# Ortho Regenerative Technologies Inc.
## Financial Statements
*Period from Date of Incorporation (February 5, 2015) to January 31, 2016*

**Page**

# Independent Auditors' Report

*To the Shareholders of Ortho Regenerative Technologies Inc.*

We have audited the accompanying financial statements of Ortho Regenerative Technologies Inc., which comprise the statement of financial position as at January 31, 2016 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the period from the Date of Incorporation of February 5, 2015 to January 31, 2016 and a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the financial statements:*

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

*Auditors' responsibility:*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion:*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ortho Regenerative Technologies Inc. as at January 31, 2016 and its financial performance and cash flows for the period from the Date of Incorporation of February 5, 2015 to January 31, 2016 in accordance with International Financial Reporting Standards.

*Emphasis of Matter:*

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Corporation incurred a net loss of $927,880 during the period ended January 31, 2016 and, as of that date, the Corporation's current liabilities exceeded its current assets by $190,935. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

MNP SENCRL, srl[1]

Montréal, Québec
April 29, 2016

[1]CPA auditor, CA, public accountancy permit No. A122514

# Ortho Regenerative Technologies Inc.
## Statement of Financial Position
*As at January 31, 2016*

| | |
|---|---|
| **Assets** | |
| **Current** | |
| Cash | **646,246** |
| Sales tax receivable | **30,168** |
| Prepaid expenses | **4,875** |
| Investment tax credits receivable | **225,915** |
| | **907,204** |
| Deferred share issue costs | **153,874** |
| Intangible assets *(Note 4)* | **725,192** |
| | **879,066** |
| **Total assets** | **1,786,270** |
| **Liabilities** | |
| **Current** | |
| Accounts payable and accrued liabilities *(Note 10)* | **858,139** |
| Operating loan *(Note 5)* | **240,000** |
| | **1,098,139** |
| Class A shares liability *(Note 6)* | **333,334** |
| | **1,431,473** |
| **Shareholders' equity** | |
| Common shares *(Note 6)* | **1,006,617** |
| Warrants *(Note 6)* | **130,000** |
| Contributed surplus *(Note 6)* | **146,060** |
| Deficit | **(927,880)** |
| | **354,797** |
| **Total liabilities and shareholders' equity** | **1,786,270** |

Going Concern (Note 1); Related Party Transactions (Note 10); Commitments (Note 11); Subsequent Events (Note 12)

Approved on behalf of the Corporation's Board of Directors on April 29, 2016.

"Steve Saviuk" , Director

"Michael Buschmann" , Director

*The notes are an integral part of these financial statements*

# Ortho Regenerative Technologies Inc.
## Statement of Loss and Comprehensive Loss
*Period From Date of Incorporation (February 5, 2015) to January 31, 2016*

| | |
|---|---|
| **General and Administrative Expenses** | |
| Professional fees | **169,276** |
| Research costs | **143,252** |
| Office and administrative | **161,063** |
| Travel and promotion | **23,602** |
| Filing fees | **19,093** |
| Share based compensation *(Note 6)* | **146,060** |
| | **662,346** |
| **Financial Expenses** | |
| Interest and bank charges *(Note 5)* | **7,957** |
| **Fair value adjustment on Class A shares liability** | **257,577** |
| **Net loss and comprehensive loss for the period** | **927,880** |

# Ortho Regenerative Technologies Inc.
## Statement of Changes in Shareholders' Equity
*Period From Date of Incorporation (February 5, 2015) to January 31, 2016*

| | ***Number of shares*** | ***Share capital*** | ***Warrants*** | ***Contributed surplus*** | ***Deficit*** | ***Total equity*** |
|---|---|---|---|---|---|---|
| **Balance February 5, 2015** | **-** | **-** | **-** | - | **-** | **-** |
| Issuance of shares as equity *(Note 6)* | **12,966,666** | **1,020,617** | **-** | - | **-** | **1,020,617** |
| Share issue costs *(Note 6)* | - | **(14,000)** | **-** | - | **-** | **(14,000)** |
| Issuance of warrants *(Note 6)* | - | **-** | **130,000** | - | **-** | **130,000** |
| Share based compensation *(Note 6)* | **-** | **-** | **-** | **146,060** | **-** | **146,060** |
| Net loss for the period | **-** | **-** | **-** | **-** | **(927,880)** | **(927,880)** |
| **As at January 31, 2016** | **12,966,666** | **1,006,617** | **130,000** | **146,060** | **(927,880)** | **354,797** |

# Ortho Regenerative Technologies Inc.
## Statement of Cash Flows
*Period From Date of Incorporation (February 5, 2015) to January 31, 2016*

| | |
|---|---|
| **Operating activities:** | |
| Net loss from operations | **(927,880)** |
| **Add items not affecting cash:** | |
| Share based compensation *(Note 6)* | **146,060** |
| Fair value adjustment on Class A shares liability | **257,577** |
| | **403,637** |
| **Net change in non-cash operating working capital:** | |
| Investment tax credit | **(52,068)** |
| Sales tax receivable and prepaid expenses | **(35,043)** |
| Accounts payable and accrued liabilities | **634,466** |
| **Cash provided by operating activities** | **23,112** |
| **Investing activities:** | |
| Acquisition of intangible assets *(Note 4)* | **(675,366)** |
| **Financing activities:** | |
| Increase in operating loan | **240,000** |
| Issuance of share capital as equity *(Note 6)* | **1,150,617** |
| Issuance of share capital as debt *(Note 6)* | **75,757** |
| Payment of share issue costs *(Note 6)* | **(14,000)** |
| Payment of deferred share issue costs | **(153,874)** |
| **Cash provided from financing activities** | **1,298,500** |
| **Increase in cash** | **646,246** |
| **Cash, beginning of period** | **-** |
| **Cash, end of period** | **646,246** |
| **Supplementary cash flow information** | |
| Change in accounts payable reflected in intangibles | **223,673** |

*The notes are an integral part of these financial statements*

## 1. Presentation of Financial Statements

### Description of the Business and Going Concern

Ortho Regenerative Technologies Inc. ("the Corporation") was incorporated under the *Canada Business Corporations Act* on February 5, 2015 and on September 17, 2015 articles of amendment were approved to change the authorized shares. The Corporation's head office, principal address and registered office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada.

The Corporation specializes in research on innovative medical devices which stimulate the regeneration of joint tissues.

These financial statements are prepared on the assumption that the Corporation is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The Corporation has yet to generate revenue and has relied upon the issuance of debt and equity instruments to fund operations. The Corporation believes their efforts to raise sufficient funds to support their activities will be successful, however, there is no assurance that funds will continue to be raised on acceptable terms, and as such a material uncertainty exists regarding the Corporation's ability to continue as a going concern.

Failure to obtain such additional financing could result in delay or indefinite postponement of the Corporation's strategic goals. These financial statements do not include any adjustments relative to the carrying values and classifications of assets and liabilities that would be necessary should the Corporation be unable to continue as a going concern.

## 2. Summary of Significant Accounting Policies

### *a) Basis of measurement*

These financial statements have been prepared on a going-concern basis, under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

### *b) Functional and presentation currency*

These financial statements are presented in the Canadian dollar, which is also the functional currency of the Corporation.

Transactions denominated in foreign currencies are initially recorded in the functional currency of the related entity using the exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rates. Any resulting exchange difference is recognized in income. Non-monetary assets and liabilities denominated in foreign currencies and measured at historical cost are translated using historical exchange rates, and those measured at fair value are translated using the exchange rate in effect at the date the fair value is determined. Revenues and expenses are translated using the average exchange rates for the period or the exchange rate at the date of the transaction for significant items.

| | January 31, 2016 |
|---|---|
| End of period exchange rate | 1.3075 |

### *c) Statement of Compliance*

These financial statements of the Corporation have been prepared for the period from date of incorporation of February 5, 2015 to January 31, 2016 in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements.

These financial statements were approved and authorized for issuance by the Board of Directors on April 29, 2016.

**2. Summary of Significant Accounting Policies** *(Continued from previous page)*

***d) Financial instruments***

All financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value for instruments not at fair value through profit or loss, plus any directly attributable transaction costs. Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. Financial instruments are classified into the following categories upon initial recognition:

- loans and receivables (“L&R”)
- financial assets at fair value through profit or loss (“FVTPL”)
- held to maturity investments
- other financial liabilities

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets, except for those at FVTPL, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. Assets in this category are measured at fair value with gains and losses recognized in profit or loss. Management evaluates the information about financial assets on a total return basis that includes evaluating the financial assets on a fair value basis. These assets include the investment in an exchange-traded equity security which is primarily held for investment income, cash flow and capital appreciation. These assets also include the investment in the equity of private companies. In the absence of significant over-the-counter market activity or significant share issuance near a reporting period, the Corporation establishes a fair value for these types of investments using valuation techniques that make maximum use of market inputs and rely as little as possible on entity-specific inputs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Impairment of receivables is recognized in profit or loss within general administrative expenses. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss or a portion of such is reversed. The amount of the impairment loss reversed may not exceed the original impairment amount.

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Corporation has the intention and ability to hold them until maturity. Held to maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Other financial liabilities include liabilities that have not been classified as fair value through profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires. Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**2. Summary of Significant Accounting Policies** *(Continued from previous page)*

***d) Financial instruments*** *(Continued from previous page)*

Financial instruments that are measured at fair value use inputs, which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 - Assets or liabilities whose values are based on quoted market prices in active markets include active exchange-traded equity investments.

Level 2 - Assets or liabilities that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.

Level 3 - Inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input for fair value measurement purposes requires judgment in considering the relevant factors specific to the asset or liability. The determination of what constitutes ‘observable’ requires significant judgment by the Corporation. The Corporation considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

See Note 8 - Financial Instruments – for the details of their classification.

***e) Investment tax credits***

Investment tax credits are comprised of scientific research and experimental development tax credits and are recognized when there is reasonable assurance of their recovery and recorded as a reduction of the related expense or cost of the asset acquired, as applicable. Investment tax credits are subject to the customary approvals by the pertinent tax authorities. Adjustments required, if any, are reflected in the year when such assessments are received.

***f) Deferred share issue costs***

The Corporation defers the costs associated with the issuance of new equity when there is reasonable assurance that the planned offering will be completed. The costs are deferred until such time as the financing has closed and the proceeds from the offering are received, at which time the deferred expenses are recorded as a reduction of the proceeds**.**

***g) Intangible assets***

In the normal course of business as a biotech research and development company, the Corporation acquires intellectual property, incurs development costs and files for patents. These categories of intangible assets are recorded at cost on initial recognition. Development expenditures are capitalized when the Corporation can demonstrate that all of the specific criteria related to technical, market and financial feasibility are met. The specific criteria are as follows:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
(b) its intention to complete the intangible asset and use or sell it.
(c) its ability to use or sell the intangible asset.
(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Investment tax credits are netted against the expenditures made for development of the product.

Amortization of each category will be dependent on its useful life and each category will be assessed for impairment annually or whenever there is an indication of impairment. The amortization period and method is reviewed annually, with amortization being recognized in the statement of comprehensive loss. Losses arising from impairment are recorded in the statement of comprehensive loss, as are gains from de-recognition of previously recorded losses.

When a patent has been obtained, amortization will be recorded over the life of the patent. Intellectual property and development costs for a product will be amortized over the estimated life of the product when commercialization has occurred.

Research expenditures are charged to the statement of profit or loss in the year in which they are incurred.

**2. Summary of Significant Accounting Policies** *(Continued from previous page)*

***h) Impairment of non-financial assets***

The carrying amounts of the Corporation's non-financial assets are assessed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Intangible assets not yet available for use are reviewed for impairment at least annually or more frequently if circumstances such as significant declines in expected sales, earnings or cash flows indicate that it is more likely than not that the asset might be impaired.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets that cannot be tested individually are grouped into the smallest independent group of assets that generate cash inflows from continuing use. For the purposes of testing non-financial assets for impairment, management has identified one CGU since the Corporation operates as one segment.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of goodwill allocated to the units, and then to reduce the carrying amounts on a pro-rata basis of the other assets in the unit.

Impairment losses recognized in prior periods are assessed at each reporting date as to whether there are any indications that the previously recognized losses may no longer exist or may be decreased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years.

***i) Income taxes***

Income tax expense comprises current and deferred tax. Tax expense is recognized in the statement of profit or loss, except to the extent it relates to items recognized directly in shareholders' equity, in which case the related tax is recognized in shareholders' equity.

***Current Tax***

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Corporation operates.

***Deferred Tax***

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are recognized for the future income tax consequences of temporary differences between the carrying amounts of assets and liabilities and their respective tax bases, and for tax losses carried forward. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates that will be in effect for the year in which the differences are expected to reverse.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized.

Deferred tax asset and liability differences are recognized directly in income, OCI or equity based on the classification of the item to which they relate.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its tax assets and liabilities on a net basis.

***j) Sales Tax***

Revenues, expenses and assets are recognized net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized in the cost of acquisition of the asset or as part of the expense item, as applicable; and receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other receivables or accounts payable and accrued liabilities in the statement of financial position.

**2. Summary of Significant Accounting Policies** *(Continued from previous page)*

***k) Share Capital***

The Corporation's share capital is classified as equity if it is non-redeemable, or redeemable only at the Corporation's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity upon approval by the Corporation's Board of Directors. Share capital is classified as a liability if it is redeemable on a specific date or in the future, or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in earnings as accrued.

***Class A shares liability***

Certain Class A shares have a put right associated to them allowing the shareholder to require that the Corporation redeem the shares if the Corporation has not gone public by June 19, 2022. As these shares include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset, they do not meet the criteria in IAS 32 *Financial Instruments: Presentation* for classification as equity and therefore are classified as FVTPL liability. The liability is re-measured to fair value at each reporting date with changes recorded in the statement of earnings.

***l) Share based compensation***

The Corporation grants stock options to directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is determined at the date of grant using the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Corporation's common stock and an expected life of the stock-based instruments. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately to the statement of profit or loss with an offsetting credit to contributed surplus, except for options granted as consideration for share issuance costs, which are charged to share capital.

When stock options are exercised, capital stock is credited by the sum of the consideration paid, together with the related portion previously recorded to contributed surplus.

***m) Earnings per share***

Basic earnings or loss per share is calculated using the weighted average number of shares outstanding. Diluted earnings or loss per share is calculated using the treasury stock method. In order to determine diluted loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted earnings or loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share.

***n) Future accounting pronouncements***

The Corporation has not yet applied the following new standards, interpretations or amendments to standards that have been issued but are not yet effective. Unless otherwise stated, the Corporation does not plan to early adopt any of these new or amended standards and interpretations.

***IFRS 9 Financial Instruments***

The final version of IFRS 9, Financial instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. The new single, principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. In addition, an entity's own credit risk changes can be applied early in isolation without otherwise changing the accounting for financial instruments. The Corporation is currently assessing the impact, if any, of adopting IFRS 9.

## 2. Summary of Significant Accounting Policies *(Continued from previous page)*

### *n) Future accounting pronouncements* *(Continued from previous page)*

***IFRS 15 Revenue from Contracts with Customers***

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. The objective of this new standard is to provide a single, comprehensive revenue recognition framework for all contracts with customers to improve comparability of financial statements of companies globally. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact, if any, of adopting IFRS 15.

***IAS 1 Presentation of Financial statements:***

In December 2014, the IASB amended IAS 1, Presentation of Financial Statements, in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality considerations apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. The Corporation is currently assessing the impact, if any, of adopting these amendments to IAS 1.

***IFRS 16 Leases***

In January 2016, IFRS 16 Leases ("IFRS 16") was issued, which replaces IAS 17 Leases, and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. For lessees, IFRS 16 removes the classification of leases as either operating or financing and requires that all leases be recognized on the statement of financial position, with certain exemptions that include leases of 12 months or less. The accounting for lessors is substantially unchanged. The standard is effective for annual periods beginning on or after January 1, 2019, to be applied retrospectively, or on a modified retrospective basis. The Corporation is currently assessing the impact of adopting this standard.

## 3. Use of Estimates and Judgements

The application of the Corporation's accounting policies requires management to use estimates and judgments that can have a significant effect on the revenues, expenses, comprehensive income, assets and liabilities recognized and disclosures made in the interim financial statements.

Management's best estimates concerning the future are based on the facts and circumstances available at the time estimates are made. Management uses historical experience, general economic conditions and assumptions regarding probable future outcomes as the basis for determining estimates. Estimates and their underlying assumptions are reviewed periodically and the effects of any changes are recognized immediately. Actual results could differ from the estimates used.

Management's budget and strategic plans are fundamental information used as a basis for estimates necessary to prepare financial information. Management tracks performance as compared to the budget and significant variances in actual performance are a key trigger to assess whether certain estimates used in the preparation of financial information must be revised.

The following areas require management's critical estimates and judgments:

Valuation of deferred tax assets and liabilities

To determine the extent to which deferred tax assets can be recognized, management estimates the amount of probable future taxable profits that will be available against which deductible temporary differences and unused tax losses can be utilized as part of the budget process. Management exercises judgment to determine the extent to which realization of future taxable income will be available against which the deductible temporary differences and unused tax losses can be utilized. To the extent that management's assessment of the Corporation's ability to utilize future tax deductions changes, the Corporation would be required to recognize more deferred tax assets, and income tax provisions or recoveries in future periods could be affected.

**3. Use of Estimates and Judgements** *(Continued from previous page)*

***Financial liabilities***

The Class A shares liability requires management to make estimates and assumptions that affect the reported amount of the liability and the corresponding gain or loss on changes in fair value. Estimates and assumptions used in determining the fair value of this liability include the expected life of the instrument and the volatility of the underlying share price. Details of the assumptions used are included in Note 6.

***Share-based payments and Warrants granted***

The Corporation measures the cost of share-based payments, either equity or cash-settled, with employees by reference to the fair value of the equity instrument or underlying equity instrument at the date on which they are granted. Estimating fair value for share-based payments requires management to determine the most appropriate valuation model for a grant, which is dependent on the terms and conditions of each grant. In valuing certain types of stock-based payments and warrants granted, the Corporation uses the Black-Scholes option pricing model. Several assumptions are used in the underlying calculation of fair values of the Corporation's stock options and warrants granted using the Black-Scholes option pricing model, including the expected life of the option or warrant, stock price volatility and forfeiture rates. Details of the assumptions used are included in Note 6.

***Intangible assets***

Development costs are capitalized as a part of intangible assets when the specific criteria related to technical, market and financial feasibility are met or when a regulatory filing is being prepared and approval is considered highly likely. The likelihood of regulatory approval is reviewed and adjusted for should facts and circumstances change. Technical, market and financial feasibility criteria are assessed annually based on management's experience, general economic conditions and assumptions regarding future outcomes. Future events could cause the assumptions on which the development costs are capitalized to change, which could affect the Corporation's results in the future.

**4. Intangible Assets**

The intangible assets consist of:

| | *Patents* | *Intellectual Property* | *Development Costs* | *Total* |
|---|---|---|---|---|
| Cost | | | | |
| **Balance, beginning of period** | **-** | **-** | **-** | **-** |
| Additions | **85,367[(1)]** | **333,150[(1)]** | **480,522[(1)]** | **899,039** |
| Investment tax credit | **-** | **-** | **(173,847)** | **(173,847)** |
| **Balance as at January 31, 2016** | **85,367** | **333,150** | **306,675** | **725,192** |

(1) On June 19, 2015, the Corporation entered into three long-term Research Service Agreements with La Corporation de l'École Polytechnique de Montréal ("Polytechnique") who is a shareholder of the Corporation. The agreements require that the Corporation disburse funds in the amount of $2,100,000 over a 36 month period as described in Note 11a, $326,667 of which has been recorded as Development Costs in the current fiscal year.

On June 19, 2015, the Corporation entered into an Intellectual Property Assignment and Technology Transfer Agreement with Polyvalor Limited Partnership ("Polyvalor"), for a total amount of $523,535 as described in Note 11b. In the current fiscal year, the Corporation recorded an amount of $352,125 in the accounts: (i) $8,000 was recorded as Patent costs; (ii) $118,367 as Development Costs and (iii) $225,758 as Intellectual Property costs.

No amortization has been recorded in the fiscal year. Amortization of the Patents will commence when the Patents have been approved. Amortization of the Intellectual Property and Development Costs will commence when the various products have been commercialized.

## 5. Operating Loan

On June 19, 2015, the Corporation entered into a loan agreement with Manitex Capital Inc. ("Manitex"), a shareholder of the Corporation, for a maximum amount of $240,000. Borrowing under this unsecured loan agreement bear interest at 8% per annum. Interest charges in the amount of $7,366 were recorded in the current fiscal year. As at January 31, 2016 the Corporation had drawn on the loan to its maximum amount. Pursuant to the agreement, any borrowings were to be repaid by January 31, 2016. Subsequent to year end the loan agreement was amended and the loan is due on demand.

## 6. Share Capital

### *(a) Authorized:*

Unlimited number of Class "A" common shares, no par value.

Unlimited number of Class "AA" preferred shares, non-voting, non-cumulative dividends at the discretion of the directors, no par value

Unlimited number of Class "B" preferred shares, redeemable, non-voting, non-cumulative dividends of 1%, no par value

| Issued and fully paid: | |
|---|---|
| 12,966,666 Class A common shares | **1,020,617** |

On February 5, 2015, the Corporation issued 10,000 Class A common shares for total proceeds of $1. The Corporation did not incur any costs related to the issuance of these common shares.

On May 5, 2015, the Corporation issued 2,212,222 Class A common shares for total proceeds of $221. The Corporation did not incur any costs related to the issuance of these common shares.

On June 19, 2015, the Corporation issued 9,444,444 Class A common shares for total proceeds of $500,395. The Corporation did not incur any costs related to the issuance of these common shares.

On June 19, 2015 a further 833,334 Class A common shares, for total proceeds of $75,757, were issued as fully paid with no par value. These shares have a put right associated to them allowing the shareholder to require that the Corporation redeem the shares if the Corporation has not gone public by June 19, 2022. As these shares include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset, they do not meet the criteria in IAS 32 *Financial Instruments: Presentation* for classification as equity and therefore are classified as a FVTPL liability. At January 31, 2016 the fair value of this liability was increased to $333,334 based on a value of $0.40 per common share, such value having been estimated by using a Relative Fair Value Method calculation based on the common share pricing of the private placements concluded in January 2016. Details of the assumptions used are as follows:

| ***Methods*** | ***Rate, period and dollar*** |
|---|---|
| Weighted average risk-free interest rate | 0.90% |
| Weighted average volatility factor | 125% |
| Weighted average expected life | 2 years |
| Weighted fair value of options | $0.40 |

Volatility is determined based on the historical share price of comparable companies. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may also not necessarily be the actual outcome.

In January 2016, the Corporation closed a private placement of $650,000 through the issuance of 1,300,000 units at $0.50 per unit, each unit comprising of one common share and one-half (1/2) common share purchase warrant. Each full warrant entitles the holder to purchase one common share at $0.70 per share. The warrants have a life of twenty-four (24) months and expire on January 28, 2017. If, during the twenty-four (24) months period the Corporation's weighted average share price for 30 consecutive trading days equals or exceeds $1.00., the Corporation may give notice to the Warrant holders that they must exercise their remaining Warrants within a period of 30 days from the date of receipt of the notice. Using the Black-Scholes option valuation model, the unit was valued at $0.40 for the common share and $0.10 for the warrant. The share issue costs associated with the private placements were $14,000.

**6. Share Capital** *(Continued from previous page)*

***(a) Authorized*** *(Continued from previous page)****:***

The following schedules the common shares issuable on exercise of the warrants and share-based payment transactions granted during the current fiscal year:

| | ***Shares issuable on exercise of*** | | | |
|---|---|---|---|---|
| | ***Warrants*** | | ***Share options*** | |
| | ***Number of shares*** | ***Weighted exercise price*** | ***Number*** | ***Weighted exercise price*** |
| **Balance, beginning of year** | **-** | **-** | **-** | **-** |
| Granted during the year | **650,000** | **0.70** | **1,025,000** | **0.16** |
| Expired during the year | **-** | **-** | **-** | **-** |
| Cancelled during the year | **-** | **-** | **-** | **-** |
| Exercised during the year | **-** | **-** | **-** | **-** |
| **Balance, January 31, 2016** | **650,000** | **0.70** | **1,025,000** | **0.16** |

***(b) Share option issuances and compensation expense:***

On June 19, 2015, the Corporation implemented an incentive stock option plan for directors, officers, employees and consultants to participate in the growth and development of the Corporation by providing such person with the opportunity, through stock options, to purchase common shares of the Corporation.

On July 1, 2015, the Board granted 100,000 options at an exercise price of $0.10, expiring on July 1, 2020. Following that, on August 1, 2015, the Board granted 300,000 options at an exercise price of $0.10, expiring on August 1, 2020. Each of these grants vests evenly over a four year period. The total compensation cost of these stock options is estimated to be $71,283, which will be recognized on a gradual basis over the vesting period of the stock options.

On November 1, 2015, the Corporation adopted a revised Stock Option Plan which provides that the aggregate number of Shares reserved for issuance, set aside and made available for issuance may not exceed 10% of the number of issued Shares at the time the options are to be granted. The maximum number of options which may be granted to any one beneficiary shall not exceed 5% of the issued Shares, calculated at the date the option is granted.

The Stock Option Plan is administered by the Board of Directors of the Corporation and it has full and final authority with respect to the granting of all options thereunder. Options may be granted under the Stock Option Plan to such directors, officers, employees or consultants of the Corporation and its affiliates, if any, as the Board of Directors may from time to time designate. The exercise price of any options granted under the Stock Option Plan shall be determined by the Board of Directors, subject to any applicable regulations or policies. The term and vesting of any options granted under the Stock Option Plan shall be determined by the Board of Directors at the time of grant, however, subject to earlier termination in the event of dismissal for cause, termination other than for cause or in the event of death, the term of any options granted under the Stock Option Plan may not exceed 5 years.

Options granted under the Stock Option Plan are not to be transferable or assignable other than by will or other testamentary instrument or pursuant to the laws of succession to a qualified successor. In the event of death of an option holder, options granted under the Stock Option Plan expire upon the earlier of the normal expiry date of the options or one year from the date of death of the option holder. Subject to certain exceptions, in the event that an employee, director, officer, consultant or individual conducting investor relations activities ceases to hold office, options granted to such a holder under the Stock Option Plan will expire 90 days after the holder ceases to hold office or such earlier date as the Board of Directors may decide at the date the options were granted. Notwithstanding the foregoing, in the event of a termination for cause of an option holder, all unexercised options held by such option holder shall immediately terminate.

On November 26, 2015, the Board granted 625,000 options at an exercise price of $0.20, expiring on November 25, 2020. The options vest as follows: 125,000 options vest on the grant date; 125,000 vest on each of June 1, 2016, November 30, 2016 and June 1, 2017; and 62,500 options vest on each of November 30, 2017 and June 1, 2018. The total compensation cost of these stock options is estimate to be $75,779, which will be recognized on a gradual basis over the vesting period of the stock options.

**6. Share Capital** *(Continued from previous page)*

***(b) Share option issuances and compensation expenses*** *(Continued from previous page)*

All share-based payments will be settled in equity. The Corporation has no legal or contractual obligation to repurchase or settle the options in cash.

The following options to purchase common shares were outstanding as at January 31, 2016:

| ***Options outstanding*** | ***Options Exercisable*** | ***Exercise price*** | ***Remaining contractual life*** |
|---|---|---|---|
| **400,000** | **100,000** | **\$0.10** | **4.5 years** |
| **625,000** | **125,000** | **\$0.20** | **4.8 years** |

Under the Black-Scholes option-pricing model, the following assumptions were used when the options were granted:

| | *July 2015 option grant* | *August 2015 option grant* | *November 2015 option grant* |
|---|---|---|---|
| Weighted average risk-free interest rate | 0.81% | 0.76% | 0.90% |
| Weighted average volatility factor | 125% | 125% | 125% |
| Weighted average expected life | 5 years | 5 years | 5 years |
| Weighted fair value of options | \$0.371 | \$0.371 | \$0.356 |
| Forfeiture rate | Nil | Nil | Nil |

Volatility is determined based on the historical share price of comparable companies.

***(c) Warrants***

In January 2016, the Corporation issued 1,300,000 share purchase half-warrants as part of the private placements (Note 6a). Each full warrant shall entitle the holder to acquire one common share of the Corporation at an exercise price of \$0.70 per common share. The half-warrants expire on January 28, 2018. The warrants were valued at \$0.10 using the Black-Scholes option valuation model with the following assumptions:

| ***Methods*** | ***Rate, period and dollar*** |
|---|---|
| Weighted average risk-free interest rate | \$0.90 |
| Weighted average volatility factor | 125% |
| Weighted average expected life | 2 years |
| Expected dividend yield | Nil |

Volatility is determined based on the historical share price of comparable companies.

***(d) Earnings per share:***

The weighted average number of shares outstanding used in the calculation of earnings per share is as follows:

| | |
|---|---|
| Weighted average number of common shares outstanding | **8,150,084** |
| Basic and diluted loss per common shares | **(0.11)** |

The number of options outstanding as at January 31, 2016 is not included in the calculation because the effect is anti-dilutive.

## 7. Income Taxes

(a) Details of the components of income taxes are as follows:

| | |
|---|---|
| Loss before income taxes | **(927,880)** |
| Basic income tax rate | **26.9%** |
| Computed income tax recovery | **(249,600)** |
| Decrease resulting from: | |
| Permanent differences | **139,299** |
| Change in deferred tax assets not recognized | **110,301** |
| | **249,600** |
| **Provision for income taxes** | **-** |

(b) The tax effects of significant items comprising the Corporation's net deferred tax assets and liabilities are as follows:

| | |
|---|---|
| Non-capital losses carried forward | **259,910** |
| R&D federal investment credit | **(39,182)** |
| Intangible assets | **(109,682)** |
| Deferred share issue costs | **(745)** |
| | **110,301** |
| Deferred tax assets not recognized | **(110,301)** |
| | **-** |

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets and liabilities will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies.

(c) The Corporation has accumulated non-capital losses of approximately $968,779 and $962,967 for income tax purposes for Federal and Quebec governments, respectively, which are available to be applied against future taxable income and expire in 2035.

The Corporation has not recognized the tax benefit of the losses and will recognize them when future profits are probable in the respective jurisdictions.

## 8. Financial Instruments

The classification of financial instruments at their carrying and fair values is as follows:

| | ***Carrying Value FVTPL*** | ***Fair Value*** |
|---|---|---|
| **Financial Assets** | | |
| Cash | **646,246** | **646,246** |

| | **Carrying Value** | | **Fair Value** |
|---|---|---|---|
| | ***FVTPL*** | ***Other financial liabilities*** | |
| **Financial Liabilities** | | | |
| Accounts payable and accrued liabilities | **-** | **858,139** | **858,139** |
| Operating loan | **-** | **240,000** | **240,000** |
| Class A shares liability | **333,334** | **-** | **333,334** |
| | **333,334** | **1,098,139** | **1,431,473** |

## 9. Financial Risk Factors

The Corporation's activities expose it to financial risks: market risk specifically to cash flow and fair value interest rate risk and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of the financial market and seeks to minimize potential adverse effects on the Corporation's financial performance. The Corporation does not use derivative financial instruments to hedge these risks.

Management determined that the Corporation is not exposed to currency and credit risk arising from these financial instruments.

### *(a) Market risk*

*(i)* Cash flow and fair value interest rate risk

The Corporation is exposed to fair value interest rate risk due to the operating loan negotiated at a fixed rate.

*(ii) Currency risk*

The Corporation has cash and accounts payable and accrued liabilities in US$ currency. The Corporation does not hold financial derivatives to manage the fluctuation of these risks.

The following presents the accounts that are exposed to foreign exchange volatility:

| | ***US$*** | ***Total CDN $ Equivalent*** |
|---|---|---|
| Cash | **200** | **280** |
| Accounts and accrued liabilities | **(46,122)** | **(64,598)** |

### *(b) Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The following are the contractual maturities of financial liabilities as at January 31, 2016.

| | ***Carrying Value*** | ***Less than 30 days*** | ***30 days to 3 months*** | ***3 months to 12 months*** | ***More than 12 months*** |
|---|---|---|---|---|---|
| Financial Liabilities | | | | | |
| Accounts payable and accrued liabilities | **858,139** | **-** | **858,139** | **-** | **-** |
| Operating loan | **240,000** | **-** | **-** | **240,000** | **-** |
| Class A shares liability | **333,334** | **-** | **-** | **-** | **333,334** |
| | **1,431,473** | **-** | **858,139** | **240,000** | **333,334** |

### *(c) Fair value risk*

The Corporation's financial instruments consist of cash, accounts payable and accrued liabilities, operating loan and Class A shares liability. The fair value of these financial instruments approximated the carrying value disclosed in Note 8 due to the short-term maturity of the instruments.

### *(d) Capital risk management*

The Corporation' objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders. The Corporation includes equity, comprised of issued common shares and contributed surplus, in the definition of capital. The Corporation's primary objective with respect to its capital management is to ensure that is has sufficient financial resources to meet its financial obligations. To secure the additional capital necessary to pursue these plans, the Corporation will attempt to raise additional funds through the issuance of equity or by securing strategic partners. The Corporation is not subject to any externally imposed capital requirements.

## 10. Related party transactions

Included in accounts payable and accrued liabilities is an amount of $140,566 due to Manitex for reimbursement of various expenses that Manitex has paid on behalf of the Corporation. Included in administrative and office expenses are the salary and benefits associated with the President's compensation. This compensation is broken down into $71,809 for salary and employer taxes, and $74,780 of stock option compensation. All other related party transactions have been disclosed in these financial statements.

## 11. Commitments

a) On June 19, 2015 the Corporation entered into three long-term Research Service Agreements with Polytechnique, requiring disbursements for a total of $2,100,000.
   i) Agreement 1: $17,500 monthly for 36 months for a total of $630,000. The Corporation has recorded eight of the monthly payments in the current period for a total of $140,000.
   ii) Agreement 2: $23,333.33 monthly for 36 months for a total of $840,000. The Corporation has recorded eight of the monthly payments in the current period for a total of $186,667.
   iii) Agreement 3: $17,500 monthly for 36 months for a total of $630,000. The Corporation has recorded eight of the monthly payments in the current period for a total of $140,000.

b) On June 19, 2015, the Corporation entered into an Intellectual Property Assignment and Technology Transfer Agreement with Polyvalor. Payments remaining under this Agreement are as follows:
   i) A non-refundable fee of $35,000 payable on February 28, 2016. This amount was paid subsequent to year-end.
   ii) A non-refundable fee of $36,410 payable on October 31, 2016
   iii) A non-refundable fee of $100,000 payable on or before May 31, 2016

When the product is commercialized, the Corporation must make non-refundable payments to Polyvalor equal to 1.5% of Net Sales.

In the event that the Corporation fails to perform any of the payments provided in this Agreement, compound interest at an annual rate of 12% will be applied on any unpaid balance at the end of each month.

In addition, by February 28, 2016 the Corporation must obtain and conclude cumulative rounds of financing for a minimum amount of $1,470,000 (identified as Round 1), which includes the amount of $500,000 paid by Manitex for its common shares and the operating loan of $240,000 (Note 5). As at January 31, 2016, financing amounting to $1,390,000 was raised. By May 31, 2016, the Corporation must obtain and conclude cumulative rounds of financing for a minimum amount of $2,600,000 (identified as Round 2), which includes the $1,470,000 financing in Round 1. In the event that the Corporation is not able to obtain financing as described, the Corporation will have a period of three (3) months from each date of the Rounds to find alternative financing solutions, which will require approval by an investment committee. If such approval is not obtained nor the financing secured, the Agreement can be unilaterally terminated by Polyvalor. Any and all amounts owed will become payable immediately and the assigned Intellectual Property will immediately and automatically revert back to Polyvalor for a nominal amount of one dollar.

## 12. Subsequent Events

During the month of February 2016, the Corporation closed a private placement of $80,000 for 160,000 units at a subscription price of $0.50 per unit, with each unit consisting of one Class A common share and one-half common share purchase warrant. A full warrant will entitle the holder to acquire one common share at an exercise price of $0.70 per share at any time on or before the close of business on a date that is twenty-four months from the subscription date. If, during the twenty-four months after that date, the Corporation's weighted average share price for 30 consecutive trading days equals or exceeds $1.00, the Corporation may give notice to the warrant holders that they must exercise their warrants within a period of 30-days from the date of receipt of the notice. The private placement was completed by an authorized dealer, with fees of 5% of the placement value and 5% of shares issued.

On April 25, 2016, Manitex Capital Inc. signed a letter of intent to provide $1,130,000 of additional financing to the Corporation. The exact amount of the additional financing will be equal to the difference between $2,600,000 and the total amount of financing secured by the Corporation, through cumulative rounds of financing, prior to May 31, 2016. The additional financing will be under the same terms and conditions as the loan agreement entered into on June 19, 2015 and amended on January 31, 2016 (note 5).

**12. Subsequent Events** *(Continued from previous page)*

On April 29, 2016 the Corporation filed a preliminary prospectus with specific security regulatory authorities in connection with an initial public offering of its shares by way of Manitex Capital Inc. distributing a dividend-in-kind of Ortho Class A Common Shares to the holders of Manitex shares. Manitex is an existing shareholder of the Corporation and currently holds 5,109,000 shares of Ortho. The dividend-in-kind of Class A Common Shares of Ortho will be paid on the basis of one share for every ten Manitex shares which are outstanding on the Record Date, to be set by Manitex's Board of Directors. On March 24, 2016 Manitex has 12,561,276 shares that are issued and outstanding. Manitex will cause the distribution of 1,256,127 Ortho shares to holders of Manitex shares, pursuant to the prospectus, at a deemed value of $0.50 per share.