Devonian Health Group Inc.

Interim Consolidated Financial Statements

For the three-month and the six-month periods ended
January 31, 2019 and 2018

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIOD AND THE SIX-MONTH PERIOD ENDED JANUARY 31, 2019 AND JANUARY 31, 2018

Statement regarding interim consolidated financial statements

Management has prepared the accompanying interim consolidated financial statements of Devonian Health Group Inc. which include the interim consolidated statement of financial position as at January 31, 2019, and the interim consolidated statements of the net income and comprehensive income, changes in equity and cash flows for the six-month period ended January 31, 2019. The auditors have not examined or audited these interim consolidated financial statements.

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	For the three-month period ended January 31,		For the six-month period ended January 31,	
	2019	2018	**2019**	2018
DISTRIBUTION REVENUES	**$ 3,354,684**	$ -	**$ 5,317,215**	$ -
OPERATING EXPENSES				
Cost of sales	**2,582,956**	-	**3,969,844**	
Research and development expenses	**95,240**	277,276	**316,313**	533,705
Selling expenses	**30,305**	-	**68,403**	-
Administrative expenses (Note 5)	**842,368**	418,003	**1,661,636**	716,886
Financial expenses (Note 19)	**143,647**	88,329	**283,054**	176,895
	3,694,516	506,332	**6,299,250**	893 781
LOSS BEFORE INCOME TAXES	**$ (339,832)**	$ (783,608)	**$ (982,035)**	$ (1,427,486)
INCOME TAXES	-	-		
Exigile	(107,765)	-	**(169,765)**	-
Deferred	**48,377**	-	**95,995**	-
NET LOSS AND COMPREHENSIVE LOSS	**$ (399,220)**	$ (783,608)	**$ (1,055,805)**	$ (1,427,486)
Net loss and comprehensive loss per share (Note 20)				
Basis and diluted	**$ (0.006)**	$ (0.013) $	**$ (0.016)**	$ (0.024)

Additional information to the statements of income (Note 5)

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six-month period ended January 31

(Unaudited)

	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, 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)	40,000	-	-	40,000	10,800	-	-	-	-	-	10,800
Stock-options exercised	-	(40,000)	-	(40,000)	20,640	(20,640)	-	-	-	-	-
Stock Based compensation (Notes 16)	-	-	-	-	-	14,312	-	-	-	-	14,312
Net loss for the year	-	-	-	-	-	-	-	-	-	(1,427,486)	(1,427,486)
	40,000	(40,000)	-	-	31,440	(6,328)	-	-	-	(1,427,486)	(1,402,374)
BALANCE, as at January 31, 2018	58,784,787	1,857,423	4,217,782	64,859,992	$ 11,009,784	$ 470,998	$ 861,525	$ -	$ 428,104	$ (5,984,461)	$ 6,785,950
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
Stock Based compensation (Notes 16)		20,000		20,000	-	51,678					51,678
Equity component of convertible debentures (Note 14)	-	-			-	-		171,824	-	-	171,824
Tax effect of convertible debentures (Note 14)	-	-			-	-		(45,533)	-	-	(45,553)
Net loss for the year	-	-	-	-	-	-	-	-	-	(1,055,805)	(1,055,805)
	-	20,000	-	20,000	-	51,678	-	126,291	-	(1,055,805)	(877,836)
BALANCE, as at January 31, 2019	67,348,148	3,532,423	12,621,143	83,501,714	$ 16,681,762	$ 563,271	$ 2,676,651	$ 307,482	$ 428,104	$ (8,799,848)	$ 11,857,422

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at		January 31, 2019		July 31, 2018
		(unaudited)		(audited)
ASSETS				
CURRENT ASSETS				
Cash	$	1,261,678	$	981,055
Cash held in trust		-		927
Account receivable (Note 6)		2,069,146		708,051
Tax credit receivable (Note 7)		256,792		131,390
Inventories (Note 8)		209,051		247,259
Prepaid expenses		185,309		167,982
Security deposit, bearing interest at 0.78%		14,400		14,400
		3,996,376		2,251,064
FIXED ASSETS (Note 9)		3,694,621		3,830,442
INTANGIBLE ASSETS (Note 10)		8,105,762		8,407,977
GOODWILL (Note 2)		4,668,219		4,668,219
	$	20,464,978	$	19,157,702

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(continued)

As at	January 31, 2019	July 31, 2018
	(Unaudited0	(audited)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 11)	$ 2,833,285	$ 1,195,420
Income taxes payable	170,000	50,396
Amount due, without interest or repayment terms (Note 12)	350,000	418,740
Current portion of long-term debt (Note 13)	-	641,387
	3,353,285	2,305,943
LONG-TERM DEBT (Note 13)	3,000,000	2,451,446
CONVERTIBLE DEBENTURES ISSUED (Note 14)	1,397,849	758,172
DEFERRED INCOME TAXES	856,422	906,883
	8,607,556	6,422,444
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	16,681,762	16,681,762
Stock options (Note 16)	566,271	511,593
Warrants (Note 16)	2,676,651	2,676,651
Equity component of convertible debentures (Note 14)	307,482	181,191
Contributed surplus	428,104	428,104
Deficit	(8,799,848)	(7,744,043)
	11,857,422	12,735,258
	$ 20,464,978	$ 19,157,702

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 3)

Commitments (Note 18)

On behalf of the Board,

(s) Tarique Sayed, Interim 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.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six-month periods ended January 31,

	2019	2018
OPERATING ACTIVITIES		
Net loss	$ (1,055,805)	$ (1,427,486)
Items not affecting cash		
Amortization of fixed assets	135,821	139,490
Amortization of intangible assets	373,001	-
Amortization of discount on convertible debentures	34,874	-
Interest capitalized on convertible debentures	79,627	-
Stock-based compensation	51,678	14,312
Deferred income taxes	(95,995)	-
	(476,799)	(1,273,684)
Net change in non-cash working capital items	223,115	150,278
	(253,684)	(1,123,406)
INVESTING ACTIVITIES		
Acquisition of intangible assets	(70,787)	-
	(70,787)	-
FINANCING ACTIVITIES		
Repayment of long-term debt	(92,833)	(6,506)
Issuance of shares and warrants	-	10,800
Convertible debentures issued	697,000	-
	604,167	4,294
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	279,696	(1,119,112)
CASH AND CASH EQUIVALENTS, beginning of year	981,982	2,204,883
CASH AND CASH EQUIVALENTS, end of year	$ 1,261,678	$ 1,085,771

For the period ended January 31, 2019, cash flows from operating activities include interest paid of $157,315 (2018 - $174,658) and do not include any tax paid.

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

(Unaudited)

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

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 corporation 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 Healthcare's sales and marketing skills. The operational structure that the two companies share should play an important role in Devonian'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 one year. 36 months from the date of issue.
This transaction meets the definition of a business acquisition within the meaning of IFRS 3 Business Combinations.

(Unaudited)

2. BUSINESS COMBINATION (continued)

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 acquired following the acquisition of February 1, 2018.

Assets acquired		
Cash	$	201,944
Accounts receivable		1,001,200
Commodity taxes		90,860
Inentory		389
Prepaid expenses		35,030
Licenses, trademarks and distribution rights		3,812,822
Goddwill		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
Net assets acquired and total consideration paid	$	7,361,344

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 Company 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.

It is expected that no amount of goodwill arising from the acquisition will be tax deductible.

Amount due

This amount due must be repaid by Altius within 2 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.

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

The Company's consolidated results for the six-month period ended January 31, 2019 include sales of $ 5,317,215 and net income of $ 471,850 generated by the activities of Altius.

3. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis, which assumes that assets will be realised, 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. 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 Company's control and there is a significant uncertainty about the Company's ability to continue its exploitation.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Declaration of compliance

These unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. As a result, certain information and notes normally included in annual financial statements prepared in accordance with IFRS have been omitted or summarized. These interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended July 31, 2018.

These financial statements were approved by the Board of Directors on March 25, 2019.

b) New accounting standards applied

On August 1, 2018, the Company applied the following amendments:

IFRS 9 - Financial Instruments - Recognition and Measurement ("IFRS 9")

IFRS 9 replaces IAS 39, Financial Instruments: Recognition and Measurement, and provides guidance on the recognition, classification and measurement of financial assets and financial liabilities and the derecognition of financial instruments, the impairment of financial assets, and hedge accounting.

<u>Classification and evaluation</u>
IFRS 9 introduces new requirements for the classification and measurement of financial assets that include the following categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income. The new classification of financial assets presented in IFRS 9 is generally based on the business model for which a financial asset is managed and the characteristics of the contractual cash flows. Financial liabilities are classified and measured in two categories: amortized cost and fair value through profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) New accounting standards applied

Depreciation
IFRS 9 provides a new impairment model that requires the recognition of expected credit losses, which replaces IAS 39's loss-based model. The expected credit loss model applies to financial assets measured at amortized cost. Under IFRS 9, the impairment loss is calculated based on expected credit losses for the next 12 months or expected credit losses over the life if the credit risk that includes the financial instrument has increased by significantly since initial recognition.
At each reporting date, the Company estimates the expected credit losses, based on the history of its credit losses and, if applicable, the net change, expected credit losses on accounts receivable is recognized in net income.

Hedge accounting
IFRS 9 introduces a new model for hedge accounting that aligns accounting treatment with risk management activities.
The Company does not apply hedge accounting.

The adoption of IFRS 9 had no impact on the measurement of financial assets and liabilities or the impairment of accounts receivable.

c) 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 15 - Revenue from Contracts with Customers

The Company is currently evaluating the impact of adopting IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 replaces IAS 11, IAS 18 and other related interpretations, and represents a new single model for recognizing revenue from contracts with customers. The model provides for a five-step analysis of transactions to determine the nature of an entity's performance obligation, as well as the nature, amount, and timing of revenue from the activities to be accounted for. The Company believes that the application of this standard will not have a material impact on the financial statements. All the impact of IFRS 15 will be reflected in the next interim financial statements for the period ended April 30, 2019.

d) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

- 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 on Research and Development to be recovered;
- Fair value of intangible assets and goodwill acquired in the business combination;
- Fair value of convertible debentures.

e) Functional and presentation currency

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

f) Currency translation

Transactions concludes 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 transaction. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate in effect at the time of the transaction, except for the amortization which is translated at the historical exchange rate. Exchange gains and losses resulting from this translation are recognized in net income.

5. ADDITIONAL INFORMATION TO THE STATEMENTS OF INCOME

The statements of income include the following items:

		January 31, 2019 (unaudited)		January 31, 2018 (unaudited)
Administrative expenses - amortization of fixed assets	$	135,821	$	139,490
Administrative expenses - amortization of intangible assets		373,301		-
Administrative expenses - salaries and employer's contributions	$	184,102	$	165,525
Administrative expenses - stock-based compensation	$	51,678	$	14,312
Research and development expenses - salaries and employer's contributions	$	38,427	$	53,026
Foreign exchange loss (gain)	$	972	$	901

(Unaudited)

6. ACCOUNTS RECEIVABLE

	January 31, 2019 (unaudited)	July 31, 2018 (audited)
Accounts receivable	$ 1,828,163	$ 369,078
Commodity taxes receivable	240,983	338,973
	$ 2,069,146	$ 708,051

7. TAX CREDIT AND GRANT RECEIVING

	January 31, 2019 (unaudited)	July 31, 2018 (audited)
Balance, beginning of year	$ 131,390	$ -
Tax credit for Research & Development received	(66,371)	$ (147,124)
Tax credit for Research & Development accounted	191,773	278,514
Balance, end of period	$ 256,792	$ 131,390

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

8. INVENTORIES

	January 31, 2019 (unaudited)	July 31, 2018 (audited)
Raw materials	$ 12,228	$ 10,197
Goods in process	82,482	6,577
Finished goods	114,341	230,485
	$ 209,051	$ 247,259

(Unaudited)

9. FIXED ASSETS

	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 period	2,537,676	562,324	2,100	1,543,990	20,568	62,100	4,728,758
Accumulated amortization							
Balance, beginning of year	333,988	-	840	501,368	20,568	40,292	898,316
Amortization expenses	51,728	-	1,260	77,834	-	6,259	135,821
Balance, end of period	385,716	-	2,100	579,202	20,568	46,551	1,034,137
Carrying value, January 31, 2019	$ 2,151,960	$ 562,324	$ -	$ 964,788	$ -	$ 15,649	$ 3,694,621

10. INTANGIBLE ASSETS

	Intellectual properry	Patents	Wensite	Licenses, trademarks and distribution rights	Total
Cost					
Balance, July 31, 2018	**$** 4,888,000	$ 50,993	$ 20,629	$ 3,812,822	$ 8,772,444
Acquisitions					
Separate	-	44,583	26,203	-	70,786
Balance, January 31, 2019	4,888,000	95,576	46,832	3,812,822	8,843,230
Accumulated amortization					
Balance, July 31, 2018	-	3,370	-	361,097	364,467
Amortization	-	8,000	2,927	362 074	373,001
Balance, January 31, 2019	-	11,370	2,927	723,171	737,468
Carrying value, January 31, 2019	4,888,000 $	84,206 $	43,905 $	3,089,651 $	8,105,762 $

(Unaudited)

11. ACCOUNTS PAYABLE

	January 31, 2019 (unaudited)	July 31, 2018 (audited)
Suppliers	$ 939,225	$ 632,748
Accrued expenses	1,878,760	552,373
Salaries, payroll deductions and contributions	15,300	10,299
	$ 2,833,285	$ 1,195,420

12. AMOUNT DUE

Non-interest-bearing loan between Altius and Aspri Pharma without any fixed repayment terms. Loan is for DIN purchase and general business operations. The loan must be repaid by Altius within 2 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 Healthcare Inc.

13. LONG TERM DEBT

	January 31, 2019 (unaudited)	July 31, 2018 (audited)
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 capital instalments of $53,449, maturing in 2023	$ -	$ 3,092,833
Current portion	-	641,387
Loan, secured by a hypothec on the universality of movable and immovable property, tangible and intangible, present, with a book value of $ 8,666,827, and future of the Company, bearing interest at the lender's variable rate plus 6%, maturing in 2023	3,000,000	-
	$ 3,000,000	$ 2,451,446

(Unaudited)

13. LONG TERM DEBT (continued)

On December 14, 2018, a private corporation, based in Ontario, assumed the long-term debt of the Corporation, replacing Investissement Québec, under the following terms and conditions: a loan of $ 3,000,000 for a term of 5 years, secured by a hypothec on the universality of the movable and immovable, tangible and intangible, present and future property of the Company, bearing interest at the lender's variable rate plus 6%, payable monthly, without repayment of principal. In the event of a change of control by acquisition or dilution at 50%, all interest payments and principal are payable within 30 days of the date of the change of control. After three years from the date of granting the loan, the Company reserves the right to repay up to 20% of the loan balance, without any penalty. If the Company repays the loan before its due date, all remaining interest payments from the date of repayment until the end of the expected term of the loan, are payable within 30 days. At the latest, one month before the expiry of the term, both parties will discuss in good faith, an extension of the term, and both parties will have the right to terminate the agreement at their sole discretion.

14. CONVERTIBLE DEBENTURES

On August 31, 2018, the Company issued an unsecured convertible debenture for gross proceeds of $ 697,000.

The Debentures bear interest at the rate of 10.0% calculated semi-annually and maturing 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 Corporation at a price of $ 0.75 per Unit. Each unit consists of one subordinate voting share in the capital of the Corporation 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 price of the warrants included in the units will be equal to 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 Warrant prices will be equal to this interest rate plus 30%.

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 subordinate voting share traded daily onTSX 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 Corporation 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, Devonian 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.

(Unaudited)

14. CONVERTIBLE DEBENTURES (continued)

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 was established according to the discounted cash flow method and using the following average assumptions:

Maturity	4 years
Nominal interest rate	10%
Effective interest rate	20%

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".

The following table presents the changes in convertible debentures for the year ended July 31, 2018 and the six-month period ended January 31, 2019:

	January 31, 2019	July 31, 2018
Balance, beginning of year	$ 758,172	$ -
Issuance of convertible debentures	697,000	1,000,000
Amount classified as equity	(171,824)	(246 519)
Amortization of discount	34,874	1,403
Capitalized interest	79,627	3,288
Balance, end of period	1,397,849	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.

15. SHARE CAPITAL (Continued)

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.

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.

	January 31, 2019	July 31, 2018
Share capital issued includes:		
67,348,148 shares	$ 16,681,762	$ 16,681,762

The 67,348,148 outstanding shares as at January 31, 2019 are classified into 9,102,819 exchangeable subordinate voting shares, 38,278,806 subordinate voting shares and 19,966,523 multiple voting shares. The 9,102,819 exchangeable subordinate voting shares can be exchanged into subordinate voting shares on May 18, 2019.

Among the 67,348,148 outstanding shares as at January 31, 2019, 15,366,883 shares are escrowed, according to an escrow agreement as required by the Applicable Securities Regulations. According to this escrow agreement, 3,333,865 escrowed shares will be released 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.

16. STOCK OPTIONS AND WARRANTS

Under the stock option plan, set up as a result of 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 number of stock options that can be granted to any person employed to provide investor relations activities must not exceed, in a

16. STOCK OPTIONS AND WARRANTS (Continued)

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 November 26, 2018, the Company issued to an employee 20,000 stock options. 25% of these options granted are exercisable on the date of grant, 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 date of grant. The fair value of these options has been estimated at $ 2,570 using the Black & Scholes valuation model and using the following weighted average assumptions.

Risk-free interest rate	2.25%
Average expected life	2.83 years
Expected volatility	97.96%
Share price	$0.31
Expected dividends	Nil

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the year 2018 and the six-month period ended January 31, 2019:

	January 31, 2019			July 31,2018		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	3,512,423	$	0.67	1,897,423	$	0.61
Options exercised			-	(200,000)		0.27
Options granted to directors and consultants	-		-	525,000		0.88
Options granted to members of management and employees	20,000		0.60	1,290,000		0.60
Outstanding, end of period	3,532,423	$	0.67	3,512,423	$	0.67
Options exercisable, end of period	2,399,923			2,394,923		
Weighted average fair value of the options granted during the period	$ 0.13			0.15		

16. STOCK OPTIONS AND WARRANTS (Continued)

The following table summarizes information about options outstanding and exercisable as at January 31, 2019:

	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	2,745,000	6.85 year	$	0.60	1,607,500	$	0.60
$0.75	537,423	0.27 year	$	0.75	537,423	$	0.75
$1.20	250,000	4.12 year	$	1.20	250,000	$	1.20

b) Warrants

The following table summarizes information about the Company's warrants and the changes during the year 2018 and the six-month period ended January 31, 2019:

		January 31, 2019				July 31, 2018	
		Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year		12,621,143	$	0.30	4,217,782	$	1.10
Granted		-		1.19	8,403,361		1.19
Outstanding, end of year		12,621,143	$	1.16	12,621,143	$	1.16
Warrants exercisable, end of period		4,161,568	$	1.10	4,151,028	$	1.10
Weighted average fair value of the warrants granted during the period	$	-			0.216		

The following table summarizes information about warrants outstanding and exercisable as at January 31, 2019:

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

(Unaudited)

16. STOCK OPTIONS AND WARRANTS (continued)

Among the 4,217,782 warrants granted during the year ended July 31, 2017, 49,187 warrants are escrowed on January 31, 2019, according to an escrow agreement required by the Applicable Securities Regulations. According to this escrow agreement, 10,541 warrants will be release 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 present year are voluntarily escrowed 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, 2018.

18. 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, which totaled $ 1,319,105, was extended on October 16, 2018, by making an amendment to the original contract for an additional $ 1,502,406, bringing the total for the clinical study contract to $ 2,821,511. The additional amounts provided for in this amendment will be payable over a period until December 2019.
As at January 31, 2019, the balance of the commitment related to this contract was $ 1,406,015.

The Company has entered into leases for the rental of offices and a vehicle. As at January 31, 2019, the contractual obligations related to the leases are $ 50,857 and the payments to be made in the following fiscal years are as follows:

2019 -	$	20,357
2020 -	$	23,937
2021 -	$	6,563

19. FINANCIAL EXPENSES

Financial expenses are as follows:

		January 31, 2019		January 31, 2018
Interest expenses and bank charges	$	459	$	2,237
Interest on long-term debt		160,094		174,658
Amortization of discount on convertible debentures		34,874		-
Interest on convertible debentures		79,627		-
	$	283,054	$	176,895

20. INCOME PER SHARE

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

	January 31, 2019	January 31, 2018
Weighted average number of shares used to calculate the basic income per share	67,348,148	58,779,512

Items excluded from the calculation of diluted income:

	January 31, 2019	January 31, 2018
Stock options	3,532,423	1,897,423
Warrants	12,621,143	4,217,782

21. RELATED PARTY TRANSACTIONS

The principal executives of the Company are the President, the Chief Financial Officer and the Directors. During the six-month period ended January 31, 2019 and 2018, the Company has paid them a total remuneration of $179,136 (2018 - $144,725), the main components of which are:

	January 31, 2019	January 31, 2018
Salaries	$ 132,999	$ 141,385
Stock-based compensation	$ 46,137	$ 3,340

During the six-month period ended January 31, 2019, the Company also recorded a charge of $ 200,000 (2018 - $ 0) as a management fee, as provided for in the agreement signed by the President of Altius Healthcare and authorized by Altius's board of Directors.

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

22. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

The table below shows the changes in liabilities arising from the Corporation's financing activities, which includes changes in cash flow and non-cash changes:

			Changes without cash consideration		
	Balance, July 31, 2018	Cash flow from financing activities	Other changes (i)	Equity components of convertible debentures	Balance, January 31, 2019
Débentures (Note 13)	$ 758,172	$ 697,000	$ 114,501	(171,824)	$ 1,397,849
Long term debt (Note 12)	3,092,833	(92,833)			3,000,000
	$ 3,851,005	$ 604,167	$ 114,501	(171,824)	$ 4,397,849

(i) Other changes include accrued interest and amortization of the discount on convertible debentures

23. ECONOMIC DEPENDENCE

During the six- month period ended January 31, 2019, the Company realized 76% of its revenues from a client.

24. 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 $15,000 for the period ended January 31, 2019.

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. On January 31, 2019, approximately 80% of trade receivables are receivable from a single customer.

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at January 31, 2019, the Company has current debts of $3,353,285 (July 31 2018 - $2,305,943). 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.