Consolidated Financial Statements of

ERGORESEARCH LTD.

Years ended June 30, 2016 and 2015

ERGORESEARCH LTD.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ergoresearch Ltd.

We have audited the accompanying consolidated financial statements of Ergoresearch Ltd., which comprise the consolidated statements of financial position as at June 30, 2016 and June 30, 2015, the consolidated statements of comprehensive income, changes in equity 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 Ergoresearch Ltd. as at June 30, 2016 and June 30, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP*

October 25, 2016

Montreal, Canada

*CPA auditor, CA, public accountancy permit No. A115894

ERGORESEARCH LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

June 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash	$ 2,009,178	$ 2,075,015
Short-term investments (note 4)	6,006,792	7,928,908
Trade and other receivables (notes 5 and 9)	705,330	684,669
Income tax receivable	–	27,424
Investment tax credits receivable	52,190	120,158
Inventories (notes 6 and 9)	2,018,875	2,237,581
Prepaid expenses	167,565	149,849
	10,959,930	13,223,604
Non-current assets		
Property, plant and equipment (note 7)	1,966,952	2,081,871
Intangible assets (note 8)	2,949,213	3,403,542
Goodwill (note 8)	2,692,367	2,692,367
Other asset	23,979	23,979
Deferred income taxes and tax credits (note 19)	4,452,519	4,452,519
	12,085,030	12,654,278
Total assets	$ 23,044,960	$ 25,877,882
Liabilities and Equity		
Current liabilities		
Trade and other payables (note 10)	$ 1,045,937	$ 1,663,403
Deferred revenues (note 11)	292,363	369,029
Long-term debt due within one year (note 12)	360,626	1,031,213
	1,698,926	3,063,645
Non-current liabilities		
Long-term debt (note 12)	–	840,653
Deferred lease obligations	60,463	74,281
	60,463	914,934
Total liabilities	1,759,389	3,978,579
Equity (note 13)		
Share capital	14,197,938	14,931,187
Contributed surplus	386,144	392,139
Retained earnings	6,701,489	6,575,977
Total equity	21,285,571	21,899,303
Commitments (note 14)		
Total liabilities and equity	$ 23,044,960	$ 25,877,882

See accompanying notes to consolidated financial statements.

On behalf of the Board:

______________________ Director

______________________ Director

ERGORESEARCH LTD.

Consolidated Statements of Comprehensive Income
(Expressed in Canadian dollars)

Years ended June 30, 2016 and 2015

	2016	2015
Revenue	$ 14,326,767	$ 15,498,000
Operating expenses [(i)]:		
Cost of goods sold, selling and operating expenses	10,504,244	11,718,512
Administrative expenses	3,302,054	3,533,259
Research and development costs, net of refundable tax credits of $52,190 (2015 - $55,959) and grants totaling $231,083 (2015 - $56,646)	408,930	360,740
	14,215,228	15,612,511
Operating income	111,539	(114,511)
Other items (note 16)	(170,393)	339,912
Financial income and expenses:		
Interest and bank charges	199,555	222,125
Interest on long-term debt	60,648	116,145
Interest income	(92,598)	(130,544)
Foreign exchange loss (gain)	16,908	(19,512)
	184,513	188,214
Earnings before income taxes	97,419	(642,637)
Income tax expense (note 18)		
Recovered	(14,314)	(20,738)
Deferred	–	6,401,319
	(14,314)	6,380,581
Net income (loss) and comprehensive income (loss) for the year	$ 111,733	$ (7,023,218)
Attributable to:		
Owners of the Company	$ 111,733	$ (6,981,455)
Non-controlling interest (note 15)	–	(41,763)
	$ 111,733	$ (7,023,218)
Basic and diluted earnings per share for the year	$ –	$ (0.09)
Weighted average number of common shares outstanding for the year:		
Basic (note 13)	75,185,043	75,851,440
Diluted (note 13)	75,892,672	75,851,440

(i) Operating expenses include a depreciation and amortization expense for property, plant and equipment and intangible assets totalling $999,456 (2015 - $982,725).

See accompanying notes to consolidated financial statements.

ERGORESEARCH LTD.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

Years ended June 30, 2016 and 2015

	Attributable to owners of the Company					
	Share capital	Contributed surplus	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at July 1, 2014	$ 14,692,692	$ 398,134	$ 13,609,926	$ 28,700,752	$ 214,269	$ 28,915,021
Net income (loss)	–	–	(6,981,455)	(6,981,455)	(41,763)	(7,023,218)
Transactions with owners recorded directly in equity:						
Exercise of options (note 13 (a))	13,495	(5,995)	–	7,500	–	7,500
Acquisition of non-controlling interest (notes 13 (a) and 15)	225,000	–	(52,494)	172,506	(172,506)	–
Balance as at June 30, 2015	$ 14,931,187	$ 392,139	$ 6,575,977	$ 21,899,303	$ –	$ 21,899,303
Balance as at July 1, 2015	$ 14,931,187	$ 392,139	$ 6,575,977	$ 21,899,303	$ –	$ 21,899,303
Net income	–	–	111,733	111,733	–	111,773
Transactions with owners recorded directly in equity:						
Exercise of options (note 13 (a))	13,495	(5,995)	–	7,500	–	7,500
Shares cancelled following the issuer bid (note 13 (a))	(746,744)	–	13,779	(732,965)	–	(732,965)
Balance as at June 30, 2016	$ 14,197,938	$ 386,144	$ 6,701,489	$ 21,285,571	$ –	$ 21,285,571

See accompanying notes to consolidated financial statements.

ERGORESEARCH LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended June 30, 2016 and 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Net income (loss):	$ 111,733	$ (7,023,218)
Depreciation of property, plant and equipment (note 7)	492,126	531,271
Amortization of intangible assets (note 8)	507,330	451,454
Deferred lease obligations expense	(13,818)	(4,865)
Interest on long-term debt	60,648	116,145
Interest income	(92,598)	(130,544)
Income tax (recovery) expense	(14,314)	6,380,581
Change in non-cash operating working capital items (note 21)	(442,210)	928,698
Interest paid in cash	(48,932)	(110,869)
Interest received in cash	92,598	130,544
Income tax received in cash	41,738	66,010
	694,301	1,335,207
Financing:		
Exercise of stock options	7,500	7,500
Common share redemption	(732,965)	–
Long-term debt repayment	(1,526,581)	(1,579,118)
	(2,252,046)	(1,571,618)
Investing:		
Disposal (acquisition) of short-term investments	1,922,116	(117,304)
Acquisition of intangible assets	(53,001)	(139,286)
Acquisition of property, plant and equipment	(377,207)	(127,086)
	1,491,908	(383,676)
Net decrease in cash	(65,837)	(620,087)
Cash, beginning of the year	2,075,015	2,695,102
Cash, end of the year	$ 2,009,178	$ 2,075,015

See accompanying notes to consolidated financial statements.

Ergoresearch Ltd. (the "Company") was originally incorporated on August 21, 2001 under the *Business Corporations Act* of Alberta. The shares of the Company are listed on the TSX Venture Exchange under the symbol “ERG” since July 10, 2002.

The Company manufactures and sells custom foot orthotics and general orthotics, and develops durable medical equipment for the orthopedic market.

The Company's head office is located at 2101 Le Carrefour Boulevard, suite 200, Laval, Québec, Canada, H7S 2J7.

1. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements for the years ended June 30, 2016 and 2015 have been prepared in accordance with Canadian generally accepted accounting principles, as they are set out in Part 1 of the *CPA Canada Handbook*, which includes the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis except for the share-based compensation which is measured at fair value at the date of grant. The consolidated financial statements have been prepared on a going concern basis.

(c) Functional and presentation currency:

The items of the financial statements of each entity of the Company are measured by using the currency of the primary economic environment in which the entity operates (the "functional currency").

The consolidated financial statements are presented in Canadian dollars, the Company’s functional currency. All subsidiaries of the Company also use the Canadian dollar as their functional currency. All financial information presented in Canadian dollars has been rounded to the nearest dollar, except for per share data.

(d) Approval of consolidated financial statements:

The consolidated financial statements were approved on October 25, 2016 by the Board of Directors, which also approved their publication.

2. Significant accounting policies:

The accounting policies set out below were consistently applied to all the periods presented in these consolidated financial statements unless otherwise noted.

(a) Basis of consolidation:

(i) Business combinations:

Business combinations are accounted for using the acquisition method as at the acquisition date - i.e. when control is transferred to the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. If this consideration is lower than the fair value of the net assets of the business acquired, the difference is recognized immediately in income as a bargain purchase gain. The Company elects on a transaction-by-transaction basis whether to measure non-controlling interests at their fair value, or at their proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs and other direct costs relating to a business combination are not considered to be part of the acquisition transaction and are therefore expensed as incurred.

(ii) Subsidiaries:

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries are integrated into the consolidated financial statements as of the date of acquisition of control up until the date that the Company loses control over the subsidiary. Intercompany balances and transactions have been eliminated during the consolidation process.

(iii) Transactions and non-controlling interests:

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity even if the earnings attributable to the non-controlling interest have a negative balance.

2. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(iii) Transactions and non-controlling interests (continued):

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as such. Adjustments to non-controlling interests are based on a proportionate amount of the carrying value of the net assets of the subsidiary. No gain or loss is recognized in income.

The difference between the fair value of the consideration paid and the adjustment to the non-controlling interest is recognized in equity.

(b) Foreign currency translation:

Transactions in foreign currency

At the date of each consolidated statement of financial position, monetary assets and liabilities denominated in currencies other than the Company's functional currency (foreign currencies) are translated to the Canadian dollar equivalent at the rate of exchange prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Revenue and expense items in foreign currencies are translated to Canadian dollars at the rates of exchange in effect at the date of the transaction. Exchange gains and losses are included in the consolidated statements of comprehensive income in the year in which they occur.

(c) Measurement of inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Raw materials and finished goods acquired are valued at acquisition cost. The cost of finished goods manufactured includes raw materials and direct labour. A provision is made for obsolete and slow moving inventory, depending on their intended use and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less all estimated additional costs of completion and sale. When estimating the net realizable value, the Company uses the values available at the time of the estimate.

2. Significant accounting policies (continued):

(d) Investment tax credits:

The Company claims investment tax credits as a result of incurring scientific research and experimental development expenditures (“SR&ED”). SR&ED tax credits are accounted for using the cost reduction method. Accordingly, investment tax credits are recorded as a reduction of the related expenses in the year in which those expenses are incurred, provided there is reasonable assurance that the credits will be realized. Investment tax credits are subject to a review by the government, which could result in an adjustment to comprehensive income for the year.

(e) Research and development:

The Company annually incurs costs relating to research and development of new products or new technologies. Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Development costs, which will generate probable future economic benefits, can be clearly defined and measured, that are incurred for the development of new products or technologies, are capitalized and presented as intangible assets. These development costs, net of related research and development investment tax credits, are not amortized until the products or technologies are commercialized, at which time, they are amortized over the estimated life of the commercial production.

The amortization method and the life of the commercial production are assessed annually.

(f) Property, plant and equipment:

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Cost includes expenditures that are directly attributable to the acquisition, the development and construction of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repair and maintenance expenses are recognized in the consolidated statement of comprehensive income in the year where they are incurred.

2. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Depreciation is recognized over their useful lives, taking residual value into account and using the depreciation methods outlined below. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, and the effect of any changes in estimates are accounted for on a prospective basis.

Asset	Method	Rate/period
Leasehold improvements	Straight-line method	Over lease term plus one optional renewal period
Equipment and office furniture	Declining balance	20%
Computer equipment	Declining balance	30%
Equipment and tools	Declining balance	20-30%
Rolling stock	Declining balance	30%
Signs	Straight-line method	5 years
Molds	Straight-line method	14 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds on disposal and the carrying amount of the asset and is recognized in the consolidated statements of comprehensive income.

2. Significant accounting policies (continued):

(g) Intangible assets:

Intangible assets with finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. The amortization method, estimated useful life and residual values are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

Asset	Method	Rate/period
Patent	Straight-line method	9 years
Patient files, permits and other	Straight-line method	14 years
Software	Declining balance	20-30%
Non-compete clause	Straight-line method	5 years
Sensor pad technology	Straight-line method	Over the number of expected manufactured units

(h) Goodwill:

The amount of goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying identifiable net assets acquired at the date of acquisition. Goodwill is not amortized but tested for impairment on an annual basis. For the purpose of impairment testing, goodwill is allocated to cash-generating units ("CGU") of the Company which are susceptible to benefit from the synergies of the business combination and that represent the lowest level at which goodwill is monitored for internal management purposes of the Company. The CGUs to which goodwill has been allocated are subject to annual impairment tests, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss first reduces the carrying amount of the goodwill allocated to that CGU and then reduces the carrying amount of other assets in the unit, pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss cannot be reversed against goodwill in a subsequent period.

The Company has elected to perform its annual impairment test during the fourth quarter of each year.

2. Significant accounting policies (continued):

(i) Impairment of non-financial assets excluding goodwill:

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication of impairment. An impairment is recognized if the recoverable amount of an asset is lower than its carrying amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and the discounted future cash flow generated from the use and eventual disposal of an asset using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Assets that cannot be tested individually are grouped together in CGUs, being 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.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

(j) Deferred lease obligations:

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern over which economic benefits from the leased asset are consumed. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability in deferred lease obligations. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(k) Revenue recognition:

Revenue shall be recognized when the following conditions have been satisfied: when the amount of revenue can be measured reliably; it is probable that future economic benefits will flow to the Company; the Company has transferred to the buyer the significant risks and rewards of ownership of the goods; it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the cost incurred or to be incurred in respect of the transaction can be measured reliably.

2. Significant accounting policies (continued):

(k) Revenue recognition (continued):

Revenue is measured at the fair value of the consideration received or receivable, less rebates and other similar allowances.

The Company defers revenue representing the fair value of the loyalty program. The deferred revenues under the program are included in deferred revenue in the consolidated statements of financial position. When participants in the program claim their refund, the redemption value is deducted from the balance of deferred revenues and recognized as revenue.

The estimated fair value of the loyalty program is calculated based on the weighted average number of units for which the exchange is expected. The Company reviews on a regular basis the trends in discount exchange rates, and adjusts, if necessary, the estimated fair value of the program depending on the volume of exchanges expected in the future.

(l) Financial instruments:

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately through profit or loss in the statement of comprehensive income.

(i) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are included in current assets, except if the period to their maturity is greater than 12 months, as at the closing date, in which case they are included in non-current assets. Loans and receivables are comprised of cash, short-term investments and trade and other receivables. They are initially recognized at fair value, adjusted for transaction costs and subsequently measured at amortized cost, calculated in accordance with the effective interest rate.

2. Significant accounting policies (continued):

(l) Financial instruments (continued):

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss as follows for financial assets measured at amortized cost: the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the financial asset is reduced by this amount either directly or through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment has been recognized.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership of the transferred asset.

(ii) Financial liabilities:

Financial liabilities of the Company include trade and other payables, and long-term debt. They are initially recognized at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the term of the loan using the effective interest method.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after the closing date.

(m) Income taxes:

The Company recognizes tax expenses according to the deferred tax asset and liability method. Deferred tax assets and liabilities are determined in respect to the difference between the tax bases of the assets and liabilities and their carrying amounts. Deferred tax assets also include non-refundable deferred tax credits related to business acquisitions that can only be claimed against future income taxes payable. Any change in the net amount of deferred tax assets and liabilities is recorded in net income. Deferred tax assets and liabilities are determined using tax rates and laws that have been enacted or substantively enacted and are expected to apply to taxable income in the years in which the assets and liabilities will be recovered or settled. Deferred tax assets are recognized to the extent that their realization is probable.

2. Significant accounting policies (continued):

(m) Income taxes (continued):

Income tax expense includes current income tax and deferred tax. The expense is recorded in net income. Current income tax assets and liabilities represent obligations and claims for the current and prior years that remain receivable or payable at year-end. Current tax is calculated using taxable income which differs from net income. This calculation has been performed using tax rates and tax laws that have been enacted or substantively enacted at the end of the fiscal year.

(n) Earnings per share:

Basic earnings per share are based on the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options is computed using the treasury stock method. The Company's potentially dilutive common shares include stock options.

(o) Share-based compensation:

The Company accounts for its share-based compensation plan, described in Note 13, using the fair value method. This method consists of recording expenses to income over the vesting period of the options granted and the consideration is accounted for in contributed surplus in the consolidated statements of financial position. The fair value is calculated based on the Black-Scholes option pricing model. When stock options are exercised, any consideration paid is credited to share capital. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the consolidated statements of comprehensive income, with a corresponding adjustment to shareholders' equity.

(p) 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. Provisions are not recognized for future operating losses.

If the effect of time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense, where appropriate.

2. Significant accounting policies (continued):

(q) Fair value measurement:

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS establish a fair value hierarchy based on the level of independent and objective evidence of the inputs used for valuation of the fair value.

The data used to measure fair value are divided into three levels:

- Level 1 - applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 - applies to assets and liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly, namely quoted prices in active markets for similar assets or liabilities, or indirectly, quoted prices in markets with insufficient volume or infrequent transactions for similar assets or liabilities.
- Level 3 - applies to assets and liabilities for which there is no observable market data.

(r) Segmented information:

The Company manages its operations based on a single segment. The operating segments presented reflect the way management information is presented to the principal decision maker.

(s) New accounting standards and interpretations not yet adopted

Disclosure Initiative: Amendments to IAS 1

On December 18, 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 consolidated financial statement disclosures.

The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on July 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

2. Significant accounting policies (continued):

(s) New accounting standards and interpretations not yet adopted (continued):

IFRS 15, Revenue from Contracts with Customers

On May 28, 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 Contracts*, 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*.

On April 12, 2016, the IASB issued "*Clarifications to IFRS 15, Revenue from Contracts with Customers*," which comes into effect at the same time as IFRS 15.

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 clarifications to IFRS 15 provide additional guidance regarding the five-step analysis, transitional measures, and application of the standard to intellectual property licenses.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 9, Financial Instruments

On July 24, 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.

2. Significant accounting policies (continued):

(s) New accounting standards and interpretations not yet adopted (continued):

IFRS 9, Financial Instruments (continued)

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 on July 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16, *Leases*

On January 13, 2016 the IASB issued IFRS 16, *Leases*. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that also apply IFRS 15, *Revenue from Contracts with Customers* at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, *Leases*.

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

2. Significant accounting policies (continued):

(s) New accounting standards and interpretations not yet adopted (continued):

IFRS 16, *Leases* (continued)

The Company intends to adopt IFRS 16 in its consolidated financial statements for the annual period beginning on July 1, 2019. The Company has not yet assessed the impact of the adoption of IFRS 16.

Disclosure Initiative (amendments to IAS 7)

On January 7, 2016 the IASB issued *Disclosure Initiative (Amendments to IAS 7)*.

The amendments apply prospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The amendments require disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet these new disclosure requirements is to provide a reconciliation between the opening and closing balances for liabilities from financing activities.

The Company intends to adopt the amendments to IAS 7 in its consolidated financial statements for the annual period beginning on July 1, 2017. The extent of the impact of adoption of this standard has not yet been determined.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)

On January 19, 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)*.

The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also clarify the methodology to determine the future taxable income used for assessing the utilization of deductible temporary differences.

The Company intends to adopt the amendments to IAS 12 in its consolidated financial statements for the annual period beginning on July 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

2. Significant accounting policies (continued):

(s) New accounting standards and interpretations not yet adopted (continued):

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)

On June 20, 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective or early application is permitted if information is available without the use of hindsight.

The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on July 1, 2018. The extent of the impact of the adoption of the standard has not yet been determined.

3. Management's key sources of estimation uncertainty and critical accounting 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Note 8 - Allocation of goodwill to the group of CGUs and its carrying value.
- Note 19 - Assessment of the likelihood that certain tax assets related to business acquisitions will be eligible under the *Income Tax Act*.

(Expressed in Canadian dollars)

3. Management's key sources of estimation uncertainty and critical accounting judgments (continued):

Information about assumptions and estimation uncertainties with a significant risk of resulting in material adjustments is included within the following notes and is described below:

- Note 8 - Recoverability of goodwill and long-term assets;
- Note 19 - Valuation of deferred tax assets and deferred tax credits.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which they are made and in future periods affected.

4. Short-term investments

	2016	2015
Short-term note, 1.08% (1.31% in 2015), redeemable	$ 6,006,792	$ 7,928,908

5. Trade and other receivables

	2016	2015
Trade	$ 345,406	$ 322,568
Sales taxes	80,829	110,276
Other	279,095	251,825
	$ 705,330	$ 684,669

6. Inventories

	2016	2015
Finished goods	$ 1,542,590	$ 1,644,278
Raw materials and supplies	476,285	593,303
	$ 2,018,875	$ 2,237,581

The cost of inventory included in the cost of sales totals $3,739,953 in 2016 (2015 - $4,178,247).

(Expressed in Canadian dollars)

7. Property, plant and equipment:

	Leasehold improvements	Equipment and office furniture	Computer equipment	Equipment and tools	Rolling Stock	Signs	Moulds	Total
Cost								
Balance as at June 30, 2014	$ 2,644,370	$ 451,470	$ 621,414	$ 945,876	$ 39,114	$ 77,155	$ 28,352	$ 4,807,751
Additions	7,279	37,269	3,756	49,900	–	28,882	–	127,086
Balance as at June 30, 2015	2,651,649	488,739	625,170	995,776	39,114	106,037	28,352	4,934,837
Additions	264,997	24,682	24,295	58,118	–	5,115	–	377,207
Write-off	(20,320)	(1,867)	(2,068)	(6,282)	–	(8,549)	–	(39,086)
Balance as at June 30, 2016	$ 2,896,326	$ 511,554	$ 647,397	$ 1,047,612	$ 39,114	$ 102,603	$ 28,352	$ 5,272,958
Cumul des amortissements								
Balance as at June 30, 2014	$ 1,006,831	$ 288,990	$ 364,528	$ 578,321	$ 23,581	$ 38,864	$ 20,580	$ 2,321,695
Depreciation	277,871	42,208	90,101	86,506	6,060	23,711	4,814	531,271
Balance as at June 30, 2015	1,284,702	331,198	454,629	664,827	29,641	62,575	25,394	2,852,966
Depreciation	295,566	35,199	57,510	78,155	2,842	19,896	2,958	492,126
Write-off	(20,320)	(1,867)	(2,068)	(6,282)	–	(8,549)	–	(39,086)
Balance as at June 30, 2016	$ 1,559,948	$ 364,530	$ 510,071	$ 736,700	$ 32,483	$ 73,922	$ 28,352	$ 3,306,006
Net carrying value								
June 30, 2015	$ 1,366,947	$ 157,541	$ 170,541	$ 330,949	$ 9,473	$ 43,462	$ 2,958	$ 2,081,871
June 30, 2016	1,336,378	147,024	137,326	310,912	6,631	28,681	–	1,966,952

(Expressed in Canadian dollars)

8. Intangible assets and goodwill:

	Purchased							
	Patent	Patient files, permits and other	Software	Non-compete-clause	Inernally developed sensor pad technology	Internally developed software	Total intangible assets	Goodwill
Cost								
Balance as at June 30, 2014	$ 2,637,774	$ 1,339,519	$ 57,701	$ 98,833	$ 51,360	$ 386,565	$ 4,571,752	$ 2,692,367
Additions	–	–	–	–	–	139,286	139,286	–
Balance as at June 30, 2015	2,637,774	1,339,519	57,701	98,833	51,360	525,851	4,711,038	2,692,367
Additions	–	–	–	–	–	53,001	53,001	–
Balance as at June 30, 2016	$ 2,637,774	$ 1,339,519	$ 57,701	$ 98,833	$ 51,360	$ 578,852	$ 4,764,039	$ 2,692,367
Accumulated amortization								
Balance as at June 30, 2014	$ 444,017	$ 269,192	$ 29,378	$ 71,083	$ 42,372	$ –	$ 856,042	$ –
Amortization	293,086	95,683	8,497	8,000	8,988	37,200	451,454	–
Balance as at June 30, 2015	737,103	364,875	37,875	79,083	51,360	37,200	1,307,496	–
Amortization	293,085	95,683	5,948	8,000	–	104,614	507,330	–
Balance as at June 30, 2016	$ 1,030,188	$ 460,558	$ 43,823	$ 87,083	$ 51,360	$ 141,814	$ 1,814,826	$ –
Net carrying value								
June 30, 2015	$ 1,900,671	$ 974,644	$ 19,826	$ 19,750	$ –	$ 488,651	$ 3,403,542	$ 2,692,367
June 30, 2016	1,607,586	878,961	13,878	11,750	–	437,038	2,949,213	2,692,367

(Expressed in Canadian dollars)

8. Intangible assets and goodwill (continued):

For the purposes of impairment testing, the goodwill is allocated to a single cash generating unit (CGU), being the Company as a whole, which represents the lowest level at which the goodwill is monitored for internal management purposes.

The recoverable amount of the CGU group is established by calculating the fair value less costs to sell. That amount is determined using the price of the shares on the active market. The fair value of the CGU group is classified as Level 3 in the fair value hierarchy.

9. Bank loan:

The credit facilities of the Company totalling $550,000, which were unused as at June 30, 2016 and 2015, are subject to annual review and consist of repayable on demand operating lines of credit. Borrowings under the operating line of credit bear interest at the Canadian prime rate plus 1.5%. The credit facilities are secured by accounts receivable, inventories and certain items of property, plant and equipment of the Company with a carrying value of $3,023,306. Under the terms of the banking agreements and long-term loans, the Company is required to maintain certain financial ratios. As at June 30, 2016 and June 30, 2015, the Company was in compliance with its debt covenants.

10. Trade and other payables:

	2016	2015
Trade payables and accrued liabilities	$ 526,993	$ 1,135,741
Salaries and benefits	518,944	527,662
	$ 1,045,937	$ 1,663,403

11. Deferred revenues:

	2016	2015
Client deposits	$ 222,263	$ 291,221
Deferred revenue from loyalty program	70,100	77,808
	$ 292,363	$ 369,029

(Expressed in Canadian dollars)

12. Long-term debt:

Long-term debt is comprised of the following:

		2016		2015
Term loan repayable in monthly installments of $66,666 plus interest at the Canadian prime rate plus 1.50%, expected to mature in December 2016 based on monthly instalments due, secured by a first rank mortgage on the universality of the assets, including, among others, tangible assets, intangible assets, inventories and receivables with a carrying value of $7,467,717 plus a guarantee in the form of a bond (see (a))	$	360,626	$	1,645,285
Note payable bearing interest at a rate of 3.75% per annum, reimbursed during 2016		–		200,000
Note payable bearing interest at a rate of 3.75% per annum, reimbursed during 2016		–		20,000
Other borrowing, reimbursed during 2016		–		6,581
		360,626		1,871,866
Amount due within one year		360,626		1,031,213
Long-term debt	$	–	$	840,653

Principal repayments due on long-term debt are as follows:

2017	$	360,626

(Expressed in Canadian dollars)

12. Long-term debt (continued):

(a) On April 22, 2013, the Company entered into a credit agreement with a Canadian financial institution, under which the lender has made available to the Company the following credit facilities:

(i) a five-year secured non-renewable term loan, for a maximum amount of $7,200,000 for the purpose of financing the Company;

(ii) a line of credit secured by the Company's receivables and inventories for a maximum amount of $550,000 (Note 9).

The Company has used $4,100,000 of the term loan. Part of the balance under the term loan can be repaid prior to maturity without penalty.

13. Equity:

(a) Share capital:

(i) The authorized share capital of the Company consists of the following:

An unlimited number of common shares, voting and participating, without par value

An unlimited number of preferred shares, issuable in series, with rights, privileges and conditions to be determined when issued, without par value

(ii) Common shares issued and outstanding are as follows:

	Number	Dollars
Balance as at July 1, 2014	75,722,673	$ 14,692,692
Issued	500,000	225,000
Exercise of stock options	50,000	13,495
Balance as at June 30, 2015	76,272,673	14,931,187
Exercise of stock options	50,000	13,495
Shares cancelled following the issuer bid	(3,813,633)	(746,744)
Balance as at June 30, 2016	72,509,040	$ 14,197,938

A total of 50,000 stock options were exercised during the fiscal year ended June 30, 2016 (2015 - 50,000) for a cash consideration of $7,500 (2015 - $7,500).

13. Equity (continued):

(a) Share capital (continued):

(ii) Common shares issued and outstanding are as follows (continued):

An amount of $5,995 (2015 - $5,995) was reclassified to contributed surplus following the exercise of these options. The average price of the shares on the exercise date was $0.32 per share ($0.79 per share in 2015).

On April 28, 2015, the Company announced a Treasury issuance of 500,000 common shares at a price of $0.45 per share for total proceeds of $225,000 for the acquisition of 49% of the common shares of Orthoconcept (2008) inc. held by the non-controlling shareholders. No cash consideration was received by the Company. The issued shares will be held in escrow for a period of four (4) years with half to be released after twenty-four (24) months.

The Company redeemed 3,813,633 common shares in 2016 (nil in 2015) for an average price of $0.19 per share. The excess of the book value of the shares over the price paid was charged to retained earnings.

(b) Share-based compensation:

The Company's share option plan authorizes the granting of options, by the Board of directors, to certain directors, officers, advisers and employees, allowing them to purchase up to a maximum of 5,000,000 common shares. The options granted vest at time of grant. The options may be exercised no later than ten years after the date of grant, and the terms for exercising the options are determined upon their granting.

The exercise price shall never be less than the market price on the date of grant, less the applicable discounts authorized by the TSX. The number of shares that may be granted to a director, officer or employee of the Company shall not exceed 5% of the issued and outstanding share capital, and 2% for consultants.

(Expressed in Canadian dollars)

13. Equity (continued):

(b) Share-based compensation (continued):

The following table shows the changes in the number of outstanding options since July 1, 2014:

	Number of options	Weighted average exercise price
Balance as at June 30, 2014	1,691,667	$ 0.20
Exercised	(50,000)	0.15
Balance as at June 30, 2015	1,641,667	0.20
Exercised	(50,000)	0.15
Balance as at June 30, 2016	1,591,667	$ 0.21
Options exercisable at the end of the year	1,591,667	$ 0.21

The following table shows the details of stock options outstanding:

					2016
	Options outstanding			Options exercisable	
Exercise price range	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price
$ 0.11 to $ 0.14	100,000	$ 0.11	4.17	100,000	$ 0.11
$ 0.15 to $ 0.16	1,291,667	0.15	3.16	1,291,667	0.15
$ 0.17 to $ 0.62	200,000	0.62	6.86	200,000	0.62
	1,591,667			1,591,667	

(Expressed in Canadian dollars)

13. Equity (continued):

(b) Share-based compensation (continued):

The following table shows the details of stock options outstanding (continued):

					2015
	Options outstanding			Options exercisable	
Exercise price range	Number of options outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average exercise price
\$ 0.11 to \$ 0.14	100,000	\$ 0.11	5.18	100,000	\$ 0.11
\$ 0.15 to \$ 0.16	1,341,667	0.15	4.16	1,341,667	0.15
\$ 0.17 to \$ 0.62	200,000	0.62	7.86	200,000	0.62
	1,641,667			1,641,667	

The Company has not recognized any share-based payment expense for the years ended June 30, 2016 and June 30, 2015.

(c) Earnings per share:

(i) Basic earnings per share:

The calculation of basic earnings per share at June 30, 2016 was based on a net income of \$111,733 attributable to shareholders of the Company (2015 - net loss of \$6,981,455), and a weighted average number of common shares outstanding of 75,185,043 (2015 - 75,851,440), calculated as follows:

Weighted average number of common shares	2016	2015
Issued common shares as at July 1	76,272,673	75,722,673
Effect of acquisition of non-controlling interest	–	117,061
Effect of share purchase options exercised	14,449	11,706
Effect of shares cancelled following an issuer bid	(1,102,079)	–
Weighted average number of common shares as at June 30	75,185,043	75,851,440

(Expressed in Canadian dollars)

13. Equity (continued):

(c) Earnings per share (continued):

(ii) Diluted earnings per share:

The calculation of diluted earnings per share at June 30, 2016 was based on a net income of $111,733 (2015 - net loss of $6,981,455), and a weighted average number of common shares outstanding after adjusting for the potentially dilutive effects of all stock options, calculated as follows:

Weighted average number of common shares (diluted)	2016	2015
Weighted average number of basic common shares	75,185,043	75,851,440
Effect of potentially dilutive items	707,629	–
Weighted average number of diluted common shares as at June 30	75,892,672	75,851,440

As at June 30, 2016, all options were included in calculating the weighted average number of diluted shares due to their dilutive effect.

As at June 30, 2015, the diluted loss per share was equivalent to the loss corresponding to basic earnings per share due to the dilutive effect of the options resulting from the loss incurred during the year.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share purchase options was based on quoted market prices for the period during which the options were outstanding.

14. Commitments:

The Company is committed under leases for the Company premises and for an advertising contract to make the following future minimum payments:

	2016	2015
Less than one year	$ 1,072,427	$ 1,108,498
More than one year and less than five years	2,898,888	2,593,575
More than five years	929,038	412,907
	$ 4,900,353	$ 4,114,980

(Expressed in Canadian dollars)

14. Commitments (continued):

The rental expense for the year ended June 30, 2016 is $1,324,484 (2015 - $1,349,073).

15. Non-controlling interest:

On April 28, 2015, the Company acquired 49% of the issued and outstanding shares of Orthoconcept (2008) inc., becoming the sole shareholder of Orthoconcept (2008) inc. This was a non-monetary transaction and is therefore excluded from the consolidated statements of cash flows.

	April 28, 2016	April 28, 2015
Revenue	$ –	$ 4,230,199
Net loss and comprehensive income (loss)	$ –	$ (85,231)
Net loss and comprehensive income (loss) attributable to the non-controlling interests	$ –	$ (41,763)

16. Other items

The nature of these other items reflects, on the one hand, a past dispute over Revenu Québec's ("RQ") interpretation, that would change the tax treatment for applying sales taxes on shoes under medical prescription. As per the new interpretation, even when under prescription, premanufactured orthopedic shoes would be taxable. This decision was contested by the Company in 2015 and settlement was pending. Each of the Company's subsidiaries was assessed separately by RQ. Management provided for the full amount of RQ's assessment.

During fiscal year 2016, the previously recorded provision was reversed following new favourable announcements made by RQ.

In addition, due to the uncertainty of recovering the 2008 refundable tax credit acquired on the acquisition of the issued and outstanding common shares of Victhom Bionique Humaine inc. on April 26, 2013, the Company reversed the amount originally recognized during 2015.

(Expressed in Canadian dollars)

16. Other items (Continued)

The following table shows the nature of amounts included in other items in the consolidated statements of comprehensive income.

	2016	2015
(Reversal) provision for RQ assessment related to sales taxes for years 2011-2013	$ (170,393)	$ 170,393
Reversal of 2008 non-refundable tax credit for Victhom Bionique Humaine inc.	-	169,519
	$ (170,393)	$ 339,912

17. Additional disclosures concerning the consolidated statements of comprehensive income:

Employee benefit costs

	2016	2015
Wages and salaries (including bonuses and long-term incentives)	$ 6,259,957	$ 6,788,274

18. Income tax expense:

Significant components of the provision for income taxes are as follows:

	2016	2015
Income taxes recovered	$ (14,314)	$ (20,738)
Deferred taxes		
Impairment related to tax assets recognized in prior years	–	6,401,319
Origination and reversal of temporary differences	(36,789)	154,049
Change in unrecognized deductible temporary differences	36,789	(154,049)
Income tax (recovery) expense	$ (14,314)	$ 6,380,581

(Expressed in Canadian dollars)

18. Income tax expense (continued):

The reconciliation of income taxes calculated at the Canadian statutory rate of 26.90% for fiscal 2016 and 2015 to the income tax expense is as follows:

	2016	2015
Income tax using the statutory tax rate	$ 26,206	$ (172,869)
Increase due to:		
Non-deductible expenses	10,583	18,820
Changes in unrecognized deductible temporary differences for the year	–	135,002
Impairment related to income tax assets recognized in prior years	–	6,401,319
Unrecognized tax attributes for previous years recognized during the year	(35,554)	–
Other	(15,549)	(1,691)
Income tax (recovery) expense	$ (14,314)	$ 6,380,581

19. Deferred income taxes and tax credits:

The following table presents the components of deferred tax assets and liabilities:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Losses carried forward	$ 1,710,675	$ –	$ 1,875,356	$ –
Research and development expenditures	775,958	–	735,966	–
Property, plant and equipment	299,606	–	153,150	–
Intangible assets	–	666,349	–	780,231
Financing costs	27,223	–	43,264	–
Other	37,558	–	19,911	–
Deferred federal tax credits	3,102,391	834,543	3,290,155	885,052
	5,953,411	1,500,892	6,117,802	1,665,283
Offsetting assets and liabilities	(1,500,892)	(1,500,892)	(1,665,283)	(1,665,283)
	$ 4,452,519	$ –	$ 4,452,519	$ –

(Expressed in Canadian dollars)

19. Deferred income taxes and tax credits (continued):

Deferred tax assets and deferred tax credits are recognized to the extent that is probable that they will be realized. If deemed necessary, a reduction in carrying value is recorded. When management estimates the probability of realisation of these assets, it evaluates whether it is probable or not that the entirety of the assets will be realised. Ultimately, whether or not these assets will be realised depends on future taxable income being earned and the eligibility of tax attributes. If the Company deems that it will be able to realise the tax assets and deferred tax credits not previously recognized, it will adjust the carrying values and the net income for the fiscal year in which it reaches such a conclusion.

Non-capital tax losses carried forward expire between 2026 and 2033. The Company has unrecognized non-capital federal losses of $27,223,110 as of June 30, 2016 ($26,627,053 at June 30, 2015).

Deferred tax credits represent non-refundable federal tax credits resulting from qualifying research and development activities, for Canadian income tax purposes. The Company has not recognized deferred tax credits totalling $3,709,909 as at June 30, 2016 ($3,712,203 as at June 30, 2015).

Research and development expenditures do not expire. The Company did not recognize federal and provincial research and development expenditures of $27,906,788 and $36,312,946 respectively as at June 30, 2016 ($26,046,068 at federal level and $36,437,851 at provincial level as at June 30, 2015).

The details of the tax attributes that can be used to decrease future period taxable income and taxes payable of the Company are as follows:

Non-capital losses - Federal

Year of expiry	Closing balance at year-end
2026	$ 4,437,284
2027	5,910,863
2028	7,623,199
2029	142,493
2030	5,953,129
2031	1,224,850
2032	875,901
2033	1,055,391
	$ 27,223,110

(Expressed in Canadian dollars)

19. Deferred income taxes and tax credits (continued):

Non-capital losses - Quebec

Year of expiry	Closing balance at year-end
2027	$ –
2028	4 689 451
2029	46,174
2030	6,479,490
2031	1,223,937
2032	881,574
2033	1,054,794
	$ 14,375,420

Investment tax credits - Federal

Year of expiry	Closing balance at year-end
2023	$ 253,606
2024	952,247
2025	1,095,337
2026	1,027,182
2027	924,967
2028	1,087,628
2029	778,571
2030	537,265
2033	18,881
2034	43,610
2035	42 557
2036	50 449
	$ 6,812,300

Research and development expenditures

Year of expiry	Closing balance at year-end
Unlimited - Federal	$ 27,906,788
Unlimited - Quebec	42,833,600

(Expressed in Canadian dollars)

19. Deferred income taxes and tax credits (continued):

Changes in deferred tax assets and liabilities balances are as follows:

	Balance as at June 30, 2014	Recognized in profit or loss	Balance as at June 30, 2015	Recognized in profit or loss	Balance as at June 30, 2016
Losses carried forward	$ 4,606,946	$ (2,731,590)	$ 1,875,356	$ (164,681)	$ 1,710,675
Research and development expenditures	3,724,541	(2,988,575)	735,966	39,992	775,958
Property, plant and equipment	(41,453)	194,603	153,150	146,456	299,606
Intangible assets	(878,231)	98,000	(780,231)	113,882	(666,349)
Financing costs	61,936	(18,672)	43,264	(16,041)	27,223
Deferred federal tax credits	3,366,103	(961,000)	2,405,103	(137,255)	2,267,848
Other	13,996	5,915	19,911	17,647	37,558
	$ 10,853,838	$ (6,401,319)	$ 4,452,519	$ –	$ 4,452,519

At June 30, 2016 and 2015, the Company did not recognize deferred tax liabilities relating to temporary differences associated with investments in subsidiaries because the Company controls decisions regarding the realisation of these liabilities and it is not probable that the temporary differences will reverse in the foreseeable future.

(Expressed in Canadian dollars)

20. Related party transactions:

The Company's subsidiaries are listed in the following table:

Name	Country of incorporation	% ownership 2016		% ownership 2015
Laboratoire Victhom inc.	Canada	100%		100%
Orthoconcept (2008) inc.	Canada	– %	i)	100%
Polyclinique Victhom inc.	Canada	100%		– %

i) This subsidiary was amalgamated with Laboratoire Victhom inc. in fiscal 2016.

On April 28, 2015, the Company acquired 49% of the issued and outstanding shares of Orthoconcept (2008) inc., thereby becoming the sole shareholder of Orthoconcept (2008) inc.

Compensation of key executives for the years ended June 30:

	2016	2015
Standard benefits	$ 362,727	$ 356,750
Consulting fees	80,000	80,000
	$ 442,727	$ 436,750

Other related party transactions for the years ended June 30:

	2016	2015
Transactions with an entity having a common shareholder - purchases	$ 158,517	$ 331,136
Balance payable to Board members	11,058	–
Transactions with an entity having a common shareholder - royalties	10,901	6,704
Balance payable to an entity with a common shareholder	2,805	87,543

(Expressed in Canadian dollars)

21. Change in non-cash operating working capital items:

The net change is as follows:

	2016	2015
Trade and other receivables	$ (20,661)	$ 957,148
Investment tax credits receivables	67,968	(55,959)
Inventories	218,706	28,746
Prepaid expenses	(17,716)	13,851
Trade and other payables	(613,841)	115,364
Deferred revenues	(76,666)	(130,452)
	$ (442,210)	$ 928,698

22. Financial instruments:

(a) Information regarding fair value of financial instruments:

The classification of financial instruments according to the fair value hierarchy should be determined based on the lowest level of input that is significant to the re-measurement of the fair value in its entirety.

The Company owns assets classified as loans and receivables and financial liabilities at amortized cost. The Company has established that the carrying value of these short-term financial assets and liabilities approximates their fair values due to the short period of time to their maturity date.

The fair value of the long-term debt, which is calculated for disclosure purposes according to Level 3 of the fair value hierarchy, is calculated based on the present value of interest and capital cash outflows, discounted at the market rate on the closing date, was determined to equal $366,667 as at June 30, 2016 ($1,893,247 in 2015).

(Expressed in Canadian dollars)

22. Financial instruments (continued):

(b) Risks related to financial instruments and risk management:

The Company is exposed to a variety of financial risks, including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The overall risk management program of the Company focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

(i) Credit risk:

Credit risk arises from the possibility that a loss may occur due to the failure of another party to comply with the obligations of the contract. The Company regularly monitors its exposure to credit risk and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

In the normal course of business, the Company monitors the financial condition of its customers. As at June 30, 2016 and 2015, the Company is not exposed to any significant risk related to customers and other debtors. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk associated with its customers, historical trends and economic conditions. As at June 30, 2016, accounts receivable of $27,712 ($205,661 as at June 30, 2015) were past due and a provision for doubtful accounts of $27,712 ($125,733 as at June 30, 2015) was recorded. The aging analysis of accounts receivable before allowance for doubtful accounts is presented below:

	2016	2015
Current and up to three months	$ 266,747	$ 351,521
Over three months	106,371	96,780
	$ 373,118	$ 448,301

Moreover, financial instruments that potentially expose the Company to significant concentrations of credit risk consist of deposits in cash and short-term investments. The Company makes investments with major North American financial institutions. The Company has investment policies designed to ensure the safety and preservation of its capital, to meet its liquidity needs and provide appropriate returns.

22. Financial instruments (continued):

(b) Risks related to financial instruments and risk management (continued):

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The approach of the Company in managing liquidity risk is to ensure, to the extent possible, it will have sufficient liquidity to settle its liabilities when due, under normal conditions as well as unusual ones, without incurring excessive losses or risking its reputation. In addition, the Company manages liquidity risk by continuously monitoring actual and projected cash flows.

The following table summarizes the amounts due according to the contractual maturity dates of financial liabilities as at June 30, 2016 and June 30, 2015:

					2016
	Carrying value	Contractual cash flows	0 to 12 months	1 to 3 years	More than 3 years
Trade and other payables	$ 1,045,937	$ 1,045,937	$ 1,045,937	$ –	$ –
Short-term debt	360,626	366,667	366,667	–	–

					2015
	Carrying value	Contractual cash flows	0 to 12 months	1 to 3 years	More than 3 years
Trade and other payables	$ 1,663,403	$ 1,663,403	$ 1,663,403	$ –	$ –
Long-term debt	1,871,866	1,971,978	1,083,295	888,683	–

(iii) Currency risk:

The Company generates less than 1% of revenues in foreign currencies and 11% of its purchases are made in euros (2015 - 21%). Consequently, the Company is exposed to market risks as a result of fluctuation in the euro. Trade and other payables includes a balance of $12,123 denominated in euros.

As at June 30, 2016 and 2015, if other market variables remain constant, an increase or decrease of $0.01 in the value of the Canadian dollar as compared to the euro would not have a material effect on net income.

22. Financial instruments (continued):

(b) Risks related to financial instruments and risk management (continued):

(iv) Interest rate risk:

The Company is exposed to interest rate risk on its financial instruments with fixed interest rates and variable interest rates. Financial instruments with fixed interest rates expose the Company to fair value risk while financial instruments at variable rates expose it to the risk of changes in cash flows.

As at June 30, 2016 and 2015, a hypothetical increase or decrease of 1% in interest rate during the year would not have a material impact on net income.

23. Capital disclosures:

The Company's objective in managing capital is to ensure a sufficient liquidity position to market its products, to fund its sales and marketing activities, its research and development activities, its general and administrative expenses, its working capital and all of its capital expenditures, including those related to tangible and intangible assets. The ability to finance its future needs depends on the Company's ability to access additional capital and maintain cash flows from its operations.

Since its inception, the Company finances its requirements from cash flows and institutional loans that are subject to various covenants that were all met as at June 30, 2016 and June 30, 2015. The Company tries as much as possible to optimize its liquidity needs with non-dilutive sources, including tax credits for research, subsidies and bank loans. From time to time, the Company redeems its own shares. The amount of these purchases depends on the share market price.

The capital management objectives presented above remain unchanged compared to the previous year.

As at June 30, 2016, cash amounts to $2,009,178 and short-term investments to $6,006,792. The Company believes that its cash generated from operations and existing financial resources should be sufficient to meet the needs of the Company beyond June 30, 2017.

24. Segment information:

The Company has one reportable segment, the orthopedic market and mobility support. It sells its products to the Canadian market and all its activities take place in Canada.