Consolidated Financial Statements of

CAPITAL PRO-ÉGAUX INC.

Years ended February 29, 2016 and February 28, 2015

CAPITAL PRO-ÉGAUX INC.

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KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500, Tour KPMG
Montréal (Québec) H3A 0A3
Canada

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Capital Pro-Égaux Inc.

We have audited the accompanying consolidated financial statements of Capital Pro-Égaux Inc., which comprise the consolidated statements of financial position as at February 29, 2016 and February 28, 2015, the consolidated statements of comprehensive income, changes in deficiency and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Capital Pro-Égaux Inc. as at February 29, 2016 and February 28, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 of the consolidated financial statements, which indicates that Capital Pro-Égaux Inc. is in default with its lender as at February 29, 2016 due to its failure to reimburse installments per the agreement of the promissory note. This default triggered the promissory note to become immediately due and payable. Total promissory note payable in default amounts to $637,413 as at February 29, 2016. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about Capital Pro-Égaux Inc.'s ability to continue as a going concern.

KPMG LLP*

May 26, 2016

Montréal, Canada

*CPA auditor, CA, public accountancy permit No. A111162

CAPITAL PRO-ÉGAUX INC.

Consolidated Statements of Financial Position

February 29, 2016 and February 28, 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 313,231	$ 130,431
Accounts receivable (note 5)	120,972	41,769
Notes receivable (note 6)	–	26,740
Advance to a shareholder	18,250	8,000
Prepaid expenses	–	29,971
Total current assets	452,453	236,911
Non-current assets:		
Intangible assets (note 7)	58,511	90,427
Total non-current assets	58,511	90,427
Total assets	$ 510,964	$ 327,338
Liabilities and Deficiency		
Current liabilities:		
Trade accounts payable and accrued liabilities	$ 161,193	$ 143,534
Deferred revenue (note 8)	695,479	695,479
Promissory note payable (note 9)	637,413	524,512
Total current liabilities	1,494,085	1,363,525
Non-current liabilities:		
Deferred revenue (note 8)	579,565	1,275,044
Total liabilities	2,073,650	2,638,569
Deficiency:		
Share capital (note 10)	4,522,152	4,522,152
Contributed surplus	1,379,304	1,337,354
Deficit	(7,464,142)	(8,170,737)
Total deficiency	(1,562,686)	(2,311,231)
Going concern (note 2)		
Contingent liabilities (note 16)		
Total liabilities and deficiency	$ 510,964	$ 327,338

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

On behalf of the Board:

(S) Jean Kingsley Director

(S) Pierre Désormeau Director

CAPITAL PRO-ÉGAUX INC.

Consolidated Statements of Comprehensive Income

Years ended February 29, 2016 and February 28, 2015

	2016	2015
Revenue:		
Licensing fees (note 8)	$ 1,334,873	$ 695,479
Royalty revenues	58,796	52,198
	1,393,669	747,677
Expenses:		
Professional fees (note 13)	389,032	277,816
Registration and information of shareholders	32,540	45,958
Insurance	12,515	12,267
Taxes and maintenance fees	33,175	28,756
Hardware rent	12,265	–
Travel expenses	3,594	2,616
Amortization of intangible assets (note 7)	31,916	31,915
Other expenses	9,028	10,365
Share-based compensation expense (note 10)	41,950	–
	566,015	409,693
Income before net finance income and income taxes	827,654	337,984
Net finance expense (note 11):		
Finance income	7,529	1,846
Finance expense	(128,588)	(101,908)
	(121,059)	(100,062)
Net income and comprehensive income for the year	$ 706,595	$ 237,922
Basic and diluted net income per share (note 10)	$ 0.168	$ 0.057
Weighted average number of common shares outstanding - basic (note 10)	4,195,080	4,195,080
Weighted average number of common shares - diluted (note 10)	4,197,229	4,195,080

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

CAPITAL PRO-ÉGAUX INC.

Consolidated Statements of Changes in Deficiency

Years ended February 29, 2016 and February 28, 2015

	Share capital				
	Number	Amount	Contributed surplus	Deficit	Total
Balance at March 1, 2014	4,195,080	$ 4,522,152	$ 1,337,354	$ (8,408,659)	$ (2,549,153)
Comprehensive income	–	–	–	237,922	237,922
Balance at February 28, 2015	4,195,080	$ 4,522,152	$ 1,337,354	$ (8,170,737)	$ (2,311,231)
Balance at March 1, 2015	4,195,080	$ 4,522,152	$ 1,337,354	$ (8,170,737)	$ (2,311,231)
Share-based compensation expense (note 10)	–	–	41,950	–	41,950
Comprehensive income	–	–	–	706,595	706,595
Balance at February 29, 2016	4,195,080	$ 4,522,152	$ 1,379,304	$ (7,464,142)	$ (1,562,686)

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

CAPITAL PRO-ÉGAUX INC.

Consolidated Statements of Cash Flows

Years ended February 29, 2016 and February 28, 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Net income	$ 706,595	$ 237,922
Adjustments for:		
Deferred revenue recognized (note 8)	(695,479)	(695,479)
Amortization of intangible assets (note 7)	31,916	31,915
Fees applied against notes receivable (note 6)	26,740	4,953
Share-based compensation expense (note 10)	41,950	–
Effect of exchange rate fluctuations on cash and cash equivalents	(7,469)	957
Finance income	(60)	(1,846)
Finance expense	116,486	90,379
Interest received	60	1,846
Interest paid	(3,585)	(8,827)
Change in other operating assets and liabilities	(41,823)	70,364
	175,331	(267,816)
Investing:		
Decrease in notes receivable (note 6)	–	50,000
Effect of exchange rate fluctuations on cash and cash equivalents	7,469	(957)
Net increase (decrease) in cash and cash equivalents	182,800	(218,773)
Cash and cash equivalents, beginning of year	130,431	349,204
Cash and cash equivalents, end of year	$ 313,231	$ 130,431

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

1. Reporting entity:

Capital Pro-Égaux Inc. (the “Company”) is a company domiciled in Canada. The address of the Company’s registered office is 836, rue de la Mécatina, Lachenaie, Québec, J6W 5H2. The consolidated financial statements of the Company as at and for the year ended February 29, 2016 comprise the Company and its wholly-owned subsidiary, Technique d’Usinage Sinlab Inc. (together referred to as the “Group” and individually as “Group entities”). The Group specializes in the licensing of titanium products for the dental implant prosthetics restoration market.

The Company was incorporated under Part 1A of the Québec *Companies Act* on February 19, 2003 and is listed on the TSX Venture Exchange ("Exchange") under the symbol CPE/H.

2. Going concern:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) on a going concern basis, which assumes the Company will continue its operations in the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As at February 29, 2016, the Company is in default with its lender related to the promissory note payable. This default was caused by the Company’s failure to reimburse the June 2014 and 2015 installments per the agreement (Note 9). This default triggered the promissory note to become immediately due and payable. Total promissory note payable in default amounts to $637,413 as at February 29, 2016. Also, the consolidated statements of financial position shows a deficiency in assets of $1,562,686 and a negative working capital of $346,153, excluding the current portion of deferred revenue of $695,479.

The above conditions indicate the existence of a material uncertainty, which may cast significant doubt on the ability of the Company to continue as a going concern.

These consolidated financial statements do not reflect adjustments that would be necessary to the carrying amount of assets and liabilities if the assumption of going concern was not appropriate.

3. Basis of preparation:

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of annual financial statements.

These consolidated financial statements were authorized for issue by the Board of Directors as of May 26, 2016.

3. Basis of preparation (continued):

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Areas in which judgments are significant are included in the following notes:

- Note 2 - going concern;
- Note 12 - recoverability of deferred tax assets;
- Note 8 - revenue recognition method.

4. Significant accounting policies:

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation:

Subsidiary

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Technique d'Usinage Sinlab Inc. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated upon consolidation

All intercompany transactions and balances have been eliminated on consolidation.

4. Significant accounting policies (continued):

(b) Foreign currency:

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting year. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Financial instruments:

Non-derivative financial assets and liabilities are initially recognized at fair value plus any directly attributable transaction costs.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company classified its cash and cash equivalents, notes receivable, accounts receivable and advance to a shareholder as loans and receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Financial liabilities

The Company classified its trade accounts payable and accrued liabilities and promissory note payable as financial liabilities at amortized cost. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

4. Significant accounting policies (continued):

(d) Intangible assets:

Intangible assets represent patent costs and are carried at historical cost, less accumulated amortization and any impairment losses recognized.

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, which are based on the remaining legal life of the patent that expires in 2017, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

(e) Impairment:

Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Company's intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

4. Significant accounting policies (continued):

(e) Impairment (continued):

Non-financial assets (continued)

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

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

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

(f) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

Legal costs associated with litigations are recorded as incurred or as a percentage of the lump-sum payment received for a settlement in favor of the Company.

4. Significant accounting policies (continued):

(g) Revenue:

Revenue arising from the use by others of entity assets yielding royalties and licensing fees is recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. Royalties and licensing fees are recognized on an accrual basis in accordance with the substance of the relevant agreement as follows:

Licensing fees

Licensing fees related to the new Non-exclusive License Agreement with 3i and the lump-sum payment from Cagenix are recorded as deferred revenue and then amortized on a straight-line basis over the term of this agreement, which corresponds to the remaining life of the patents that will expire in December 2017.

Other licensing fees are recognized on transfer of the rights to the licensee as the arrangement is in substance a sale of the rights to the licensee.

Royalties

Royalties are recognized as a percentage of our customer’s sales.

(h) Finance income and finance expense:

Interests received and interests paid are classified under operating activities in the consolidated statements of cash flows.

Foreign currency gains and losses are reported on a net basis, and recorded under net finance income.

(i) Income taxes:

Income tax expense comprises current and deferred taxes. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

4. Significant accounting policies (continued):

(i) Income taxes (continued):

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Earnings per share:

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS are computed by dividing net profit by the weighted average number of shares outstanding during the year. Diluted EPS is computed similarly to basic earnings per share, except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding share options were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the year.

(k) Share-based compensation expense:

The Company has a share-based compensation expense plan, which is described in Note 10 (c). The Company accounts for all share option awards under the fair value method. Under the fair value method, compensation cost is measured at fair value at the date of the grant and expensed over the award's vesting period with a corresponding credit to contributed surplus.

4. Significant accounting policies (continued):

(k) Share-based compensation expense (continued):

Any consideration received from the plan participants upon exercise of share options is credited to share capital, together with the related portion previously recorded in contributed surplus.

(l) New accounting standards:

The following new standards and amendments to standards and interpretations have been applied in preparing the consolidated financial statements as at February 29, 2016. The adoption of these new standards has not had a material impact on the consolidated financial statements:

Annual improvements to IFRS 2010 - 2012 and 2011 - 2013 cycles

In December 2013, the International Accounting Standards Board ("IASB") issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. The IASB uses the annual improvements process to make non-urgent but necessary amendments to IFRS. Most amendments will apply prospectively for annual periods beginning on or after July 1, 2014. Earlier application is permitted, in which case, the related consequential amendments to other IFRS would also apply.

Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, *Share-based Payment*;
- Classification and measurement of contingent consideration, and scope exclusion for the formation of joint arrangements in IFRS 3, *Business Combinations*;
- Disclosures on the aggregation of operating segments in IFRS 8, *Operating Segments*;
- Measurement of short-term receivables and payables, and scope of portfolio exception in IFRS 13, *Fair Value Measurement*;
- Restatement of accumulated depreciation (amortization) on revaluation in IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*;
- Definition of "related party" in IAS 24, *Related Party Disclosures;* and
- Inter-relationship of IFRS 3 and IAS 40 in IAS 40, *Investment Property*.

Special transitional requirements have been set for amendments to IFRS 2, IAS 16, IAS 38 and IAS 40.

4. Significant accounting policies (continued):

(m) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended February 29, 2016 and have not been applied in preparing these consolidated financial statements:

(i) IFRS 9, *Financial Instruments*:

In July 2014, the IASB issued the complete IFRS 9 (IFRS 9 (2014)). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The restatement of prior periods is not required and is only permitted if information is available without the use of hindsight.

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment. IFRS 9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness.

However, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 (2014) in its consolidated financial statements for the annual period beginning March 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(ii) Annual improvements to IFRS (2012-2014) cycle:

In September 2014, the IASB issued narrow-scope amendments to a total of four standards as part of its annual improvements process. The amendments will apply for annual periods beginning on or after January 1, 2016. Earlier adoption is permitted, in which case, the related consequential amendments to other IFRS would also apply. Each of the amendments has its own specific transition requirements.

4. Significant accounting policies (continued):

(m) New standards and interpretations not yet adopted (continued):

(ii) Annual improvements to IFRS (2012-2014) cycle (continued):

Amendments were made to clarify the following in their respective standards:

- Change in method for disposal under IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*;
- “Continuing involvement” for servicing contracts and offsetting disclosures in condensed interim financial statements under IFRS 7, *Financial Instruments: Disclosures*;
- Discount rate in a regional market sharing the same currency under IAS 19, *Employee Benefits*;
- Disclosure of information “elsewhere in the interim financial report” under IAS 34, *Interim Financial Reporting*.

The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on March 1, 2016. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

(iii) Clarification of acceptable methods of depreciation and amortization (amendments to IAS 16 and IAS 38):

In May 2014, the IASB issued amendments to IAS 16, *Property, Plant and Equipment*, and IAS 38, *Intangible Assets*. The amendments made to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset. The amendments in IAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption could be overcome only when revenue and consumption of the economic benefits of the intangible asset are “highly correlated” or when the intangible asset is expressed as a measure of revenue. The amendments will apply prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

The Company intends to adopt the amendments to IAS 16 and IAS 38 in its consolidated financial statements for the annual period beginning on March 1, 2016. The Company does not expected the amendments to have a material impact on the consolidated financial statements.

4. Significant accounting policies (continued):

(m) New standards and interpretations not yet adopted (continued):

(iv) Disclosure initiative: amendments to IAS 1:

In December 2014, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures.

The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on March 1, 2016. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

(v) IFRS 15, *Revenue from Contracts with Customers*:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11, *Construction Contract*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers*, and SIC 31, *Revenue - Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on March 1, 2018. The Company does not expect the standard to have a material impact on the consolidated financial statements.

5. Accounts receivable:

	2016	2015
Trade receivables	$ 116,274	$ 25,025
Sales tax	4,698	16,744
	$ 120,972	$ 41,769

6. Notes receivable:

A second note receivable of $40,000 from V2R Biomedical Inc. was issued on April 1, 2013 while the first one amounting to $50,000 was issued on October 3, 2012. The notes receivable were subsequently transferred and assumed by the shareholders of V2R Biomedical Inc. on January 29, 2014 and are bearing interest at a fixed rate of 10%. Interests are payable on the date of the repayment of the notes. Interests totaling $10,688 were capitalized in the notes receivable as at February 29, 2016. The capital is repayable within one year against fees owed by the Company to one of the shareholders of V2R Biomedical Inc. Any residual amount remaining after one year should be paid in cash. During the year ended February 29, 2016, a total of $26,740 of fees payable were applied against the notes receivable.

The notes are guaranteed by a movable mortgage on present and future assets of V2R Biomedical Inc. and by the shareholders of V2R Biomedical Inc.

7. Intangible assets:

Cost	
Balance at February 28, 2015 and February 29, 2016	$ 283,257
Amortization	
Balance at February 28, 2014	$ 160,915
Amortization	31,915
Balance at February 28, 2015	192,830
Amortization	31,916
Balance at February 29, 2016	$ 224,746
Carrying amounts	
At February 28, 2015	$ 90,427
At February 29, 2016	58,511

8. Deferred revenue:

On January 20, 2005, the Company concluded, through its wholly-owned subsidiary, a seven-year license agreement giving the exclusive right to Biomet 3i LLC ("3i") to manufacture, market, sell and distribute its "Technobar" product worldwide.

On May 20, 2010, the Company has concluded a new Non-exclusive License Agreement ("New Agreement") with its current distributor, 3i, and terminated the previous agreement.

According to the New Agreement, the Company has received a lump-sum payment of $2,635,050 (US$2,500,000) during the second quarter of fiscal 2011 and two lump-sum payments of $1,469,500 and $1,542,450 (US$1,500,000 each) during the second quarter of fiscal 2012 and fiscal 2013.

Based on the terms and conditions of the New Agreement, the parties agreed that upon the execution of any agreements in which the Company transfers rights under any parts of the Licensed Technology to a third party or any agreement that transfers any interests in the Company to a third party that permits to the third party to make products, that the third lump-sum payment will be reduced by $514,150 (US$500,000) such that the third lump-sum payment should be reduced to $1,028,300 (US$1,000,000). If any such agreement is executed after May 28, 2012, then the Company would be required to repay to 3i the amount of $514,150 (US$500,000) within 30 days of the execution of the agreement.

These lump-sum payments from 3i are accounted for as deferred revenue when the payment is received and the total revenue of $5,132,850 (US$5,000,000) is amortized on a straight-line basis over the term of the New Agreement, which corresponds to the remaining life of the patents that will expire in December 2017.

On November 6, 2012, the Company signed a license agreement with Delcam Inc., a Utah-based company. Under the license agreement, the Company granted to Delcam USA Inc. and Delcam Holdings Inc. ("Delcam") the non-exclusive rights to certain patents relating to its Technobar and Technoguide technologies. This license has been signed for the entire patent term in consideration for a lump-sum payment of $46,856 (US$47,244), which was recognized in revenue on transfer of the rights to the licensee in 2013.

As a license agreement has been executed, the Company had to repay $514,150 (US$500,000) to 3i as a reduction of the third lump-sum payment. On February 25, 2013, the Company signed with 3i a promissory note by which the amount will be reimbursed on a five-year period ending June 1, 2017 (see Note 9).

8. Deferred revenue (continued):

Furthermore on September 3, 2013, the Company entered into a Settlement Agreement with Cagenix Inc., a Tennessee-based company, resolving certain litigations pending in the United States. The parties agreed that, except as otherwise provided in the Settlement Agreement, all other rights, obligations, duties, promises and representation undertaken in connection with the Non-exclusive License Agreement signed on November 6, 2012 shall continue in full force and effect. Under the License Agreement, the Company has granted to Cagenix Inc. in settlement of certain patent litigation, non-exclusive rights to certain patents relating to the Technobar and Technoguide for the entire patent term in consideration for certain lump-sum payments over time not exceeding in the aggregate $131,038 (US$125,000) minus an amount of $31,450 (US$30,000) payable under the Settlement Agreement and certain annual royalties.

The lump-sum payments from Cagenix Inc. are accounted for as deferred revenue when the payment is received and the total revenue of $99,588 (US$95,000) is amortized on a straight-line basis over the term of the License Agreement, which corresponds to the remaining life of the patents that will expire in December 2017. The royalty revenues are recognized when the economic benefit is probable and the amount of revenue can be measured reliably.

	2016	2015
Balance, beginning of year	$ 1,970,523	$ 2,666,002
Revenue recognized	(695,479)	(695,479)
Balance, end of year	1,275,044	1,970,523
Less current portion of deferred revenue	(695,479)	(695,479)
Non-current portion of deferred revenue	$ 579,565	$ 1,275,044

9. Promissory note payable:

The promissory note to 3i bears interest at a floating interest rate, which is based on the one-year LIBOR plus 1%. The unpaid balance of the promissory note amounting to $541,240 (US$400,000) is repayable in four installments of $135,310 (US$100,000) due June 1, 2014 to 2017. Interests are payable on the dates of repayment.

9. Promissory note payable (continued):

As of February 29, 2016, the Company has failed to reimburse two installments of US$100,000 due June 1, 2014 and 2015. As per the agreement, any payment not made within ten days of the date such payment is due shall be subject to a late charge fee of US$5,000 and bear additional interest at a rate equal to 2% per month of the amount of the payment calculated from the original due date of the payment until paid. This late payment additional interests shall accrue monthly and be added to the unpaid balance of the principal sum. An amount of $96,173 (US$71,076) for late payment additional interests has been added to the promissory note as at February 29, 2016. Total accrued interest and late charge fee included in trade accounts payable and accrued liabilities is $39,795 (US$29,410) as at February 29, 2016.

Also, as per the agreement, in the event of default in payment of any amount of the principal sum, all the promissory note and related interests payable shall become without demand or notice immediately due and payable. As of February 29, 2016, total balance of the promissory note has been reclassified in short-term liabilities.

The promissory note may be prepaid in full or in part at any time without penalty.

10. Share capital:

(a) Share capital authorized:

An unlimited number of common shares, without par value

On June 30, 2014, Capital Pro-Égaux Inc. completed a 10 for 1 consolidation of its common shares traded on NEX. The purpose of the consolidation is to increase the share price and decrease the number of issued and outstanding common shares. The share consolidation was approved by the Board of Directors on May 13, 2014.

Each ten commons share issued and outstanding immediately prior to June 30, 2014 have automatically been reclassified, without any action of the holder thereof, into one common share. The proposed share consolidation affected all of the Company's common shares outstanding immediately prior to the market opening on June 30, 2014. As a result of the share consolidation, the number of issued and outstanding common shares has been reduced from 41,950,772 to 4,195,080.

10. Share capital (continued):

(b) Share option plan:

The Board of Directors of the Company had adopted a share option plan for the Company (the "Plan"). Pursuant to the Plan, the Board of Directors of the Company may allocate non-transferable options to purchase common shares to directors, officers, employees, service providers and other key personnel of the Company.

Under the Plan, the aggregate number of common shares to be issued upon the exercise of options granted thereunder may not exceed 10% of the number of the issued and outstanding common shares at the time of granting the options. Furthermore, the aggregate number of common shares to be issued upon exercise of the options granted thereunder to any one individual shall not exceed 5% of the issued and outstanding common shares.

The exercise price for options granted pursuant to the Plan shall be set by the Board of Directors of the Company and shall not be less than the applicable discount permitted by the Exchange or such other share market on which the common shares of the Company are traded.

The share options granted pursuant to the Plan are non-transferable and vest on the day they are granted. If not exercised, they expire after five years for employees and three years for consultants, or one year following the date on which the optionee ceases to be a director of, or hold an office with, the Company by reason of death, or 90 days after ceasing to be a director or an officer for any reason other than death.

The table below presents a summary of changes in the share option plan:

	February 29, 2016		February 28, 2015	
	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
Balance, beginning of year	–	$ –	387,600	$ 1.00
Cancelled	–	–	(387,600)	1.00
Granted	419,508	0.10	–	–
Balance, end of year	419,508	$ 0.10	–	$ –

Pursuant to a Board of Directors' resolution adopted on May 13, 2014, all incentive stock options, representing a total of 387,600 share options (on a consolidation basis) issued after the share consolidation, have been surrendered for cancellation.

10. Share capital (continued):

(b) Share option plan (continued):

On October 2, 2015, the Company granted pursuant to its share option plan, 419,508 share options at an exercise price of $0.10 per common share. The share options to the directors expire on the earlier of 90 days after ceasing to be a director and five years from the date of grant.

The following table summarizes share option information as at February 29, 2016:

Exercise price	Remaining life (in years)	Number of options outstanding and exercisable
$0.10	4.59	419,508

The fair value of option granted was estimated at the date of the grant using the Black-Scholes valuation model and based on the following assumptions:

	February 29, 2016
Fair value at grant date	$ 0.10
Share price at grant date	$ 0.10
Exercise price	$ 0.10
Expected option life	5 years
Expected volatility	326.92%
Expected dividend rate	–
Risk-free interest rate	0.82%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with expected term. The expected term of the instruments has been based on historical experience and general option holder behavior.

10. Share capital (continued):

(c) Earnings per share:

The calculation of basic earnings per share at February 29, 2016 was based on the income attributable to common shareholders, which corresponds to the income for the year of $706,595 (2015 - income of $237,922), and a weighted average number of common shares outstanding of 4,195,080 (2015 - 4,195,080).

As at February 29, 2016, all share options are included in the calculation of the diluted earnings per share due to their potential dilutive effect. As at February 28, 2015, the calculation of diluted earnings per share was the same as the basic earnings per share as all options were cancelled.

11. Net finance expense:

	2016	2015
Interest income on cash and cash equivalents	$ 60	$ 1,846
Net foreign exchange gain on cash and cash equivalents	7,469	–
Finance income	7,529	1,846
Interest and late payment charge on promissory note	(83,883)	(34,964)
Interest and bank charges	(3,585)	(8,827)
Net foreign exchange loss on cash and cash equivalents	–	(957)
Net foreign exchange loss on promissory note payable	(41,120)	(57,160)
Finance expense	(128,588)	(101,908)
Net finance expense	$ (121,059)	$ (100,062)

12. Income taxes:

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

	2016	2015
Income before income taxes	$ 706,595	$ 237,922
Basic income tax rate	26.90%	26.90%
Computed income tax expense	190,074	64,001
Adjustments in income taxes resulting from:		
Deferred revenues	(187,084)	(187,084)
Unrecognized current year tax losses	29,142	105,007
Foreign exchange loss on promissory note payable not deductible	9,052	15,635
Previously unrecognized tax loss of a prior period used to reduce current tax expense	(55,578)	–
Share-based compensation expense	11,285	–
Other	3,109	2,441
	(190,074)	(64,001)
	$ –	$ –

(b) Reconciliation of change in applicable tax rate:

	2016	2015
Applicable tax rate for the previous year	26.90%	26.90%
Change in applicable federal tax rate	–	–
Applicable tax rate for the current year	26.90%	26.90%

12. Income taxes (continued):

(c) The deferred tax assets not recognized were as follows:

	2016	2015
Deferred revenue	$ 342,987	$ 530,071
Net operating tax losses	965,111	1,003,438
Research and development expenses	245,926	245,926
Intangible assets	116,313	113,568
	$ 1,670,337	$ 1,893,003

Deferred tax assets have not been recognized in respect to these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

(d) The following tax benefits are available to reduce future taxable income and expire as follows:

	Tax losses		Scientific research and development expenses		Tax credits
Expiration year	Federal	Provincial	Federal	Provincial	Federal
2022	$ –	$ –	$ –	$ –	$ 15,000
2024	–	–	–	–	29,000
2025	–	–	–	–	47,000
2026	119,000	118,000	–	–	27,000
2027	667,000	964,000	–	–	–
2028	247,000	279,000	–	–	–
2029	199,000	199,000	–	–	–
2030	180,000	178,000	–	–	–
2031	53,000	53,000	–	–	–
2032	404,000	404,000	–	–	–
2033	920,000	920,000	–	–	–
2034	156,000	155,000	–	–	–
2035	390,000	390,000	–	–	–
2036	108,000	108,000			
Unlimited	–	–	655,000	1,240,000	–
Total tax benefits available for future years	$ 3,443,000	$ 3,768,000	$ 655,000	$ 1,240,000	$ 118,000

13. Related parties:

Transactions with key management personnel

(a) Key management personnel and director transactions:

During the year ended February 29, 2016, the Company was charged $39,500 (2015 - $43,050) by a company owned by a director of the Company and $67,800 (2015 - $44,128) by one director of the Company for consulting fees included in professional fees.

As of February 29, 2016, the amount payable to related parties recorded under trade accounts and accrued liabilities was $18,068 (2015 - $10,814).

These transactions were made in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(b) Key management personnel compensation:

During the year ended February 29, 2016, the Company paid $11,100 (2015 - $11,400) to the Directors as compensation to their participation to Board meetings and Audit Committee.

14. Financial instruments:

The fair value of cash and cash equivalents, trade receivables, notes receivable, advance to a shareholder and trade accounts payable and accrued liabilities does not materially differ from their carrying amounts due to their short-term maturity.

The fair value of the promissory note payable does not materially differ from its carrying amount due to the fact that it is bearing interest at a floating rate and is repayable on demand.

This section provides disclosures relating to the nature and extent of the Company's exposure to risks arising from financial instruments, including credit risk, liquidity risk, currency risk and interest risk as well as to how the Company manages those risks.

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the Company by failing to discharge an obligation. The Company is exposed to credit risk relating to its cash and cash equivalents, trade receivables and advance to a shareholder. The carrying amount of cash and cash equivalents, trade receivables, notes receivable and advance to a shareholder of $452,453 represents the Company's maximum credit exposure relating to financial instruments.

14. Financial instruments (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 15. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures.

As of February 29, 2016, the Company's financial liabilities include trade accounts payable and accrued liabilities and promissory note payable.

The table below presents the contractual maturities, including estimated interest payments of the financial liabilities as at February 29, 2016:

	Carrying amount	Contractual cash flows	Less than one year	One to three years	Three to five years
Accounts payable and accrued liabilities	$ 161,193	$ (161,193)	$ (161,193)	$ –	$ –
Promissory note payable	637,413	(637,413)	(637,413)	–	–
Total	$ 798,606	$ (798,606)	$ (798,606)	$ –	$ –

(c) Currency risk:

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rate.

The balances of financial assets and liabilities denominated in US dollars and in euros are as follows:

	2016	2015
Cash and cash equivalents	$ 40,313	$ 32,806
Trade receivable	116,294	25,025
Trade accounts payable and accrued liabilities	(77,945)	(73,216)
Promissory note payable	(637,413)	(524,512)
	$ (558,751)	$ (539,897)

14. Financial instruments (continued):

(c) Currency risk (continued):

A 10% increase (decrease) in the Canadian dollar against the US dollar and the euro as at February 29, 2016 would have changed net loss by approximately $55,875 (2015 - $54,000). This analysis assumes that all other variables, in particular interest rates, remain constant.

(d) Interest rate risk:

As part of its operations, the Company is exposed to interest rate risk on its floating rate promissory note payable. Accordingly, a significant increase in interest rates may have an adverse impact on future profitability.

For the year ended February 29, 2016, all things being equal, a hypothetical variation of 50 basis points in interest rates would have no significant impact on net income.

15. Capital risk management:

The Company's primary objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders; and
- to ensure that the Company has access to sufficient funds for acquisition or development activities.

In order to maintain or adjust the capital structure, the Company may adjust the amount of distributions paid to shareholders, issue new shares and debt or sell assets to reduce debt or fund acquisition or development activities.

16. Contingent liabilities:

In the normal course of business, the Corporation is involved in various claims and legal proceedings. Although the resolution of these various cases pending as at February 29, 2016 cannot be determined with certainty, the Company believes that their outcome would not likely have a material adverse effect on its consolidated financial position and operating results.