarily by a significant increase in deferred revenue and the collection of accounts receivable outstanding at December 31, 2014 in the first quarter, offset by significant inventory purchases accompanied by significant payments made to vendors previously included in accounts payable.

Cash used in investing activities

The Company acquired property and equipment of $27,043 in the three month period ended September 30, 2015 and $32,325 in the nine month period ended September 30, 2015 compared to $95,516 and $191,255 in the comparative three and nine months periods in 2014 respectively.

Cash used in financing activities

The Company used cash for financing activities of $3,164 in the three month period ended September 30, 2015, and generated cash of $2,941,432 for the nine month period then ended. The activity for the three month period related solely to the repayment of financing leases of $3,164 (2014 - $36,953), while the nine month period cash generation came primarily as a result of proceeds of $3,000,000 received in exchange for common shares issued in the second quarter, offset by $32,641 in share issuance costs and $25,927 in repayment of financing leases (2014 - $107,939). In the comparative 2014 periods, the financing activities resulted in cash inflows of $163,047 and $1,092,061 for the three and nine months respectively, with the primary drivers being the proceeds from short term financing of $200,000 in the third quarter, and the proceeds of $1,000,000 from a promissory note issued in May 2014.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that would require disclosure.

Financial Instruments and Other Instruments

The carrying amounts of cash, restricted short-term investments, trade accounts receivable, other receivables, accounts payable and accrued liabilities, and deferred revenue, approximate their fair values due to the short-term nature of these instruments.

Financial instruments that potentially subject the Company to credit risk consist of trade accounts receivable. As at September 30, 2015, five customers accounted for 49% (December 31, 2014 – four customers 85%) of the Company's gross accounts receivable with the remaining customers individually accounting for less than 6% of the total accounts receivable. As at September 30, 2015, the Company's aging of receivables was approximately 53% under sixty days (December 31, 2014 - 95% under sixty days).

As at September 30, 2015, the Company had recorded a provision for doubtful accounts of $8,364 (December 31, 2014 - $nil) to reflect the estimated collectability of the overdue accounts.

As at September 30, 2015, the Company's debt consisted of:

- Promissory notes of $4,499,663 consisting of the principal amount of the note of $4,000,000, accrued and unpaid interest of $908,550 less unamortized accretion in the carrying value of the notes of $388,909 and unamortized debt issue costs of $19,978. The promissory notes bear interest at 10% per annum compounded monthly and $3,000,000 is due June 2016 and $1,000,000 is due May 2017.

- Secured promissory note of $1,134,585 consisting of the principal amount of $1,000,000, accrued and unpaid interest of $244,647 less unamortized accretion in the carrying value of the notes of $110,062. In July 2014, the convertible note in the principal amount of $1,000,000 which matured on June 7, 2014 was cancelled and replaced with a new $1,000,000 secured promissory note. The new secured promissory note matures on January 31, 2017 and bears interest beginning December 1, 2013 at a rate of 12% per annum compounded monthly and payable at maturity.

- Convertible promissory note of $1,855,879 consisting of the principal amount of $2,003,589, accrued and unpaid interest on the original note issued in November 2014 of $97,961, accrued and unpaid interest on the extended note of $78,670 less unamortized accretion in the carrying value of the notes of $324,341. The convertible promissory note will mature in May 2017 as a result of its maturity-date extension, and continues to bear interest at a rate of 10% compounded monthly. Yimai's continues to hold the option to convert the note into common shares in the capital of Annidis at a conversion price of $0.35 per common share.

- A financing lease of $11,343 bearing interest at a rate of 12.8% and maturing in 2016.

CONTRACTUAL OBLIGATIONS

At the end of April 2014, the Company moved its offices and entered into a new five year lease commencing May 1, 2014. Under the terms of the new lease, the Company received a lease inducement of seven months of free rent.

RISK FACTORS

Financial

The Company recently commenced commercial operations, has no history of profits and is not expected to generate earnings in the short term. There is no assurance that the Company will earn any profits in the future or that profitability, if achieved, will be sustained. Annidis will require additional equity or debt financing, and there is no assurance that the Company will be able to obtain additional financial resources on favourable commercial terms or at all.

Competitors

There are companies already selling similar solutions which are larger and have a longer operating history than Annidis. Many of these companies are better financed, with larger sales staffs and marketing budgets than Annidis. There can be no guarantee that the Company will be able to effectively compete in the marketplace with such competition.

Slow Acceptance of Annidis' Solutions

The marketplace may be slow to accept or understand the significance of Annidis' product due to its unique nature and the competitive landscape. Market confusion may slow sales and acceptance of Annidis' product. If the Company is unable to promote, market and sell its products and secure relationships with optometrists and ophthalmologists, the Company's business and financial condition would be adversely affected.

Technological Advancements

The medical devices industry is subject to significant technological advancements, changing industry standards, market trends, customer preferences and competitive pressures which can, among other things, necessitate revisions in pricing strategies, price reductions and reduced profit margins. The success of Annidis will depend on its ability to secure technological superiority in its services and maintain such superiority in the face of new technologies. No assurance can be given that further modification of product offerings of the Company will not be required in order to meet demands or to remain competitive.

Intellectual Property

The success of Annidis will depend, in part, on its ability to maintain proprietary protection over its technology and operate without infringing the proprietary rights of third parties. Despite precautions, it may be possible for a third party to copy or otherwise obtain and use the Company's technology without authorization. There can be no assurance that any steps taken by Annidis will prevent misappropriation of its technology.

Government Regulation and Regulatory Approvals

Future changes in government regulation could adversely affect the medical devices industry in jurisdictions in which Annidis operates or intends to operate.

As with any medical device company, the Company is dependent on regulatory approvals and the legal systems in the markets in which it operates, such as the U.S. Federal Food and Drug Administration ("FDA"), China Food and Drug Administration ("CFDA") and Health Canada. The Company currently has the necessary regulatory approvals in Canada, United States and China to market and sell the Annidis RHA™ device. Regulators could, even after granting such approvals, be stringent on non-compliance with regulatory requirements or change such requirements, which could have a material adverse effect on the Company's business and result in adverse publicity.

Customer Adoption

The Company's revenues are highly dependent on the willingness of eye care professionals to market the Annidis products and on public awareness levels of the benefits of preventative or primary level eye and health care. The diverse nature of eye care professionals between different markets will require local adaptation of the Company's strategy and will likely lead to slower adoption of the Annidis products.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of these financial statements requires management to select appropriate accounting policies and to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities at the end of the reporting period. The estimates and related assumptions are based on previous experience and other factors considered reasonable under the circumstances, the results of which form the basis of making assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Significant assumptions about the future that management has made and that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- [a] The determination of whether leased assets constitute an operating lease or a financing lease;
- [b] The inputs used in measurement for warrants in the consolidated statements of financial position;
- [c] The inputs used in measurement for share-based compensation expense in the consolidated statements of comprehensive loss;
- [d] The estimated borrowing cost to the Company with no warrants or conversion feature in determining the allocation of a compound instrument between debt and equity;
- [e] The depreciation method and useful lives of property and equipment and intangible assets including assumptions and judgements used in the determination of impairment, if any;
- [f] The $NIL provision for income taxes which is included in the consolidated statements of comprehensive loss and no recognition of deferred income tax assets and liabilities included in the consolidated statements of financial position at December 31, 2014.

ACCOUNTING POLICY CHANGES

New and amended standards adopted by the Company

New and revised IFRS in issue but not effective

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

IFRS 9 Financial Instruments

IFRS 9 was issued by the IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 is effective January 1, 2018.

IFRS 15 - Revenue from contracts with customers

IFRS 15 is effective for annual periods beginning on or after January 1, 2017. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts.

The impact of these standards and amendments has not yet been determined.