Devonian Health Group Inc.

Consolidated Financial Statements
July 31, 2023 and 2022

Independent auditor's report

To the Shareholders of Devonian Health Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Devonian Health Group Inc. and its subsidiary (together, the Company) as at July 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at July 31, 2023 and 2022;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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

Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Emphasis of matter – restatement

We draw attention to note 2 to the consolidated financial statements, which explains that certain comparative information presented for the year ended July 31, 2022 has been restated. Our opinion is not modified in respect of this matter

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended July 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessments of intellectual property *Refer to note 2 – Significant accounting policies and note 8 – Intangible assets and goodwill, to the consolidated financial statements.* As at July 31, 2023, the Company had intellectual property of $4.9 million. This intellectual property is still under development and not yet ready for use, and is therefore not yet amortized. For these intangible assets not yet ready for use, management performs an annual impairment test. Management determines whether impairment exists by assessing whether the carrying amount of these intangible assets exceeds their recoverable amount.	Our approach to this issue included the following procedures: • Testing the way in which management has determined the recoverable amount of intellectual property by, among other things: – Testing the appropriateness of the method applied to assess the recoverable value of intellectual property. – Relative to the recoverable amount of the other CGU: o Testing the appropriateness of the discounted cash flow model. o Testing the reasonableness of expected revenues and operating costs by comparing them with the results achieved by the Company in the past.

Key audit matter	How our audit addressed the key audit matter
Intellectual property is allocated solely to one of the two cash-generating units (CGUs) identified within the Company. To estimate its recoverable amount, management subtracts the estimated recoverable amount of the other CGU and the other net assets of the first CGU from the market capitalization as at July 31, 2023. To estimate the recoverable amount of the other CGU, management used a discounted cash flow model. Management has made significant assumptions concerning expected revenues, operating costs and the discount rate. As the Company's market capitalization less the recoverable amounts of the other CGU and the other net assets of the first CGU exceeded the carrying value of the intellectual property, no impairment was recorded. We considered this to be a key audit matter due to the significant judgments made by management in developing the recoverable amount of the other CGU, including assumptions relating to expected revenues, discount rate and operating costs, which is an input into the estimate of the recoverable amount of the intellectual property CGU. As a result, we had to devote considerable effort to carrying out audit procedures designed to test the recoverable value established by management. The audit work required the services of professionals with specialized skills and knowledge.	o Assessing, with the assistance of professionals with skills and knowledge in the field of valuation, the reasonableness of the discount rate. o Testing the underlying data used in the discounted cash flow model. • Testing the recoverable amount of the other net assets of the first CGU. • Recalculating the Company's market capitalization and compare it with the recoverable amount of the other CGU, the other net assets of the first CGU and the carrying amount of the intellectual property as at July 31, 2023.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. 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 IFRS, 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 group 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Sebastien Bellemare.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
November 27, 2023

[1] CPA auditor, public accountancy permit No. A116819

Devonian Health Group Inc.

Consolidated Statements of Financial Position

As at July 31, 2023 and 2022

	2023 $	2022 $ (revised – see note 2)
Assets		
Current assets		
Cash and cash equivalents	5,062,936	2,805,191
Guaranteed investment certificate	-	5,000,000
Accounts receivable (note 4)	865,714	314,738
Tax credits receivable	75,054	22,460
Inventories (note 6)	159,783	154,622
Prepaid expenses (note 5)	181,491	120,218
	6,344,978	8,417,229
Property, plant, equipment, and right-of-use asset (note 7)	2,684,022	2,884,656
Intangible assets (note 8)	5,505,394	5,641,102
Goodwill (notes 2 and 8)	4,643,084	4,643,084
	19,177,478	21,586,071
Liabilities		
Current liabilities		
Accounts payable (note 9)	1,255,806	1,035,177
Current portion of lease liability	21,646	6,030
Current portion of long-term debt (note 10)	3,580,000	-
Current portion of convertible debentures (note 11)	-	680,165
	4,857,452	1,721,372
Long-term debt (note 10)	-	3,576,423
Lease liability	72,574	15,747
	4,930,026	5,313,542
Shareholders' Equity		
Share capital (note 12)	29,345,454	27,572,182
Stock options (note 13)	1,555,408	1,113,033
Warrants (note 14)	5,008,023	4,737,154
Contributed surplus	3,764,921	3,676,907
Deficit	(25,426,354)	(20,826,747)
	14,247,452	16,272,529
	19,177,478	21,586,071

Material uncertainty related to going concern (note 1)

Approved by the Board of Directors

(s) Pierre Montanaro, Director

(s) André Boulet, Director

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

Devonian Health Group Inc.

Consolidated Statements of Net Loss and Comprehensive Loss

For the years ended July 31, 2023 and 2022

	2023 $	2022 $
Distribution revenues	2,345,389	2,305,188
Operating expenses		
Cost of sales	1,453,048	1,744,173
Research and development expenses	1,354,221	778,544
Administrative expenses	3,862,371	2,695,037
Net financial expenses (note 16)	275,356	535,736
	6,944,996	5,753,490
Net loss and comprehensive loss	(4,599,607)	(3,448,302)
Net loss per share (note 17)		
Basic	(0.034)	(0.029)
Diluted	(0.034)	(0.029)

Additional information to the consolidated statements of net loss and comprehensive loss (notes 1, 3, 17 and 19)

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

Devonian Health Group Inc.

Consolidated Statements of Changes in Equity

For the years ended July 31, 2023 and 2022

	Number				Amount					
	Shares	**Stock options**	**Warrants**	**Total**	**Share capital $**	**Stock options $**	**Warrants $**	**Contributed surplus $**	**Deficit $**	**Total $**
Balance, as at July 31, 2021	93,460,688	6,940,000	9,740,653	110,141,341	20,208,600	765,205	540,421	3,387,704	(17,378,445)	7,523,485
Issuance of shares (note 12)	36,977,947	-	-	36,977,947	7,313,265	-	-	-	-	7,313,265
Share issuance costs:										
In cash	-	-	-	-	(171,565)	-	-	-	-	(171,565)
Stock-based compensation (note 13)	-	2,220,000	-	2,220,000	-	532,687	-	-	-	532,687
Issuance of warrants (note 14)	-	-	35,666,394	35,666,394	-	-	4,347,959	-	-	4,347,959
Warrants exercised (note 14)	700,000	-	(700,000)	-	221,882	-	(46,882)	-	-	175,000
Warrants expired (note 14)	-	-	(2,036,722)	(2,036,722)	-	-	(104,344)	104,344	-	-
Options expired (note 13)	-	(1,085,000)	-	(1,085,000)	-	(184,859)	-	184,859	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	(3,448,302)	(3,448,302)
	37,677,947	1,135,000	32,929,672	71,742,619	7,363,582	347,828	4,196,733	289,203	(3,448,302)	8,749,044
Balance, as at July 31, 2022	131,138,635	8,075,000	42,670,325	181,883,960	27,572,182	1,113,033	4,737,154	3,676,907	(20,826,747)	16,272,529
Issuance of shares (note 12)	8,219,168	-	-	8,219,168	870,450	-	-	-	-	870,450
Share issuance costs:	-	-	-	-						
In cash					(37,121)	-	-	-	-	(37,121)
Stock-based compensation (note 13)	-	2,900,000	-	2,900,000	-	484,875	-	-	-	484,875
Issuance of warrants (note 14)	-	-	8,219,168	8,219,168	-	-	492,826	-	-	492,826
Warrants exercised (note 14)	5,050,002	-	(5,050,002)	-	930,643	-	(173,143)	-	-	757,500
Warrants expired (note 14)	-	-	(269,331)	(269,331)	-	-	(48,814)	48,814	-	-
Options exercised (note 13)	50,000	(50,000)	-	-	9,300	(3,300)	-	-	-	6,000
Options expired (note 13)	-	(200,000)	-	(200,000)	-	(39,200)	-	39,200	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	(4,599,607)	(4,599,607)
	13,319,170	2,650,000	2,899,835	18,869,005	1,773,272	442,375	270,869	88,014	(4,599,607)	(2,025,077)
Balance, as at July 31, 2023	144,457,805	10,725,000	45,570,160	200,752,965	29,345,454	1,555,408	5,008,023	3,764,921	(25,426,354)	14,247,452

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

Devonian Health Group Inc.

Consolidated Statements of Cash Flows

For the years ended July 31, 2023 and 2022

	2023 $	2022 $
Cash flows from		
Operating activities		
Net loss	(4,599,607)	(3,448,302)
Items not affecting cash		
Amortization of property, plant, equipment and depreciation of right-of-use asset	287,743	271,082
Amortization of intangible assets	135,708	592,787
Amortization of discount on convertible debentures, net of settlement of original issue discount	(352,779)	(125,178)
Amortization of discount on emergency business account loan	3,577	6,342
Interest on lease liability	-	958
Unrealized loss (gain) on derivatives	-	(361,583)
Interest on convertible debentures	493	262,000
Stock-based compensation	484,875	532,687
	(4,039,990)	(2,269,207)
Net change in non-cash working capital items (note 20)	(316,256)	(602,375)
	(4,356,246)	(2,871,582)
Investing activities		
Acquisition of guaranteed investment certificate	-	(5,000,000)
Maturity of guaranteed investment certificate	5,000,000	-
Acquisition of property, plant, and equipment	-	(73,669)
Acquisition of right-of-use asset	-	(5,775)
	5,000,000	(5,079,444)
Financing activities		
Principal payments on lease liability	(14,666)	(6,154)
Convertible debentures	(297,387)	(520,606)
Issuance of shares and warrants	1,162,544	10,763,182
Stock options exercised	6,000	-
Warrants exercised	757,500	175,000
	1,613,991	10,411,422
Increase in cash	2,257,745	2,460,396
Cash and cash equivalents – Beginning of year	2,805,191	344,795
Cash and cash equivalents – End of year	5,062,936	2,805,191

For the year ended July 31, 2023, cash flows from operating activities include interest paid of $428,895 (2022 – $309,197) and $697,000, of which $399,613 for the discount portion of the convertible debentures (2022 – $1,000,000, of which $479,394 for the discount portion of the convertible debentures), and no taxes paid (2022 – none).

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

1 Statutes of incorporation, nature of activities and material uncertainty related to going concern

Devonian Health Group Inc. (the Company) was incorporated under the Business Corporations Act (Québec) on March 27, 2015. On May 12, 2017, the Company was continued under the Canada Business Corporations Act.

Its main activity is the development of botanical drugs. It is also involved in the development of value-added products for dermo-cosmetics and the distribution of pharmaceutical products through its subsidiary.
The Company has established a research effort focused 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.

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. 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. The Company has incurred losses since its inception and anticipates that losses will continue for the foreseeable future. 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.

The balance of the Company's long-term debt matures in January 2024 (note 10), and the Company will need to use its liquidity to repay this debt or find another financial partner.

Management continues to negotiate further financing and different agreements that could create positive cash flows. The success of these negotiations is contingent on many factors outside the Company's control, and 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.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2 Significant accounting policies

Declaration of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Board of Directors on November 20, 2023.

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 and its subsidiary's functional currency.

Consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiary, Altius Healthcare Inc. Intercompany balances, income, expenses and cash flows are fully eliminated upon consolidation.

Distribution revenue recognition

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; and
- 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 contracts, less estimated sales rebates or returns.

Use of estimates and judgments

The preparation of consolidated 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 consolidated financial statements is as follows:

- Impairment of intangible assets

  Evaluating indicators of impairment of intangible assets being amortized at the end of each period requires the use of judgments, assumptions and estimates to determine whether there are indicators that could give rise to the impairment obligation to carry out an impairment test of these intangible assets. When there are indications that intangible assets may have become impaired, an impairment test should be carried out wherever possible at the level of the individual asset, or the cash generating unit (CGU), i.e. as much as possible, a small identifiable group of assets that generates cash inflows largely independent of the cash inflows generated by other assets or group of assets, to which the asset belongs. An impairment loss is recognized when the carrying amount of the asset or CGU exceeds its recoverable amount. Evaluating recoverable values requires the use of estimates and assumptions for expected revenues, discount rates, and operating expenses. In addition, the Company may use other approaches to determine fair recoverable value. Changes in any of the assumptions and estimates used to determine the recoverable amount of intangible assets measured at amortized cost could impact the impairment analysis.

- Impairment testing of intangible assets that are not yet ready for use

  Each year, management carries out an impairment test of its CGU to which the intangible assets which are not yet ready for use belong. The Company determines whether there is impairment by assessing whether the carrying value of these assets exceeds their recoverable amount. In such a case, the depreciation of these intangible assets is recognized in profit or loss in the period during which it is recognized as a loss.

- Payables to wholesalers

  Management uses judgment in estimating provisions for sale deductions such as cash discounts, allowances, returns, rebates, chargebacks and distribution fees.

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 consolidated 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 loss.

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 in effect for the year in which the differences are expected to be reversed.

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

Financial instruments

Classification and measurement

Classification and measurement of financial assets include the following categories: amortized cost, fair value through profit or loss (FVTPL) 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 FVTPL.

Financial assets measured at amortized cost

Financial assets measured at amortized cost, i.e. cash and cash equivalents and accounts receivable, 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, long-term debt and convertible debentures (debt host), are initially measured at fair value. They are subsequently measured at amortized cost using the effective interest rate method.

Fair value

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

Fair value is established using the quoted prices of the most advantageous active market for that instrument to which the Company has 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 loss.

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.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected loss rates are based on the Company's historical credit losses experienced over the three-year period prior to the period-end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

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. As at July 31, 2023 and 2022, no development costs were deferred.

Tax credits for research and development are recognized in loss or deferred as a reduction of related expenses. Tax credits are recognized when there is reasonable assurance that the Company has met the requirements and that the credits will be received.

Inventories

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 loss.

Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment 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.

Right-of-use asset and lease liability

Leases are recognized as a right-of-use asset and a corresponding lease liability at the commencement date. Each lease payment is allocated between a reduction of the liability and finance cost. The finance cost is recognized in “Net financial expenses” in the consolidated statements of net loss and comprehensive loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The lease liability is measured at the value of lease payments to be made, discounted using the incremental borrowing rate at the lease commencement date, over the lease term.

Right-of-use asset is measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the lease commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The depreciation starts at the commencement date of the lease.

Costs associated with short-term leases and leases of low-value assets are included in the consolidated statements of net loss and comprehensive loss.

Intangible assets

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

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

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

Patents	2 to 13 years
Website	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.

Goodwill

Goodwill is allocated to the group of cash-generating units 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 loss 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 property, plant and equipment and intangible assets is tested for impairment at each reporting date, in order to determine if there is any indication that an asset has experienced a loss of value. If any such evidence exists, the recoverable value of the asset is estimated.

The recoverable value of an asset or a CGU or group of CGUs for goodwill impairment purposes 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 groups of assets (CGU).

An impairment loss is recognized whenever the carrying value of an asset or a CGU exceeds its estimated recoverable value. Impairment losses are recognized in loss.

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.

Convertible debentures

Convertible debentures were compound financial instruments within the meaning of IAS 32, Financial Instruments: Presentation, and had a liability component and an embedded derivative component.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is an asset, the entire hybrid contract is measured at fair value through net loss. If a hybrid contract contains a host that is not an asset, embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Subsequent changes in fair value are recorded in the consolidated statements of net loss and comprehensive loss.

The convertible debentures issued by the Company were a hybrid financial instrument that could be converted into units composed of common shares and warrants of the Company at the option of the holder. The hybrid financial instrument was recognized as a liability, with the initial carrying value of the convertible debentures (host) being the residual amount of the proceeds after separating the derivative component, which was recognized at fair value. Any directly attributable transaction costs were allocated to the host and derivative components in proportion to their initial carrying amounts. Subsequent to initial recognition, the host component of the hybrid financial instrument was measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument was measured at FVTPL. Subsequent changes in fair value were recorded in the consolidated statements of net loss and comprehensive loss.

Fair value of warrants

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

Cash and cash equivalents

Cash and cash equivalents comprise 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 are estimated to ultimately vest. Any revision of estimate 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 fair value of goods or services received and, in counterpart, increases the equity by the same amount unless the 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.

Net loss per share

Basic loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding during the year. Diluted loss 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 is used to determine the dilution effect of the warrants and options.

Provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses.

If the effect of time value of money is material, provisions are measured at the present value of cash flows expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Comparative information

The comparative information in the consolidated statement of financial position has been restated to present as a current liability the entire balance of the convertible debentures as those were due within 12 months as of July 31, 2022.

3 Additional information to the consolidated statements of net loss and comprehensive loss

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

	2023 $	2022 $
Research and development – Amortization of property, plant, equipment and depreciation of right-of-use asset	287,743	271,082
Cost of sales – Amortization of intangible assets	135,708	592,787
Administrative expenses – Salaries and employer's contributions	832,460	587,883
Administrative expenses – Stock-based compensation	484,875	532,687
Research and development expenses – Salaries and employer's contributions[1]	343,817	110,267
Cost of sales – Cost of inventories	775,002	540,101

(1) The Company is eligible for refundable tax credits for research and development from the Government of Quebec for an amount of $75,074, which has been credited for research and development costs (2022 – $22,460).

4 Accounts receivable

	2023 $	2022 $
Trade	663,631	219,952
Sales taxes	100,829	65,444
Interest receivable	101,254	29,342
	865,714	314,738

5 Prepaid expenses

	2023 $	2022 $
Prepaid expenses	49,471	77,168
Deposits	132,020	43,050
	181,491	120,218

6 Inventories

	2023 $	2022 $
Raw materials	139,920	75,264
Finished goods	19,863	79,358
	159,783	154,622

7 Property, plant, equipment and right-of-use asset

2023	Building $	Land $	Leasehold improvements $	Production and laboratory equipment $	Computer equipment $	Furniture and equipment $	Right-of-use asset $	Total $
Cost								
Balance, beginning of year	2,537,676	562,324	2,100	1,607,399	27,328	65,600	39,938	4,842,365
Variation	-	-	-	-	-	-	87,109	87,109
Balance, end of year	2,537,676	562,324	2,100	1,607,399	27,328	65,600	127,047	4,929,474
Accumulated amortization								
Balance, beginning of year	744,444	-	2,100	1,122,004	21,695	62,450	5,016	1,957,709
Amortization	102,616	-	-	160,575	2,253	700	21,599	287,743
Balance, end of year	847,060	-	2,100	1,282,579	23,948	63,150	26,615	2,245,452
Carrying value, end of year	1,690,616	562,324	-	324,820	3,380	2,450	100,432	2,684,022

2022	Building $	Land $	Leasehold improvements $	Production and laboratory equipment $	Computer equipment $	Furniture and equipment $	Right-of-use asset $	Total $
Cost								
Balance, beginning of year	2,537,676	562,324	2,100	1,543,990	20,568	62,100	32,523	4,761,281
Variation	-	-	-	63,409	6,760	3,500	7,415	81,084
Balance, end of year	2,537,676	562,324	2,100	1,607,399	27,328	65,600	39,938	4,842,365
Accumulated amortization								
Balance, beginning of year	641,830	-	2,100	964,071	20,568	62,100	4,065	1,694,734
Variation	-	-	-	-	-		(8,107)	(8,107)
Amortization	102,614	-	-	157,933	1,127	350	9,058	271,082
Balance, end of year	744,444	-	2,100	1,122,004	21,695	62,450	5,016	1,957,709
Carrying value, end of year	1,793,232	562,324	-	485,395	5,633	3,150	34,922	2,884,656

8 Intangible assets and goodwill

2023

	Intellectual property $	Patents $	Website $	Licenses, trademarks and distribution rights $	Total $
Cost					
Balance, beginning of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Balance, end of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Accumulated amortization					
Balance, beginning of year	-	100,176	47,325	3,098,745	3,246,246
Amortization	-	12,627	2,508	120,573	135,708
Balance, end of year	-	112,803	49,833	3,219,318	3,381,954
Carrying value, end of year	4,888,000	23,890	-	593,504	5,505,394

2022

	Intellectual property $	Patents $	Website $	Licenses, trademarks and distribution rights $	Total $
Cost					
Balance, beginning of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Balance, end of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Accumulated amortization					
Balance, beginning of year	-	90,906	34,865	2,527,688	2,653,459
Amortization	-	9,270	12,460	571,057	592,787
Balance, end of year	-	100,176	47,325	3,098,745	3,246,246
Carrying value, end of year	4,888,000	36,517	2,508	714,077	5,641,102

Licenses, trademarks, and distribution rights

The licenses, trademarks and distribution rights valued in the consolidated statements of financial position are Pantoprazole, Cléo-35 and PurGenesis.

Impairment test

Goodwill from the acquisition of businesses is allocated to the group of CGUs that will likely benefit from the business combination. For goodwill, there is a group of CGUs and the valuation was carried out by comparing the net assets of the Company to the market capitalization as of July 31, 2023 and 2022, which is considered a level 1 measure. The Company's stock market value being higher than its net assets, no depreciation was recorded.

Intellectual property is only allocated to one of the two CGUs identified within the Company, and to estimate its recoverable value, the Company subtracts the estimated recoverable value of the other CGU (distribution activities) and other net assets of the first CGU from the market capitalization as of July 31, 2023.

To estimate the recoverable value of the other CGU, the Company used a discounted cash flow model. The Company has made significant assumptions relating to expected revenues, operating expenses and the discount rate.

As the market capitalization of the Company is greater than the sum of the recoverable values of the other CGU, the other net assets of the first CGU and the book value of the intellectual property, no depreciation has been recognized.

9 Accounts payable

	2023 $	2022 $
Suppliers	753,601	410,443
Accrued expenses	423,466	591,894
Salaries, payroll deductions and contributions	78,739	32,840
	1,255,806	1,035,177

10 Long-term debt

	2023 $	2022 $
Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of $8,088,982, interest payable monthly at the Toronto Dominion Bank's prime rate plus 6% (13.20%; 2022 – 10.70%), principal repayable at maturity in January 2024*	3,500,000	3,500,000
Canada Emergency Business Account Loan, maturing on January 2024	80,000	76,423
	3,580,000	3,576,423

* 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.

11 Convertible debentures

			2023
	Host $	Derivative $	Total $
Balance, as at July 31, 2022	680,165	-	680,165
Accretion	16,835	-	16,835
Matured	(697,000)		(697,000)
Balance, as at July 31, 2023	-	-	-

			2022
	Host $	Derivative $	Total $
Balance, as at July 31, 2021	1,325,949	361,583	1,687,532
Accretion	354,216	-	354,216
Matured	(1,000,000)	-	(1,000,000)
Change in fair value of derivative	-	(361,583)	(361,583)
Balance, as at July 31, 2022	680,165	-	680,165

12 Share capital

Description of authorized share capital

An unlimited number of subordinate voting shares, exchangeable subordinate voting shares and multiple voting shares, participating, without par value, have a 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.

	2023 $	2022 $
Share capital issued		
144,457,805 shares (2022 – 131,138,635)	29,345,454	27,572,182

The 144,457,805 shares outstanding as at July 31, 2023 are all subordinate voting shares. As part of the December 2021 financing agreement, the 19,966,523 multiple voting shares were converted into subordinate voting shares during the year ended July 31, 2022.

Issuance

a) Interest on convertible debentures

During the year, the Company issued 181,404 units to holders of debentures issued on July 19, 2018, and August 31, 2018, at a unit price ranging from $0.40 to $0.53. These units were issued in consideration for the interest owed to them for a total amount of $84,725. Each unit is composed of one subordinate voting share and one warrant. Each warrant grants its holder the right to subscribe for one subordinate voting share of the share capital of the Company at a price ranging from $0.52 to $0.69 for a period of 48 months.

The fair values of the 181,404 shares and 181,404 warrants were estimated at $84,725 and $48,887 respectively, according to the following weighted average assumptions:

Risk-free interest rate	3.5%
Average expected duration	4 years
Expected volatility	82%
Share price	$0.43 to $0.57
Expected dividend	Nil

During the year ended July 31, 2022, the Company issued 353,642 units to holders of debentures issued on July 19, 2018, and August 31, 2018, at a unit price ranging from $0.45 to $0.50. These units and shares were issued in consideration for the interest owed to them for a total amount of $169,700. Each unit is composed of one subordinate voting share and one warrant. Each warrant grants its holder the right to subscribe for one subordinate voting share of the share capital of the Company at a price ranging from $0.59 to $0.65 for a period of 48 months.

The fair values of the 353,642 shares and 353,642 warrants were estimated at $169,700 and $97,917, respectively, according to the following weighted average assumptions:

Risk-free interest rate	0.43%
Average expected duration	4 years
Expected volatility	85%
Share price	$0.44
Expected dividend	Nil

b) Convertible debentures

On September 14, 2022, the Company issued 39,999 units following the conversion of debentures that had been issued on August 31, 2018, for a total consideration of $30,000. Each unit includes one subordinate voting share issued at a price of $0.75 and one warrant exercisable at a price of $0.95, for a period of 48 months following the date of their issue.

The fair value of the 39,999 shares and 39,999 warrants was estimated at $20,360 and $9,640 respectively, based on the following weighted average assumptions:

Risk-free interest rate	3.5%
Average expected duration	4 years
Expected volatility	92%
Share price	$0.455
Expected dividend	Nil

c) Private financing

On June 6, 2023, the Company completed a private financing by issuing 7,997,765 units at a price of $0.15 per unit for gross proceeds of $1,199,665. Each unit consists of one subordinate voting share and one share purchase warrant. Each warrant entitles its holder to acquire one subordinate voting share at a price of $0.20 per share, until June 2025. Related costs of $37,121 for this share issuance were recorded as a reduction of share capital.

The fair value of the 7,997,795 shares issued and the 7,997,765 warrants issued was estimated at $765,365 and $434,299, respectively, according to the Black-Scholes valuation model and using the following assumptions:

Risk-free interest rate	5%
Average expected duration	2 years
Expected volatility	94%
Share price	$0.275
Expected dividend	Nil

On September 13, 2021, the Company completed a private financing by issuing 2,415,090 units at a price of $0.44 per unit for gross proceeds of $1,062,640. Each unit consists of one subordinate voting share and one share purchase warrant. Each warrant entitles its holder to acquire one subordinate voting share at a price of $50 per share, until September 2023. Related costs of $49,506 for this share issuance were recorded as a reduction of share capital.

The fair value of the 2,415,090 shares issued and the 2,415,090 warrants issued was estimated at $793,711 and $268,929, respectively, according to the Black-Scholes valuation model and using the following assumptions:

Risk-free interest rate	0.43%
Average expected duration	2.5 years
Expected volatility	85%
Share price	$0.44
Expected dividend	Nil

On November 12, 2021, and November 26, 2021, the Company completed a private financing, through the issuance of a total of 32,897,662 units at a price of $0.30 per unit, for gross proceeds of $9,869,299. Each unit consists of one subordinate voting share and one share purchase warrant. Each warrant entitles its holder to acquire one subordinate voting share at a price of $0.40 per share until November 2023.

Related costs of $119,251 for this share issuance were recorded as reduction of share capital.

The fair value of the 32,897,662 shares issued and the 32,897,662 warrants issued was estimated at $5,888,187 and $3,981,112, respectively, according to the Black-Scholes valuation model and using the following assumptions:

Risk-free interest rate	1%
Average expected duration	2 years
Expected volatility	85%
Share price	$0.40
Expected dividend	Nil

d) Exercise of warrants

During the year, the Company issued 5,050,002 subordinate voting shares, at a unit price of $0.15 per share, for gross proceeds of $757,500, following the exercise of 5,050,002 warrants. The value of $173,143 that had been assigned to these warrants was reclassified to share capital.

On May 4, 2022, the Company issued 700,000 subordinate voting shares, at a unit price of $0.25 per share, for gross proceeds of $175,000, following the exercise of 700,000 warrants. The value of $46,882 that had been assigned to these warrants was reclassified to share capital.

e) Exercise of stock options

On January 26, 2023, the Company issued 50,000 subordinate voting shares at a price of $0.12 for gross proceeds of $6,000, following the exercise of 50,000 stock options by a member of management. The value of $3,300 that had been allocated to these options was reclassified to the share capital of the Company.

f) Settlement of a debt

On March 10, 2022, a total of 1,311,553 subordinate voting shares were issued at a price of $0.352 per unit, for a consideration of $461,667. These shares were issued in settlement of the total amount of $461,667 due to a consultant of the Company's wholly owned subsidiary, Altius Healthcare Inc., which was assumed by the Company.

Related costs of $2,808 related to this transaction were recorded as reduction of share capital.

13 Stock option plan

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 10 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.

During the year, the Company granted 2,900,000 stock options to consultants and directors, employees and members of the management. These options can be exercised at a price ranging from $0.20 to $0.50, for a period of 5 to 10 years from the date of grant. Of these 2,900,000 stock options, 2,200,000 are exercisable on the grant date. The fair value of these options was estimated at $619,975 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	3.5% to 5.0%
Average expected life	3.5 to 5.0 years
Expected volatility	92%
Share price	$0.20 to $0.50
Expected dividend	Nil

During the year ended July 31, 2022, the Company granted 1,695,000 stock options to consultants and directors of the Company as well as 525,000 stock options to employees and members of the management of the Company. These options can be exercised at a price ranging from $0.40 to $0.50, for a period of 10 years from the date of grant. These options are exercisable on the grant date. The fair value of these options was estimated at $532,585 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	1%
Average expected life	3 years
Expected volatility	95%
Share price	$0.45
Expected dividend	Nil

The Company recorded an expense of $484,875 during the year (2022 – $532,687).

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

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the years ended July 31, 2023 and 2022:

	2023		2022	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding, beginning of year	8,075,000	0.34	6,940,000	0.33
Options expired	(200,000)	1.20	(1,085,000)	0.49
Options exercised	(50,000)	0.12	-	-
Options granted to directors and consultants	2,550,000	0.40	1,695,000	0.45
Options granted to members of management and employees	350,000	0.48	525,000	0.40
Outstanding, end of year	10,725,000	0.34	8,075,000	0.34
Options exercisable, end of year	10,025,000	0.33	8,075,000	0.34
Weighted average fair value of the options granted during the year		0.21		0.24

The following table summarizes information about the options outstanding and exercisable as at July 31, 2023:

		Options outstanding and exercisable	
Exercise price $	Number of options outstanding	Number of options exercisable	Weighted average remaining contractual life
0.12	751,645	751,645	7.42 years
0.15	2,658,355	2,658,355	6.99 years
0.20	835,000	835,000	9.64 years
0.21	625,000	625,000	6.73 years
0.34	150,000	150,000	9.44 years
0.40	1,345,000	1,345,000	8.30 years
0.44	150,000	150,000	8.15 years
0.50	2,700,000	2,000,000	8.50 years
0.60	1,510,000	1,510,000	4.94 years

14 Warrants

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

	2023		2022	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Outstanding, beginning of year	42,670,325	0.37	9,740,653	0.23
Issued	8,219,168	0.21	35,666,394	0.41
Expired	(269,331)	0.40	(2,036,722)	0.38
Exercised	(5,050,002)	0.15	(700,000)	0.25
Outstanding, end of year	45,570,160	0.37	42,670,325	0.37

The following table summarizes information about warrants outstanding as at July 31, 2023:

	Warrants outstanding	
Exercise price $	Number of warrants outstanding	Average remaining contractual life
0.194	201,982	1.50 years
0.200	7,997,765	1.85 years
0.218	179,137	0.50 years
0.225	291,393	0.50 years
0.237	272,467	1.00 year
0.260	252,055	1.50 years
0.263	146,561	0.75 years
0.300	150,278	1.63 years
0.338	190,727	0.50 years
0.400	32,897,660	0.32 years
0.500	2,415,090	0.12 years
0.520	87,840	3.13 years
0.590	78,078	2.14 years
0.610	73,540	2.60 years
0.640	101,202	2.25 years
0.650	100,822	2.50 years
0.690	93,564	3.73 years
0.950	39,999	3.13 years

15 Capital management

The Company includes all components of equity in its capital definition: share capital, stock options, warrants, contributed surplus and 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, 2022. The Company has committed to the lender not to redeem preferred or common shares without its prior written consent.

16 Net financial expenses

Net financial expenses are as follows:

	2023 $	2022 $
Interest expenses and bank charges	5,784	4,258
Interest on long-term debt	428,895	309,197
Interest on lease liability	4,090	958
Interest on deposit certificate	(184,318)	(39,652)
Amortization of discount on convertible debentures	16,835	354,216
Amortization of discount on Canada Emergency Business Account Loan	3,578	6,342
Embedded derivative convertible debentures – Change in fair value	-	(361,583)
Interest expense on convertible debentures	492	262,000
	275,356	535,736

17 Net loss per share

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

	2023 $	2022 $
Weighted average number of shares used to calculate the basic loss per share	135,566,455	119,027,954
Items excluded from the calculation of diluted loss per share:		
Stock options	10,725,000	8,075,000
Warrants	45,570,160	42,670,325
Convertible debentures	-	1,858,667

For the years ended July 31, 2023 and 2022, the impacts of the warrants, stock options and convertible debentures were excluded from the calculation of diluted loss per share as they would have an anti-dilutive effect.

18 Income taxes

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:

	2023 $	2022 $
Canadian statutory tax rate	26.50%	26.50%
Recovery calculated using the statutory tax rates	(1,218,896)	(871,290)
Increase (decrease) in income tax expense from:		
Stock-based compensation	128,492	141,162
Variation of potential tax assets not recognized	1,075,544	768,588
Non-deductible fees	1,833	1,478
Other individually insignificant items	13,027	(39,938)
	-	-

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

	2023	**2022**
	$	**$**
Deferred long-term tax assets:		
Tax losses	4,899,819	4,126,734
Financing fees	41,476	49,608
Research and development expenses	1,237,762	1,001,403
Lease liability	24,969	5,771
	6,204,026	5,183,516
Deferred long-term tax liabilities:		
Fixed assets and intangible assets	824,678	899,841
Right-of-use asset	26,614	9,254
Debentures	-	4,462
	851,292	913,557
	5,352,734	4,269,959
Potential tax assets not recognized	(5,352,734)	(4,269,959)
	-	-

The Company's non-capital losses that may be used to reduce taxes in future years total $18,227,085 at the federal level and $18,523,314 at the provincial level and expire at various dates between 2034 and 2043.

The balance of the research and development expenses that may be used to reduce taxes in future years is $4,666,257. The Company may take advantage of the tax benefit related to these expenses for an indefinite period.

A deferred tax asset of $1,237,762 (2022 – $1,001,403) is recorded relative to the items listed above, being an amount equal to the deferred tax liability recorded.

19 Related party transactions

The principal executives are the President of the Company, the President of the subsidiary, the interim Chief Financial Officer and the Directors. During the year ended July 31, 2023, the Company has paid them a total remuneration of $1,679,048 (2022 – $1,238,751), which has been recognized in administrative expenses and of which the main components are:

	2023 $	2022 $
Salaries and benefits	1,057,960	599,275
Consultant fees	283,250	160,416
Management fees	66,668	200,000
Stock-based compensation	271,170	279,060

20 Details of consolidated statements of cash flows

Changes in non-cash working capital

The changes in non-cash working capital items for the years ended July 31, 2023 and 2022 are as follows:

	2023 $	2022 $
Accounts receivable	(550,976)	(95,935)
Tax credits receivable	(52,594)	(6,209)
Inventories	(5,161)	(126,401)
Prepaid expenses	(61,273)	(64,063)
Accounts payable	353,748	(309,767)
	(316,256)	(602,375)

21 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, 2022 $	Net cash flows from financing activities $	Other changes (1) $	Balance, as at July 31, 2023 $
Convertible debentures (note 11)	680,165	(697,000)(2)	16,835	-
Long-term debt (note 10)	3,576,423	-	3,577	3,580,000
	4,256,588	(697,000)	20,412	3,580,000

(1) Other changes include amortization of the discount on convertible debentures and the long-term debt and conversion of convertible debentures.

(2) Including $369,613, classified as operating activities representing the initial issue discount.

			Changes without cash consideration	
	Balance, as at July 31, 2021 $	Net cash flows from financing activities $	Other changes (1) $	Balance, as at July 31, 2022 $
Convertible debentures (note 11)	1,687,532	(1,000,000)(2)	(7,367)	680,165
Long-term debt (note 10)	3,570,081	-	6,342	3,576,423
	5,257,613	(1,000,000)	(1,025)	4,256,588

(1) Other changes include amortization of the discount on convertible debentures and the long-term debt and changes in fair value of the embedded derivative of convertible debentures.

(2) Including $479,394, classified as operating activities representing the initial issue discount.

22 Economic dependence

During the year, the Company realized 37% (2022 – 30%) of its revenues from one client and 94% (2022 – 88%) of its purchases of inventories from one supplier.

23 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: interest rate risk.

Interest rate risk

The Company has a long-term loan bearing interest at variable rate. Consequently, the Company is exposed to interest rate risk based on changes in the prime rate. Based on the balance as at July 31, 2022, a 1% increase in the prime rate would increase interest expense by $35,000 over a 12-month horizon.

Credit risk

The Company's cash and cash equivalents is maintained at major financial institutions; therefore, the Company considers the risk of non-performance of this instrument to be remote.

The Company is exposed to credit risk on the 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, 2023, approximately 50% (2022 – 43%) 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, 2023, the Company has current debt of $1,255,806 (2022 – $1,035,177). The maturity date of the long-term debt is presented in note 10.

The Company monitors its cash resources. The Company believes that it does not have sufficient liquidity to meet its obligations, and management is considering the possibility of obtaining additional funds through the issuance of shares or debentures, or finding another financial partner (note 1).

The tables below categorize the Company's financial liabilities (including interest) into relevant maturity groupings based on the remaining periods at the consolidated statement of financial position dates to the contractual maturity dates.

	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
	$	$	$	$	$
Long-term debt	116,499	3,598,729	-	-	3,715,228
Lease liability	5,144	16,502	72,574	-	94,220
Accounts payable and accrued liabilities	1,255,806	-	-	-	1,255,806

Fair value

The fair value of long-term debt is comparable to its carrying value, due to its variable rate. Interest based on variable rates is determined using the rate in effect at the end of the year.

24 Segment information

The Company is currently operating in a single reportable operating segment in Canada, which is the pharmaceutical sector.

25 Subsequent events

On September 1, 2023, the Company completed a private placement by issuing 2,272,727 units at a price of $0.22 per unit for gross proceeds of $500,000. Each unit consists of one subordinate voting share and one warrant exercisable at a price of $0.28 for a period of two years following the date of issue.