Devonian Health Group Inc.

Financial Statements
As at July 31, 2017 and 2016

Together with Independent Auditor's Report

MALLETTE

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Devonian Health Group Inc.,

We have audited the accompanying financial statements of **DEVONIAN HEALTH GROUP INC.**, which comprise the statements of financial position as at July 31, 2017 and 2016, and the statements of income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Devonian Health Group Inc. as at July 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis on Matter

Without qualifying our opinion, we draw attention to Note 3 to the financial statements which indicates the uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern.

Mallette L.L.P. [1]

Mallette L.L.P.
Partnership of chartered professional accountants

Québec, Canada
November 24, 2017

[1] CPA auditor, CA, public accountancy permit No. A119429

Devonian Health Group Inc.

STATEMENTS OF INCOME

For the years ended July 31,		2017		2016
RESEARCH AND DEVELOPMENT EXPENSES (Note 5)	$	426,505	$	536,991
OPERATING EXPENSES				
Administrative expenses (Note 5)		1,513,346		1,162,713
Financial expenses (Note 16)		575,083		588,873
		2,088,429		1,751,586
LOSS FROM OPERATIONS		(2,514,934)		(2,288,577)
OTHER ITEMS				
Business acquisition expenses (Note 2)		(1,618,970)		-
Gain on settlement of a debt		-		45,531
		(1,618,970)		45,531
LOSS BEFORE INCOME TAXES		(4,133,904)		(2,243,046)
INCOME TAXES				
Deferred		241,811		(420,000)
NET LOSS	$	(4,375,715)	$	(1,823,046)
Net loss per share (Note 17)				
Basis	$	(0.126)	$	(0.073)
Diluted	$	(0.126)	$	(0.073)

Additional information to the statements of income (Note 5)

The accompanying notes are an integral part of these financial statements.

Devonian Health Group Inc.

STATEMENTS OF CHANGES IN EQUITY

	Number				Amount						
	Shares	Stock options	Warrants	Total	Share capital	Stock options	Warrants	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total
BALANCE, as at July 31, 2015	24,989,973	-	10,094,740	35,084,713	$ 2,645,522	$ -	$ 704,389	$ -	$ 196,786	$ 1 641,786	$ 5,188,483
Issuance of shares (Note 12)	1,317,781	-	-	1,317,781	487,286	-	-	-	-	-	487,286
Warrants exercised (Note 13)	-	-	(1,297,559)	(1,297,559)	-	-	(91,952)	-	-	-	(91,952)
Equity component of convertible debentures (Note 11)	-	-	-	-	-	-	-	450,299	-	-	450,299
Tax effect of convertible debentures (Note 11)	-	-	-	-	-	-	-	(83,656)	-	-	(83,656)
Net loss for the year	-	-	-	-	-	-	-	-	-	(1,823,046)	(1,823,046)
	1,317,781	-	(1,297,559)	20,222	487,286	-	(91,952)	366,643	-	(1,823,046)	(1,061,069)
BALANCE, as at July 31, 2016	26,307,754	-	8,797,181	35,104,935	3,132,808	-	612,437	366,643	196,786	(181,260)	4,127,414
Issuance of shares (Note 12)	26,975,136	-	-	26,975,136	6,633,123	-	-	-	-	-	6,633,123
Share issuance costs											
In cash	-	-	-	-	(858,089)	-	-	-	-	-	(858,089)
In options	-	537,423	-	537,423	(179,499)	179,499	-	-	-	-	-
Future income taxes related to share issuance costs	-	-	-	-	230,311	-	-	-	-	-	230,311
Stock-based compensation	-	1,360,000	-	1,360,000	-	297,827	-	-	-	-	297,827
Issuance of warrants (Note 13)	-	-	4,217,782	4,217,782	-	-	861,525	-	-	-	861,525
Warrants exercised (Notes 12 and 13)	5,461,897	-	(5,209,517)	252,380	2,019,690	-	(381,119)	-	-	-	1,638,571
Equity component of convertible debentures (Note 11)	-	-	-	-	-	-	-	(450,299)	-	-	(450,299)
Tax effect of convertible debentures (Note 11)	-	-	-	-	-	-	-	83,656	-	-	83,656
Warrants expired (Note 13)	-	-	(3,587,664)	(3,587,664)	-	-	(231,318)	-	231,318	-	-
Net loss for the year	-	-	-	-	-	-	-	-	-	(4,375,715)	(4,375,715)
	32,437,033	1,897,423	(4,579,399)	29,755,057	7,845,536	477,326	249,088	(366,643)	231,318	(4,375,715)	4,060,910
BALANCE, as at July 31, 2017	58,744,787	1,897,423	4,217,782	64,859,992	$ 10,978,344	$ 477,326	$ 861,525	$ -	$ 428,104	$ (4,556,975)	$ 8,188,324

The accompanying notes are an integral part of these financial statements.

Devonian Health Group Inc.

STATEMENTS OF FINANCIAL POSITION

As at July 31,	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	$ 2,204,883	$ 498,496
Cash held in trust	-	29,900
Commodity taxes recoverable	72,030	14,304
Subscription receivable	135	135
Amount receivable, without interest	-	23,591
Inventories (Note 6)	14,465	37,402
Prepaid expenses	257,790	10,878
	2,549,303	614,706
DEFERRED SHARE ISSUANCE COSTS	-	174,185
SECURITY DEPOSIT, bearing interest at 0.78%, maturing in 2019	14,400	14,400
FIXED ASSETS (Note 7)	4,106,683	4,383,229
INTANGIBLE ASSETS (Note 8)	4,888,000	4,888,000
	$ 11,558,386	$ 10,074,520

The accompanying notes are an integral part of these financial statements.

Devonian Health Group Inc.

STATEMENTS OF FINANCIAL POSITION (continued)

As at July 31,		2017		2016
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable (Note 9)	$	110,376	$	392,965
Current portion of long-term debt (Note 10)		160,347		4,390,726
		270,723		4,783,691
LONG-TERM DEBT (Note 10)		3,099,339		-
CONVERTIBLE DEBENTURES TO BE ISSUED		-		15,000
CONVERTIBLE DEBENTURES ISSUED (Note 11)		-		1,076,259
DEFERRED INCOME TAXES		-		72,156
		3,370,062		5,947,106
SHAREHOLDERS' EQUITY				
Share capital (Note 12)		10,978,344		3,132,808
Stock options		477,326		-
Warrants		861,525		612,437
Equity component of convertible debentures (Note 11)		-		366,643
Contributed surplus		428,104		196,786
Deficit		(4,556,975)		(181,260)
		8,188,324		4,127,414
	$	11,558,386	$	10,074,520

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 3)

Commitments (Note 15)

On behalf of the Board,

(s) Pierre Colas, President of the Board of Directors

(s) André Boulet, President & Chief Executive Officer

The accompanying notes are an integral part of these financial statements.

Devonian Health Group Inc.

STATEMENTS OF CASH FLOWS
For the years ended July 31,

		2017		2016
OPERATING ACTIVITIES				
Net loss	$	(4,375,715)	$	(1,823,046)
Items not affecting cash				
Amortization of fixed assets		276,546		275,892
Amortization of discount on convertible debentures		54,501		25,143
Interest capitalized on convertible debentures		99,290		106,015
Business acquisition expenses		1,618,970		-
Gain on settlement of a debt		-		(45,531)
Stock-based compensation		194,627		-
Deferred income taxes		241,811		(420,000)
		(1,889,970)		(1,881,527)
Net change in non-cash working capital items		(540,699)		(259,590)
		(2,430,669)		(2,141,117)
INVESTING ACTIVITIES				
Net liabilities acquired (Note 2)		(15,770)		-
Acquisition of fixed assets		-		(12,321)
		(15,770)		(12,321)
FINANCING ACTIVITIES				
Increase in deferred share issuance costs		(280,837)		(77,140)
Repayment of long-term debt		(1,131,040)		(53,449)
Issuance of shares and warrants		5,396,303		395,334
Convertible debentures to be issued		-		15,000
Convertible debentures issued		138,500		300,400
		4,122,926		580,145
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,676,487		(1,573,293)
CASH AND CASH EQUIVALENTS, beginning of year		528,396		2,101,689
CASH AND CASH EQUIVALENTS, end of year	$	2,204,883	$	528,396

Cash and cash equivalents include:

Cash	$	2,204,883	$	498,496
Cash held in trust		-		29,900
	$	2,204,883	$	528,396

For the year ended July 31, 2017, cash flows from operating activities include interest paid of $406,584 (2016 - $571,720) and do not include any tax paid.

The accompanying notes are an integral part of these financial statements.

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

Devonian Health Group Inc. was incorporated under the Québec Business Corporations Act on March 27, 2015. The Company is the result of an amalgamation under the Business Corporations Act (BCA), completed on March 27, 2015, between Devonian Technologies Inc., Devonian Pharmaceutiques Inc., Devonian Cosmétiques Inc. and Consultant Go Contact Inc.

On May 12, 2017, Devonian Health Group Inc. realized a transaction which establishes a reverse takeover of Orletto Capital Inc., such as planned in the agreement between the companies on May 15, 2015 and amended on April 7, 2016. The financial statements of the company resulting from the amalgamation of Orletto Capital Inc. and Devonian Health Group Inc. are considered to be the continuity of the financial statements of Devonian Health Group Inc. Following this transaction, the Company was extended under the Canada Business Corporations Act.

Its main activity is the development of botanical drugs. It is also involved in the development of value-added products for dermo-cosmetics. The Company has established a research focussed towards the anticipation of new solutions in the medical sector as well as in the cosmetic sector. The Company's head office is located at 360, rue des Entrepreneurs, Montmagny (Québec).

The Company is currently operating in a single reportable operating segment which is the pharmaceutical sector. It is committed to the development of botanical drugs and will have to obtain necessary funding to continue its operations until the commercialization phase of its products.

2. REVERSE TAKEOVER

As a result of the transaction on May 12, 2017, the shareholders of Devonian Health Group Inc. hold the majority of outstanding shares and voting rights of the company resulting from the amalgamation. This transaction does not correspond to the definition of a business combination under IFRS 3 - Business Combination. Consequently, the transaction will be accounted for according to IFRS 2 - Share-based payment. The transaction is deemed to be the issuance of shares and stock options in consideration for the net liabilities of Orletto Capital Inc. and the listing of its shares on a recognized stock exchange.

2. REVERSE TAKEOVER (continued)

This transaction is summarized as follows:

Net liabilities of Orletto Capital Inc.:		
Cash held in trust	$	4,107
Prepaid expenses		4,484
Deferred tax asset		123,734
Valuation allowance against deferred tax asset		(123,734)
Deferred share issuance costs		75,375
Accounts payable		(99,736)
Net liabilities acquired		(15,770)
Consideration		1,603,200
Acquisition fees	$	1,618,970

The fair value of the consideration includes:		
Fair value of shares	$	1,500,000
Fair value of options	$	103,200

The fair value of the shares was determined on the basis of the 5,493,000 outstanding shares of Orletto Capital Inc., consolidated at a ratio of 0.3641 for one. The shares value was assessed at $0.75, i.e. $1,500,000, which is the issue price of the concurrent financing described on Note 12.

The fair value of the 549,300 existing options granted to directors, consolidated at a ratio of 0.3641 for one, i.e. 200,000 options, was estimated at $103,200 according to the Black & Scholes option pricing model, and using the following assumptions:

Risk-free interest rate	1.03%
Average expected life	2 years
Expected volatility	82%
Share price	$0.75
Expected dividends	Nil

3. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis, which assumes that assets will be realized and liabilities discharged in the normal course of business for the foreseeable future. Accordingly, these financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or on the discharge or classification of liabilities, should the Company be unable to continue its business in the normal course. The Company has incurred losses since its inception and anticipates that losses will continue for the foreseeable future. Furthermore, the Company has not completed the development of any product likely to generate the level of sales necessary to enable the Company to continue its operations without outside financing. The Company's liquidity are limited considering its ongoing projects. Consequently, the Company's ability to continue as a going concern depends on its ability to obtain, in a timely matter, further financing to complete research and development projects and market products, achieve profitable operations and generate positive cash flows from operations, as to which no assurance can be given.

Further financing will continue to be required since it is impossible to estimate when the Company will achieve profitability. Management continues to negotiate further financing and different agreements that could create positive cash flows. The success of these negotiations is contingent on many factors outside the Company's control and there is substantial uncertainty about the Company's ability to successfully complete such financing and agreements.

4. SIGNIFICANT ACCOUNTING POLICIES

Declaration of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These financial statements were approved by the Board of Directors on November 24, 2017.

Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the financial asset measured at fair value through net income.

Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to use judgment and make estimates and assumptions that affect the application of accounting policies and the carrying value of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognized in the period in which the estimates are revised and in any future periods affected by these revisions.

Information relating to critical judgments in applying accounting policies that have the most significant impact on the amounts recognized in the financial statements is as follows:

- Accounting for reverse takeover;
- Going concern;
- Deferred income taxes;
- Value of fixed assets and intangible assets;
- Capitalization of deferred share issuance costs.

The estimates that have the most significant effect on the amounts recognized in the financial statements are as follows:

- Fair value of shares, warrants and stock options;
- Useful life of fixed assets and intangible assets;
- Value of equity component of convertible debentures;
- Potential tax benefits.

Currency translation

Transactions concluded in foreign currencies are translated into Canadian dollars as follows: monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the date of the statement of financial position, while other assets and liabilities are translated at the exchange rate in effect at the date of transactions. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate in effect at the time of the transaction, except for amortization which is translated at the historical exchange rate. Exchange gains and losses resulting from this translation are recognized in net income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Company provides for income taxes using the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying value and tax values of assets and liabilities using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to be reversed.

The Company establishes a valuation allowance against deferred tax assets if, based on available information, it is likely that some or all of the deferred tax assets will not be realized.

Financial instruments

The Company has the following financial instruments:

Financial asset at fair value through net income

The financial asset classified at fair value through net income, being cash, is measured at fair value. Changes in fair value and transaction costs are recognized in net income.

Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables including the subscription receivable, the amount receivable and the security deposit and other financial liabilities, such as accounts payable, long-term debt and debentures, are initially measured at fair value. They are subsequently measured at amortized cost using the effective interest rate method.

Fair value

The fair value of a financial instrument generally corresponds to the consideration for which the instrument would be exchanged in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. This measurement is carried out at a definite time and could be modified over the future presentation periods due to market conditions and other factors.

Fair value is established using the quoted prices of the most advantageous active market for that instrument to which the Company has an immediate access. If there is no active market, fair value is established on internal or external valuation methods, such as discounted cash flow models. The fair value established using these valuation models requires the use of assumptions in regard to the amount and timing of the estimated future cash flows, as well as for many other variables. To determine these assumptions, readily observable market data are used when available. Otherwise, the Company uses the best possible estimates. Since they are based on estimates, fair values may not be realized in the event of an actual sale or immediate settlement of these instruments.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Impairment of financial assets

Financial assets, other than the financial asset at fair value through net income, are subject to an impairment test at each reporting date. Financial assets are impaired if there are any objective indications of the impact of one or many events that occurred after initial recognition of the financial asset.

For financial assets recognized at amortized cost, the reduction in value amount is equal to the difference between the carrying value of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate of the financial asset.

If the reduction in value amount decreases during a subsequent year, and if this decrease can be objectively related to an event occurring after the impairment recognition, the reduction in value previously recognized is reversed to net income to the extent that the carrying value of the financial asset at the date the impairment is reversed does not exceed the amortized cost that would have been obtained if impairment had not been recognized.

Research and development expenses

Research and development expenses are expensed as incurred. However, development expenses are deferred when they meet the accepted criteria for deferral up to the amount that is reasonably certain to be recovered.

Inventory

Inventories are valued at the lower of cost and net realizable value, the cost being determined using the first in, first out method. Cost of goods in process includes raw material, direct labor and manufacturing overhead.

The net realizable value is the estimated selling price in the ordinary course of business less variable selling expenses that apply.

Share issuance costs

Costs directly identifiable with the issuance of shares are deferred as an asset until the issuance of the shares. At issuance, these costs are recorded as a reduction of share capital. In case of abandonment, these costs are recognized in net income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets

Fixed assets are initially recorded at cost and, subsequently, at cost less amortization and accumulated impairment losses.

Amortization is based on the estimated useful life of each component of a fixed asset using the straight-line method and the following periods:

Building	
Structure and shell	40 years
Improvements, mechanical and plumbing systems	20 years
Leasehold improvements	5 years
Production and laboratory equipment	10 years
Computer equipment	3 years
Furniture and equipment	5 years

The residual value, the estimated useful life and the amortization method are reviewed at the end of each reporting date, and any changes in estimates are accounted for on a prospective basis. Amortization is recorded when the asset is ready to be used.

Intangible assets

Intangible assets, comprised of intellectual property, are recorded at cost and, subsequently, at cost less amortization and accumulated impairment losses.

No amortization has been recognized, given that the intellectual property is still under development.

The amortization method and estimated useful life will have to be reviewed at each reporting date.

Impairment of non-financial assets

The carrying value of fixed assets and intangible assets is tested for impairment at each reporting date, in order to determine if there is any indication that an asset has experienced a loss of value. If any such evidence exists, the recoverable value of the asset is estimated.

The recoverable value of an asset or cash-generating unit is the higher between its value in use and its fair value less costs of sale. To determine the value in use, the estimated future cash flows are discounted to their present value by applying a discount rate that reflects current market assessments, the time value of money and risks specific to the asset. For the purpose of impairment testing, assets are grouped to form the smallest group of assets that generates cash flows that are largely independent of cash flows from other assets or group of assets (cash-generating unit).

An impairment loss is recognized whenever the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable value. Impairment losses are recognized in income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Impairment losses recognized in previous years are assessed at the reporting date to determine whether there are indications that confirm that the loss has decreased or if it still exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying value of assets does not exceed the carrying value that would have been determined, after depreciation, if no impairment loss had been recognized.

Leases

Payments paid under an operating lease are recognized in income according to the straight-line method over the duration of the lease.

Fair value of warrants

The proceed from the issuance of units is distributed between shares and warrants issued based on their relative fair values using the proportional distribution method. At the time the warrants are exercised, their value is reclassified to share capital. The value of warrants that have not been exercised at maturity is reclassified to contributed surplus.

Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid financial instruments, with an initial term of three months or less, when applicable.

Stock-based compensation

The Company has a stock option plan under which directors, executives, employees and consultants can be granted stock options of the Company.

Each grant is treated separately with its proper vesting period and its own fair value at the grant date, determined by the Black & Scholes option pricing model. Compensation expense is recognized over the vesting period of each grant according to the number of options granted that should be vested, and any impact is immediately recognized. Any consideration paid by the employees on exercise or purchase of stock options is credited to share capital. The value attributed to stock options is transferred to share capital at the issuance of shares.

In the normal course of business, the Company grants options in exchange for goods or services to parties other than staff members. For these transactions, the Company evaluates the goods or services received and the increase in equity, which is the counterpart, directly to the fair value of goods or services received, unless that fair value cannot be reliably estimated. In this case, the fair value is the value of options issued on the market at the date the goods or services are received.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income per share

Basic income per share is calculated by dividing net income or net loss attributable to common shareholders by the weighted average number of shares outstanding during the year. Diluted income per share is calculated by taking into account the potential dilution that could occur in the event that the warrants and options to issue shares are exercised at the beginning of the year or at the date of their issuance, if later. The treasury stock method makes it possible to determine the dilution effect of the warrants and options.

New accounting standards applied

On August 1, 2016, the Company applied the following amendment:

IAS 16 - Fixed Assets and IAS 38 - Intangible Assets

In May 2014, IASB issued an amendment to these standards. Entitled “Clarification of Acceptable Methods of Depreciation and Amortization”, the amendment specifies that a revenue-based depreciation and amortization method can no longer be used. The depreciation and amortization method must reflect the consumption of the future benefits of an asset. The amendment of these standards had no impact on the Company’s financial statements.

New standards and interpretations not yet effective

The International Financial Reporting Interpretation Committee (IFRC) and the International Accounting Standards Board (IASB) have published new standards whose application will be mandatory for fiscal years beginning after August 1, 2016 or subsequent years. Many of these new accounting policies will have no impact on the results and the statement of the financial position of the Company, so they are not discussed below.

IAS 7 - Statement of Cash Flows

In February 2016, IASB issued amendments of limited scope to IAS 7 - Statement of Cash Flows to require that companies provide information concerning changes in their financing liabilities. The amendments will apply prospectively to fiscal years beginning on or after January 1, 2017. Earlier application is permitted. These amendments will not have any significant impact on the Company’s financial statements.

IAS 12 - Income Taxes

In January 2016, IASB issued amendments to IAS 12 - Income Taxes on the accounting of future tax assets relating to unrealized losses. Essentially, these amendments aim to clarify when a future tax asset should be recognized in regard to an unrealized loss. These amendments will apply to the financial statements of fiscal years beginning on or after January 1, 2017. These amendments will not have any significant impact on the Company’s financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

IFRS 9 - Financial Instruments

In July 2014, IASB issued IFRS 9 - Financial Instruments to replace IAS 39 on the classification and measurement of financial assets and liabilities, amortization and hedge accounting. This standard is retrospectively applicable to financial statements of fiscal years beginning on or after January 1, 2018. The Company has not yet assessed the impact of this standard on its financial statements.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15 - Revenue from Contracts with Customers to replace IAS 18 and IAS 11. This new standard provides guidance on the method to be used and when to recognize revenue as per a unique model, except for loan contracts, financial instruments and insurance contracts. This standard is retrospectively applicable from January 1, 2018. The Company will assess the impact of this new standard when it will recognize revenues from its ordinary activities.

IFRS 2 - Share-based Payment

In June 2016, IASB issued an amendment to IFRS 2 - Share-based Payment to clarify the measurement for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. This amendment will apply to fiscal years beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet assessed the impact of this amendment on its financial statements.

IFRS 16 - Leases

This standard, issued in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value. However, lessor accounting remains largely unchanged in regard to IAS 17 and the distinction between operating and finance leases is retained. This standard will apply to fiscal years beginning on or after January 1, 2019. The Company has not yet assessed the impact of this standard on its financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC 23 - Uncertainty over Income Tax Treatments. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 - Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether a company considers each tax treatment independently or collectively, the assumptions a company makes about the examination of tax treatments by taxation authorities, how a company determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how a company considers changes in facts and circumstances.

This standard will apply to fiscal years beginning on or after January 1, 2019, with earlier application permitted. This standard will not have any significant impact on the Company’s financial statements.

5. ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME

The statements of income include the following items:

	2017	2016
Administrative expenses - amortization of fixed assets	$ 276,546	$ 275,892
Administrative expenses - salaries and employer's contributions	$ 403,601	$ 369,393
Administrative expenses - stock-based compensation	$ 194,627	$ -
Research and development expenses - salaries and employer's contributions	$ 132,261	$ 186,297
Foreign exchange loss (gain)	$ 451	$ (328)

6. INVENTORIES

	2017	2016
Raw materials	$ 11,808	$ 17,215
Goods in process	1,853	17,233
Finished goods	804	2,954
	$ 14,465	$ 37,402

7. FIXED ASSETS

2017

	Building	Land	Leasehold improve-ments	Production and laboratory equipment	Computer equipment	Furniture and equipment	Total
Cost							
Balance, beginning of year	$ 2,537,676	$ 562,324	$ 2,100	$ 1,543,990	$ 20,568	$ 62,100	$ 4,728,758
Acquisitions	-	-	-	-	-	-	-
Balance, end of year	2,537,676	562,324	2,100	1,543,990	20,568	62,100	4,728,758
Accumulated amortization							
Balance, beginning of year	128,760	-	420	193,401	7,496	15,452	345,529
Amortization expenses	102,614	-	420	154,236	6,856	12,420	276,546
Balance, end of year	231,374	-	840	347,637	14,352	27,872	622,075
Carrying value, end of year	$ 2,306,302	$ 562,324	$ 1,260	$ 1,196,353	$ 6,216	$ 34,228	$ 4,106,683

2016

	Building	Land	Leasehold improve-ments	Production and laboratory equipment	Computer equipment	Furniture and equipment	Total
Cost							
Balance, beginning of year	$ 2,537,676	$ 562,324	$ 2,100	$ 1,537,315	$ 16,222	$ 60,800	$ 4,716,437
Acquisitions	-	-	-	6,675	4,346	1,300	12,321
Balance, end of year	2,537,676	562,324	2,100	1,543,990	20,568	62,100	4,728,758
Accumulated amortization							
Balance, beginning of year	26,146	-	-	39,170	1,223	3,098	69,637
Amortization expenses	102,614	-	420	154,231	6,273	12,354	275,892
Balance, end of year	128,760	-	420	193,401	7,496	15,452	345,529
Carrying value, end of year	$ 2,408,916	$ 562,324	$ 1,680	$ 1,350,589	$ 13,072	$ 46,648	$ 4,383,229

8. INTANGIBLE ASSETS

	2017	2016
Cost		
Balance, beginning of year	$ 4,888,000	$ 4,888,000
Acquisitions	-	-
Balance, end of year	4,888,000	4,888,000
Accumulated amortization		
Balance, beginning of year	-	-
Amortization expenses	-	-
Balance, end of year	-	-
Carrying value, end of year	$ 4,888,000	$ 4,888,000

Intangible assets are comprised of intellectual property and are not amortized as at July 31, 2017 as they are still under development.

9. ACCOUNTS PAYABLE

	2017	2016
Suppliers	$ 93,481	$ 285,927
Accrued expenses	8,971	95,239
Salaries, payroll deductions and contributions	7,924	11,799
	$ 110,376	$ 392,965

10. LONG-TERM DEBT

		2017		2016
Loan, secured by a hypothec on the universality of movable and immovable property, tangible and intangible, present, of a carrying value of $8,994,683, and future of the Company, bearing interest at the lender's variable rate plus 6%, repayable in monthly instalments of $53,449, maturing in 2023	$	3,259,686	$	4,390,726
Current portion		160,347		4,390,726
	$	3,099,339	$	-

As at July 31, 2016, the Company was in breach of its covenants regarding the maximum debt/equity ratio and minimum working capital ratio. The Company has obtained a waiver from Investissement Québec whereby these ratios will not be taken into account as at July 31, 2016. Nevertheless, since the waiver was received after July 31, 2016, in accordance with IFRS, the debt has been classified as a current liability.

The estimated principal repayments of long-term debt to be made over the next five years are as follows:

2017 -	$	160,347
2018 -	$	641,387
2019 -	$	641,387
2020 -	$	641,387
2021 -	$	641,387

In connection with the amalgamation between the Company and Orletto Capital Inc. and the realization of the concurrent public offering by way of prospectus, Investissement Québec has agreed to amend the loan offer and the loan assumption agreement (Note 14).

At the closing of the public financing, following the receipt by Investissement Québec of $650,000 applicable in reduction of the loan principal balance, Investissement Québec agrees to grant the Company a moratorium of principal repayment on the loan of twelve months from May 2017.

11. CONVERTIBLE DEBENTURES

On August 24, 2015, March 30, 2016 and May 2, 2016, the Company issued convertible debentures totalling $1,110,000, $45,000 and $20,000 respectively. These debentures were bearing interest at 10% compounded and capitalized annually and expiring five years after their issuance. The Company benefits from a moratorium of five years on interest payments. The holders of these debentures were entitled to a discount of 15%, 20% or 25% depending on their dates of listing, on the shares comprised in the units pursuant to the concurrent placement.

On June 20, 2016 and on September 30, 2016, the Company issued convertible debentures totalling $220,400 and $ 153,500 respectively. The debentures had the same rights as the debentures issued on August 24, 2015, March 30, 2016 and May 2, 2016, except that they were not bearing interest and the holders of these debentures were entitled to a discount of 15% on the shares comprised in the units offered pursuant to the placement concurrent with the listing of the Company on a recognized stock exchange.

On May 12, 2017, following the closing of the concurrent placement, the debentures were automatically converted into securities of the Company at the same prices and conditions as the securities issued to subscribers during the placement concurrent with the listing of the Company's shares on a stock exchange. The holders of the debentures issued on August 24, 2015, March 30, 2016 and May 2, 2016, were entitled to a discount of 20% on the shares comprised in the offered units, while the holders of the debentures issued on June 20, 2016 and September 30, 2016, were entitled to a discount of 15% on the shares comprised in the units offered pursuant to the placement concurrent with the listing of the Company on a stock exchange.

The holders are considered as being holders of a number of warrants calculated in accordance with the expected ratio for the securities issued pursuant to the placement concurrent with the listing of the shares on a stock exchange. The exercise price of the warrants comprised in the units is identical to the exercise price of the warrants comprised in the units offered pursuant to the concurrent placement.

The fair market value of the debentures issued during the year was established according to the discounted cash flow method and using the following average assumptions:

Maturity	5 years
Nominal interest rate	0%
Effective interest rate	17.5%

11. CONVERTIBLE DEBENTURES (continued)

The following table presents the changes in convertible debentures for the years:

	2017	2016
Balance, beginning of year	$ 1,076,259	$ -
Issuance of convertible debentures	153,500	1,395,400
Amount classified as equity	(84 965)	(450,299)
Amortization of discount	54,501	25,143
Capitalized interest	99,290	106,015
	1,298,585	1,076,259
Amount classified as equity at the time of issue	535,264	-
Conversion of debentures into shares	(1,567,392)	-
Conversion of debentures into warrants	(266,457)	-
Balance, end of year	$ -	$ 1,076,259

12. SHARE CAPITAL

Description of authorized share capital

An unlimited number of subordinate voting shares, exchangeable subordinate voting shares and multiple voting shares, participating, without par value, non-cumulative dividend

The subordinate voting shares, exchangeable subordinate voting shares and multiple voting shares are handled as if they were of one and the same category.

The holders of subordinate voting shares and exchangeable subordinate voting shares are entitled to receive notice, and to attend and vote at all meetings of the shareholders, except those at which holders of a specific class are entitled to vote separately as a class under the Canada Business Corporations Act (CBCA). Each subordinate voting share and each exchangeable subordinate voting share confers the right to one vote per share.

The holders of multiple voting shares are entitled to receive notice, and to attend and vote at all meetings of the shareholders, except those at which holders of a specific class are entitled to vote separately as a class under the CBCA. Each multiple voting share confers the right to six votes per share. Each multiple voting share may, at any time, be exchanged into one subordinate voting share. Ten years after the Qualifying Transaction, the authorized holder, without any further action, shall automatically be deemed to have exercised their right to exchange all of the multiple voting shares held by such holder, into fully paid and non-assessable subordinate voting shares of the Company, on a share for a share basis.

12. SHARE CAPITAL (continued)

Description of authorized share capital

The exchangeable subordinate voting shares are automatically exchanged into subordinate voting shares, without any further intervention on the part of the Company or the holder of such shares in accordance with the following exchange schedule, provided however that the Board of Directors may, in its sole discretion, accelerate the exchange schedule: 20% on the effective date of the Qualifying Transaction, 10% six months following the effective date of the Qualifying Transaction, 20% twelve months following the effective date of the Qualifying Transaction, 20% eighteen months following the effective date of the Qualifying Transaction and 30% twenty-four months following the effective date of the Qualifying Transaction.

	2017	2016
Share capital issued includes:		
58,744,787 shares (2016 - 26,307,754)	$ 10,978,344	$ 3,132,808

Issuance

a) Warrants exercised

On June 20, 2016 and on July 4, 2016, warrant holders subscribed for 1,083,333 and 234,448 shares of the Company for respective amounts of $325,000 and $70,334. The value of $91,952 attributed to these warrants was reclassified to share capital.

On November 14, 2016 and on January 18, 2017 warrant holders subscribed for 1,457,441 and 518,896 shares of the Company for respective amounts of $437,232 and $155,669. The value of $137,904 attributed to these warrants was reclassified to share capital.

On March 31, 2017 and on April 28, 2017, warrant holders subscribed for 1,733,331 and 1,752,229 shares of the Company for respective amounts of $519,999 and $525,671. The value of $243,215 attributed to these warrants was reclassified to share capital.

b) Amalgamation with Orletto Capital Inc.

On May 12, 2017, further to the operation of amalgamation with Orletto Capital Inc., the 31,769,651 outstanding shares of the Company were converted into 48,309,232 shares of the resulting company, according to a multiplication factor of 1.5206.

At the same date, the 5,493,000 outstanding shares of Orletto Capital Inc. were converted into 2,000,000 shares of the company resulting from the amalgamation, according to a ratio of 0.3641 for one. The value of the shares was assessed at $0.75 per share, for an aggregate amount of $1,500,000, which is the issue price of the concurrent financing (Note 2).

12. SHARE CAPITAL (continued)

Issuance

c) Concurrent financing

On May 12, 2017, Orletto Capital Inc. completed a concurrent financing of $4,030,674 for which the company resulting from the amalgamation issued 5,374,232 units at a price of $0.75 per unit. Each unit consists of one share and one-half of one share purchase warrant. Each complete warrant will be exercisable at a price of $1.10 per share until May 12, 2019.

The fair value of the 5,374,232 shares and 5,374,232 one-half of a warrant was estimated at $3,445,021 and $585,653 respectively, according to the Black & Scholes option pricing model, and using the following assumptions:

Risk-free interest rate	1.03%
Average expected life	2 years
Expected volatility	82%
Share price	$0.75
Expected dividends	Nil

The agent received fees for $403,067 equal to 10% of the financing obtained. The agent also received 537,423 stock options, a number equal to 10% of the total units sold. These options can be exercised at the offering's price, which is $0.75, and are valid until May 12, 2019. The fair value of the 537,423 options granted to the agent was estimated at $179,499 (Note 13).

Certain details of the concurrent financing are summarized in the table below:

Issue price per unit	$0.75
Number of shares issued	5,374,232
Number of share purchase warrants issued	2,687,116
Share purchase warrants exercise price	$1,10
Number of options issued to the agent	537,423
Exercise price of the agent's options	$0.75
Share purchase warrants term in months	24 months
Agent's options term in months	24 months

Cash proceeds summary:

Gross proceed	$	4,030,674
Agent's commission fees		(403,067)
Net cash proceeds on issuance	$	3,627,607
Fair value of the options issued to the agent	$	179,499
Total transaction costs	$	582,566
Proceed allocated to shares	$	3,445,021
Share issuance costs	$	455,022
Proceed allocated to warrants	$	585,653

12. SHARE CAPITAL (continued)

Issuance

d) Convertible debentures

On May 12, 2017, the debentures were automatically converted into 2,887,823 units of the Company. The fair value of the 2,887,823 shares issued after the conversion was established at $1,567,392 while the value of the 2,887,823 one-half warrants was established at $266,457 using the proportional allocation method and according to the Black & Scholes option pricing model, and using the following assumptions:

Risk-free interest rate	1.03%
Average expected life	2 years
Expected volatility	82%
Share price	$0.75
Expected dividends	Nil

e) Private placement

On July 12, 2017, the Company closed a private placement without the intervention of a broker, by issuing 173,500 units at the price of $0.75 per unit for a gross proceed of $130,125. Each unit consists of a subordinate voting share and one-half of one share purchase warrant. Each warrant will entitle the holder to purchase a subordinate voting share at the price of $1.10 until July 12, 2019.

The fair value of the 173,500 shares and of the 173,500 one-half of warrant was estimated respectively at $120,710 and $9,415 according to the Black & Scholes option pricing model, and using the following assumptions:

Risk-free interest rate	1.03%
Average expected life	2 years
Expected volatility	82%
Share price	$0.40
Expected dividends	Nil

The 58,744,787 outstanding shares as at July 31, 2017 are classified into 24,274,173 exchangeable subordinate voting shares, 14,504,091 subordinate voting shares and 19,966,523 multiple voting shares. The 24,274,173 exchangeable subordinate voting shares can be exchanged into subordinate voting shares at the rate of 3,034,281 shares on November 18, 2017, 6,068,537 shares on May 18, 2018, 6,068,537 shares on November 18, 2018 and 9,102,818 shares on May 18, 2019.

Among the 58,744,787 outstanding shares as at July 31, 2017, 21,076,246 shares were escrowed, according to an escrow agreement as required by the Applicable Securities Regulations. According to this escrow agreement, 1,149,519 escrowed shares were released during the Qualifying Transaction on May 12, 2017 and the balance of 21,076,246 shares will be released in intervals of six months following the initial release, that is 1,187,749 shares on November 18, 2017, 2,260,807 shares on May 18, 2018 and on November 18, 2018, 3,333,865 shares on May 18, 2019 and on November 18, 2019 and finally, 8,699,153 shares on May 18, 2020.

13. STOCK OPTIONS AND WARRANTS

a) Stock options

As part of the reverse takeover on May 12, 2017, the existing 549,300 options that had been granted to the directors and executives of Orletto Capital Inc. under its stock option plan, were converted into 200,000 options of company resulting from the amalgamation at a ratio of 0.3641 for one, under the new stock option plan. Each of these options entitles the holder to acquire one subordinate voting share of Devonian Health Group Inc. at a price of $0.27 per subordinate voting share until September 9, 2019.

Pursuant to the concurrent financing, the agent was granted 537,423 stock options, a number equal to 10% of the total units sold. These options can be exercised at $0.75 per subordinate voting share, and are valid until May 12, 2019. The fair value of these options was estimated at $179,499 according to the Black & Scholes option pricing model, and using the following assumptions:

Risk-free interest rate	1.03%
Average expected life	2 years
Expected volatility	82%
Share price	$0.75
Expected dividends	Nil

Under the new stock option plan, the members of the Board of Directors can attribute stock options allowing the directors, executives, employees and consultants of the Company to acquire shares of the Company. The maximum number of options that can be granted according to the stock option plan is equal to a maximum of 10% of the outstanding subordinate voting shares. The options to be granted according to the new stock option plan will not exceed a duration of ten years and will be granted at the price and conditions that the directors will consider necessary to reach the goal of the new stock option plan, and according to the applicable regulations. The exercise price of the option cannot be lower than the market price. The maximum number of options that can be granted to a beneficiary must not exceed, in a twelve-month period, 5% of all the outstanding subordinate voting shares. The maximum number of options that can be granted to a consultant must not exceed, in a twelve-month period, 2% of all the outstanding subordinate voting shares. The number of stock options that can be granted to any person employed to provide investor relations activities must not exceed, in a twelve-month period, 2% of all the outstanding subordinate voting shares. Stock options granted to consultants performing investor relations activities must vest in stages over twelve months with no more than one quarter of the stock options granted in any three-month period.

On June 26, 2017, the Board of Directors approved the granting of 860,000 options to certain directors and consultants of the Company. These options are exercisable on the grant date of the options to purchase shares. In addition, the Company has granted 300,000 stock options to management and employees of the Company. 25% of the options granted are exercisable on the grant date, then 25% per year in subsequent years. These options are exercisable at a price of $0.60 for a period of five years from the grant date. The fair value of these options was estimated at $242,335 according to the Black & Scholes option pricing model, and using the following weighted average assumptions:

Risk-free interest rate	1.13%
Average expected life	2.54 years
Expected volatility	125.72%
Share price	$0.35
Expected dividends	Nil

13. STOCK OPTIONS AND WARRANTS (continued)

The Company recorded an expense of $194,627 during the year.

The determination of the volatility assumption of stock options is based on a historical volatility analysis over a period equal to the life of the options.

The Company has not been able to reliably estimate the fair value of services rendered by consultants in consideration for stock options granted to them due to the lack of reliable comparables. As a result, the estimated fair value is that of the stock options issued.

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the years:

	2017		2016	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	-	$ -	-	$ -
Options held by the directors of Orletto Capital Inc. after consolidation	200,000	0.27	-	-
Options granted to the agent during the concurrent placement	537,423	0.75	-	-
Options granted to directors and consultants	860,000	0.60	-	-
Options granted to members of management and employees	300,000	0.60		-
Outstanding, end of year	1,897,423	$ 0.61	-	$ -
Options exercisable, end of year	1,672,423		-	
Weighted average fair value of the options granted during the year	$ 0.25			$ -

13. STOCK OPTIONS AND WARRANTS (continued)

The following table summarizes information about options outstanding and exercisable as at July 31, 2017:

	Options outstanding				Options exercisable		
Exercise price	Number of options outstanding	Weighted average remaining contractual life		Weighted average exercise price	Number of options exercisable		Weighted average exercise price
$0.27	200,000	0.78 year	$	0.27	200,000	$	0.27
$0.60	1,160,000	4.93 years	$	0.60	935,000	$	0.60
$0.75	537,423	1.78 year	$	0.75	537,423	$	0.75

b) Warrants

The following table summarizes information about the Company's warrants and the changes during the years:

	2017			2016		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	8,797,181	$	0.30	10,094,740	$	0.30
Granted	4,217,782		1.10	-		-
Exercised	(5,209,517)		0.30	(1,297,559)		0.30
Expired	(3,587,664)		0.30	-		-
Outstanding, end of year	4,217,782	$	1.10	8,797,181	$	0.30
Warrants exercisable, end of year	4,151,028	$	1.10	8,797,181	$	0.30
Weighted average fair value of the warrants granted during the year	$ 0.20				$	-

13. STOCK OPTIONS AND WARRANTS (continued)

The following table summarizes information about warrants outstanding and exercisable as at July 31, 2017:

	Warrants outstanding			Warrants exercisable	
Exercise price	Number of warrants outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of warrants exercisable	Weighted average exercise price
$1.10	4,217,782	1.78 year	$ 1.10	4,151,028	$ 1.10

The value of $231,318 of the warrants expired during the year 2017 has been reclassified to contributed surplus.

Among the 4,217,782 warrants granted during the year, 66,754 warrants were escrowed on July 31, 2017, according to an escrow agreement required by the Applicable Securities Regulations. According to this escrow agreement, 3,513 escrowed warrants were released during the Qualifying Transaction on May 12, 2017, and the balance of 66,754 warrants will be released in intervals of six months following the initial release, that is 3,513 warrants on November 18, 2017, 7,027 warrants on May 18, 2018 and November 18, 2018, 10,541 warrants on May 18, 2019 and on November 18, 2019 and finally, 28,105 warrants on May 18, 2020.

14. CAPITAL MANAGEMENT

The Company includes the total of the equity in the capital definition. In terms of capital management, the Company’s objectives are to preserve its ability to continue as a going concern to ensure its sustainability by obtaining the necessary funding to realize its development activities and to provide in the future an adequate return to its shareholders. The Company finances its operations by issuing shares and debentures.

The Company's objectives and policies in terms of capital management have not changed since July 31, 2016.

The Company is subject to the following capital requirements imposed by Investissement Québec at the end of each of its financial years (Note 21):

- A ratio debt/equity of 2 maximum;
- A minimum ratio of working capital of 1.3.

As at July 31, 2017, the Company was in compliance with the required ratios.

The Company is committed to Investissement Québec not to repay advances or redeem common or preferred shares, and not to declare or pay dividends.

14. CAPITAL MANAGEMENT (continued)

In connection with the amalgamation between the Company and Orletto Capital Inc. and the realization of the concurrent public offering by way of prospectus, Investissement Québec has agreed to amend the loan offer and the loan assumption agreement (Note 10).

Investissement Québec agrees that the Company can, with prior written notice, modify its statutes or its share capital and that it can issue new shares without having to obtain the consent of Investissement Québec, and that Mr. André Boulet holds directly or indirectly less than 51% of the shares of the Company with voting rights. The Company undertakes, upon any subsequent financing by equity, to repay the loan in an amount equal to 5% of the gross proceeds of the financing if the amount collected is lower than $2,000,000 and 10% of the gross proceeds of the financing if the amount collected is higher than $2,000,000.

15. COMMITMENTS

On June 21, 2017, the Company signed a service contract with JSS Medical Research Inc. who will oversee the conduct of his clinical trial of phase IIa, within its research project on the Atopic Dermatitis.

The contract of $1,222,497 will be payable over twelve months. On July 31, 2017, the balance of the commitment is established at $1,079 212.

On July 24, 2017, the Company signed a lease for the rental of a vehicle. On July 31, 2017, the contractual obligations under such lease amount to $28,046 and the payments to be made over the next years are as follows:

2018 -	$	7,161
2019 -	$	7,161
2020 -	$	7,161
2021 -	$	6,563

The Company has committed to an employee to issue 20,000 stock options. The terms of these options will be determined at the time of grant.

16. FINANCIAL EXPENSES

Financial expenses are as follows:

	2017	2016
Interest expenses and bank charges	$ 14,708	$ 3,020
Interest on long-term debt	406,584	454,695
Amortization of discount on convertible debentures	54,501	25,143
Interest on convertible debentures	99,290	106,015
	$ 575,083	$ 588,873

17. INCOME PER SHARE

The following table provides the weighted average number of shares used to calculate the basic income per share:

	2017	2016
Weighted average number of shares used to calculate the basic income per share	34,654,705	25,129,005

Items excluded from the calculation of diluted income:

	2017	2016
Stock options	1,897,423	-
Warrants	4,217,782	8,797,181

For the years ended July 31, 2017 and 2016, the impacts of the warrants and stock options are excluded from the calculation of the diluted loss per share, as they would be anti-dilutive.

18. POTENTIAL TAX BENEFITS

The presented recovery of income taxes differs from the amount of the income tax expense calculated using the Canadian statutory tax rates, mainly due to the following:

	2017	2016
Canadian statutory tax rates	26.84%	19%
Recovery calculated using the statutory tax rates	$ (1,109,540)	$ (426,179)
Increase (decrease) in income tax expense from:		
Business acquisition expenses	434,531	-
Amortization of discount on convertible debentures	14,628	4,777
Stock-based compensation	52,238	-
Valuation allowance	840,822	-
Rate differences and other	9,132	1,402
	$ 241,811	$ (420,000)

18. POTENTIAL TAX BENEFITS (continued)

The significant components of the deferred tax assets (liabilities) of the Company are as follows:

	2017	2016
Deferred tax assets		
Long-term		
Tax losses	$ 1 461,067	$ 583,900
Financing fees	346,049	14,800
	1,807,116	598,700
Deferred tax liabilities		
Long-term		
Fixed assets and intangible assets	842,560	587,200
Debentures	-	83,656
	842,560	670,856
	964,556	(72,156)
Valuation allowance	(964,556)	-
	$ -	$ (72,156)

Non-capital losses that may be used to reduce taxes in future years are of $5,516,620 at the federal level and $5,508,820 at the provincial level. The Company may take advantage of the tax benefit related to these losses for the following carry-over periods:

	Federal	Provincial
2030 -	$ 5,200	$ 5,200
2031 -	$ 20	$ 20
2032 -	$ 61,600	$ 61,600
2033 -	$ 646,300	$ 646,300
2034 -	$ 76,600	$ 76,600
2035 -	$ 2,429,200	$ 2,424,200
2036 -	$ 1,701,200	$ 1,699,100
2037 -	$ 596,500	$ 595,800

A deferred tax asset of $842,560 (2016 - $583,900) is recorded relative to the items listed above, being an amount equal to the deferred tax liability recorded.

19. RELATED PARTY TRANSACTIONS

The principal executives of the Company are the President, the Chief Financial Officer and the Directors. During the year 2017, the Company has paid them a total remuneration of $415,000 (2016 - $313,847), the main components of which are:

	2017	2016
Salaries	$ 287,385	$ 313,847
Severance bonus	$ 24,615	$ -
Stock-based compensation	$ 103,000	$ -

During the year 2017, the Company has paid a remuneration of $32,000 (2016 - $26,251) to the President's spouse. The Company has also granted 140,000 stock options to the President's spouse, as stock-based compensation for which an expense of $8,151 was recognized in income.

These transactions were carried out under terms equivalent to those that prevail in arm's length transactions.

20. FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to risks, the most significant of which are market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market factors. Market risk comprises three types of risk: interest rate risk, currency risk and price risk. The Company is exposed to one of these risks: the interest rate risk.

Interest rate risk

The Company has a long-term borrowing bearing interest at variable rate. Consequently, the Company is exposed to interest rate risk based on changes in the prime rate. Thus, a 1% increase in the prime rate would have increased the net loss by $32,597 for the year ended July 31, 2017 (2016 - $43,907).

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The maximum credit risk is equal to the carrying value of the subscription receivable. The Company does not expect to be exposed to a higher than normal credit risk.

20. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at July 31, 2017, the Company has current debts of $270,723 (2016 - $4,783,691). The maturity date of the long-term debt is presented in Note 10. The Company monitors its cash resources. If the Company believes that it does not have sufficient liquidity to meet its obligations, management will consider the possibility of obtaining additional funds through the issuance of shares.

Fair value

The fair value of long-term debt is comparable to its carrying value, due to its variable rate.

Financial instruments

Financial instruments carried at fair value are classified in a hierarchy that reflects the importance of data used to compile the ratings. This hierarchy includes three levels:

Level 1 - Prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 - Evaluation based on data from observable market for the asset or liability, directly or indirectly obtained.

Level 3 - Evaluation based on data other than observable market for the asset or liability.

Cash has been classified in Level 1. There was no transfer between the different levels during the years.

21. SUBSEQUENT EVENTS

The Company has committed to Investissement Québec, upon any subsequent financing by equity, to repay the loan of an amount equal to 5% of the gross proceeds of the financing if the amount collected is lower than $2,000,000 and 10% of the gross proceeds of the financing if the amount collected is higher than $2,000,000. Consequently, further to the private placement closed on July 12, 2017 without the intervention of a broker, the Company repaid to Investissement Québec, on August 21, 2017, an amount of $6,506 corresponding to 5% of the $130,125 total gross proceed.

On August 25, 2017, Investissement Québec withdrew the requirements to which the Company was subject as to maintaining financial ratios at the end of each of its financial years (Note 14).

On August 25, 2017, 40,000 stock options were exercised for a total gross proceed of $10,800.

21. SUBSEQUENT EVENTS (continued)

On September 28, 2017 the Company announced that it has signed its first exclusive marketing and distribution agreement with Altius Healthcare Inc. to distribute its patented Purgenesis™ anti-aging treatment products in Canada. The exclusive distribution agreement includes upfront payment for each treatment as well as up to 25% in royalties based on sales.