# Devonian Health Group Inc.

Consolidated Financial Statements
As at July 31, 2019 and 2018

Together with Independent Auditor's Report

MALLETTE

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
**Devonian Health Group Inc.**,

### Opinion

We have audited the consolidated financial statements of **DEVONIAN HEALTH GROUP INC.** (Company), which comprise the consolidated statements of financial position as at July 31, 2019 and 2018, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 3 to the financial statements, which shows that the Company incurred a net loss of $2,979,416 for the year ended July 31, 2019, and that, on that date, the Company's current liabilities exceeded its current assets by $725,450. This condition, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty, which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information is comprised of the information provided in the Management's discussion and analysis report, excluding the consolidated financial statements and our auditor's report on these statements.

Our opinion on the consolidated financial statements does not extend to the other information and we do not express any form of assurance on this information.

Regarding our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to assess whether there is a significant inconsistency between this information and the consolidated financial statements, or the understanding we have acquired during the audit, or whether the other information appears to include any material misstatement, in any other way.

If, in the light of the work we have done, we conclude that there is a material misstatement in the other information, we have the obligation to report it. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, the related safeguards.

The partner responsible for the audit engagement, at the end of which the current auditor's report is issued, is Hélène Michel.

Mallette L.L.P. [1]

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

Québec, Canada
November 26, 2019

[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, | | 2019 | | 2018 |
|---|---|---|---|---|
| DISTRIBUTION REVENUES | $ | 5,937,754 | $ | 3,167,852 |
| OPERATING EXPENSES | | | | |
| Cost of sales | | 2,823,859 | | 1,224,956 |
| Research and development expenses | | 884,375 | | 1,116,873 |
| Selling expenses | | 196,431 | | 68,073 |
| Administrative expenses | | 5,223,559 | | 3,595,415 |
| Financial expenses | | 556,643 | | 357,882 |
| | | 9,684,867 | | 6,363,199 |
| LOSS FROM OPERATIONS | | (3,747,113) | | (3,195,347) |
| OTHER ITEMS | | | | |
| Business acquisition costs (Note 2) | | - | | (88,528) |
| Adjustment of the business acquisition price (Note 2) | | 25,135 | | - |
| Gain on settlement of the amount due (Note 12) | | 350,000 | | - |
| Compensation revenue (Note 6) | | 149,400 | | - |
| | | 524,535 | | (88,528) |
| LOSS BEFORE INCOME TAXES | | (3,222,578) | | (3,283,875) |
| INCOME TAXES | | | | |
| Recoverable | | (49,992) | | (9,680) |
| Deferred | | (193,170) | | (87,127) |
| | | (243,162) | | (96,807) |
| NET LOSS AND COMPREHENSIVE LOSS | $ | (2,979,416) | $ | (3,187,068) |
| Net loss and comprehensive loss per share (Note 20) | | | | |
| Basic | $ | (0.044) | $ | (0.051) |
| Diluted | $ | (0.044) | $ | (0.051) |

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, 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 |
| Issuance of shares (Note 15) | 286,431 | - | - | 286,431 | 67,397 | - | - | - | - | - | 67,397 |
| Stock-based compensation (Note 16) | - | 170,000 | - | 170,000 | - | 109,737 | - | - | - | - | 109,737 |
| Issuance of warrants (Note 16) | - | - | 269,331 | 269,331 | - | - | 17,578 | - | - | - | 17,578 |
| Options expired (Note 16) | - | (637,423) | - | (637,423) | - | (200,099) | - | - | 200,099 | - | - |
| Warrants expired (Note 16) | - | - | (4,217,782) | (4,217,782) | - | - | (861,525) | - | 861,525 | - | - |
| Equity component of convertible debentures (Note 14) | - | - | - | - | - | - | - | 171,824 | - | - | 171,824 |
| Tax effect of convertible debentures (Note 14) | - | - | - | - | - | - | - | (45,533) | - | - | (45,533) |
| Net loss and comprehensive loss for the year | - | - | - | - | - | - | - | - | - | (2,979,416) | (2,979,416) |
| | 286,431 | (467,423) | (3,948,451) | (4,129,443) | 67,397 | (90,362) | (843,947) | 126,291 | 1,061,624 | (2,979,416) | (2,658,413) |
| **BALANCE**, as at July 31, 2019 | 67,634,579 | 3,045,000 | 8,672,692 | 79,352,271 | $ 16,749,159 | $ 421,231 | $ 1,832,704 | $ 307,482 | $ 1,489,728 | $ (10,723,459) | $ 10,076,845 |

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

# Devonian Health Group Inc.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| As at July 31, | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | $ 244,590 | $ 981,982 |
| Accounts receivable (Note 6) | 433,619 | 708,051 |
| Income taxes receivable | 50,161 | - |
| Tax credits receivable (Note 7) | 114,383 | 131,390 |
| Inventories (Note 8) | 188,588 | 247,259 |
| Security deposit, bearing interest at 0.78% | 5,533 | 14,400 |
| Prepaid expenses | 113,320 | 167,982 |
| | 1,150,194 | 2,251,064 |
| FIXED ASSETS (Note 9) | 3,561,175 | 3,830,442 |
| INTANGIBLE ASSETS (Note 10) | 7,768,496 | 8,407,977 |
| GOODWILL (Notes 2 and 10) | 4,668,219 | 4,668,219 |
| | $ 17,148,084 | $ 19,157,702 |

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION** (continued)

| As at July 31, | 2019 | 2018 |
|---|---|---|
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable (Note 11) | $ 1,875,644 | $ 1,195,420 |
| Income taxes payable | - | 50,396 |
| Amount due to a private company (Note 12) | - | 418,740 |
| Current portion of long-term debt (Note 13) | - | 641,387 |
| | 1,875,644 | 2,305,943 |
| LONG-TERM DEBT (Note 13) | 3,000,000 | 2,451,446 |
| CONVERTIBLE DEBENTURES (Note 14) | 1,436,349 | 758,172 |
| DEFERRED INCOME TAXES | 759,246 | 906,883 |
| | 7,071,239 | 6,422,444 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 15) | 16,749,159 | 16,681,762 |
| Stock options (Note 16) | 421,231 | 511,593 |
| Warrants (Note 16) | 1,832,704 | 2,676,651 |
| Equity component of convertible debentures (Note 14) | 307,482 | 181,191 |
| Contributed surplus | 1,489,728 | 428,104 |
| Deficit | (10,723,459) | (7,744,043) |
| | 10,076,845 | 12,735,258 |
| | $ 17,148,084 | $ 19,157,702 |

Statutes of incorporation and nature of activities (Note 1)

Material uncertainty related to going concern (Note 3)

Commitments (Note 18)

Subsequent events (Note 26)

On behalf of the Board,

(s) Tarique Saiyed, President of the Audit Committee

(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,

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| Net loss and comprehensive loss | $ | (2,979,416) | $ | (3,187,068) |
| Items not affecting cash | | | | |
| Amortization of fixed assets | | 269,267 | | 276,241 |
| Amortization of intangible assets | | 754,385 | | 364,467 |
| Amortization of discount on convertible debentures | | 74,196 | | 1,403 |
| Interest capitalized on convertible debentures | | 163,780 | | 3,288 |
| Stock-based compensation | | 109,737 | | 137,467 |
| Gain on settlement of the amount due | | (350,000) | | - |
| Deferred income taxes | | (193,170) | | (87,127) |
| | | (2,151,221) | | (2,491,329) |
| Net change in non-cash working capital items | | 993,306 | | 348,098 |
| | | (1,157,915) | | (2,143,231) |
| **INVESTING ACTIVITIES** | | | | |
| Cash acquired (Note 2) | | - | | 201,944 |
| Acquisition of intangible assets | | (114,904) | | (71,622) |
| | | (114,904) | | 130,322 |
| **FINANCING ACTIVITIES** | | | | |
| Repayment of long-term debt | | (3,092,833) | | (166,853) |
| Additional financing | | 3,000,000 | | - |
| Repayment of the amount due to a private company | | (68,740) | | (97,139) |
| Issuance of shares and warrants | | - | | 54,000 |
| Convertible debentures issued | | 697,000 | | 1,000,000 |
| | | 535,427 | | 790,008 |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | | (737,392) | | (1,222,901) |
| CASH, beginning of year | | 981,982 | | 2,204,883 |
| **CASH**, end of year | $ | 244,590 | $ | 981,982 |

Additional information to the consolidated statements of cash flows (Note 23)

For the year ended July 31, 2019, cash flows from operating activities include interest paid of $316,117 (2018 - $350,223) and do not include any tax paid (2018 - 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 in consideration for 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. It acquires drug and health product licenses. 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 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, acquisition-related expenses amounted to $88,528.

## 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 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 to a private company | | 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 have been recognized at fair value, which does not differ significantly from their contractual gross value and expected cash receipts.

## 2. BUSINESS COMBINATION (continued)

### 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 the 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.

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

### Amount due to a private company

This amount due must be repaid within two years from February 1, 2018, failing which the purchase price will be reduced by the value of said loan then outstanding through a reduction of the consideration issued (Note 12).

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

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

The existing contract 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 a 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.

### Adjustment of the acquisition price

On July 30, 2019, after obtaining additional information, the acquisition price was adjusted, thus leading to the recognition of an amount receivable from Aspri Pharma of $25,135, for which the consideration was charged to the consolidated statement of income.

## 3. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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 last 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 also on its ability to source from its pharmaceutical suppliers, its ability to distribute its products while generating positive cash flows and to obtain, in a timely matter, further financing to complete research and development projects, and to market its developed products, 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 its ability to successfully complete such financings and agreements is tinged with material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern (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, 2019.

### Basis of measurement

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

### Functional and presentation currency

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Consolidation

Subsidiary

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

- 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 Healthcare Inc., since February 1, 2018. The accounts of its subsidiary are included in the consolidated financial statements from the date on which the Company has obtained control and cease to be on the date on which the Company loses control, if this occurs. Intercompany balances, income, expenses and cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to the subsidiary's financial statements to align its accounting policies with those of the Company.

### Distribution revenue recognition

The Company recognizes its revenue from contracts with customers, according to the following five steps:

- Identify the contracts with a client;
- Identify the performance obligations contained in the contracts;
- Determine the transaction price;
- Allocate the transaction price between the performance obligations contained in the contracts;
- Recognize revenue when the Company fulfilled or as the Company fulfills a performance obligation.

The Company applies this five-step model to contracts when it is probable that it will recover the consideration to which it is entitled in exchange for the goods or services it provides. At contract award, it evaluates the goods and services promised in each contract, determines which promised goods or services are performance obligations, and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when the performance obligation is fulfilled.

Revenues from the distribution of pharmaceutical and cosmeceutical products are recognized when the terms of a contract with a client are fulfilled, i.e. when:

- the control of the product has been transferred to the client;
- the product is received by the client or the transfer to the client of the ownership title occurs upon shipment.

After delivery, the client assumes obsolescence and loss risks with respect to such goods. Revenues are recognized according to the prices set in the contacts, less estimated sales rebates or returns.

## 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 receivable;
- Fair value of intangible assets and goodwill;
- Fair value of convertible debentures;
- Value of the allowance for program expenses.

### 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, except for amortization which is translated at the historical exchange rate. Exchange gains and losses resulting from this translation are recognized in net income.

### 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income taxes

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

Classification and measurement

Classification and measurement of financial assets include the following categories: amortized cost, fair value through net income (FVNI) and fair value through other comprehensive income (FVOCI). The classification of financial assets 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 net income.

The following table summarizes the changes in the classification of the Company's financial instruments following the adoption of IFRS 9. The adoption of the new classifications has not led to any adjustments in the measurement of the financial instruments.

| Financial assets | Classification with IAS 39 | Classification with IFRS 9 |
|---|---|---|
| Cash | FVNI | Amortized cost |
| Accounts receivable | Loans and receivables | Amortized cost |
| Security deposit | Loans and receivables | Amortized cost |

| Financial liabilities | Classification with IAS 39 | Classification with IFRS 9 |
|---|---|---|
| Accounts payable | Other financial liabilities | Amortized cost |
| Amount due | Other financial liabilities | Amortized cost |
| Long-term debt | Other financial liabilities | Amortized cost |
| Convertible debentures | Other financial liabilities | Amortized cost |

Financial assets measured at amortized cost

Financial assets measured at amortized cost, i.e. cash, accounts receivable and security deposit, are measured at fair value at the date on which the Company becomes a party to the contractual provisions of the instrument. They are subsequently measured at amortized cost using the effective interest rate method, net of impairment losses.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost, i.e. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

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.

Impairment of financial assets

Financial assets, recognized at amortized cost, are subject to an impairment test at each reporting date. The Company estimates the expected credit losses based on the history of its credit losses and the credit risk assessment of its customers, and, if applicable, the net change in expected credit losses on accounts receivable is recognized in net income.

The amount of the impairment loss is equal to the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset. The Company uses historical trends of the probability of default, the timing of recovery and its judgment in estimating future cash flows.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventory

Inventories of raw materials and finished products 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.

### 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets

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

| | |
|---|---|
| Patents | 2 to 13 years |
| Web site | 4 years |
| Licenses, trademarks and distribution rights | 4 to 12 years |

No amortization for the intellectual property has been recognized since it is still under development.

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

### 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 income 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets

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.

### 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 that 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 deferred 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 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and cash equivalents

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

### Stock-based compensation

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

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

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

### 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, stock options and the convertible debt conversion 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

<u>IFRS 9 - Financial Instruments</u>

On August 1, 2018, the Company adopted IFRS 9 - Financial Instruments. 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, financial assets, and the hedge accounting.

Classification and evaluation

IFRS 9 introduces new requirements for the classification and measurement of financial assets that include the following categories: amortized cost, fair value through net income 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 net income.

**4. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**New accounting standards applied**

IFRS 9 - Financial Instruments

Impairment

IFRS 9 provides a new impairment model that requires the recognition of expected credit losses, which replaces the IAS 39 loss-based model. The expected credit loss model is applied to financial assets measured at amortized cost. Under IFRS 9, the impairment loss is calculated based on expected credit losses for the next twelve months or expected credit losses over the life if the credit risk related to the financial instrument has significantly increased since initial recognition.

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.

IFRS 15 - Revenue from Contracts with Customers

The Company has applied IFRS 15 - Revenue from Contracts with Customers retrospectively as of August 1, 2018, in order to recognize the cumulative effect of applying IFRS 15 to the date of the first application.

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 a five-step analysis of transactions to determine the nature of an entity's obligation to provide, and to determine the nature, amount, and timing of revenues from the activities to be accounted for.

The adoption of this new standard had no impact on the Company’s consolidated financial statements.

IFRS 2 - Share-based Payment

The Company has adopted the 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. The application of this amendment had no impact on the Company's consolidated financial statements.

**New standards and interpretations not yet effective**

The International Financial Reporting Interpretations Committee (IFRIC) and the International Accounting Standards Board (IASB) have issued new pronouncements that will be mandatory for financial years beginning after August 1, 2019 or later. Many of these new standards do not apply to the Company and are therefore not discussed below.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### New standards and interpretations not yet effective

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. This standard will not have any significant impact on the Company's consolidated financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC 23 - Uncertainty over Income Tax Treatments. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 - Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether a company considers each tax treatment independently or collectively, the assumptions a company makes about the examination of tax treatments by taxation authorities, how a company determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how a company considers changes in facts and circumstances. This standard will apply to fiscal years beginning on or after January 1, 2019, with earlier application permitted. This standard will not have any significant impact on the Company’s 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:

| | 2019 | 2018 |
|---|---|---|
| Administrative expenses - amortization of fixed assets | $ 269,267 | $ 276,241 |
| Administrative expenses - amortization of intangible assets | $ 754,385 | $ 364,467 |
| Administrative expenses - salaries and employer’s contributions | $ 333,580 | $ 305,667 |
| Administrative expenses - stock-based compensation | $ 109,737 | $ 137,467 |
| Research and development expenses - salaries and employer’s contributions | $ 82,721 | $ 103,652 |
| Cost of sales - cost of inventories | $ 1,529,445 | $ 851,583 |
| Cost of sales - inventory obsolescence | $ 110,154 | $ 2,946 |

## 6. ACCOUNTS RECEIVABLE

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Trade | $ | 84,734 | $ | 369,078 |
| Commodity taxes | | 174,350 | | 338,973 |
| Amount receivable from a private company, without interest | | 25,135 | | - |
| Compensation receivable | | 149,400 | | - |
| | $ | 433,619 | $ | 708,051 |

As at July 31, 2019, trade accounts in the amount of $21,600 (2018 - $133,221), which are between 60 and 90 days old, are past due and are not impaired as the credit quality of these receivables has not changed significantly. A compensation receivable was recognized following an agreement with a supplier.

## 7. TAX CREDITS RECEIVABLE

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **BALANCE**, beginning of year | $ | 131,390 | $ | - |
| Tax credits for research and development accounted for | | 306,156 | | 278,514 |
| Tax credits for research and development received | | (323,163) | | (147,124) |
| **BALANCE**, end of year | $ | 114,383 | $ | 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

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Raw materials | $ | 157,364 | $ | 10,197 |
| Goods in process | | - | | 6,577 |
| Finished goods | | 31,224 | | 230,485 |
| | $ | 188,588 | $ | 247,259 |

## 9. FIXED ASSETS

2019

| | 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 | 333,988 | - | 2,100 | 501,368 | 20,568 | 40,292 | 898,316 |
| Amortization | 102,614 | - | - | 154,235 | - | 12,418 | 269,267 |
| Balance, end of year | 436,602 | - | 2,100 | 655,603 | 20,568 | 52,710 | 1,167,583 |
| Carrying value, end of year | $ 2,101,074 | $ 562,324 | $ - | $ 888,387 | $ - | $ 9,390 | $ 3,561,175 |

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 | 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 |

## 10. INTANGIBLE ASSETS AND GOODWILL

2019

| | Intellectual property | Patents | Website | Licenses, trademarks and distribution rights | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, beginning of year | $ 4,888,000 | $ 50,993 | $ 20,629 | $ 3,812,822 | $ 8,772,444 |
| Separate acquisitions | - | 85,700 | 29,204 | - | 114,904 |
| Balance, end of year | 4,888,000 | 136,693 | 49,833 | 3,812,822 | 8,887,348 |
| **Accumulated amortization** | | | | | |
| Balance, beginning of year | - | 3,370 | - | 361,097 | 364,467 |
| Amortization | - | 22,244 | 9,944 | 722,197 | 754,385 |
| Balance, end of year | - | 25,614 | 9,944 | 1,083,294 | 1,118,852 |
| Carrying value, end of year | $ 4,888,000 | $ 111,079 | $ 39,889 | $ 2,729,528 | $ 7,768,496 |

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 |

### Licenses, trademarks and distribution rights

The licenses, trademarks and distribution rights valued in the statements of financial position are: Pantoprazole, Cléo-35 and PurGenesis. Their carrying amounts are respectively $1,654,455 (2018 - $2,256,078), $444,784 (2018 - $488,180) and $630,289 (2018 - $707,467).

## 10. INTANGIBLE ASSETS AND GOODWILL (continued)

### Impairment test

Goodwill arising from the business combination is allocated to groups of cash-generating units (CGU) likely to benefit from the business combination.

The calculation of the impairment test for the group of CGU consisting of the distribution of pharmaceutical products activities in which the goodwill is allocated is based on the value in use of the CGU, determined using the expected cash flow method. This calculation mainly depends on the assumptions made to estimate the cash flows, the growth of these flows and the discount rate used.

Management uses its strategic plans to determine future cash flows. These plans cover a period of ten years. A negative variation of 10% of the future cash flows expectations in theses plans would result in a write-down of $253,511. The rate used to discount future cash flows was estimated at 14.1%. An increase of 100 basis points in the discount rate would result in a write-down of $59,261.

## 11. ACCOUNTS PAYABLE

| | 2019 | 2018 |
|---|---|---|
| Suppliers | $ 831,583 | $ 632,748 |
| Accrued expenses | 1,032,180 | 552,373 |
| Salaries, payroll deductions and contributions | 11,881 | 10,299 |
| | $ 1,875,644 | $ 1,195,420 |

## 12. AMOUNT DUE TO A PRIVATE COMPANY

| | 2019 | 2018 |
|---|---|---|
| Amount due to a company, without interest, 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 Aspri Pharma | $ - | $ 418,740 |

On July 30, 2019, the Company obtained a final release for the total balance due at that date, thus resulting in a gain on settlement of the amount due of $350,000.

## 13. LONG-TERM DEBT

| | 2019 | 2018 |
|---|---|---|
| Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of $8,766,066, bearing interest at the lender's variable rate plus 6%, repayable in monthly principal instalments of $53,449, maturing in 2023 | $ - | $ 3,092,833 |
| Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of $11,329,671, interest payable monthly at the Toronto Dominion Bank's variable rate plus 6%, principal repayable at maturity in January 2024* | 3,000,000 | - |
| | 3,000,000 | 3,092,833 |
| Current portion | - | 641,387 |
| | $ 3,000,000 | $ 2,451,446 |

* In the event of a change of control by acquisition or dilution at 50%, the principal and the interest payable until maturity of the term are payable within 30 days of the date of the change of control.

## 14. CONVERTIBLE DEBENTURES

| | 2019 | 2018 |
|---|---|---|
| Debentures, bearing interest at the rate of 10% calculated and payable semi-annually in units, maturing 48 months after the closing date of the offering | $ 1,436,349 | $ 758,172 |

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 subordinate voting share purchase 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.

## 14. CONVERTIBLE DEBENTURES (continued)

For the payment of interest in units, the number of units to be issued will be calculated as follows according to the situation:

- 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 interest payment date will be applicable 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%;
- 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 interest payment date will be applicable 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%.

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 share, the conversion price of units issued under this private placement will be reduced to whichever is greater: (i) the conversion price of the 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 was established according to the discounted cash flow method, and using the following average assumptions:

| | 2019 | 2018 |
|---|---|---|
| Maturity | 4 years | 4 years |
| Nominal interest rate | 10% | 10% |
| Effective interest rate | 20% | 20% |

For the debentures of $697,000 issued on August 31, 2018, the amount classified as equity was set at $171,824 as a result of the difference between the nominal value of the debentures, $697,000, and their fair value of $525,176. The amount classified as equity, net of deferred income taxes in the amount of $45,533, is presented under "Equity component of convertible debentures".

## 14. CONVERTIBLE DEBENTURES (continued)

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

| | 2019 | 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 | 74,196 | 1,403 |
| Capitalized interest | 163,780 | 3,288 |
| | 1,521,324 | 758,172 |
| Conversion of interest into units | (84,975) | - |
| Balance, end of year | $ 1,436,349 | $ 758,172 |

* Includes a $100,000 convertible debenture issued to a director.

## 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. As at July 31, 2019, all the exchangeable subordinate voting shares have been exchanged into subordinate voting shares.

| | 2019 | 2018 |
|---|---|---|
| **Share capital issued includes:** | | |
| 67,634,579 shares (2018 - 67,348,148) | $ 16,749,159 | $ 16,681,762 |

The 67,634,579 shares outstanding as at July 31, 2019 are divided into 47,668,056 subordinate voting shares and 19,966,523 multiple voting shares (2018 - 67,348,148 outstanding shares are classified into 15,171,356 exchangeable subordinate voting shares, 32,210,269 subordinate voting shares and 19,966,523 multiple voting shares) among which 12,033,018 shares are subject 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 November 18, 2019, and 8,699,153 shares on May 18, 2020. In addition, 8,403,361 shares were also voluntarily escrowed and will be released on February 1, 2021.

**Issuance**

a) Business combination

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

The fair value of the 8,403,361 shares and 8,403,361 warrants was respectively estimated at $5,546,218 and $1,815,126 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 |

## 15. SHARE CAPITAL (continued)

### Issuance

b) 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.

c) Interest on convertible debentures

On April 17, 2019, the Company issued 173,831 units at a unit price of $0.29, in consideration for interest owed to the holder of the debenture issued on the first tranche of the private placement closed on July 19, 2018. Each unit consists of one subordinate voting share and one warrant. Each warrant entitles its holder to subscribe for one subordinate voting share of the Company's share capital at a price of $0.38 for a period of 48 months. These units were issued in consideration for the interest due as at January 19, 2019 for a total amount of $50,411.

The fair value of the 173,831 shares and 173,831 warrants was estimated at $39,944 and $10,467 respectively, according to the Black & Scholes option pricing model, and using the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.79% |
| Average expected life | 0.96 year |
| Expected volatility | 90.2% |
| Share price | $0.29 |
| Expected dividends | Nil |

On the same date, 17,100 shares at a unit price of $0.29 were issued to a director, holder of debentures issued in the second tranche of the private placement closed on August 31, 2018. These shares were issued in consideration for interest due to him as at February 28, 2019 for a total amount of $4,959.

In addition, 95,500 units were issued at a unit price of $0.31 to the holders of the debentures issued in the second tranche of the private placement closed on August 31, 2018, in consideration for the interest due to them on February 28, 2019 for an amount of $29,605. Each unit consists of one subordinate voting share and one warrant. Each warrant entitles the holder thereof to subscribe for one subordinate voting share of the capital of the Company at a price of $0.40 for a period of 48 months.

The fair value of the 95,500 shares and 95,500 warrants was estimated at $22,494 and $7,111 respectively, according to the Black & Scholes option pricing model, and using the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.79% |
| Average expected life | 0.83 year |
| Expected volatility | 93.17% |
| Share price | $0.34 |
| Expected dividends | Nil |

## 16. STOCK OPTIONS AND WARRANTS

Under the stock option plan put in place in May 2017, 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 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 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 |

## 16. STOCK OPTIONS AND WARRANTS (continued)

On November 26, 2018, the Board of Directors approved the granting of 20,000 stock options to an employee. 25% of these 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 has been estimated at $2,570 according to the Black & Scholes option pricing 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 |

On March 26, 2019, the Company granted to certain directors of the Company 150,000 stock options. These options are exercisable at a price of $0.60 for a period of ten years from the grant date. These options are exercisable on the grant date. The fair value of these options has been estimated at $7,200 according to the Black & Scholes option pricing model, and using the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.63% |
| Average expected life | 0.75 year |
| Expected volatility | 114% |
| Share price | $0.28 |
| Expected dividends | Nil |

The Company recorded an expense of $109,737 during the year (2018 - $137,467).

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:

| | 2019 | | | 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 expired | (637,423) | | 0.72 | - | | - |
| Options granted to directors and consultants | 150,000 | | 0.60 | 525,000 | | 0.88 |
| Options granted to members of management and employees | 20,000 | | 0.60 | 1,290,000 | | 0.60 |
| Outstanding, end of year | 3,045,000 | $ | 0.66 | 3,512,423 | $ | 0.67 |
| Options exercisable, end of year | 2,310,000 | | | 2,394,923 | | |
| Weighted average fair value of the options granted during the year | | $ | 0.06 | | $ | 0.15 |

The following table summarizes information about the options outstanding and exercisable as at July 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 | 2,795,000 | 6.55 years | $ | 0.60 | 2,060,000 | $ | 0.60 |
| $1.20 | 250,000 | 3.62 years | $ | 1.20 | 250,000 | $ | 1.20 |

## 16. STOCK OPTIONS AND WARRANTS (continued)

On April 17, 2019, the Company issued 173,831 warrants exercisable at a price of $0.38 and 95,500 warrants exercisable at a price of $0.40 for a period of 48 months. These warrants were granted in consideration for the interest the Company owed to the holders of the debentures issued on July 19, 2018 and August 31, 2018.

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Outstanding, beginning of year | 12,621,143 | $ 1.16 | 4,217,782 | $ 1.10 |
| Granted | 269,331 | 0.39 | 8,403,361 | 1.19 |
| Expired | (4,217,782) | 1.10 | - | - |
| Outstanding, end of year | 8,672,692 | $ 1.16 | 12,621,143 | $ 1.16 |
| Warrants exercisable, end of year | 269,331 | | 4,161,568 | |
| Weighted average fair value of the warrants granted during the year | | $ 0.065 | | $ 0.216 |

The following table summarizes information about warrants outstanding and exercisable as at July 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 |
| $0.38 | 173,831 | 3.73 years | $ 0.38 | 173,831 | $ 0.38 |
| $0.40 | 95,500 | 3.73 years | $ 0.40 | 95,500 | $ 0.40 |
| $1.19 | 8,403,361 | 1.5 year | $ 1.19 | - | $ - |

The 8,403,361 warrants granted during the year 2018 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. The Company has committed to the private lender not to redeem preferred or common shares without its prior written consent.

## 18. COMMITMENTS

On June 21, 2017, the Company signed a service contract with a supplier 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 at the beginning, was amended to total $2,821,511. As at July 31, 2019, the balance of the commitment related to the amended contract was $949,399.

The Company has lease commitments for the rental of office space and a vehicle. As at July 31, 2019, the contractual obligations under such leases amount to $30,500 and the payments to be made over the next years are as follows:

| | | |
|---|---|---|
| 2020 - | $ | 23,937 |
| 2021 - | $ | 6,563 |

The Company has committed to pay a total amount of $80,000 over a four-year period to a research project entitled “The Next Generation Agriculture: Botanical extracts and essential oils as the new antimicrobials against microbial contaminants and deseases of Cannabis”. As at July 31, 2019, the balance of this commitment was $70,000.

## 19. FINANCIAL EXPENSES

Financial expenses are as follows:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Interest expenses and bank charges | $ | 2,550 | $ | 2,968 |
| Interest on long-term debt | | 316,117 | | 350,223 |
| Amortization of discount on convertible debentures | | 74,196 | | 1,403 |
| Capitalized interest on convertible debentures | | 163,780 | | 3,288 |
| | $ | 556,643 | $ | 357,882 |

## 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:

| | 2019 | 2018 |
|---|---|---|
| Weighted average number of shares used to calculate the basic income per share | 67,430,545 | 62,952,480 |

Items excluded from the calculation of diluted income:

| | 2019 | 2018 |
|---|---|---|
| Stock options | 3,045,000 | 3,512,423 |
| Warrants | 8,672,692 | 12,621,143 |
| Convertible debentures | 4,525,334 | 2,666,666 |

For the years ended July 31, 2019 and 2018, the impacts of the warrants, stock options as well as the convertible debentures were excluded from the calculation of diluted loss per share as they would have an anti-dilutive effect.

## 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:

| | 2019 | 2018 |
|---|---|---|
| Canadian statutory tax rates | 26.64% | 26.74% |
| Recovery calculated using the statutory tax rates | $ (858,495) | $ (878,108) |
| Increase (decrease) in income tax expense from: | | |
| Amortization of discount on convertible debentures | 19,766 | 375 |
| Stock-based compensation | 29,234 | 36,759 |
| Valuation allowance | 639,641 | 671,992 |
| Rate differences and other | (42,107) | 55,102 |
| Non-deductible fees | 15,419 | 17,073 |
| Gain on settlement of the amount due | (46,620) | - |
| | $ (243,162) | $ (96,807) |

## 21. POTENTIAL TAX BENEFITS (continued)

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

| | 2019 | 2018 |
|---|---|---|
| Deferred tax assets | | |
| Long-term | | |
| Tax losses | $ 2,364,917 | $ 2,131,087 |
| Financing fees | 202,322 | 269,650 |
| Research and development expenses | 570,387 | 78,353 |
| | 3,137,626 | 2,479,090 |
| Deferred tax liabilities | | |
| Long-term | | |
| Fixed assets and intangible assets | 1,529,855 | 1,684,469 |
| Debentures | 90,828 | 64,956 |
| | 1,620,683 | 1,749,425 |
| | 1,516,943 | 729,665 |
| Valuation allowance | (2,276,189) | (1,636,548) |
| | $ (759,246) | $ (906,883) |

Non-capital losses that may be used to reduce taxes in future years are of $8,975,720 at the federal level and of $8,938,720 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 - | $ 1,881,800 | $ 1,853,800 |
| 2039 - | $ 2,149,900 | $ 2,149,900 |

The balance of the research and development expenses that may be used to reduce taxes in future years is of $2,143,523 at the federal level and of $2,163,995 at the provincial level. The Company may take advantage of the tax benefit related to these expenses for an indefinite period.

A deferred tax asset of $861,437 (2018 - $842,542) 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 are the President of the Company, the President of the subsidiary, the interim Chief Financial Officer and the Directors. During the year 2019, the Company has paid them a total remuneration of $673,619 (2018 - $349,610) which has been recognized in administrative expenses and of which the main components are:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Salaries and advantages | $ | 258,230 | $ | 256,615 |
| Management fees | $ | 316,667 | $ | - |
| Stock-based compensation | $ | 98,722 | $ | 92,995 |

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:

| | | | | | Changes without cash consideration | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Balance, as at July 31, 2018 | | Net cash flows from financing activities | | Equity component of convertible debentures | | Other changes* | | Balance, as at July 31, 2019 |
| Convertible debentures (Note 14) | $ | 758,172 | $ | 697,000 | $ | (171,824) | $ | 153,001 | $ | 1,436,349 |
| Long-term debt (Note 13) | | 3,092,833 | | (92,833 ) | | - | | - | | 3,000,000 |
| | $ | 3,851,005 | $ | 604,167 | $ | (171,824) | $ | 153,001 | $ | 4,436,349 |

* Other changes include accrued interest, amortization of the discount on convertible debentures and the payment of interest in units of the Company.

## 24. ECONOMIC DEPENDENCE

During the year, the Company realized 66% (2018 - 76%) of its revenues from one client and 91% (2018 - 98%) of its purchases of inventories from one supplier.

## 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 $30,000 for the year ended July 31, 2019 (2018 - $30,928).

### 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 accounts receivable. The Company does not expect to be exposed to a higher than normal credit risk.

As at July 31, 2019, approximately 31% (2018 - 62%) of receivables were due from a single client.

### Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at July 31, 2019, the Company has current debts of $1,875,644 (2018 - $2,305,943). The maturity dates of the long-term debt and the convertible debentures are presented in Notes 13 and 14. 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.

## 26. SUBSEQUENT EVENTS

In August 2019, the Company completed a non-brokered private financing by issuing 1,260,000 units at a price of $0.25 per unit for gross proceeds of $315,000. Each unit consists of one subordinate voting share and one-half of one share purchase warrant. Each warrant entitles the holder thereof to acquire one subordinate voting share at a price of $0.50 per share until August 2021. The maturity date of the warrants may be accelerated at the Company's option if certain conditions, relating to the share price, are fulfilled.

The fair value of the 1,260,000 shares and 1,260,000 half warrants was estimated at $280,056 and $19,044, respectively, according to the Black & Scholes option pricing model, and using the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.58% |
| Average expected life | 0.83 year |
| Expected volatility | 142% |
| Share price | $0.16 |
| Expected dividends | Nil |

The Company paid an intermediation fee for a cash consideration of $15,900 and a total of 63,600 warrants to subscribe for 63,600 subordinate voting shares at a price of $1.00 per subordinate voting share, until August 21, 2021.

The fair value of the 63,600 warrants granted to the intermediary was estimated at $3,180 according to the Black & Scholes option pricing model, and using the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.58% |
| Average expected life | 2 years |
| Expected volatility | 132% |
| Share price | $0.16 |
| Expected dividends | Nil |

On August 13, 2019, the Company entered into an agreement with a group of private investors to amend the loan agreement dated January 17, 2019 to increase the maximum loan amount from $3,000,000 to $3,500,000. This additional loan has been granted on the same terms as those provided for in the original loan agreement, it being understood that this $500,000 additional loan may be repaid by the Company at any time without penalty.

On October 17, 2019, the Company announced its intention to issue 190,727 units at a price of $0.26 per unit, in consideration for interest due of $49,589 as at July 19, 2019, to the holder of the debenture issued on the first tranche of the private placement closed on July 19, 2018. Each unit consists of one subordinate voting share and one warrant entitling the holder thereof to subscribe for one subordinate voting share of the Company at a price of $0.34 for a period of 48 months. On the same date, the Company also announced its intention to issue 30,006 shares at a price of $0.168 per share and 179,137 units at a price of $0.168 per unit, in consideration for interest due of $35,136 as at August 28, 2019, to the holders of the debenture issued on August 31, 2018. Each unit consists of one subordinate voting share and one warrant. Each warrant entitles its holder to subscribe for one subordinate voting share of the Company's share capital at a price of $0.218 for a period of 48 months. This issuance is conditional on its acceptance by the regulatory authorities.

## 26. SUBSEQUENT EVENTS (continued)

On November 5, 2019, the Company completed a non-brokered private financing. It intends to issue 500,000 units at a price of $0.25 per unit, for gross proceeds of $125,000. Each unit consists of one subordinate voting share and one-half of one share purchase warrant. Each warrant entitles its holder to acquire one subordinate voting share at a price of $0.50 per share until November 5, 2021. The maturity date of the warrants may be accelerated at the Company's option if certain conditions, relating to the share price, are fulfilled. This issuance is conditional on its acceptance by the regulatory authorities.

## 27. COMPARATIVE INFORMATION

Certain figures as at July 31, 2018, have been reclassified to conform to the presentation used in the year 2019. Expenses related to promotion and marketing costs, for a total of $1,690,139, which had been classified in cost of sales in 2018, have been reclassified in administrative expenses. Finally, an amount of $32,107, which had been classified in cost of sales, has been applied against sales, in accordance with IFRS 15.