

## **Financial Statements**

*Ortho Regenerative Technologies Inc.*

**January 31, 2020**

## Management's Responsibility

To the Shareholders of Ortho Regenerative Technologies Inc.,

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safe guarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Audit Committee is composed of a majority of Directors who are neither management nor employees of the Corporation. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Corporation's external auditors.

Ernst & Young LLP, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors had full and free access to, and met periodically and separately with the Board, the Audit Committee and management to discuss their audit findings.

May 28, 2020

/s/ "Claude LeDuc "

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Chief Executive Officer

/s/ "Luc Mainville"

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Chief Financial Officer

# Independent auditor's report

To the Shareholders of  
**Ortho Regenerative Technologies Inc.**

## Opinion

We have audited the financial statements of **Ortho Regenerative Technologies Inc.** [the "Company"], which comprise the statements of financial position as at January 31, 2020 and 2019, and the statements of loss and comprehensive loss, statements of changes in shareholders' deficit and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRSs"].

## Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of \$2.5 million and used \$1.6 million in cash for its operating activities, during the year ended January 31, 2020. As stated in Note 1, these events or conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



### **Responsibilities of management and those charged with governance for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Yann Lavallée.

*Ernst + Young LLP*<sup>1</sup>

Montreal, Canada  
May 28, 2020

<sup>1</sup> CPA auditor, CA, public accountancy permit no. A122471



# Ortho Regenerative Technologies Inc.

## Statements of Financial Position

In thousands of Canadian dollars

As at January 31,	Notes	2020	2019
<b>ASSETS (Note 9)</b>			
<b>Current</b>			
Cash		302	524
Sales tax receivable		14	55
Investment tax credits receivable		361	378
Prepaid expenses		64	41
<b>Total current assets</b>		<b>741</b>	<b>998</b>
Equipment	4	112	178
Right of use asset	5	38	-
Intangible assets	6	396	428
<b>Total assets</b>		<b>1,287</b>	<b>1,604</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	7	1,021	975
Lease liability	8	20	-
Investment tax credit loan	9	596	364
<b>Total current liabilities</b>		<b>1,637</b>	<b>1,339</b>
Lease liability	8	21	-
Note payable	10	-	139
Convertible loan	11	-	652
Long-term loans	12	302	-
Convertible debenture	13	1,726	-
Derivative liability	11	-	63
<b>Total liabilities</b>		<b>3,686</b>	<b>2,193</b>
<b>SHAREHOLDERS' DEFICIT</b>			
Common shares	14	5,418	5,430
Warrants	14	732	665
Equity component of convertible debenture	13	385	-
Contributed surplus		955	717
Deficit		(9,889)	(7,401)
<b>Total shareholders' deficit</b>		<b>(2,399)</b>	<b>(589)</b>
<b>Total liabilities and shareholders' deficit</b>		<b>1,287</b>	<b>1,604</b>

Going Concern Uncertainty (Note 1); Commitments (Note 23); Subsequent events (Note 24)

These audited annual financial statements were approved and authorized for issuance by the Board of Directors on May 28, 2020.

"/s/ "Claude LeDuc"      ", Director

"/s/ "Steve Saviuk"      ", Director

The notes are an integral part of these audited annual financial statements.

## Ortho Regenerative Technologies Inc.

### Statements Loss and Comprehensive Loss

*In thousands of Canadian dollars, except for share and per share amount*

*For the years ended January 31, 2020 and 2019*

	Notes	2020	2019
<b>Expenses</b>			
Research and development	16	1,063	1,082
General and administrative	17	955	1,089
Share-based compensation		165	134
Financing expense, net	18	305	94
		<b>2,488</b>	2,399
<b>Net loss and comprehensive loss</b>			
		<b>2,488</b>	2,399
<b>Loss per share</b>			
Weighted average number of common shares outstanding		<b>24,752,424</b>	<b>24,752,424</b>
Basic and diluted loss per common share		<b>0.10</b>	0.10

*The number of shares held in escrow as at January 31, 2020, is 3,452,685 (2019: 6,905,329)*

*Going Concern Uncertainty (Note 1)*

## Ortho Regenerative Technologies Inc.

### Statements of Changes in Shareholders' Deficit

In thousands of Canadian dollars, except for share and per share amount

For the years ended January 31, 2020 and 2019

	Notes	Number of shares	Share capital	Warrants	Equity component of convertible debenture	Contributed surplus	Deficit	Total
<b>Balance, as at January 31, 2018</b>		<b>20,610,612</b>	<b>3,843</b>	<b>758</b>	-	<b>548</b>	<b>(5,002)</b>	<b>147</b>
Issuance of shares		3,760,000	1,504	-	-	-	-	1,504
Exercised options		65,000	40	-	-	(34)	-	6
Exercised warrants		16,812	12	(2)	-	-	-	10
Expired warrants		-	-	(136)	-	136	-	-
Settlement of note		300,000	120	-	-	-	-	120
Issuance of warrants		-	(22)	45	-	-	-	23
Share issue costs		-	(67)	-	-	-	-	(67)
Reversal of conversion feature on extinguishment		-	-	-	-	(67)	-	(67)
Share based compensation	14	-	-	-	-	134	-	134
Net loss for the period		-	-	-	-	-	(2,399)	(2,399)
<b>Balance, as at January 31, 2019</b>		<b>24,752,424</b>	<b>5,430</b>	<b>665</b>	-	<b>717</b>	<b>(7,401)</b>	<b>(589)</b>
Expired warrants	14	-	-	(102)	-	102	-	-
Share based compensation	14	-	-	-	-	165	-	165
Issuance of convertible debenture units	13	-	-	140	385	-	-	525
Fair Value Adjustment – Warrant Extension	14	-	-	29	-	(29)	-	-
Issue costs	14	-	(12)	-	-	-	-	(12)
Net loss for the period		-	-	-	-	-	(2,488)	(2,488)
<b>Balance, as at January 31, 2020</b>		<b>24,752,424</b>	<b>5,418</b>	<b>732</b>	<b>385</b>	<b>955</b>	<b>(9,889)</b>	<b>(2,399)</b>

Going Concern Uncertainty (Note 1)



# Ortho Regenerative Technologies Inc.

## Statements of Cash Flows

In thousands of Canadian dollars, except for share and per share amounts  
For the years ended January 31, 2020 and 2019

	Notes	2020	2019
<b>Operating activities:</b>			
Net loss from operations		(2,488)	(2,399)
<b>Add items not affecting cash:</b>			
Share-based compensation	14	165	134
Consulting fees paid by issuance of shares or convertible debenture units		262	23
Depreciation and amortization		118	89
Amortization of financing costs	9	45	10
Loss (gain) on debt settlement	11	8	(58)
Payment of interest		(84)	(44)
Gain on revaluation of derivative liabilities	11	(55)	-
Financing charges		357	119
Net change in non-cash working capital items	15	81	740
<b>Cash used in operating activities</b>		<b>(1,591)</b>	<b>(1,386)</b>
<b>Investing activities:</b>			
Acquisitions of equipment		-	(75)
<b>Cash used in investing activities</b>		<b>-</b>	<b>(75)</b>
<b>Financing activities:</b>			
Proceeds from short-term debt		420	389
Repayment of short-term debt		(218)	(279)
Proceeds from long-term debt		300	
Payment of debt issue costs		(65)	(29)
Issuance of convertible debenture units		968	-
Issuance of shares		-	1,504
Proceeds from exercised warrants		-	10
Proceeds from exercised options		-	7
Payment of issue costs		(12)	(67)
Payment of lease obligation		(24)	-
<b>Cash provided by financing activities</b>		<b>1,369</b>	<b>1,534</b>
<b>Increase (decrease) in cash</b>		<b>(222)</b>	<b>74</b>
<b>Cash, beginning of year</b>		<b>524</b>	<b>450</b>
<b>Cash, end of the year</b>		<b>302</b>	<b>524</b>

*Going Concern Uncertainty (Note 1)*

*See Note 15 for supplemental cash flow information*

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
As at January 31, 2020 and 2019*

### 1. Presentation of Financial Statements

#### Description of the Business and Going Concern Uncertainty

Ortho Regenerative Technologies Inc. ("the Corporation", or "Ortho RTi") was incorporated under the Canada Business Corporations Act on February 5, 2015. The Corporation's head office, principal address and registered office is located at 16667 Hymus Blvd., Kirkland, Quebec, Canada. Since October 10, 2017, the Corporation's shares have been listed on the Canadian Securities Exchange ("CSE"), under the symbol ORTH.

The Corporation is an emerging Orthopaedic and Sports Medicine biologics company dedicated to the development of novel therapeutic soft tissue repair technologies to dramatically improve the success rate of orthopaedic and sports medicine surgeries. The Corporation's proprietary biopolymer has been specifically designed to increase the healing rates of occupational and sports related injuries to tendons, ligaments, meniscus, and cartilage. The biopolymer – autologous PRP combination implant, can be directly placed into the site of injuries by surgeons during routine operative procedures without significantly extending the duration of surgeries and without further interventions. Considering the significant bioactivity and residency of our proprietary biopolymer – PRP implants, Ortho RTi continues to assess its potential for therapeutic uses outside of the soft tissue repair market.

The accompanying audited annual financial statements have been prepared on the going concern basis, which presumes the Corporation will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. In its assessment to determine if the going concern assumption is appropriate, management considers all data available regarding the future for at least, without limiting to, the next twelve months.

The Corporation has yet to generate revenue and has relied upon the issuance of debt and equity instruments to fund its operations. As at January 31, 2020, the Corporation had a deficit of \$9,889 and a negative working capital of \$896. During the year ended January 31, 2020, the Corporation incurred a net loss of \$2,488.

The ability of the Corporation to fulfill its obligations and finance its future activities depends on its ability to raise capital and on the continuous support of its creditors. The Corporation believes its efforts to raise sufficient funds to support its activities will be successful, however, there is no assurance that funds will continue to be raised on acceptable terms. This indicates the existence of a material uncertainty that may cast a significant doubt about the ability of the Corporation to continue as a going concern without obtaining additional financial resources.

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

These financial statements were approved and authorized for issuance by the Board of Directors on May 28, 2020.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
As at January 31, 2020 and 2019*

### 2. Summary of Significant Accounting Policies

#### **Basis of measurement**

These audited annual financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities to fair value.

#### **Functional and presentation currency**

These audited annual financial statements are presented in Canadian dollars, 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 the statement of loss and comprehensive loss. 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. 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, 2020	January 31, 2019
End of period exchange rate – USD	1.3233	1.3144
Period average exchange rate - USD	1.3252	1.3034

#### **Statement of Compliance**

These audited annual financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements have been prepared in accordance with those IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued and effective or issued as at the time of preparing these audited annual financial statements. The policies set out below have been consistently applied to all the periods presented.

The preparation of the Corporation’s audited annual financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Corporation’s accounting policies, management has made judgments and estimates disclosed in Note 3, which have the most significant effect on the amounts recognized in the financial statements.

#### **Recently adopted accounting policies**

##### **IFRS 16, Leases**

In January 2016, the IASB released IFRS 16 “Leases” replacing IAS 17 “Leases” and related interpretations. The new standard eliminates the classification of leases as either operating or finance leases for lessees and requires the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value (less than \$5). IFRS 16 is effective for reporting periods beginning on or after January 1, 2019. The Corporation has adopted IFRS 16, effective February 1, 2019, using the modified retrospective approach and has not restated prior periods for the impact of IFRS 16. Comparative information is still reported under IAS 17 and IFRIC 4.

On initial adoption, the Corporation applied the following practical expedients permitted under the standard: (i) short-term leases and leases of low value assets that have been identified at February 1, 2019 are not recognized on the balance sheet; (ii) leases with terms ending within 12 months of February 1, 2019 are treated as short-term leases and have not been recognized on the balance sheet; (iii) contracts that were not previously identified as containing a lease under the previous standard have not been reassessed under IFRS 16; (iv) initial direct costs were excluded from the measurement of right-of-use assets for the purpose of initial measurement on transition; (v) a single discount rate was used for remaining lease payments on leases with similar characteristics; (vi) the Corporation elected to measure the right-of-use asset at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition; (vii) instead of performing an impairment review on the right-of-use assets at the date of initial application, the Corporation has relied on historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 13%. The Corporation quantified the impact of IFRS 16 adoption on the fiscal 2020 opening balance sheet. On transition to IFRS 16, the Corporation recognized right-of-use assets and lease liabilities. This non-cash adjustment has been excluded from the Statement of Cash Flows.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
As at January 31, 2020 and 2019*

### 2. Summary of Significant Accounting Policies – cont'd

The impact on transition is summarized below:

	February 1, 2019
Recognition of right of use assets	58
Recognition of lease liabilities	58

#### Accounting policy applicable from February 1, 2019

For any new contracts entered on or after February 1, 2019, the Corporation considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period in exchange for any consideration. To apply this definition the Corporation assesses whether the contract meets three key evaluations which are whether; (i) the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Corporation; (ii) the Corporation has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and (iii) the Corporation has the right to direct the use of the identified assets throughout the period of use. The Corporation assesses whether it has the right to direct how and for what purpose the asset is used throughout the period of use.

As a lessee, the Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Corporation, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Corporation also assesses the right-of-use asset for impairment when such indicators exist. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Corporation's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed payments), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised. Subsequent to the initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

For exceptions, such as short-term leases and leases of low-value assets using the right-of-use asset and lease liability are not recognized in the Corporation's statements of financial position. Payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

#### Accounting policy applicable before February 1, 2019

Leases are classified as finance or operating leases. A lease is classified as a finance lease if it effectively transfers substantially the entire risks and rewards incidental to ownership. At the commencement of the lease, the Corporation recognizes finance leases as an asset acquisition and an assumption of an obligation in the balance sheet at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the incremental borrowing rate is used. The interest element of the lease payment is recognized as finance cost over the lease term to achieve a constant periodic rate of interest on the remaining balance of the liability. Any initial direct costs of the lessee are added to the amount recognized as an asset. The useful life and depreciation method are determined on a consistent basis with the Corporation's policies for property and equipment. The asset is depreciated over the shorter of the lease term and its useful life. All other leases are accounted for as operating leases, wherein payments are expensed on a straight-line basis over the term of the lease. Lease incentives received are recognized.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
As at January 31, 2020 and 2019*

### **2. Summary of Significant Accounting Policies – cont'd**

#### ***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.

#### ***Intangible assets***

The intangible assets of the Corporation include intellectual properties and technologies acquired from a third party and are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Initial acquisition cost is based on the fair value of the consideration paid and is amortized on a straight-line basis over the estimated useful life of 15 years. The Corporation reviews the estimated useful lives and carrying value of its technology rights as part of its periodic assessment for impairment of non-financial assets.

#### ***Equipment***

Equipment is recorded at cost less accumulated amortization. Equipment is amortized over their estimated useful life over three- to five- year.

#### ***Research and development costs***

Research, development costs and costs for new patents and patent applications are charged to operations in the year in which they are incurred, net of related investment tax credits.

#### ***Impairment of non-financial assets***

The Corporation assesses, at each reporting period, whether there is an indication that an asset may be impaired. Impairment is recognized when the carrying amount of an asset, exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

Equipment, as well as intangible assets with a finite useful life are tested for impairment whenever there is an indication that the carrying amount of the asset exceeds its recoverable amount. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the recoverable amount of the asset. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognized.

The reversal of impairment losses is limited to the amount that would bring the carrying value of the asset to the amount that would have been recorded, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of loss and Comprehensive loss in the same line item where the original impairment was recognized.

#### ***Financial instruments***

All financial instruments, including derivatives, are included on the statement of financial position and are measured either at fair market value or, in limited circumstances, at cost or amortized cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications. Amortized cost financial assets are measured at fair value with subsequent changes in fair value recognized in current period net income.

Fair value through profit or loss ("FVTPL") assets, loans and receivables and other financial liabilities, initially measured at fair value and subsequently measured changes recognized in current period net income. Fair value through other comprehensive income ("FVTOCI") financial assets measured at fair value with subsequent gains or losses included in other comprehensive income until the asset is removed from the statements of financial position.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
As at January 31, 2020 and 2019*

### 2. Summary of Significant Accounting Policies – cont'd

The following summarizes the Corporation's classification and measurement of financial assets and liabilities as at January 31:

	<b>Measurement</b>
<b>Financial asset:</b>	
Cash	Amortized cost
<b>Financial liabilities:</b>	
Accounts payable and accrued liabilities	Amortized cost
Investment tax credit loan	Amortized cost
Loans	Amortized cost
Note payable	Amortized cost
Convertible debenture	Amortized cost
Derivative liability	FVTPL

The initial carrying amount of a compound financial instrument, i.e., an instrument that comprises a liability and an equity component, is allocated using the residual value method. Under the residual value method, the Corporation first determines the fair value of the liability component, and the residual amount is allocated to the equity component.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or financial liabilities, other than financial assets and financial liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Transaction costs on financial assets and financial liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred. All derivative instruments, including embedded derivatives, are recorded in the financial statements at fair value.

#### **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 that 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, other comprehensive 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.

#### **Sales tax**

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.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
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### 2. Summary of Significant Accounting Policies – cont'd

#### **Segment reporting**

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Corporation views its operations and manages its business in one operating segment, which is the development of novel therapeutic soft tissue repair technologies.

#### **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. Incremental costs directly attributable to the issuance of shares and warrants, net of any tax effects, are recognized as a deduction of equity. Dividends thereon are recognized as distributions within equity upon approval by the Corporation's Board of Directors. When the Corporation issues shares that are comprised of a combination of shares and warrants, the value is assigned to shares and warrants based on their relative fair values. The fair value of the shares is determined by the closing price on the date of the transaction and the fair value of the warrants is determined based on a stochastic model.

When warrants are exercised, share capital is credited by the sum of the consideration paid, together with the related portion previously recorded to warrants. 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 the statement of loss as accrued.

#### **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 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 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, share capital is credited by the sum of the consideration paid, together with the related portion previously recorded to contributed surplus.

#### **Earnings per share**

Basic earnings or loss per share is calculated by dividing the profit or loss of the year by 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. For the periods presented, the potentially dilutive effect of options, full warrants and convertible instruments have proved to be anti-dilutive.

### 3. Use of Estimates and Judgments

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

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

*In thousands of Canadian dollars, except for share and per share amounts  
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### 3. Use of Estimates and Judgments – cont'd

**The following areas require management's critical estimates:**

#### **Share-based payments and warrants**

The Corporation measures the cost of share-based payments 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, depending on terms and conditions, the Black-Scholes option pricing model or the stochastic model. Several assumptions are used in the underlying calculation of fair values of the Corporation's stock options and warrants granted using these models, including the expected life of the option or warrant and volatility. Details of the assumptions used are included in *Note 14*.

#### **Valuation of convertible instrument**

The Corporation determines the value of convertible loan and debenture by first valuing free-standing instruments and by allocating the value of each free-standing instrument based on a relative fair value basis.

The calculation of the fair value of the debt component of the convertible loan and convertible debenture requires using an interest rate that the Corporation would have had to pay had the loan been obtained without a conversion feature. Such interest rate requires management's estimates by reference to loan interest paid by comparable companies in the similar sector. The Corporation estimates 27.5% being the reasonable interest rate a comparable company in the biotech sector would likely pay in obtaining loans as at October and December 2019. Changes to these estimates may affect the carrying value of the convertible loan and the equity portion of convertible debenture.

The Corporation initially measures the conversion feature by reference to the fair value of the underlying equity instrument at the date on which the option is issued. Estimating fair value for conversion feature requires management to determine the most appropriate valuation model, which is dependent on the terms and conditions of each option. In valuing the conversion feature, the Corporation uses the Black-Scholes option pricing model. Several assumptions are used in the calculation of fair values of the Corporation's conversion feature, including the term of the option and volatility.

#### **Depreciation and amortization**

Equipment is depreciated based on the estimated useful life less its residual value. Intangible assets are amortized based on the estimated life. Significant assumptions are involved in the determination of useful life and residual values, and no assurance can be given that actual useful life and residual values will not differ significantly from current assumptions. Actual useful life and residual values may vary depending on several factors including internal technical valuation, physical condition of the asset and experience with similar assets. Changes to these estimates may affect the carrying value of long-lived assets, net loss and comprehensive loss in future periods.

**The following area require management's judgment:**

#### **Investment tax credits**

The amounts and the moment of the recognition of the investment tax credits receivable involve a certain degree of judgment with regards to the eligibility of the research and development expenditures which give rise to the tax credits refunds and to the probability of receiving the amounts. The amounts claimed by the Corporation are subject to the review and the approval of the tax authorities, and it is possible that the amounts granted will differ from the amounts claimed.

### 4. Equipment

	Cost	Accumulated depreciation	Carrying Value
	\$	\$	\$
<b>Balance as at January 31, 2018</b>	160	-	160
Additions	75	(57)	18
<b>Balance as at January 31, 2019</b>	235	(57)	178
Additions	-	(66)	(66)
<b>Balance as at January 31, 2020</b>	<b>235</b>	<b>(123)</b>	<b>112</b>



# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 5. Right-of-Use Asset

	Cost \$	Accumulated depreciation \$	Carrying Value \$
<b>Balance as at February 1, 2019, on adoption of IFRS 16</b>	58	-	58
Additions	-	(20)	(20)
<b>Balance as at January 31, 2020</b>	<b>58</b>	<b>(20)</b>	<b>38</b>

### 6. Intangible Assets

	Cost \$	Accumulated amortization \$	Carrying Value \$
<b>Balance as at January 31, 2018</b>	485	(25)	460
Additions	-	(32)	(32)
<b>Balance as at January 31, 2019</b>	485	(57)	428
Additions	-	(32)	(32)
<b>Balance as at January 31, 2020</b>	<b>485</b>	<b>(89)</b>	<b>396</b>

### 7. Accounts Payable and Accrued Liabilities

	2020 \$	2019 \$
Trade accounts payable	998	717
Accrued liabilities	23	258
	<b>1,021</b>	<b>975</b>

### 8. Lease Liability

	\$
<b>Balance at February 1 on adoption of IFRS 16</b>	58
Interest expense	7
Lease payments	(24)
<b>Balance as at January 31, 2020</b>	<b>41</b>
Which consists of	
Current lease liability	20
Non-current lease liability	21

Effective January 1, 2018, the Corporation signed a sublease agreement for the period of January 1, 2018 to December 31, 2021. The sublease agreement does not contain any contingent rent clause and both parties may terminate the sublease agreement by giving a 2-month notice after the initial term of 6 months. The following table presents the minimum obligation over the remaining lease term:

Year ending January 31,	Occupancy costs
2021	24
2022	22
	46

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 9. Investment Tax Credit Loan

	2020	2019
	\$	\$
Opening balance	364	272
Additions	468	389
Repayment	(218)	(273)
Transaction costs	(63)	(34)
Amortization of financing costs	45	10
<b>Investment tax credit loan</b>	<b>596</b>	<b>364</b>

On December 19, 2018, the Corporation signed a short-term loan agreement to finance its fiscal year 2017, 2018 and 2019 investment tax credits. The loan is secured by a first-rank moveable hypothec on all assets and bears interest at a fixed rate of 1.5% per month. The amounts are due upon receiving the refunds from the respective governments. Transaction costs of \$29 were incurred on issuance of the loan and were netted against the loan. The transaction costs are amortized over the term of the loan and presented as a financing expense.

On August 20, 2019, the Corporation signed a short-term loan agreement to finance its fiscal year 2020 investment tax credits. The loan is secured by a first-rank moveable hypothec on all assets and bears interest at a fixed rate of 1.5% per month. The amounts are due upon

receiving the refunds from the respective governments. Transaction costs of \$34 were incurred on issuance of the loan and were netted against the loan. The transaction costs are amortized over the term of the loan and presented as a financing expense.

On December 21, 2019, the Corporation renewed its agreement to finance the balance of its fiscal year 2017, 2018 and 2019 investment tax credits. The loan is secured by a first-rank moveable hypothec on all assets and bears interest at a fixed rate of 1.5% per month. The amounts are due upon receiving the refunds from the respective governments. Transactions costs of \$30 were capitalized to the loan balance. The transaction costs are amortized over the term of the loan and presented as a financing expense.

### 10. Note Payable

On July 28, 2017, the Corporation and Manitex Capital Inc. ("Manitex") signed an unsecured note payable for \$225. The note payable bore interest at 12% per annum and matured on October 31, 2018. This note was amended on October 31, 2018, whereby the principal sum due and payable in full, was initially extended to February 1, 2020. On October 8, 2019, this loan was converted into convertible debenture units (Note 13).

	2020	2019
	\$	\$
Opening balance	139	225
Partial settlement by issuance of shares	-	(120)
Conversion to convertible debenture units	(150)	-
Interest accrued	11	34
<b>Note payable</b>	<b>-</b>	<b>139</b>

### 11. Convertible Loan

	2020	2019
	\$	\$
Opening balance	652	607
Fair value of option allocated to liability	63	(63)
Equity component residual value	-	67
Gain on revaluation of derivative liability	(55)	-
Loss on debt settlement	8	(58)
Accretion expense	96	98
Conversion to debenture units	(764)	-
Amortization of transaction costs	-	1
<b>Convertible loan</b>	<b>-</b>	<b>652</b>

During the year ended January 31, 2020, the loan and accrued interest was converted into convertible debenture units (Note 13).

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 11. Convertible Loan – cont'd

On April 27, 2017, the Corporation converted a \$600 operating loan into a first ranking, long-term convertible loan, bearing interest at an annual rate of 10%, to be repaid in full, principal and interest on February 1, 2019. At any time prior to maturity, Manitek had the option to convert all or any part of the convertible loan amount into shares of the Corporation at a deemed price of \$1.00 per share. If, prior to maturity, the Corporation's 20-day volume-weighted average share price equals or exceeds \$1.50, the Corporation shall have the right, to require Manitek to convert all, or any part of the balance of the convertible loan at a deemed price of \$1.00 per share of the Corporation.

At the time of the issue, the convertible loan was separated into liability and equity components using the residual method. The fair value of the liability component was calculated using discounted cash flows for the convertible loan assuming an effective interest rate of 18%. The effective interest rate was based on the estimated rate for a loan with similar terms, but without a conversion feature, from comparable companies. The fair value of the equity component (conversion feature) was determined at the time of the issue as the difference between the face value of the convertible loan and the fair value of the liability component. The liability component was subsequently measured at amortized cost using the effective interest rate method and is accreted up to the principal balance at maturity. The accretion is presented as a financing expense. Transaction costs of \$2 were incurred on the issuance of the convertible loan and were netted against the liability. The transaction costs allocated to the liability component were amortized at the effective interest rate over the term of the convertible loan and were presented as a financing expense.

On January 31, 2019, the repayment of the original loan plus accrued interest amounting to \$705 was extended to February 1, 2020. As part of this extension, the interest rate was increased from 10% to 12%. The loan agreement was also amended to include that at any time until the maturity date, Manitek may notify the Corporation in writing of its intention to convert the loan amount, or any portion thereof, including accrued interest up until the date of such notice, into Class "A" shares of the Corporation at a price equal to the price per Class "A" share that is the lesser of (i) \$1.00 per Class "A" share or (ii) the price per Class "A" share offered to investors in the course of an external round of financing in the Corporation concurrently ongoing at the time of the notice, or (iii) the price per Class "A" share that has been paid by investors in the most recent external round of financing that would have closed within thirty (30) days prior to the date of the notice.

### 12. Long-Term Loans

Long-term loans include the capital and interest portion of unsecured loans representing advances made as part of the Corporation's debenture financing. Amounts owed are presented below:

	Interest Rate	Maturity Date	2020	2019
<b>Unsecured</b>	10% per annum	(i)	<b>302</b>	-

(i) See Note 24 a)

### 13. Convertible Debenture

	2020 \$
Opening balance	-
Additions	1,230
Fair value allocated to warrants	(140)
Fair value of option allocated to equity	(385)
Accretion expense	107
Conversion of note payable and convertible loan	914
<b>Convertible debenture</b>	<b>1,726</b>

On October 8, 2019 and December 30, 2019, the Company issued unsecured convertible debenture units for a total principal amount of \$2,144. The convertible debentures mature on October 8, 2021 and December 30, 2021, respectively and bear interest at an annual rate of 10% per annum. The debentures are convertible at a price per Class A common shares of \$0.30, in whole or in part, at the option of the holder at any time prior to the close of business on the last business day immediately preceding the maturity date. Each debenture unit consisted of one \$1 (\$ one thousand) principal amount unsecured convertible debenture and 2,000 share purchase warrants, each exercisable into one common share of the Company at \$0.50 per share two years from issuance. In the event that the average VWAP over any twenty (20) consecutive trading days is greater or equal to \$1.00, the Corporation may give notice to the warrant holder that it must exercise its remaining warrants within a period of 30 days from the date of receipt of the notice, failing which the warrants will automatically expire. The "average VWAP" is the average of the volume weighted average market prices of the Corporation's Class "A" Shares on a single day.

# Ortho Regenerative Technologies Inc.

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### 13. Convertible Debenture – cont'd

Total finders' fee incurred on the issuance of the convertible debenture units consisted of \$12 and 5,600 compensation warrants. Each compensation warrant is exercisable into one common share of the Company at \$0.50 per share 18 months from issuance. The fair value of \$0.30 was assigned to the 5,600 compensation warrants.

The convertible debentures are compound financial instruments with the equity component being the residual value after accounting for the debt component. The Company valued the debt component of the debentures by calculating the present value of the principal and interest payments, discounted at a rate of 27.5%, being management's best estimate of the rate that a nonconvertible debenture with similar terms would bear as at October and December 2019. The equity component consists of the warrants and the conversion option. The values attributed to each was based on the relative fair value approach. On initial recognition, the liability components were \$1,619, the warrants were \$140 and the conversion options were \$385. Accretion charges, included in financing expense on the statement of loss and comprehensive loss, attributable to the debentures for the year ended January 31, 2020 was \$107.

### 14. Share Capital and other equity instruments

#### (a) Share capital

The Authorized Share Capital is composed of

- i. Unlimited number of Class "A" common shares, no par value
- ii. Unlimited number of Class "AA" preferred shares, non-voting, non-cumulative dividends at the discretion of the directors, no par value
- iii. Unlimited number of Class "B" preferred shares, redeemable, non-voting, non-cumulative dividends of 1%, no par value

Class "A" common shares		#	\$
Balance as at January 31, 2018		20,610,612	3,843
Issuance of shares	a & b	3,760,000	1,415
Partial settlement of note payable by issuance of shares	c	300,000	120
Exercise of options	d	65,000	40
Exercise of warrants	e	16,812	12
<b>Balance as at January 31, 2019</b>		<b>24,752,424</b>	<b>5,430</b>
Issue costs	f	-	(12)
<b>Balance as at January 31, 2020</b>		<b>24,752,424</b>	<b>5,418</b>

- a. Subscription price of \$0.40 per share, the Corporation incurred \$67 of share issuance costs.
- b. In connection with the private placements described in (d), the Corporation issued a total of 145,500 brokers' warrants of which \$21 was credited to warrants and debited as issue costs based on the stochastic option model.
- c. The Corporation settled a partial amount of its note payable by the issuance of 300,000 shares to Manitex for a fair value of \$120
- d. The Corporation issued a total of 65,000 common shares upon the exercise of 65,000 options, for a cash consideration of \$40 which was credited to share capital and \$34 was debited from contributed surplus
- e. The Corporation issued a total of 16,812 common shares for the exercise of 16,812 brokers' warrants, of which \$12 was credited to share capital and \$2 was debited from warrants.
- f. In connection with the private placements described in Note 13, the Corporation incurred a total of \$12 of share issuance costs. In addition, it issued 5,600 brokers' warrants whereby \$0.3 was credited to warrants and debited as issue costs based on a stochastic model.

Based on the escrow agreement filed with the *Autorité des Marchés Financiers*, 3,452,685 shares are held in escrow and will be released from the Escrowed Securities as follows:

Release Date	Number of Escrowed Securities to be Released
On April 10, 2020	1,726,322
On October 10, 2020	1,726,363

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 14. Share Capital and other equity instruments – cont'd

#### b) Share-based compensation

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 persons with the opportunity, through stock options, to purchase common shares of the Corporation. The stock option plan 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. 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 ceases to hold office or provide consulting services, 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.

The Company recorded compensation expense of \$165 (2019: \$134) for the year ended January 31, 2020 with corresponding credits to contributed surplus related to the issuance of stock options net of forfeitures of \$11. The weighted average fair value of the options granted during the period, estimated by using the Black-Scholes option pricing model, was \$0.25 (2019: \$0.16). The fair value of the options was estimated on the date of grant based on the following weighted average assumptions:

	2020	2019
Weighted average exercise price	0.36	0.38
Weighted average risk-free rate	1.33%	2.22%
Weighted average volatility factor (i)	90.6%	74.4%
Weighted average expected life (years)	5.0	4.0

(i) Volatility was determined using the historical share price of the Company.

	2020		2019	
	Number of share options	Weighted Average Exercise Price	Number of share options	Weighted Average Exercise Price
<b>Balance beginning of the year</b>	<b>2,225,000</b>	<b>\$0.44</b>	1,700,000	\$0.39
Options granted	750,000	\$0.36	665,000	\$0.50
Options forfeited/expired	(75,000)	\$0.53	(75,000)	\$0.10
Options cancelled	(775,000)	\$0.50	-	-
Options exercised	-	-	(65,000)	\$0.10
<b>Balance end of the year</b>	<b>2,125,000</b>	<b>\$0.39</b>	2,225,000	\$0.44

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.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 14. Share Capital and other equity instruments – cont'd

The following options to purchase common shares were outstanding as at January 31, 2020:

Number outstanding		Number exercisable	Exercise price	Remaining contractual life
260,000	(i)	260,000	\$0.10	0.50 years
650,000		625,000	\$0.50	1.39 – 2.87 years
465,000		150,000	\$0.50	3.63 years
750,000		292,000	\$0.36	4.39 years
<b>2,125,000</b>		<b>1,327,000</b>		

(i) As per the escrow agreement, 90,000 of these options are held in escrow and are subject to the same release conditions as described in Note 14a).

#### (c) Warrants

The following schedules present the common shares issuable on exercise of the full warrant transactions granted during the current fiscal year:

	2020		2019	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance beginning of the year	3,569,713	\$0.70	4,030,138	\$0.70
Warrants granted	4,293,600	\$0.50	245,500	\$0.70
Warrants expired	(557,213)	\$0.69	(689,113)	\$0.62
Warrants exercised	-	-	(16,812)	\$0.63
<b>Balance end of the year</b>	<b>7,306,100</b>	<b>\$0.58</b>	<b>3,569,713</b>	<b>\$0.70</b>

As at January 31, 2020, the Corporation had outstanding warrants as follows:

Number of warrants	Issue date	Expiry date		Exercise price	Fair value of warrants	Remaining contractual life in years
460,000	August 2, 2016	August 2, 2020	(i)	\$0.70	\$0.21	0.50
480,000	March 31, 2017	October 1, 2020	(i)	\$0.70	\$0.22	0.67
570,000	April 27, 2017	October 29, 2020	(i)	\$0.70	\$0.21	0.75
207,500	June 28, 2017	December 28, 2020	(i)	\$0.70	\$0.27	0.91
905,000	October 31, 2017	April 29, 2021	(i)	\$0.70	\$0.11	0.24
390,000	July 28, 2018	January 28, 2021	(i)	\$0.70	\$0.23	0.99
3,288,000	October 8, 2019	October 8, 2021		\$0.50	\$0.03	1.69
5,600	October 8, 2019	March 8, 2021		\$0.50	\$0.05	1.10
1,000,000	December 30, 2019	December 30, 2021		\$0.50	\$0.03	1.92
<b>7,306,100</b>						<b>1.27</b>

(i) These warrants were extended for one year after their expiry date. The total number of extended warrants is 3,012,500. Following the extension of the warrants, a fair value adjustment of \$29 was made to the warrants with a corresponding credit to contributed surplus.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 15. Supplemental Cash Flow Information

	2020	2019
	\$	\$
Net change in non-cash operating working capital items		
Sales tax receivable and prepaid expenses	18	(13)
Investment tax credits receivable	17	25
Accounts payable and accrued liabilities	46	728
<b>Total</b>	<b>81</b>	<b>740</b>
Non-cash transactions		
Settlement of note payable by issuance of shares	-	120
Settlement of note payable by issuance of convertible debenture units	150	-
Settlement of convertible loan by issuance of convertible debenture units	764	-

### 16. Research and Development Expenses

	2020	2019
	\$	\$
Research expenses	-	28
Development costs	1,086	1035
Patent costs	78	190
Amortization – intangible assets	33	32
Depreciation – equipment	66	57
	<b>1,263</b>	<b>1,342</b>
Investment tax credit	<b>(200)</b>	<b>(260)</b>
<b>Total</b>	<b>1,063</b>	<b>1,082</b>

### 17. General and Administrative Expenses

	2020	2019
	\$	\$
Professional and consulting fees	665	371
Office and administrative	270	718
Depreciation – right of use asset	20	-
<b>Total</b>	<b>955</b>	<b>1,089</b>

### 18. Financing Expense, Net

	2020	2019
	\$	\$
Interest expense	26	20
Interest on short-term loans	116	34
Interest on debentures	107	-
Interest on convertible loan	96	98
Interest on leases	7	-
Loss (gain) on debt settlement	8	(58)
Gain on revaluation of derivative liability	(55)	-
<b>Total</b>	<b>305</b>	<b>94</b>

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 19. Income Taxes

a. Details of the components of income taxes are as follows:

	2020 \$	2019 \$
Loss before income taxes	(2,488)	(2,399)
Basic income tax rate	26.59%	26.69%
Computed income tax recovery	661	(640)
Permanent differences	43	32
True-up and other items	32	162
Change in deferred tax assets not recognized	586	446
	661	640
<b>Provision for income taxes</b>	-	-

b. Details of the components of income taxes are as follows:

	2020 \$	2019 \$
Non-capital losses carried forward	1,404	922
R&D pool	920	679
Equipment, right-of-use asset and intangible assets	2	-
Financing and equity issues costs	36	53
Convertible loan	-	30
	2,362	1,684
Equipment and intangible assets	-	(52)
Convertible loan	(144)	-
	(144)	(52)
<b>Deferred tax assets not recognized</b>	2,218	1,632

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all 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. As at January 31, 2020, the Corporation had accumulated non-capital losses for income tax purposes, which are available to be applied against future taxable income

	Federal \$	Provincial \$
2036	663	657
2037	1,242	1,261
2038	865	607
2039	1,273	1,312
2040	1,311	1,391
	5,354	5,228

As at January 31, 2019, the Corporation had investment tax credits totalling \$308 (2019 – \$144), which are available to reduce income taxes for future years. The Corporation has not recognized the above tax benefits and will recognize them when future profits are probable in the respective jurisdictions.



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### 20. Financial Instruments

The table below indicate the carrying values of financial assets and liabilities for each of the following categories:

As at January 31, 2020:	FVTPL	FVTOCI	Amortized cost
<b>Financial asset:</b>			
Cash	-	-	302
<b>Financial liabilities:</b>			
Accounts payable and accrued liabilities	-	-	1,021
Investment tax credit loan	-	-	596
Lease liability	-	-	41
Long-term loans	-	-	302
Convertible debenture unit	-	-	1,726
<b>As at January 31, 2019:</b>			
Financial asset:			
Cash	-	-	524
Financial liabilities:			
Accounts payable and accrued liabilities	-	-	975
Investment tax credit loan	-	-	364
Note payable	-	-	139
Convertible loan	-	-	652
Derivative liability	63	-	-

The Corporation categorizes its financial assets and liabilities measured at the fair value into one of three different levels depending on the observation of the inputs used in the measurement. At January 31, 2020, the Corporation's financial instruments measured at fair value are derivative liabilities, which are considered a Level 3 instrument. There were no transfers between levels during the year. The three levels are defined as follows:

**Level 1:** Fair value is based on unadjusted quoted prices for identical assets or liabilities in active markets.

**Level 2:** Fair value is based on inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

**Level 3:** Fair value is based on valuation techniques that require one or more significant unobservable inputs.

The following table provides the fair value measurement hierarchy of the Corporation's assets and liabilities.

Date of Fair Value Measurement	(Level 1)	(Level 2)	(Level 3)
	\$	\$	\$
<b><u>January 31, 2020</u></b>			
<b>Liabilities</b>	<b>Derivative liability</b>	-	-
<b><u>January 31, 2019</u></b>			
Liabilities	Derivative liability	63	-

The fair value of a financial instrument is approximated by the consideration that would be agreed to in an arm's length transaction between willing parties and through appropriate valuation methods, but considerable judgement is required for the Corporation to determine the value. The actual amount that could be realized in a current market exchange could be different than the estimated value. The fair values of financial instruments included in current assets and current liabilities approximate their carrying values due to their short-term nature.

### 21. Financial Risk Factors

The Corporation's activities expose it to financial risks: market risk, more specifically 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.

#### (a) Credit risk

Credit risk arises from cash deposited with a financial institution. The Corporation reduces this risk by dealing with creditworthy financial institutions.

# Ortho Regenerative Technologies Inc.

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### 21. Financial Risk Factors – cont'd

#### (b) Market risk

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

The Corporation is exposed to fair value interest rate risk due to its short-term debt and convertible debenture negotiated at a fixed rate.

##### (ii) Currency risk

The Corporation has cash, accounts payable and accrued liabilities denominated mainly in U.S. dollars. The Corporation does not hold financial derivatives to manage fluctuation in these risks.

The following presents the accounts that are exposed to foreign exchange volatility as at January 31:

	2020		2019	
	Foreign Currency \$	CDN equivalent \$	Foreign Currency \$	CDN equivalent \$
Cash – USD	0.4	0.6	0.9	1.2
Accounts payable and accrued liabilities – USD	56.0	74.1	(0.8)	(1.1)
Accounts payable and accrued liabilities – EUR	6.4	9.4	-	-
Accounts payable and accrued liabilities – JPY	161.1	2.0	-	-

A 5% increase/decrease in the exchange rate of these currencies against the Canadian dollar would not be material.

#### (c) 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, 2020	Carrying value \$	Contractual cash flows \$	Less than 60 days \$	60 days to 12 months \$	More than 12 months \$
Financial liabilities					
Accounts payable and accrued liabilities	1,021	1,021	210	811	-
Investment tax credit loan (i)	596	723	-	723	-
Long-term loans (i)	302	302	-	-	302
Convertible debenture (i)	1,726	2,573	-	-	2,573
	3,645	4,619	210	1,534	2,875

(i) Includes interest payments to be made at the contractual rate.

As at January 31, 2019:	Carrying value \$	Contractual cash flows \$	Less than 60 days \$	60 days to 12 months \$	More than 12 months \$
Financial liabilities					
Accounts payable and accrued liabilities	975	975	604	371	-
Investment tax credit loan (i)	364	433	-	261	172
Note payable (i)	139	155	-	-	155
Convertible loan (i)	652	795	-	-	795
	2,130	2,358	604	632	1,122

(i) Includes interest payments to be made at the contractual rate.

# Ortho Regenerative Technologies Inc.

## Notes to Financial Statements

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### 21. Financial Risk Factors – cont'd

#### (d) Capital risk management

The Corporation's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Corporation's definition of capital includes equity, comprised of issued common shares, warrants and contributed surplus. The Corporation's primary objective with respect to its capital management is to ensure that it has enough financial resources to meet its financial obligations. To secure the additional capital necessary to carry out 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.

### 22. Related Party Transactions

The following table presents the related party transactions presented in the statement of loss for the year ended:

	2020	2019
	\$	\$
<i>Transactions with key management and members of the Board of Directors:</i>		
Salaries and employee benefits expense	-	148
Share-based compensation to employees and directors	137	84
Termination benefits paid to a former CEO	120	-
Consulting fees charged by a director, CEO and CFO	270	293
Interest charged by Manitex, a shareholder of the Corporation:	161	119
Research and development expenses paid to École Polytechnique, a partner of Polyvalor	294	318

The following table presents the related party transactions presented in the statement of financial position as at:

	2020	2019
	\$	\$
Accounts payable and accrued liabilities due to a director, CEO and CFO	100	-
Accounts payable due to École Polytechnique, a partner of Polyvalor	74	150
Convertible debenture due to a director, CEO and CFO	516	-
Convertible debenture due to Manitex, a shareholder of the Corporation	783	-

All other related parties' transactions are disclosed in the respective notes in these financial statements.

### 23. Commitments

On June 19, 2015, the Corporation entered into three long-term research service agreements with École Polytechnique which states that when the Corporation's product is commercialized, it must make non-refundable payments to Polyvalor, a shareholder of the Corporation, equal to 1.5% of net sales.

### 24. Subsequent Events

- a) On April 22, 2020, the Corporation completed a non-brokered private placement for \$1,060 worth of unsecured convertible debentures at a price of \$1 (one thousand) per debenture, of which \$328 was in exchange of employee remuneration which represented the totality of the staff and management remuneration for the first quarter of 2021. The debentures bear interest at a rate of 10% per annum with a maturity date of April 21, 2022. The debentures are convertible at a price per Class A common shares of \$0.30, in whole or in part, at the option of the holder at any time prior to the close of business on the last business day immediately preceding the maturity date. Each debenture unit consisted of one \$1 (\$ one thousand) principal amount unsecured convertible debenture and 2,000 share purchase warrants, each exercisable into one common share of the Company at \$0.50 per share two years from issuance. In the event that the average VWAP over any twenty (20) consecutive trading days is greater or equal to \$1.00, the Corporation may give notice to the warrant holder that it must exercise its remaining warrants within a period of 30 days from the date of receipt of the notice, failing which the warrants will automatically expire. The "average VWAP" is the average of the volume weighted average market prices of the Corporation's Class "A" Shares on a single day. Long term loans of \$302 as at year-end 2020 (see Note 12) represented subscriptions and accrued interest to be converted on the closing of April 22, 2020.

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## Notes to Financial Statements

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### **24. Subsequent Events – cont'd**

- b) The recent outbreak of a novel and highly contagious form of coronavirus [“COVID-19”], which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries, including Canada, have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess.

Management determined that such financial and economic market uncertainty is indicative of conditions that arose subsequent to the financial statements date and therefore, the assets and liabilities of the Corporation as at January 31, 2020 were not adjusted to reflect the impact of COVID-19. However, management considered the impact of COVID-19 in its assessment of the Corporation’s ability to continue as a going concern. Nevertheless, any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the future operations of the Corporation, and cause significant adverse changes to assets or liabilities of the Corporation, including the recoverability of financial instruments measured at cost, amortized cost, and fair value and potential impairment charges on equipment and intangible assets. Given the outcome and timeframe to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect at this time.

- c) On May 20, 2020, the Corporation announced that it has entered into a strategic and licensing agreement (the “Agreement”) with Ingenew Pharmaceuticals Inc. (“Ingenew”). The Agreement will explore the expansion of the scope of Ortho’s proprietary technological platform applications to include the delivery of therapeutics. Under the Agreement, Ingenew will fund the research and development activities looking to specifically further advance Ortho RTI’s proprietary technology platform as a delivery system for its proprietary therapeutics. Ingenew plans to integrate Ortho RTI’s platform in its ongoing various oncology, urology and periodontal diseases programs, which are the main therapeutic areas that are exclusive to Ingenew under the Agreement. Ortho RTI is entitled to royalties on sales of products and on licensing revenues integrating Ingenew therapeutics agents and Ortho RTI’s proprietary delivery platform. Ortho RTI will also benefit from a fully paid up grant back license from Ingenew to access all improvements to its proprietary technology platform for orthopedic applications. Other therapeutic fields can be targeted leveraging the further advanced Ortho RTI platform developed by either party or in collaboration.