Devonian Health Group Inc.

Consolidated Financial Statements
As at July 31, 2018 and 2017

Together with Independent Auditor's Report

MALLETTE

Mallette S.E.N.C.R.L.

200-3075 chemin des Quatre-Bourgeois
Québec QC G1W 5C4

Téléphone **418 653-4431**
Télécopie 418 656-0800
Courriel info.quebec@mallette.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Devonian Health Group Inc.,

We have audited the accompanying consolidated financial statements of **DEVONIAN HEALTH GROUP INC.**, which comprise the consolidated statements of financial position as at July 31, 2018 and 2017, and the consolidated statements of net income and comprehensive 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 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.

Auditor's 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 the auditor's 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, the auditor considers internal control relevant to the Company'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 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Devonian Health Group Inc. as at July 31, 2018 and 2017, 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 consolidated 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 26, 2018

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the years ended July 31,	2018	2017
DISTRIBUTION REVENUES	$ 3,199,959	$ -
OPERATING EXPENSES		
Cost of sales	2,947,202	-
Research and development expenses	1,116,873	426,505
Selling expenses	68,073	-
Administrative expenses (Note 5)	1,905,276	1,513,346
Financial expenses (Note 19)	357,882	575,083
	6,395,306	2,514,934
LOSS FROM OPERATIONS	(3,195,347)	(2,514,934)
OTHER ITEM		
Business acquisition expenses (Note 2)	(88,528)	(1,618,970)
LOSS BEFORE INCOME TAXES	(3,283,875)	(4,133,904)
INCOME TAXES		
Recoverable	(9,680)	-
Deferred	(87,127)	241,811
	(96,807)	241,811
NET LOSS AND COMPREHENSIVE LOSS	$ (3,187,068)	$ (4,375,715)
Net loss and comprehensive loss per share (Note 20)		
Basis	$ (0.051)	$ (0.126)
Diluted	$ (0.051)	$ (0.126)

Additional information to the consolidated statements of net income and comprehensive income (Notes 2, 5 and 19)

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number				Amount						
	Shares	Stock options	Warrants	Total	Share capital	Stock options	Warrants	Equity component of convertible debentures	Contributed surplus	Deficit	Total
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 15)	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 16)	-	-	4,217,782	4,217,782	-	-	861,525	-	-	-	861,525
Warrants exercised (Note 16)	5,461,897	-	(5,209,517)	252,380	2,019,690	-	(381,119)	-	-	-	1,638,571
Equity component of convertible debentures (Note 14)	-	-	-	-	-	-	-	(450,299)	-	-	(450,299)
Tax effect of convertible debentures (Note 14)	-	-	-	-	-	-	-	83,656	-	-	83,656
Warrants expired (Note 16)	-	-	(3,587,664)	(3,587,664)	-	-	(231,318)	-	231,318	-	-
Net loss and comprehensive 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
Issuance of shares (Note 15)	8,403,361	-	-	8,403,361	5,546,218	-	-	-	-	-	5,546,218
Stock-based compensation (Note 16)	-	1,815,000	-	1,815,000	-	137,467	-	-	-	-	137,467
Issuance of warrants (Note 16)	-	-	8,403,361	8,403,361	-	-	1,815,126	-	-	-	1,815,126
Exercise of options (Note 15)	200,000	(200,000)	-	-	157,200	(103,200)	-	-	-	-	54,000
Equity component of convertible debentures (Note 14)	-	-	-	-	-	-	-	246,519	-	-	246,519
Tax effect of convertible debentures (Note 14)	-	-	-	-	-	-	-	(65,328)	-	-	(65,328)
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	-	(3,187,068)	(3,187,068)
	8,603,361	1,615,000	8,403,361	18,621,722	5,703,418	34,267	1,815,126	181,191	-	(3,187,068)	4,546,934
BALANCE, as at July 31, 2018	67,348,148	3,512,423	12,621,143	83,481,714	$ 16,681,762	$ 511,593	$ 2,676,651	$ 181,191	$ 428,104	$ (7,744,043)	$ 12,735,258

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at July 31,		2018		2017
ASSETS				
CURRENT ASSETS				
Cash	$	981,982	$	2,204,883
Accounts receivable (Note 6)		708,051		72,030
Subscription receivable		-		135
Tax credits receivable (Note 7)		131,390		-
Inventories (Note 8)		247,259		14,465
Security deposit, bearing interest at 0.78%		14,400		-
Prepaid expenses		167,982		257,790
		2,251,064		2,549,303
SECURITY DEPOSIT, bearing interest at 0.78%		-		14,400
FIXED ASSETS (Note 9)		3,830,442		4,106,683
INTANGIBLE ASSETS (Note 10)		8,407,977		4,888,000
GOODWILL (Note 2)		4,668,219		-
	$	19,157,702	$	11,558,386

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at July 31,	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 11)	$ 1,195,420	$ 110,376
Income taxes payable	50,396	-
Amount due, without interest nor repayment terms (Note 12)	418,740	-
Current portion of long-term debt (Note 13)	641,387	160,347
	2,305,943	270,723
LONG-TERM DEBT (Note 13)	2,451,446	3,099,339
CONVERTIBLE DEBENTURES (Note 14)	758,172	-
DEFERRED INCOME TAXES	906,883	-
	6,422,444	3,370,062
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	16,681,762	10,978,344
Stock options (Note 16)	511,593	477,326
Warrants (Note 16)	2,676,651	861,525
Equity component of convertible debentures (Note 14)	181,191	-
Contributed surplus	428,104	428,104
Deficit	(7,744,043)	(4,556,975)
	12,735,258	8,188,324
	$ 19,157,702	$ 11,558,386

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 3)

Commitments (Note 18)

Subsequent events (Note 21)

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.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended July 31,		2018		2017
OPERATING ACTIVITIES				
Net loss and comprehensive loss	$	(3,187,068)	$	(4,375,715)
Items not affecting cash				
Amortization of fixed assets		276,241		276,546
Amortization of intangible assets		364,467		-
Amortization of discount on convertible debentures		1,403		54,501
Interest capitalized on convertible debentures		3,288		99,290
Business acquisition expenses		-		1,618,970
Stock-based compensation		137,467		194,627
Deferred income taxes		(87,127)		241,811
		(2,491,329)		(1,889,970)
Net change in non-cash working capital items		348,098		(540,699)
		(2,143,231)		(2,430,669)
INVESTING ACTIVITIES				
Net liabilities acquired		-		(15,770)
Cash acquired (Note 2)		201,944		-
Acquisition of intangible assets		(71,622)		-
		130,322		(15,770)
FINANCING ACTIVITIES				
Increase in deferred share issuance costs		-		(280,837)
Repayment of long-term debt (Note 23)		(166,853)		(1,131,040)
Repayment of the amount due		(97,139)		-
Issuance of shares and warrants		54,000		5,396,303
Convertible debentures issued (Note 23)		1,000,000		138,500
		790,008		4,122,926
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(1,222,901)		1,676,487
CASH AND CASH EQUIVALENTS, beginning of year		2,204,883		528,396
CASH AND CASH EQUIVALENTS, end of year	$	981,982	$	2,204,883

For the year ended July 31, 2018, cash flows from operating activities include interest paid of $350,223 (2017 - $406,584) and do not include any tax paid (2017 - none).

On February 1, 2018, the Company acquired 100% of the outstanding shares of Altius Healthcare Inc. Net assets valued at $7,361,344 were acquired against the issuance of shares and warrants valued at $7,361,344. The impact of this transaction is presented in Note 2.

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

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The Company was incorporated under the Québec Business Corporations Act on March 27, 2015. On May 12, 2017, 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 and the distribution of pharmaceutical products through its subsidiary. 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. BUSINESS COMBINATION

a) Reverse takeover

On May 12, 2017, the Company has completed a transaction which constitutes a reverse takeover of Orletto Capital Inc. As a result of the transaction, the shareholders of the Company 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 Combinations. Consequently, the transaction was 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.

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 expenses	$	1,618,970

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

2. BUSINESS COMBINATION (continued)

a) Reverse takeover

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 per share, i.e. $1,500,000, which is the issue price of the concurrent financing.

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

b) Business combination

On February 1, 2018, the Company entered into an agreement to acquire all of the issued and outstanding shares of Altius Healthcare Inc. (Altius), a company governed by the Business Corporations Act (Ontario). Based in Ontario, Altius is a specialty pharmaceutical company focused on the acquisition and licensing of drugs and health products. Altius then leverages its expertise in the commercialization activities required to promote and distribute these drugs in Canada. The diversity of the team's skills is based on nearly 40 years of generic, brand, and generic production, importation, marketing and distribution. This business combination enables the Company to benefit from Altius's sales and marketing skills. The operational structure that the two companies share should play an important role in the Company's growth potential. Altius's strong Canadian presence complements the Company's business model and further diversifies its pharmaceutical platform.

The Company acquired 100% of the outstanding shares of Altius in exchange for 8,403,361 units of the Company, which are held in escrow for 36 months from the date of the transaction. Each unit consists of one subordinate voting share and one warrant entitling the holder thereof to subscribe for one subordinate voting share at a price of $1.19 per subordinate share for a period of 36 months from the date of issue.

This transaction meets the definition of a business acquisition within the meaning of IFRS 3 - Business Combinations.

Acquisition-related expenses

As at July 31, 2018, the total acquisition-related expenses amounted to $88,528.

2. BUSINESS COMBINATION (continued)

b) Business combination

Assets acquired and liabilities assumed at the date of acquisition

The following table presents the breakdown of the fair value of assets acquired and liabilities assumed following the acquisition of February 1, 2018:

Assets acquired		
Cash	$	201,944
Accounts receivable		1,001,200
Commodity taxes		90,860
Inventory		389
Prepaid expenses		35,030
Licenses, trademarks and distribution rights		3,812,822
Goodwill		4,668,219
		9,810,464
Liabilities assumed		
Accounts payable		288,168
Accrued liabilities		656,315
Income taxes payable		60,076
Deferred income taxes		928,682
Amount due		515,879
		2,449,120
Net assets acquired and total consideration paid	$	7,361,344
Consideration		
Shares	$	5,546,218
Warrants		1,815,126
	$	7,361,344

Determination of fair value

The fair value of assets acquired and liabilities assumed recognized at the date of acquisition was determined based on assumptions and estimates made by the Company.

Accounts receivable

Accounts receivable are recorded at fair value, which does not differ significantly from their contractual gross value and expected cash receipts.

2. BUSINESS COMBINATION (continued)

b) Business combination

Goodwill arising from the business combination

Through the acquisition of Altius, the Company will be able to enter the Canadian market for its PurGenesis brand cosmetics using Altius' sales force. The Company will increase its sales potential and will also achieve economies of scale. In addition, the business combination will provide benefits from the pooling of logistics and distribution, and provide Devonian with the opportunity to benefit from an already established distribution network for a growing product line that may be introduced into Canada under the existing brands of the Company.

The Company expects that no amount of goodwill arising from the acquisition will be tax deductible.

Amount due

This amount due must be repaid by Altius within two years from February 1, 2018, failing which the purchase price of Altius will be reduced by the value of said loan then outstanding through a reduction of shares issued to Altius.

Contract existing between the buyer and the seller before the date of acquisition

Prior to the business combination negotiations, the Company already had business relationships with Altius. On September 28, 2017, the Company signed its first exclusive marketing and distribution agreement with Altius to distribute its patented Purgenesis™ anti-aging treatment in Canada.

The existing contract between Altius and the Company at that time had been established in accordance with market conditions and as a result, the Company did not receive any benefit or disadvantage in connection with this contract as a result of the business combination and therefore recognized no gain or loss in the purchase price allocation at the date of acquisition.

Impact of the business combination on the financial performance of the Company

The Company's consolidated statement of net income and comprehensive income for the year ended July 31, 2018 includes sales of $3,199,959 and net loss of $21,147, generated by the activities of Altius.

Under IFRS 3, the Company should have calculated a profit as if the acquisition had occurred on August 1, 2017. However, it is not possible for the Company to provide this information to which this standard applies, since Altius was a private company until the date of the combination and audited financial statements were not available.

3. GOING CONCERN ASSUMPTION

These consolidated 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 consolidated 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. However, management believes that the business combination that occurred during the year will enable the Company to generate the necessary sales volume to enable it to continue its operations. The Company's liquidities 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 (Note 26).

4. SIGNIFICANT ACCOUNTING POLICIES

Declaration of compliance

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

These consolidated financial statements were approved by the Board of Directors on November 26, 2018.

Basis of measurement

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation

Subsidiary

A subsidiary is an entity controlled directly by the Company or indirectly through its subsidiaries. The Company controls an entity when:

- Holds power over the entity;
- Is exposed, or has the right, to variable returns, because of its relationship with the entity; and
- Has the ability to exercise power over the entity to affect the amounts and returns it obtains.

The Company reassesses whether it controls an entity when the facts and circumstances indicate that one or more of the three items listed above have changed.

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiary Altius since February 1, 2018. The accounts of its subsidiary are included in the consolidated financial statements from the date on which the Company obtains control and cease to be on the date on which the Company loses control. Balances, income, expenses and inter-company cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to entities' financial statements to align their accounting policies with those of the Company.

Distribution revenue recognition

All the following conditions must be satisfied in order to record the revenues:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the property, that is when the drugs are delivered;
- The Company continues to be involved neither in the management, as it normally rests with the owner, nor in the effective control of the property sold;
- The amount of the sale can be reliably measured;
- It is likely that the economic benefits associated with the transaction will flow to the Company; and
- Costs incurred or to be incurred in connection with the transaction can be reliably measured.

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 business combination;
- Going concern;
- Deferred income taxes;
- Value of fixed assets and intangible assets.

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;
- Tax credits for research and development to be received;
- Fair value of intangible assets and goodwill acquired in the business combination;
- Fair value of convertible debentures.

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 accounts receivable, the security deposit and other financial liabilities, such as accounts payable, amount due, 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 and tax credits

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.

Tax credits for research and development are recognized in income as a reduction of related expenses.

Inventory

Inventories are valued at the lower of cost and net realizable value, the cost being determined using the first in, first out method.

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, website development costs and patents related to cosmeceuticals are recorded at cost and, subsequently, at cost less amortization and accumulated impairment losses.

Intangible assets acquired in the business combination, being licenses, trademarks and distribution rights, are initially recognized at fair value at the acquisition date. After initial recognition, they are recorded at cost less accumulated amortization and accumulated impairment losses, using the same method used for intangible assets acquired separately.

Amortization is based on the estimated useful life using the straight-line method and the following periods:

Patents	2 to 13 years
Licenses, trademarks and distribution rights	4 to 12 years

No amortization for the intellectual property and website development costs has been recognized since they are still under development.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for by using the acquisition method. The consideration transferred in a business combination is measured at the fair value, at the acquisition date, of the assets transferred by the acquirer. The Company recognizes the fair value of the consideration at the acquisition date as part of the consideration transferred in exchange for the acquiree. Related costs related to business combinations are recognized as expenses when incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed, as well as the identifiable contingent liabilities, are recognized at their fair value at that date. Deferred tax assets and liabilities are measured in accordance with IAS 12 - Income Taxes. The result of the acquiree is included in the consolidated result of the Company from the date of acquisition. Goodwill is measured as the excess of the total consideration transferred over the fair value of all identified assets and liabilities. If, at the date of acquisition, the net balance of the amounts of the identifiable assets acquired and liabilities assumed is greater than the consideration transferred, the excess is recognized immediately in income as a profit on a business combination on advantageous terms and conditions.

Goodwill is allocated to the Company's subsidiary, Altius, benefiting from the synergy of the business combination. Goodwill is initially recognized at cost as an asset and is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized but is subject to annual impairment testing or more frequently when events or circumstances indicate that there may be impairment. The Company determines whether there is impairment by assessing whether the carrying amount to which the goodwill relates exceeds its recoverable amount. In such a case, the loss of value is initially attributed to goodwill and any excess is allocated to the carrying amount of assets proportionately. Any impairment of goodwill is recognized in income in the period in which it is recognized as a loss. Impairment losses on goodwill are not reversed in subsequent periods.

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Convertible debentures

The components of the convertible debentures are presented as a liability and an equity component. The fair value of the debt component of the debentures is determined at the time of issuance, discounting future interest obligations and principal at maturity at a discount rate which represents the estimated interest rate, which the Company could claim for debentures having similar characteristics. The amount resulting from the difference between the par value of the debentures and their fair value is classified as equity and net of future income taxes and is presented under "Equity component of convertible debentures".

The liability component on the consolidated statement of financial position increases over the term of the debentures to the full-face value of the debentures at maturity. The difference, the increase in convertible debentures, is presented as interest expense and amortization expense of the discount. The sum of these two expenses therefore reflects the effective rate of the liability component of the convertible debentures.

When the holders convert the convertible debentures into units, the two components mentioned above are transferred to share capital. If the conversion option is not exercised on the maturity date of the convertible debentures, the equity component of the convertible debentures will be transferred to contributed surplus.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2017, the Company applied the following amendments:

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. These amendments lead to the addition of disclosures that have been disclosed in Note 23.

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 did not have any significant impact on the Company's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 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.

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 consolidated 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 has not yet assessed the impact of this standard on its consolidated financial statements.

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 consolidated 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 consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards and interpretations not yet effective

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 consolidated financial statements.

5. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

The consolidated statements of net income and comprehensive income include the following items:

		2018		2017
Administrative expenses - amortization of fixed assets	$	276,241	$	276,546
Administrative expenses - amortization of intangible assets	$	364,467	$	-
Administrative expenses - salaries and employer's contributions	$	305,667	$	403,601
Administrative expenses - stock-based compensation	$	137,467	$	194,627
Research and development expenses - salaries and employer's contributions	$	103,652	$	132,261
Cost of inventories	$	886,636	$	-
Foreign exchange loss	$	972	$	451

6. ACCOUNTS RECEIVABLE

	2018	2017
Trade	$ 369,078	$ -
Commodity taxes	338,973	72,030
	$ 708,051	$ 72,030

Trade accounts in the amount of $133,221, which are between 30 and 60 days old, are past due and are not impaired as the credit quality of these receivables has not changed significantly.

7. TAX CREDITS RECEIVABLE

	2018	2017
BALANCE, beginning of year	$ -	$ -
Tax credits for research and development accounted for	278,514	-
Tax credits for research and development received	(147,124)	-
BALANCE, end of year	$ 131,390	$ -

Tax credits receivable consist of tax credits for research and development receivable from the governments of Quebec and Canada, which relate to eligible research and development expenses under applicable tax legislation. The amounts in the receivable are subject to a tax audit by the governments and the final amounts received may be different from those recorded.

8. INVENTORIES

	2018	2017
Raw materials	$ 10,197	$ 11,808
Goods in process	6,577	1,853
Finished goods	230,485	804
	$ 247,259	$ 14,465

9. FIXED ASSETS

2018

	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	231,374	-	840	347,637	14,352	27,872	622,075
Amortization expenses	102,614	-	1,260	153,731	6,216	12,420	276,241
Balance, end of year	333,988	-	2,100	501,368	20,568	40,292	898,316
Carrying value, end of year	$ 2,203,688	$ 562,324	$ -	$ 1,042,622	$ -	$ 21,808	$ 3,830,442

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

10. INTANGIBLE ASSETS

2018

	Intellectual property	Patents	Website	Licenses, trademarks and distribution rights	Total
Cost					
Balance, beginning of year	$ 4,888,000	$ -	$ -	$ -	$ 4,888,000
Acquisitions					
Separate	-	50,993	20,629	-	71,622
Through business combination	-	-	-	3,812,822	3,812,822
Balance, end of year	4,888,000	50,993	20,629	3,812,822	8,772,444
Accumulated amortization					
Balance, beginning of year	-	-	-	-	-
Amortization	-	3,370	-	361,097	364,467
Balance, end of year	-	3,370	-	361,097	364,467
Carrying value, end of year	$ 4,888,000	$ 47,623	$ 20,629	$ 3,451,725	$ 8,407,977

2017

	Intellectual property	Patents	Website	Licenses, trademarks and distribution rights	Total
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	-	-	-	-	-
Balance, end of year	-	-	-	-	-
Carrying value, end of year	$ 4,888,000	$ -	$ -	$ -	$ 4,888,000

11. ACCOUNTS PAYABLE

	2018	2017
Suppliers	$ 632,748	$ 93,481
Accrued expenses	552,373	8,971
Salaries, payroll deductions and contributions	10,299	7,924
	$ 1,195,420	$ 110,376

12. AMOUNT DUE

Non-interest-bearing loan between Altius and Aspri Pharma, with no fixed repayment terms nor maturity date. This loan is intended for the purchase of intangible assets and for general business operations.

The loan must be repaid by Altius within two years from February 1, 2018, failing which the purchase price of Altius will be reduced by the value of said loan then outstanding through a reduction of shares issued to Altius.

13. LONG-TERM DEBT

	2018	2017
Loan, secured by a hypothec on the universality of movable and immovable property, tangible and intangible, present, of a carrying value of $8,766,066, and future of the Company, bearing interest at the lender's variable rate plus 6%, repayable in monthly principal instalments of $53,449, maturing in 2023	$ 3,092,833	$ 3,259,686
Current portion	641,387	160,347
	$ 2,451,446	$ 3,099,339

At the closing of the public financing on May 12, 2017 and following the receipt by Investissement Québec of $650,000 applicable in reduction of the loan principal balance, Investissement Québec agreed to grant the Company a moratorium of principal repayment on the loan of twelve months from May 2017.

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.

13. LONG-TERM DEBT (continued)

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

2019 -	$	641,387
2020 -	$	641,387
2021 -	$	641,387
2022 -	$	641,387
2023 -	$	527,285

14. CONVERTIBLE DEBENTURES

On September 30, 2016, the Company issued convertible debentures totaling $153,500. These debentures were non-interest bearing and the holders were entitled to a discount of 15% on the shares included in the units offered under 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.

On July 19, 2018, the Company issued unsecured convertible debentures for gross proceeds of $1,000,000

The debentures will bear interest at the rate of 10% calculated semi-annually and mature at 48 months from the date of closing of the offering. Interest on the debentures will be payable semi-annually in units. The principal amount of the debentures will be convertible into units of the Company at a price of $0.75 per unit. Each unit consists of one subordinate voting share in the capital of the Company and one subordinated voting warrant. Each warrant will entitle the holder to acquire one subordinate voting share in the capital of the Company at a price of $0.95 until 48 months after the closing date.

For the payment of interest in units, the number of units to be issued will be calculated as follows according to the situation: (a) if the subordinate voting shares comprised in the units are not subject to resale restrictions by a recognized stock exchange immediately following the issuance, the five-day average of the CMPA (weighted average share price) immediately prior to the applicable interest payment date (and the exercise price of the warrants included in the units will be equal to the one obtained for the price of the shares based on the conversion rate of interest plus 30% (b) if the subordinate voting shares are subject to resale restrictions after they are issued, 90% of the five-day average of the CMPA immediately prior to the applicable interest payment date and the exercise price of the warrants will be equal to the one obtained for the price of the shares based on the conversion rate of interest plus 30%.

14. CONVERTIBLE DEBENTURES (continued)

If at any time after the closing date, the CMPA of the subordinate voting shares of the Company, for 20 consecutive trading days, is equal to or greater than $1.85 and not less than 5,000 subordinate voting shares are traded daily on TSX Venture Exchange or 20,000 or more subordinate voting shares are traded daily on a recognized stock exchange other than the TSX Venture Exchange (subject to adjustment for reverse and deferred shares, stock dividends, or other similar transactions in subordinate voting shares that occur after the closing date), the Company may, within 20 trading days of such period, advise the holders of its irrevocable election to convert all debentures then outstanding, to a number of units equal to the principal amount of the debenture at a price of $ 0.75 for principal and accrued and unpaid interest as calculated above.

If, in the year following the closing date, the Company issues additional convertible debentures at a conversion price of less than $0.75 per unit or subordinate voting shares, the conversion price of units issued under this private placement will be reduced whichever is greater: (i) to the conversion price of additional convertible debentures at the time of the issue or sale, or (ii) $0.40. The exercise price of the warrants will remain at $0.95. If a subscriber has converted its convertible debenture prior to the issuance of the additional convertible debentures, it will receive the additional number of units to which it would have been entitled had it not converted its convertible debentures.

In its sole discretion, the Company may prepay any portion of the principal amount of the debentures with accrued and unpaid interest.

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:

	2018	2017
Maturity	4 years	5 years
Nominal interest rate	10%	0%
Effective interest rate	20%	17.5%

The amount classified as equity was set at $246,519 as a result of the difference between the nominal value of the debentures, $1,000,000, and their fair value of $753,481. The amount classified as equity and net of future income taxes in the amount of $65,328 is presented under "Equity component of convertible debentures".

14. CONVERTIBLE DEBENTURES (continued)

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

	2018	2017
Balance, beginning of year	$ -	$ 1,076,259
Issuance of convertible debentures	1,000,000	153,500
Amount classified as equity	(246,519)	(84,965)
Amortization of discount	1,403	54,501
Capitalized interest	3,288	99,290
Fair value of convertible debentures	758,172	1,298,585
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	$ 758,172	$ -

15. 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.

15. 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.

	2018	2017
Share capital issued includes:		
67,348,148 shares (2017 - 58,744,787)	$ 16,681,762	$ 10,978,344

The 67,348,148 outstanding shares as at July 31, 2018 are classified into 15,171,356 exchangeable subordinate voting shares, 32,210,269 subordinate voting shares and 19,966,523 multiple voting shares. The 15,171,356 exchangeable subordinate voting shares can be exchanged into subordinate voting shares at the rate of 6,068,537 shares on November 18, 2018 and 9,102,819 shares on May 18, 2019.

Among the 67,348,148 outstanding shares as at July 31, 2018, 17,627,690 shares are escrowed, according to an escrow agreement as required by the Applicable Securities Regulations. According to this escrow agreement, 2,260,807 escrowed shares will be released 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. In addition, of the 67,348,148 shares outstanding, 8,403,361 shares were voluntarily escrowed and will be released on February 1, 2021.

Issuance

a) Warrants exercised

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.

15. SHARE CAPITAL (continued)

Issuance

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.

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.

15. SHARE CAPITAL (continued)

Issuance

c) Concurrent financing

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	24 months
Agent's options term	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

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

15. SHARE CAPITAL (continued)

Issuance

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

f) Business combination

On February 1, 2018, as part of the business combination transaction with Altius (Note 2), the Company issued 8,403,361 shares and 8,403,361 warrants in consideration for all of the outstanding shares of Altius.

The fair value of the 8,403,361 shares and 8,403,361 warrants was estimated at $ 5,546,218 and $1,815,126 respectively according to the following assumptions:

Risk-free interest rate	1,79%
Average expected life	3 years
Expected volatility	72%
Share price	$0.66
Expected dividends	Nil

g) Exercise of stock options

During the year 2018, stock option holders exercised their rights on a total of 200,000 shares for total gross proceeds of $ 54,000.

16. STOCK OPTIONS AND WARRANTS

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 the Company at a price of $0.27 per subordinate voting share until September 9, 2019.

16. STOCK OPTIONS AND WARRANTS (continued)

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 stock option plan put in place following the reverse takeover, 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 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 maximum 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

16. STOCK OPTIONS AND WARRANTS (continued)

On March 16, 2018, the Board of Directors approved the granting of 250,000 options to certain directors and consultants of the Company. These options are exercisable at a price of $1.20 for a period of five years from the grant date. The fair value of these options was estimated at $49,000 according to the Black & Scholes option pricing model, and using the following weighted average assumptions:

Risk-free interest rate	1.35%
Average expected life	2.5 years
Expected volatility	97%
Share price	$0.52
Expected dividends	Nil

On June 26, 2018, the Board of Directors approved the granting of 275,000 options to certain directors and consultants of the Company. These options are exercisable at a price of $0.60 for a period of ten years from the grant date. The fair value of these options was estimated at $23,650 according to the Black & Scholes option pricing model, and using the following weighted average assumptions:

Risk-free interest rate	1.1%
Average expected life	1.5 year
Expected volatility	84%
Share price	$0.35
Expected dividends	Nil

In addition, the Company has granted 1,290,000 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 ten years from the grant date. The fair value of these options was estimated at $206,400 according to the Black & Scholes option pricing model, and using the following weighted average assumptions:

Risk-free interest rate	1.1%
Average expected life	3.25 years
Expected volatility	92%
Share price	$0.35
Expected dividends	Nil

The Company recorded an expense of $137,467 during the year (2017 - $194,627).

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 comparable. As a result, the estimated fair value is that of the stock options issued.

16. STOCK OPTIONS AND WARRANTS (continued)

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

	2018			2017		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	1,897,423	$	0.61	-	$	-
Options held by the directors of Orletto Capital Inc. after consolidation	-		-	200,000		0.27
Options exercised	(200,000)		0.27	-		-
Options granted to the agent during the concurrent placement	-		-	537,423		0.75
Options granted to directors and consultants	525,000		0.88	860,000		0.60
Options granted to members of management and employees	1,290,000		0.60	300,000		0.60
Outstanding, end of year	3,512,423	$	0.67	1,897,423	$	0.61
Options exercisable, end of year	2,394,923			1,672,423		
Weighted average fair value of the options granted during the year		$	0.15		$	0.25

The following table summarizes information about options outstanding and exercisable as at July 31, 2018:

	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
$0.60	2,725,000	7.35 years	$	0.60	1,607,500	$	0.60
$0.75	537,423	0.78 year	$	0.75	537,423	$	0.75
$1.20	250,000	4.62 years	$	1.20	250,000	$	1.20

16. STOCK OPTIONS AND WARRANTS (continued)

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

	2018			2017		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	4,217,782	$	1.10	8,797,181	$	0.30
Granted	8,403,361		1.19	4,217,782		1.10
Exercised	-		-	(5,209,517)		0.30
Expired	-		-	(3,587,664)		0.30
Outstanding, end of year	12,621,143	$	1.16	4,217,782	$	1.10
Warrants exercisable, end of year	4,161,568	$	1.10	4,151,028	$	1.10
Weighted average fair value of the warrants granted during the year		$	0.216		$	0.20

The following table summarizes information about warrants outstanding and exercisable as at July 31, 2018:

	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	0.78 year	$	1.10	4,161,568	$	1.10
$1.19	8,403,361	2,5 years	$	1.19	-	$	-

Among the 4,217,782 warrants granted during the year 2017, 56,214 warrants were escrowed as at July 31, 2018, according to an escrow agreement required by the Applicable Securities Regulations. According to this escrow agreement, 7,027 warrants will be released on November 18, 2018, 10,541 warrants on May 18, 2019 and on November 18, 2019 and finally, 28,105 warrants on May 18, 2020. In addition, the 8,403,361 warrants granted during the year are escrowed voluntarily and will be released on February 1, 2021.

17. CAPITAL MANAGEMENT

The Company includes the total of the equity in the capital definition: the share capital, the stock options, the warrants, the equity components of the convertible debentures, the contributed surplus and its deficit. 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 as well as operating income.

The Company's objectives and policies in terms of capital management have not changed since July 31, 2017. The Company is committed to Investissement Québec not to repay advances or redeem common or preferred shares, and not to declare or pay dividends.

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.

18. COMMITMENTS

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

The contract, which totaled $1,222,497 initially, was amended during the year to total $1,319,105. As at July 31, 2018, the balance of the commitment related to the amended contract was $230,648.

The Company has lease commitments for the rental of office space and a vehicle. As at July 31, 2018, the contractual obligations under such leases amount to $71,213 and the payments to be made over the next years are as follows:

2019 -	$	40,713
2020 -	$	23,937
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.

19. FINANCIAL EXPENSES

Financial expenses are as follows:

	2018	2017
Interest expenses and bank charges	$ 2,968	$ 14,708
Interest on long-term debt	350,223	406,584
Amortization of discount on convertible debentures	1,403	54,501
Capitalized interest on convertible debentures	3,288	99,290
	$ 357,882	$ 575,083

20. NET INCOME AND COMPREHENSIVE INCOME PER SHARE

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

	2018	2017
Weighted average number of shares used to calculate the basic income per share	$ 62,952,480	$ 34,654,705

Items excluded from the calculation of diluted income:

	2018	2017
Stock options	$ 3,512,423	$ 1,897,423
Warrants	$ 12,621,143	$ 4,217,782

For the years ended July 31, 2018 and 2017, 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.

21. 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:

	2018	2017
Canadian statutory tax rates	26.74%	26.84%
Recovery calculated using the statutory tax rates	$ (878,108)	$ (1,109,540)
Increase (decrease) in income tax expense from:		
Business acquisition expenses	-	434,531
Amortization of discount on convertible debentures	375	14,628
Stock-based compensation	36,759	52,238
Valuation allowance	671,992	840,822
Rate differences and other	55,102	9,132
Non-deductible fees	17,073	-
	$ (96,807)	$ 241,811

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

	2018	2017
Deferred tax assets		
Long-term		
Tax losses	$ 2,131,087	$ 1,461,067
Financing fees	269,650	346,049
Research and development expenses	78,353	-
	2,479,090	1,807,116
Deferred tax liabilities		
Long-term		
Fixed assets and intangible assets	1,684,469	842,560
Debentures	64,956	-
	1,749,425	842,560
	729,665	964,556
Valuation allowance	(1,636,548)	(964,556)
	$ (906,883)	$ -

21. POTENTIAL TAX BENEFITS (continued)

Non-capital losses that may be used to reduce taxes in future years are of $8,045,520 at the federal level and $8,036,520 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 -	$ 2,198,700	$ 2,193,600
2036 -	$ 1,535,900	$ 1,533,700
2037 -	$ 419,700	$ 418,000
2038 -	$ 3,101,500	$ 3,101,500

The balance of the research and development expenses that may be used to reduce taxes in future years is of $295,600 at the federal and provincial levels. The Company may take advantage of the tax benefit related to these expenses for an indefinite period.

A deferred tax asset of $842,541 (2017 - $842,560) is recorded relative to the items listed above, being an amount equal to the deferred tax liability recorded.

22. RELATED PARTY TRANSACTIONS

The principal executives of the Company are the President, the Chief Financial Officer and the Directors. During the year 2018, the Company has paid them a total remuneration of $349,610 (2017 - $415,000), the main components of which are:

	2018	2017
Salaries and advantages	$ 256,615	$ 287,385
Severance bonus	$ -	$ 24,615
Stock-based compensation	$ 92,995	$ 103,000

During the year 2017, the Company has paid a remuneration of $32,000 to the President’s spouse. The Company has also granted 140,000 stock options to the President’s spouse, 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.

23. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The table below shows the changes in liabilities arising from the Company's financing activities, which includes changes in cash flows and changes without cash consideration:

	Balance, as at July 31, 2017	Cash flows from financing activities	Changes without cash consideration: Equity component of convertible debentures	Changes without cash consideration: Other changes[1]	Balance, as at July 31, 2018
Convertible debentures (Note 14)	$ -	$ 1,000,000	$ (246,519)	$ 4,691	$ 758,172
Long-term debt (Note 13)	3,259,686	(166,853)	-	-	3,092,833
	$ 3,259,686	$ 833,147	$ (246,519)	$ 4,691	$ 3,851,005

[1] Other changes include accrued interest and amortization of the discount on convertible debentures.

24. ECONOMIC DEPENDENCE

During the year, the Company realized 76% (2017 - none) of its revenues from a single client.

25. 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 $30,928 for the year ended July 31, 2018 (2017 - $32,597).

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 receivables. The Company does not expect to be exposed to a higher than normal credit risk.

As at July 31, 2018, approximately 62% (2017 - 0%) of receivables were due from a single client.

25. 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, 2018, the Company has current debts of $2,305,943 (2017 - $270,723). The maturity date of the long-term debt is presented in Note 13. 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 or debentures.

Fair value

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

For the debentures, the fair value is comparable to the carrying value due to the interest rate which approximates the rate at which the Company could borrow on similar terms and conditions.

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.

26. SUBSEQUENT EVENTS

On August 31, 2018, the Company announced the closing of the second tranche of its non-brokered private placement, in the form of unsecured debentures, convertible into units of the Company, at a conversion price of $0.75 per unit, for total gross proceeds of $697,000. The characteristics of this second tranche of debentures are identical to those debentures issued on July 19, 2018 and as described in Note 14.

On October 16, 2018, the Company extended the service agreement with JSS Medical Research Inc. by making an amendment to the original contract for an additional $1,502,406, bringing the total clinical study contract to $2,821,511. The additional amount provided for in this amendment will be payable over a period extending until December 2019.