Devonian Health Group Inc.

Interim Consolidated Financial Statements
For the three-month periods ended
October 31, 2018 and 2017

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIODS ENDED OCTOBER 31, 2018 AND OCTOBER 31, 2017

Statement regarding interim consolidated financial statements

Management has prepared the accompanying interim consolidated financial statements of Devonian Health Group Inc. which include the interim consolidated statement of financial position as at October 31, 2018, and the interim consolidated statements of the net income and comprehensive income, changes in equity and cash flows for the three-month period ended October 31, 2018. The auditors have not examined or audited these interim consolidated financial statements.

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the three-month period ended October 31,	2018 (unaudited)	2017 (unaudited)
REVENUES		
Revenues	$ 1,962,531	$ -
OPERATING EXPENSES		
Research and development expenses	221,073	256,429
Cost of sales	1,386,888	-
Selling expenses	38,099	-
Administrative expenses (Note 5)	819,266	298,883
Financial expenses (Note 19)	139,408	88,566
	2,604,734	643,878
LOSS FROM BEFORE INCOME TAXES	(642,203)	(643,878)
INCOME TAXES		
Income taxes	62,000	-
Deferred	(47,618)	-
NET LOSS AND COMPREHENSIVE LOSS	$ (656,585)	$ (643,878)
Net loss per share (Note 20)		
Basis	$ (0.009)	$ (0.011)
Diluted	$ (0.009)	$ (0.011)

Additional information to the statements of income (Note 5)

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited)

	Number				Amount						
	Shares	Stock options	Warrants	Total	Share capital	Stock options	Warrants	Equity component of convertible debentures	Contributed surplus	Retained earnings (deficit)	Total
BALANCE, as at July 31, 2017	58,744,787	1,897,423	4,217,782	64,859,992	10,978,344	477,326	861,525	-	428,104	(4,556,975)	8,188,324
Issuance of shares (Note 15)	40,000	-	-	40,000	10,800	-	-	-	-	-	10,800
Stock-based compensation	-					7,156	-	-	-	-	7,156
Stock-option exercised (Notes 16)		(40,000)	-	(40,000)	20,640	(20,640)		-	-	-	-
Net loss and comprehensive loss for the three-month period	-	-	-	-	-	-	-	-	-	(643,878)	(643,878)
	40,000	(40,000)	-	-	31,440	(13,484)	-	-	-	(643,878)	(625 922)
BALANCE, as at October 31, 2017	58,784,787	1,857,423	4,217,782	64,859,992	$ 11,009,784	$ 463,842	$ 861,525	$ -	$ 428,104	$ (5,200,853)	$ 7,562,402
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
Equity component of convertible debentures (Note 14)	-	-			-	-		171,824	-	-	171,824
Tax effect of convertible debentures (Note 14)	-	-			-	-		(45,333)	-	-	(45,333)
Stock-based compensation						25,567					25,567
Net loss and comprehensive loss for the three-month period	-	-	-	-	-	-	-	-	-	(656,585)	(656,585)
	-	-	-	-	-	25 ,567	-	126,291	-	(656,585)	(504,727
BALANCE, as at October 31, 2018	67,348,148	3,512,423	12,621,143	83,481,714	16,681,762	537,160	2,676,651	307,482	428,104	(8,400,628)	12,230,531

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at,	October 31, 2018	July 31, 2018
	(unaudited)	(audited)
ASSETS		
CURRENT ASSETS		
Cash	$ 649,266	$ 981,055
Cash held in trust	-	927
Account receivable (Note 6)	2,149,529	708,051
Tax credit receivable (Note 7)	131,390	131,390
Inventories (Note 8)	224,646	247,259
Prepaid expenses	111,972	167,982
Security deposit, bearing interest at 0.78%	14,400	14,400
	3,281,203	2,251,064
FIXED ASSETS (Note 9)	3,762,531	3,830,442
INTANGIBLE ASSETS (Note 10)	8,282,783	8,407,977
GOODWILL (Note 2)	4,668,219	4,668,219
	$ 19,994,736	$ 19,157,702

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at,	October 31, 2018	July 31, 2018
	(unaudited)	(audited)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 11)	$ 1,994,846	$ 1,195,420
Income taxes payable	112,395	50,396
Amount due, without interest or repayment terms (Note 12)	533,478	418,740
Current portion of long-term debt (Note 13)	641,387	641,387
	3,232,106	2,305,943
LONG-TERM DEBT (Note 13)	2,291,099	2,451,446
CONVERTIBLE DEBENTURES ISSUED (Note 14)	1,336,199	758,172
DEFERRED INCOME TAXES	904,801	906,883
	7,764,205	6,422,444
SHAREHOLDERS' EQUITY		
Share capital (Note 15)	16,681,762	16,681,762
Stock options (Note 16)	537,160	511,593
Warrants (Note 16)	2,676,651	2,676,651
Equity component of convertible debentures (Note 14)	307,482	181,191
Contributed surplus	428,104	428,104
Deficit	(8,400,628)	(7,744,043)
	12,230,531	12,735,258
	$ 19,994,736	$ 19,157,702

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 3)

Commitments (Note 18)

On behalf of the Board,

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

(s) André Boulet, President & Chief Executive Officer

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

Devonian Health Group Inc.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three-month periods ended October 31,	2018	2017
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net loss and comprehensive loss	$ (656,585)	$ (643,878)
Items not affecting cash		
Amortization of fixed assets	67,911	69,745
Amortization of intangible assets	183,957	-
Amortization of discount on convertible debentures	15,998	-
Interest capitalized on convertible debentures	36,853	-
Stock-based compensation	25,567	7,156
Deferred income taxes	(47,618)	
	(373,917)	(566,977)
Net change in non-cash working capital items	(551,427)	88,680
	(925,324)	(478,297)
INVESTING ACTIVITIES		
Acquisition of fixed intangible assets	(58,763)	-
FINANCING ACTIVITIES		
Variation of the amount due	114,738	
Repayment of long-term debt	(160,347)	(6,506)
Issuance of shares and warrants	-	10,800
Convertible debentures issued	697,000	
	651,391	4,294
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(332,716)	(474,003)
CASH AND CASH EQUIVALENTS, beginning of year	981,982	2,204,883
CASH AND CASH EQUIVALENTS, end of three-month period	$ 649,266	$ 1,730,880

For the three-month period ended October 31, 2018, cash flows from operating activities include interest paid of $85,782 (2017 - $86,939) and do not include any tax paid.

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

(unaudited)

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

The company. was incorporated under the Québec Business Corporations Act on March 27, 2015. On May 12, 2017, the Company was extended under the Canada Business Corporations Act.

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

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

2. BUSINESS COMBINATION

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

The Company acquired 100% of the outstanding shares of Altius in exchange for 8,403,361 units of the Company, which are held in escrow for 36 months from the date of the transaction. Each unit consists of one subordinate voting share and one warrant entitling the holder thereof to subscribe for one subordinate voting share at a price of $ 1.19 per subordinate share for a period of one year. 36 months from the date of issue.
This transaction meets the definition of a business acquisition within the meaning of IFRS 3 Business Combinations.

(unaudited)

2. BUSINESS COMBINATION (continued)

Assets acquired, and liabilities assumed at the date of acquisition

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

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

Determination of fair value

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

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

Goodwill arising from the business combination

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

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

2. BUSINESS COMBINATION (continued)

Amount due

This amount due must be repaid by Altius within 2 years from February 1, 2018, failing which the purchase price of Altius will be reduced by the value of said loan then outstanding through a reduction of shares issued to Altius.

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

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

The existing contract between Altius and the Company at that time had been established in accordance with market conditions and as a result, the Company did not receive any benefit or disadvantage in connection with this contract as a result of 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 results for the three-month period ended October 31, 2018 include sales of $ 1,962,531 and net income of $ 174,665 generated by the activities of Altius.

3. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis, which assumes that assets will be realised, and liabilities discharged in the normal course of business for the foreseeable future. Accordingly, these financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or on the discharge or classification of liabilities, should the Company be unable to continue its business in the normal course. The Company has incurred losses since its inception and anticipates that losses will continue for the foreseeable future. However, management believes that the business combination that occurred during 2018 will enable the Company to generate the necessary sales volume to enable it to continue its operations. The Company’s liquidities are limited considering its ongoing projects. Consequently, the Company’s ability to continue as a going concern depends on its ability to obtain, in a timely matter, further financing to complete research and development projects and market products, achieve profitable operations and generate positive cash flows from operations, as to which no assurance can be given.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Declaration of compliance

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

These financial statements were approved by the Board of Directors on December 17 2018.

Basis of measurement

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

Functional and presentation currency

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

Consolidation

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

• Holds power over the entity;
• Is exposed, or has the right, to variable returns, because of its relationship with the entity; and
• 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 interim consolidated financial statements include the accounts of the Company and the accounts of its subsidiary Altius since February 1,2018. The accounts of its subsidiary are included in the consolidated financial statements from the date on which the Company obtains control and cease to be on the date on which the Company loses control. Balances, income, expenses and inter-company cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to entities' financial statements to align their accounting policies with those of the Company.

Revenues recognition

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

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

Use of estimates and judgments

The preparation of interim 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.

(unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 interim 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 interim financial statements are as follows:

- Fair value of shares, warrants and stock options;
- Useful life of fixed assets and intangible assets;
- Value of equity component of convertible debentures;
- Potential tax benefits;
- Tax credits on Research and Development to be recovered;
- Fair value of intangible assets and goodwill acquired in the business combination;
- Fair value of convertible debentures.

Currency translation

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

Income taxes

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

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

Financial instruments

The Company has the following financial instruments:

(unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial asset at fair value through net income

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

Loans and receivables and other financial liabilities

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

Fair value

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

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

Impairment of financial assets

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

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

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

(unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenses

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

Inventory

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

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

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 are initially recognized at fair value at the acquisition date. After initial recognition, they are recorded at cost less accumulated amortization and accumulated impairment losses, using the same method used for intangible assets acquired separately.
Amortization is based on the estimated useful life using the straight-line method and the following periods:

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

No amortization for the intellectual property 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.

(unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

Impairment of non-financial assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Tax credits on Research and Development

Tax credits are recognized as a reduction of related expenses.

Convertible debentures

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

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

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

Fair value of warrants

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

Cash and cash equivalents

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

stock options is credited to share capital. The value attributed to stock options is transferred to share capital at the issuance of shares.

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

Income per share

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

New accounting standards applied

On August 1, 2017, the Company applied the following amendments:

IAS 7 - Statement of Cash Flows

In February 2016, IASB issued amendments of limited scope to IAS 7 - Statement of Cash Flows to require that companies provide information concerning changes in their financing liabilities. These amendments had not any significant impact on the Company’s financial statements.

IAS 12 - Income Taxes

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

New standards and interpretations not yet effective

The International Financial Reporting Interpretation Committee (IFRC) and the International Accounting Standards Board (IASB) have published new standards whose application will be mandatory for fiscal years beginning after August 1, 2018 or subsequent years. Many of these new accounting policies will have no impact on the results and the statement of the financial position of the Company, so they are not discussed below.

IFRS 9 - Financial Instruments

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

(unaudited)

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 - Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15 - Revenue from Contracts with Customers to replace IAS 18 and IAS 11. This new standard provides guidance on the method to be used and when to recognize revenue as per a unique model, except for loan contracts, financial instruments and insurance contracts. This standard is retrospectively applicable from January 1, 2018. The Company has not yet assessed the impact of this standard on its financial statements.

IFRS 2 - Share-based Payment

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

IFRS 16 - Leases

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

IFRIC 23 - Uncertainty over Income Tax Treatments

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

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

The statements of income include the following items:

		October 31, 2018		October 31, 2017
Administrative expenses - amortization of fixed assets	$	67,911	$	69,745
Administrative expenses - amortization of intangible assets		183,957		-
Administrative expenses - salaries and employer's contributions	$	102,205	$	68,201
Administrative expenses - stock-based compensation	$	25,567	$	7,156
Research and development expenses - salaries and employer's contributions	$	20,821	$	26,980
Foreign exchange loss (gain)	$	118	$	901

(unaudited)

6. ACCOUNTS RECEIVABLE

	October 31, 2018 (unaudited)	July 31, 2018 (audited)
Trade	$ 1,849,600	$ 369,078
Commodity taxes	299,909	338,973
	$ 2,149,529	$ 708,051

7. TAX CREDIT AND GRANT RECEIVING

	October 31, 2018 (unaudited)	July 31, 2018 (audited)
BALANCE, beginning of year	-	-
Tax credit for research & development accounted for	$ 131,390	$ 278,514
Tax credit for research & development received	-	(147,124)
BALANCE, end of period	$ 131,390	$ 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 government and the final amounts received may be different from those recorded.

8. INVENTORIES

	October 31, 2018 (unaudited)	July 31, 2017 (audited)
Raw materials	$ 12,696	$ 10,197
Goods in process	-	6,577
Finished goods	211,950	230,485
	$ 224,646	$ 247,259

(unaudited)

9. FIXED ASSETS

	Building	Land	Leasehold improve-ments	Production and laboratory equipment	Computer equipment	Furniture and equipment	2018 Total
Cost							
Balance, July 31,	$ 2,537,676	$ 562,324	$ 2,100	$ 1,543,990	$ 20,568	$ 62,100	$ 4,728,758
Acquisitions	-	-	-	-	-	-	-
Balance, end of period	2,537,676	562,324	2,100	1,543,990	20,568	62,100	4,728,758
Accumulated amortization							
Balance, July 31	333,988	-	2,100	501,368	20,568	40,292	898,316
Amortization expenses	25,864	-	-	38,917	-	3,130	67,911
Balance, end of period	359,852	-	2,100	540,285	20,568	43,422	966,227
Carrying value, end of period	$ 2,177,824	$ 562,324	$ -	$ 1,003,705	$ -	$ 18,678	$ 3,762,531

10. INTANGIBLE ASSETS

	Intellectual property	Patents	Website	Licences, trademarks and distribution rights	Total
Cost					
Balance, July 31, 2018	$ 4,888,000	$ 50,993	$ 20,629	$ 3,812,822	$ 8,772,444
Acquisitions					
Separate	-	32,560	26,203	-	58,763
Through business combination	-	-	-	-	-
Balance, October 31, 2018	4 888 000	83,553	46,832	3,812,822	8,831,207
Accumulated amortization					
Balance, July 31, 2018	-	3,370	-	361,097	364,467
Amortization	-	2,432	976	180,549	183,957
Balance, October 31, 2018	-	5,802	976	541,646	548,424
Carrying value October 31, 2018	$ 4 888 000 $	$ 77,751	$ 45,856	$ 3,271,176 $	$ 8,282,783

11. ACCOUNTS PAYABLE

	October 31,	July 31,

(unaudited)

		2018 (unaudited)		2018 (audited)
Suppliers	$	888,202	$	632,748
Accrued expenses		1,052,294		552,373
Salaries, payroll deductions and contributions		4,350		10,299
	$	1,944,846	$	1,195,420

12. AMOUNT DUE

Non-interest-bearing loan between Altius and Aspri Pharma with no fixed repayment terms nor maturity date. This loan is intended for the purchase of intangible assets and for general business operations. The loan must be repaid by Altius within two years from February 1, 2018, failing which the purchase price of Altius will be reduced by the value of said loan then outstanding through a reduction of shares issued to Altius.

13. LONG-TERM DEBT

		October 31, 2018 (unaudited)		July 31, 2018 (audited)
Loan, secured by a hypothec on the universality of movable and immovable property, tangible and intangible, present, of a carrying value of $8,766,066, and future of the Company, bearing interest at the lender's variable rate plus 6%, repayable in monthly capital instalments of $53,449, maturing in 2023	$	2,932,486	$	3,092,833
Current portion		641,387		641,387
	$	2,291,099	$	2,451,446

The Company has committed to Investissement Québec, upon any subsequent financing by equity, to repay the loan of an amount equal to 5% of the gross proceeds of the financing if the amount collected is lower than $2,000,000 and 10% of the gross proceeds of the financing if the amount collected is higher than $2,000,000.

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

2019 -	$	481,040
2020 -	$	641,387
2021 -	$	641,387
2022 -	$	641,387
2023 -	$	527,285

(unaudited)

14. CONVERTIBLE DEBENTURES

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

The Debentures bear interest at the rate of 10.0% calculated semi-annually and maturing at 48 months from the date of closing of the Offering. Interest on the debentures will be payable semi-annually in units. The principal amount of the debentures will be convertible into units of the Corporation at a price of $ 0.75 per unit. Each unit consists of one subordinate voting share in the capital of the Corporation and one subordinated voting warrant. Each warrant will entitle the holder to acquire one subordinate voting share in the capital of the Company at a price of $ 0.95 until 48 months after the closing date.

For the payment of interest in Units, the number of units to be issued will be calculated as follows according to the situation: (a) if the Subordinate Voting Shares comprised in the Units are not subject to resale restrictions by a recognized stock exchange immediately following the issuance, the five-day average of the CMPA (weighted average share price) immediately prior to the applicable interest payment date (and the exercise price of the warrants included in the units will be equal to the one obtained for the price of the share based on the conversion rate of interest plus 30% (b) if the Subordinate Voting Shares are subject to resale restrictions after they are issued, 90% of the five-day average of the CMPA immediately prior to the applicable interest payment date and the exercise price of the warrants will be equal to the one obtained for the price of the share 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 share 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 Corporation may, within 20 trading days of such period, advise the holders of its irrevocable election to convert all debentures then outstanding, to a number of units equal to the principal amount of the debenture at a price of $ 0.75 for principal and accrued and unpaid interest as calculated above.

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

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

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

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

14. CONVERTIBLE DEBENTURES (continued)

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 and net of future income taxes in the amount of $ 45,533 is presented under "Equity component of convertible debentures".

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

	October 31, 2018	July 31, 2018
Balance, beginning of year	$ 758,172	$ -
Issuance of convertible debentures	697,000	1,000,000
Amount classified as equity	(171,824)	(246,519)
Amortization of discount	15,998	1,403
Capitalized interest	36,853	3,288
Balance, end of period	$ 1,336,199	$ 758,172

15. SHARE CAPITAL

Description of authorized share capital

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

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

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

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

15. SHARE CAPITAL (continued)

Description of authorized share capital

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

Share capital issued includes:	October 31, 2018 (unaudited)	July 31, 2018 (audited)
67,348,148 shares	$ 16,681,762	$ 16,681,762

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

Among the 67,348,148 outstanding shares as at October 31, 2018, 17,627,690 shares are escrowed, according to an escrow agreement as required by the Applicable Securities Regulations. According to this escrow agreement, 2,260,807 escrowed shares will be released on November 18, 2018, 3,333,865 shares on May 18, 2019 and on November 18, 2019 and finally, 8,699,153 shares on May 18, 2020. In addition, of the 67,348,148 shares outstanding, 8,403,361 shares were voluntarily escrowed and will be released on February 1, 2021.

16. STOCK OPTIONS AND WARRANTS

Under the stock option plan, put in place following the reverse takeover, the members of the Board of Directors can attribute stock options allowing the directors, executives, employees and consultants of the Company to acquire shares of the Company. The maximum number of options that can be granted according to the stock option plan is equal to a maximum of 10% of the outstanding subordinate voting shares. The options to be granted according to the stock option plan will not exceed a duration of ten years and will be granted at the price and conditions that the directors will consider necessary to reach the goal of the new stock option plan, and according to the applicable regulations. The exercise price of the option cannot be lower than the market price. The maximum number of options that can be granted to a beneficiary must not exceed, in a twelve-month period, 5% of all the outstanding subordinate voting shares. The maximum number of options that can be granted to a consultant must not exceed, in a twelve-month period, 2% of all the outstanding subordinate voting shares. The 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.

The Company recorded an expense of $25,567 during the three-month period ended October 31, 2018. (2017 - $ 7,156)

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 year 2018 and the three-month period ended October 31, 2018:

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

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

	Options outstanding				Options exercisable		
Exercise price	Number of options outstanding	Weighted average remaining contractual life		Weighted average exercise price	Number of options exercisable		Weighted average exercise price
$0,60	2,725,000	7.10 year	$	0.60	1,607,500	$	0.60
$0.75	537,423	0.53 year	$	0.75	537,423	$	0.75
$1.20	250,000	4.37 year	$	1.20	250,000	$	1.20

16. STOCK OPTIONS AND WARRANTS (continued)

The following table summarizes information about the Company's warrants and the changes during the years 2018 and the three-month period ended October 31, 2018:

	October 31, 2018			July 31, 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				8,403,361		1.19
Outstanding, end of year	12,621,143	$	1.16	12,621,143	$	1.16
Warrants exercisable, end of period	4,161,568	$	1.10	4,161,568	$	1.10
Weighted average fair value of the warrants granted during the year	$ -			0.216		

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

	Warrants outstanding				Warrants exercisable		
Exercise price	Number of warrants outstanding	Weighted average remaining contractual life		Weighted average exercise price	Number of warrants exercisable		Weighted average exercise price
$1.10	4,217,782	0.53 year	$	1.10	4,161,568	$	1.10
$1.19	8,403,361	2.25 years		1.19	-		-

Among the 4,217,782 warrants granted during the year ended July 31, 2017, 56,124 warrants are escrowed on October 31, 2018, according to an escrow agreement required by the Applicable Securities Regulations. According to this escrow agreement, 7,027 warrants will be release on November 18, 2018, 10,541 warrants on May 18, 2019 and on November 18, 2019 and finally, 28,105 warrants on May 18, 2020. In addition, the 8,403,361 warrants granted during the present year are voluntarily escrowed and will be released on February 1, 2021.

(unaudited)

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

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

18. COMMITMENTS

On June 21, 2017, the Company signed a service contract with JSS Medical Research Inc. who will oversee the conduct of his clinical trial of phase IIa, within its research project on the Atopic Dermatitis. The contract, which totaled $ 1,319,105 initially, was extended on October 16, 2018, by making an amendment to the original contract for an additional $1,502,406, bringing the total clinical study contract to $2,821,511. The additional amount provided for in this amendment will be payable over a period extending December 2019. As at October 31, 2018, the balance of the commitment related to the amended contract was $1,590,408

The Company has leases commitments for the rental of office space and a vehicle. As at October 31, 2018, the contractual obligations related to the leases are $ 61,035 and the payments to be made in the following fiscal years are as follows

:

2019 -	$	30,535
2020 -	$	23,937
2021 -	$	6,563

19. FINANCIAL EXPENSES

Financial expenses are as follows:

		October 31 2018		October 31 2017
Interest expenses and bank charges	$	775	$	1,627
Interest on long-term debt		85,782		86,839
Amortization of discount on convertible debentures		15,998		-
Capitalized interest on convertible debentures		36,853		-
	$	139,408	$	88,566

(unaudited)

20. INCOME PER SHARE

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

	October 31 2018	October 31 2017
Weighted average number of shares used to calculate the basic income per share	67,348,148	58,774,352

Items excluded from the calculation of diluted income:

	October 31 2018	October 31 2017
Stock options	3,512,423	1,857,423
Warrants	12,621,143	4,217,782

For the three-month period ended October 31, 2018 and 2017, the impacts of the warrants and stock options are excluded from the calculation of the diluted loss per share, as they would be anti-dilutive.

21. RELATED PARTY TRANSACTIONS

The principal executives of the Company are the President, the Chief Financial Officer and the Directors. During the three-month period ended October 31, 2018 and 2017, the Company has paid them a total remuneration of $108,068 (2017 - $59,955), the main components of which are:

	October 31 2018	October 31 2017
Salaries and advantages	$ 84,999	$ 56,615
Stock-based compensation	$ 23,069	$ 3,340

22. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

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

			Changes without cash consideration		
	Balance, as at July 31 2018	Cash flows from financing activities	Equity component of convertible debentures	Other changes[1]	Balance, as at October 31 2018
Convertibles debentures (note 14)	$ 758,172	$ 697,000	$ (171,824)	$ 52,851	$ 1,336,199
Long-term debt (note 13)	3,092,833	(160,347)	-		2,932,486
	$ 3 851 005	$ 536,653 $	$ (171,824)$	$ 52,851	$ 4,268,685

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

23. ECONOMIC DEPENDENCE

During the three-month period ended October 31, 2018, the Company realized 77% (2017- none) of its revenues from a client.

24. FINANCIAL INSTRUMENTS

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

Market risk

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

<u>Interest rate risk</u>

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 $7,732 for the three-month period ended October 31, 2018.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The maximum credit risk is equal to the carrying value of the subscription receivable. The Company does not expect to be exposed to a higher than normal credit risk. On October 31, 2018, approximately 80% of trade receivables were due from a single client.

25. FINANCIAL INSTRUMENTS

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at October 31, 2018, the Company has current debts of $3,232,106 (July 31, 2018 - $2,305,943). The maturity date of the long-term debt is presented in Note 13. The Company monitors its cash resources. If the Company believes that it does not have sufficient liquidity to meet its obligations, management will consider the possibility of obtaining additional funds through the issuance of shares or debentures.

Fair value

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

<u>Financial instruments</u>

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

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

(unaudited)

25. FINANCIAL INSTRUMENTS (continued)

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

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

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

26. SUBSEQUENT EVENTS

On November 26, 2018, the Company issued to an employee 20,000 stock options. 25% of these options granted are exercisable on the grant date, then 25% per year in the following years. These options are exercisable at a price of $ 0.60 for a period of ten years from the date of grant. allocation.