

Devonian Health Group Inc.

Consolidated Financial Statements
As at July 31, 2020 and 2019



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, 2020 and its financial performance and its cash flows for the year 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 statement of net loss and comprehensive loss for the year ended July 31, 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of financial position as at July 31, 2020;
- the consolidated statement of cash flows for the year then ended; and
- the notes to consolidated financial statements, which include a summary of 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 2 to 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 – restated comparative information

We draw attention to note 27 to the consolidated financial statements, which explains that certain comparative information for the year ended July 31, 2019 has been restated. Our opinion is not modified in respect of this matter.

The consolidated financial statements for the year ended July 31, 2019, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor, who expressed an unmodified opinion on those consolidated financial statements on November 26, 2019.

As part of our audit of the consolidated financial statements for the year ended July 31, 2020, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such restatements are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review or apply any procedures to the consolidated financial statements for the years ended July 31, 2019 and 2018. Accordingly, we do not express an opinion or any form of assurance on those consolidated financial statements taken as a whole.

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.

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

/s/ PricewaterhouseCoopers LLP

Montréal, Quebec
November 30, 2020

¹ CPA auditor, CA, public accountancy permit No. A116819

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

For the years ended July 31,	2020	2019
		(restated - Note 27)
DISTRIBUTION REVENUES	\$ 2,143,155	\$ 4,004,905
OPERATING EXPENSES		
Cost of sales	2,213,272	3,417,368
Research and development expenses	1,536,832	1,175,886
Administrative expenses	2,478,179	2,602,122
Financial expenses (Note 18)	517,615	48,621
	<u>6,745,898</u>	<u>7,243,997</u>
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	(4,602,743)	(3,239,092)
OTHER ITEMS		
Gain on settlement of the amount due	-	350,000
Compensation revenue (Note 5)	127,100	149,400
Government loan grant	6,314	-
Lease income	94,553	-
	<u>227,967</u>	<u>499,400</u>
LOSS BEFORE INCOME TAXES	(4,374,776)	(2,739,692)
INCOME TAXES (Note 20)		
Recoverable	-	(49,992)
NET LOSS AND COMPREHENSIVE LOSS	\$ (4,374,776)	\$ (2,689,700)
Net loss per share (Note 19)		
Basic	\$ (0.059)	\$ (0.040)
Diluted	\$ (0.059)	\$ (0.040)

Additional information to the consolidated statements of net loss and comprehensive loss
(Notes 2, 4 and 18)

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Number				Amount						
	Shares	Stock options	Warrants	Total	Share capital	Stock options	Warrants	Equity component of convertible debentures	Contributed surplus	Deficit	Total
BALANCE, as at August 1, 2018, as presented	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
Restatements (Note 27)	-	-	-	-	-	-	-	(181,191)	-	776,454	595,263
BALANCE, as at August 1, 2018, restated	67,348,148	3,512,423	12,621,143	83,481,714	16,681,762	511,593	2,676,651	-	428,104	(6,967,589)	13,330,521
Issuance of shares (Note 13)	286,431	-	-	286,431	84,976	-	-	-	-	-	84,976
Stock-based compensation (Note 14)	-	170,000	-	170,000	-	109,737	-	-	-	-	109,737
Issuance of warrants (Note 15)	-	-	269,331	269,331	-	-	48,814	-	-	-	48,814
Options expired (Note 14)	-	(637,423)	-	(637,423)	-	(200,099)	-	-	200,099	-	-
Warrants expired (Note 15)	-	-	(4,217,782)	(4,217,782)	-	-	(861,525)	-	861,525	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	-	(2,689,700)	(2,689,700)
	286,431	(467,423)	(3,948,451)	(4,129,443)	84,976	(90,362)	(812,711)	-	1,061,624	(2,689,700)	(2,446,173)
BALANCE, as at July 31, 2019, restated	67,634,579	3,045,000	8,672,692	79,352,271	16,766,738 \$	421,231 \$	1,863,940 \$	- \$	1,489,728 \$	(9,657,289)	\$ 10,884,349
Issuance of shares (Note 13)	14,887,962	-	-	14,887,962	2,302,848	-	-	-	-	-	2,302,848
Share Issuance costs	-	-	-	-	(44,498)	-	-	-	-	-	(44,498)
In cash	-	-	-	-	(44,498)	-	-	-	-	-	(44,498)
In Warrants	-	-	63,600	63,600	(3,180)	-	3,180	-	-	-	-
Stock-based compensation (Note 14)	-	3,558,355	-	3,558,355	-	344,104	-	-	-	-	344,104
Issuance of warrants (Note 15)	-	-	3,953,407	3,953,407	-	-	272,204,	-	-	-	272,204
Options expired (Note 14)	-	(375,000)	-	(375,000)	-	(68,250)	-	-	68,250	-	-
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	-	-	(4,374,776)	(4,374,776)
	14,887,962	3,183,355	4,017,007	22,088,324	2,255,170	275,854	275,384	-	68,250	(4,374,776)	(1,500,119)
BALANCE, as at July 31, 2020	82,522,541	6,228,355	12,689,699	101,440,595	\$ 19,021,908	\$ 697,085	2,139,324 \$	- \$	1,557,978 \$	(14,032,065)	\$ 9,384,230

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at July 31,	2020	2019 (restated – Note 27)	2018 (restated – Note 27)
ASSETS			
CURRENT ASSETS			
Cash	\$ 913,017	\$ 244,590	\$ 981,982
Accounts receivable (Note 5)	510,384	433,619	708,051
Income taxes receivable	-	50,161	-
Tax credits receivable (Note 6)	164,773	114,383	131,390
Inventories (Note 7)	86,575	188,588	247,259
Security deposit, bearing interest at 0.78%	-	5,533	14,400
Prepaid expenses	61,749	113,320	167,982
	<u>1,736,498</u>	<u>1,150,194</u>	<u>2,251,064</u>
PROPERTY, PLANT, EQUIPMENT AND RIGHT-OF-USE ASSETS (Note 8)	3,317,043	3,561,175	3,830,442
INTANGIBLE ASSETS (Note 9)	6,999,622	7,768,496	8,407,977
GOODWILL (Notes 3 and 9)	4,643,084	4,643,084	4,668,219
	<u>\$ 16,696,247</u>	<u>\$ 17,122,949</u>	<u>\$ 19,157,702</u>

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at July 31,	2020	2019 (restated-Note 27)	2018 (restated-Note 27)
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable (Note 10)	\$ 2,627,659	\$ 2,005,320	\$ 1,195,420
Current portion of lease liability	7,257	-	-
Income taxes payable	-	-	50,396
Amount due to a private company	-	-	418,740
Current portion of long-term debt	-	-	641,387
	<u>2,634,916</u>	<u>2,005,320</u>	<u>2,305,943</u>
LONG-TERM DEBT (Note 11)	3,509,855	3,000,000	2,451,446
CONVERTIBLE DEBENTURES (Note 12)	1,152,075	1,233,280	1,069,792
LEASE LIABILITY	15,171	-	-
	<u>7,312,017</u>	<u>6,238,600</u>	<u>5,827,181</u>
SHAREHOLDERS' EQUITY			
Share capital (Note 13)	19,021,908	16,766,738	16,681,762
Stock options (Note 14)	697,085	421,231	511,593
Warrants (Note 15)	2,139,324	1,863,940	2,676,651
Contributed surplus	1,557,978	1,489,728	428,104
Deficit	(14,032,065)	(9,657,288)	(6,967,589)
	<u>9,384,230</u>	<u>10,884,349</u>	<u>13,330,521</u>
	<u>\$ 16,696,247</u>	<u>\$ 17,122,949</u>	<u>\$ 19,157,702</u>

Statutes of incorporation and nature of activities (Note 1)

Material uncertainty related to going concern (Note 2)

On behalf of the Board,

(s) Tarique Saiyed _____, President of the Audit Committee

(s) André Boulet _____, President & Chief Executive Officer

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

Devonian Health Group Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended July 31,

2020

2019 (restated)
(Note 27)

OPERATING ACTIVITIES

Net loss	\$ (4,374,776)	\$ (2,689,700)
Items not affecting cash		
Amortization of property, plant, equipment and right-of-use asset	273,606	269,267
Amortization of intangible assets	768,874	754,385
Amortization of discount on convertible debentures	162,758	102,917
Unrealized gain on derivatives	(243,963)	(631,244)
Interest on convertible debentures	267,617	258,281
Stock-based compensation	344,104	109,737
Gain on settlement of the amount due	-	(350,000)
	(2,801,780)	(2,176,357)
Net change in non-cash working capital items (Note 23)	774,153	1,018,442
	(2,027,627)	(1,157,915)

INVESTING ACTIVITIES

Acquisition of intangible assets	-	(114,904)
Acquisition of right-of-use asset	(29,474)	-
	(29,474)	(114,904)

FINANCING ACTIVITIES

Repayment of long-term debt	-	(3,092,833)
Additional financing	500,000	3,000,000
Additional lease liability	15,171	-
Government loan	9,855	-
Repayment of the amount due to a private company	-	(68,740)
Issuance of shares and warrants	2,200,502	-
Convertible debentures issued	-	697,000
	2,725,528	535,427

INCREASE (DECREASE) IN CASH

	668,427	(737,392)
CASH, beginning of year	244,590	981,982
CASH, end of year	\$ 913,017	\$ 244,590

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

For the year ended July 31, 2020, cash flows from operating activities include interest paid of \$326,817 (2019 - \$316,117) and do not include any tax paid (2019 - none).

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

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

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* (CBCA).

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

2. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis, which assumes that assets will be realized, and liabilities discharged in the normal course of business for the foreseeable future. Accordingly, these consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or on the discharge or classification of liabilities, should the Company be unable to continue its business in the normal course. 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.

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 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 statement of financial 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.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. 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 25, 2020.

Basis of measurement

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

Functional and presentation currency

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

Consolidation

Subsidiary

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiary, Altius Healthcare Inc., since February 1, 2018. Intercompany balances, income, expenses and cash flows are fully eliminated upon consolidation. When necessary, adjustments are made to the subsidiary's financial statements to align its accounting policies with those of the Company.

Distribution revenue recognition

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 contacts, 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:

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Impairment of intangible assets

Assessment of impairment of intangible assets at the end of each reporting period requires the use of judgments, assumptions and estimates when addressing whether there are any indicators that could give rise to the requirement to conduct a formal impairment test on the Company's intangible assets. The assessment of fair values requires the use of estimates and assumptions for forecasted revenues, discount rates and operating costs. In addition, the Company may use other approaches in determining fair value. Changes in any of the assumptions and estimates used in determining the fair value of the intangible assets measured at cost, could impact the impairment analysis.

- Payables to wholesalers

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

- Fair value of embedded derivative

The convertible debentures issued by the Company include a conversion option, which is considered as a Level 3 financial instrument. The derivative is measured at fair value through profit and loss, and its fair value must be measured at each reporting period, with subsequent changes in fair value recorded in the consolidated statement of net loss and comprehensive loss. A derivative valuation model is used, and includes management's assumptions, to estimate the fair value. Detailed assumptions used in the model to determine the fair value of the embedded derivative as of July 31, 2020 are provided in Note 12.

- Economic conditions and uncertainties

In early 2020, the coronavirus ("COVID-19") was confirmed in multiple countries throughout the world and on March 11, 2020, the World Health Organization declared a global pandemic. In response to the COVID-19 pandemic, governments enacted emergency measures to combat the spread of COVID-19, including the implementation of travel bans, quarantine periods and social distancing.

As a result, current global economic conditions are highly volatile. The magnitude, duration and severity of the COVID-19 pandemic are hard to predict and could affect the significant estimates and judgments used in the preparation of the consolidated financial statements.

Currency translation

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

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Company provides for income taxes using the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying value and tax values of assets and liabilities using enacted or substantively enacted income tax rates 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 net income (FVNI) and fair value through other comprehensive income (FVOCI). The classification of financial assets is generally based on the business model for which a financial asset is managed and the characteristics of the contractual cash flows. Financial liabilities are classified and measured in two categories: amortized cost and fair value through net income.

Financial assets measured at amortized cost

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

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost, i.e. accounts payable, amount due to a private company 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 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.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2020 and 2019, 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.

Inventory

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

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

Share issuance costs

Costs directly identifiable with the issuance of shares are deferred as an asset until the issuance of the shares. At issuance, these costs are recorded as a reduction of share capital. In case of abandonment, these costs are recognized in net 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:

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Building	
Structure and shell	40 years
Improvements, mechanical and plumbing systems	20 years
Leasehold improvements	5 years
Production and laboratory equipment	10 years
Computer equipment	3 years
Furniture and equipment	5 years

The residual value, the estimated useful life and the amortization method are reviewed at the end of each reporting date, and any changes in estimates are accounted for on a prospective basis. Amortization is recorded when the asset is ready to be used.

Intangible assets

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

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

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

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

No amortization for the intellectual property has been recognized since it is still under development. The amortization method and estimated useful life will have to be reviewed at each reporting date.

Business combinations and goodwill

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

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 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 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.

Leases prior to IFRS 16 adopted on August 1, 2019

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

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debentures

Convertible debentures are compound financial instruments within the meaning of IAS 32 *Financial Instruments: Presentation* and have 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 (income). 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 (income) and comprehensive loss (income).

The convertible debentures issued by the Company are a hybrid financial instrument that can be converted into units composed of common shares and warrants of the Company at the option of the holder. The hybrid financial instrument is 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 is recognized at fair value. Any directly attributable transaction costs are 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 is measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument is measured at fair value through profit and loss. Subsequent changes in fair value are recorded in the statements of net loss (income) and comprehensive loss (income).

Fair value of warrants

The proceeds 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

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

Stock-based compensation

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

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

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Stock-based compensation (continued)

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 income or 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 makes it possible 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.

New accounting standards adopted

IFRS 16 Leases

On August 1, 2019, the Company adopted IFRS 16. This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring the recognition of right-of-use assets and lease liabilities for all leases, unless the lease term is twelve months or less or the underlying asset has a low value, in which situations the Company elected not to account for an asset or a liability. However, lessor accounting remains largely unchanged in regard to IAS 17 *Leases* and the distinction between operating and finance leases is retained. No adjustments were required at the time of adoption.

The above standard applies to the lease of a vehicle, signed on August 2, 2019 for a period of 48 months and amortized over the same term with a carrying value of \$29,474. (Note 8)

IFRIC 23 Uncertainty over Income Tax Treatments

On August 1, 2019, the Company adopted IFRIC 23 which 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 did not have any significant impact on the Company's consolidated financial statements.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

4. ADDITIONAL INFORMATION TO THE CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

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

	2020	2019
Research and development -amortization of property, plant and equipment and right-of-use asset	\$ 273 606	\$ 269,267
Cost of sales - amortization of intangible assets	\$ 768 874	\$ 754,385
Administrative expenses - salaries and employer's contributions *	\$ 302,378	\$ 333,580
Administrative expenses - stock-based compensation	\$ 344,103	\$ 109,737
Research and development expenses – salaries and employer's contributions	\$ 76,995	\$ 82,721
Cost of sales - cost of inventories	\$ 753,908	\$ 1,529,445
Cost of sales -inventory obsolescence	\$ 141,605	\$ 110,154

* On March 27, 2020, the Canadian government announced a Canada Emergency Wage Subsidy (CEWS), effective from March 15 to August 29, 2020 and extended thereafter, allowing Canadian businesses to meet the challenges of the pandemic. Certain eligibility criteria must be met in order to be eligible for the CEWS. During the year, the Company benefited from this wage subsidy, in the amount of \$58,544 which was credited to payroll expenses (2019 – nil).

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

5. ACCOUNTS RECEIVABLE

	2020	2019
Trade	\$ 282,615	\$ 84,734
Sales taxes	227,769	174,350
Amount receivable from a private company, without interest	-	25,135
Compensation receivable	-	149,400
	\$ 510,384	\$ 433,619

As at July 31, 2020, trade accounts in the amount of \$64,234 (2019 - \$21,600), which are over 90 days old, are past due and are not impaired as the credit quality of these receivables has not changed significantly. A compensation receivable was recognized following an agreement with a supplier.

6. TAX CREDITS RECEIVABLE

	2020	2019
BALANCE , beginning of year	\$ 114,383	\$ 131,390
Tax credits for research and development accounted for	164,773	306,156
Tax credits for research and development received	(114,383)	(323,163)
BALANCE , end of year	\$ 164,773	\$ 114,383

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

7. INVENTORIES

	2020	2019
Raw materials	\$ 4,236	\$ 157,364
Finished goods	82,339	31,224
	\$ 86,575	\$ 188,588

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

8. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

								2020
	Building	Land	Leasehold improve- ments	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	-	\$ 4,728,758
New accounting policy adopted August 1, 2019	-	-	-	-	-	-	29,474	29,474
Balance, end of year	2,537,676	562,324	2,100	1,543,990	20,568	62,100	29,474	4,758,232
Accumulated amortization								
Balance, beginning of year	436,602	-	2,100	655,603	20,568	52,710	-	1,167,583
Amortization	102,614	-	-	154,234	-	9,390	7,368	273,606
Balance, end of year	539,216	-	2,100	809,837	20,568	62,100	7,368	1,441,189
Carrying value, end of year	\$ 1,998,460	\$ 562,324	\$ -	\$ 734,153	\$ -	\$ -	22,106	3,317,043
				\$				
2019								
	Building	Land	Leasehold improve- ments	Production and laboratory equipment	Computer equipment	Furniture and equipment		Total
Cost								
Balance, beginning of year	\$ 2,537,676	\$ 562,324	\$ 2,100	\$ 1,543,990	\$ 20,568	\$ 62,100		\$ 4,728,758
Balance, end of year	2,537,676	562,324	2,100	1,543,990	20,568	62,100		4,728,758
Accumulated amortization								
Balance, beginning of year	333,988	-	2,100	501,368	20,568	40,292		898,316
Amortization	102,614	-	-	154,235	-	12,418		269,267
Balance, end of year	436,602	-	2,100	655,603	20,568	52,710		1,167,583
Carrying value, end of year	\$ 2,101,074	\$ 562,324	\$ -	\$ 888,387	\$ -	\$ 9,390		\$ 3,561,175

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

9. INTANGIBLE ASSETS AND GOODWILL

						2020
	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	-	25,614	9,944	1,083,294	1,118,852	
Amortization	-	34,216	12,461	722,197	768,874	
Balance, end of year	-	59,830	22,405	1,805,491	1,887,726	
Carrying value, end of year	\$ 4,888,000	\$ 76,863	\$ 27,428	\$ 2,007,331	\$ 6,999,622	
2019						
	Intellectual property	Patents	Website	Licenses, trademarks and distribution rights	Total	
Cost						
Balance, beginning of year	\$ 4,888,000	\$ 50,993	\$ 20,629	\$ 3,812,822	\$ 8,772,444	
Separate acquisitions	-	85,700	29,204	-	114,904	
Balance, end of year	4,888,000	136,693	49,833	3,812,822	8,887,348	
Accumulated amortization						
Balance, beginning of year	-	3,370	-	361,097	364,467	
Amortization	-	22,244	9,944	722,197	754,385	
Balance, end of year	-	25,614	9,944	1,083,294	1,118,852	
Carrying value, end of year	\$ 4,888,000	\$ 111,079	\$ 39,889	\$ 2,729,528	\$ 7,768,496	

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.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

9. INTANGIBLE ASSETS AND GOODWILL (continued)

Impairment test

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

For the goodwill, there is one CGU and the assessment was performed by comparing the Company's net assets to the market capitalization as at July 31, 2020, which is considered a Level 1 measurement. Since the market capitalization of the Company is higher than its net assets, no impairment has been recognized.

In 2019, the impairment assessment was performed through a discounted cash flow analysis, which was considered a Level 3 measurement.

10. ACCOUNTS PAYABLE

	2020	2019
Suppliers	\$ 1,540,240	\$ 961,259
Accrued expenses	1,052,772	1,032,180
Salaries, payroll deductions and contributions	<u>34,647</u>	<u>11,881</u>
	\$ 2,627,659	\$ 2,005,320

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

11. LONG-TERM DEBT

	2020	2019
Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of \$10,294,559, interest payable monthly at the Toronto Dominion Bank's prime rate plus 6% (8.45%; 2019 - 9.95%), principal repayable at maturity in January 2024*	\$ 3,500,000	\$ 3,000,000
Canada Emergency Business Account Loan	9,855	-
	3,509,855	3,000,000

* 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.

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

12. CONVERTIBLE DEBENTURES

	Year ended July 31, 2019		
	Host	Derivative	Total
	\$	\$	\$
Balance as of July 31, 2018	520,606	544,000	1,064,606
Issuance	297,387	399,613	697,000
Accretion	102,917	-	102,917
Change in fair value of derivative	-	(631,243)	(631,243)
Balance as of July 31, 2019	920,910	312,370	1,233,280
	Year ended July 31, 2020		
	Host	Derivative	Total
	\$	\$	\$
Balance as of July 31, 2019	920,910	312,370	1,233,280
Accretion	162,758	-	162,758
Change in fair value of derivative	-	(243,963)	(243,963)
Balance of July 31, 2020	1,083,668	68,407	1,152,075

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

12. CONVERTIBLE DEBENTURES (continued)

The principal amount of the debentures (\$1,697,000 as at July 31, 2020 and 2019) will be convertible into units of the Company at a price of \$0.75 per unit and mature in July and August 2022. Each unit consists of one subordinate voting share in the capital of the Company and one subordinate voting share purchase warrant. Each warrant will entitle the holder to acquire one subordinate voting share in the capital of the Company at a price of \$0.95 until 48 months after the closing date.

Interest on the convertible debentures is payable in units semi-annually based on an annual rate of 10%. Each unit will comprise one common share and one share purchase warrant having a four-year contractual life. 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 VWAP (volume-weighted average share price) immediately prior to the interest payment date will be applicable and will be used to settle the 10% interest. The exercise price of the warrants included in the units will be equal to the one obtained for the price of the shares used to settle the 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 VWAP immediately prior to the interest payment date will be applicable and the exercise price of the warrants will be equal to the one obtained for the price of the shares based on the conversion rate of interest plus 30%.

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

Convertible debentures are compound financial instruments within the meaning of IAS 32 and have a liability component and an embedded derivative component. The derivative is measured at fair value through profit or loss, and its fair value must be measured at each statement of financial position date. Subsequent changes in fair value are recognized in the consolidated statement of net loss and comprehensive loss. The change in fair value is included in finance costs (note 18).

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

	2020	2019
Expected life	2 to 2.75 years	3 to 4 years
Risk-free interest rate	1.00%	1.79%
Expected volatility	85%	85%

* The expected volatility of the share price has been calculated based on the historical volatility of companies comparable to Devonian.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

13. 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 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 for one subordinate voting share. In May 2027, 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 share basis.

Description of authorized share capital

	2020	2019
Share capital issued includes:		
82,522,541 shares (2019 - 67,634,579)	\$ 19,021,908	\$ 16,766,738

The 82,522,541 shares outstanding as at July 31, 2020 are divided into 62,556,018 subordinate voting shares and 19,966,523 multiple voting shares (2019 - 67,634,579 outstanding shares are classified into 47,668,056 subordinate voting shares and 19,966,523 multiple voting shares). Among the 62,556,018 subordinate voting shares, 8,403,361 shares were voluntarily escrowed and will be released on February 1, 2021.

Issuance

a) Interest on convertible debentures

During fiscal 2019, the Company issued 269,331 units and 17,100 shares to holders of debentures issued on July 19, 2018 and August 31, 2018 at a unit price ranging from \$0.29 to \$0.31. These units and shares were issued in consideration of the interest owed to them for a total amount of \$133,790. 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 in the share capital of the Company at a price ranging from \$0.38 to \$0.40 for a period of 48 months.

The 17,100 shares were issued to a director, who is a holder of debentures issued during the second tranche of the private placement closed on August 31, 2018.

The fair value of the 286,431 shares and the 269,331 warrants was estimated at \$84,976 and \$48,814 respectively according to the following weighted average assumptions:

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

13. SHARE CAPITAL (continued)

Issuance (continued)

Risk-free interest rate	1.79%
Average expected life	3.6 years
Expected volatility	85%
Share price	\$0.31
Expected dividends	Nil

a) Interest on convertible debentures (continued)

During fiscal 2020, the Company issued 1,080,285 units and 54,555 shares to holders of debentures issued on July 19, 2018 and August 31, 2018 at a unit price ranging from \$0.168 to \$0.26. These units and shares were issued in consideration of the interest owed to them for a total amount of \$219,289. 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 \$0.218 to \$0.34 for a period of 48 months.

The 54,555 shares were issued to a director, who is a holder of debentures issued during the second tranche of the private placement closed on August 31, 2018.

The fair value of the 1,134,840 shares and 1,080,285 warrants was estimated at \$219,289 and \$44,973 respectively according to the following weighted average assumptions:

Risk-free interest rate	1.43%
Average expected duration	2.5 years
Expected volatility	85%
Share price	\$0.196
Expected dividend	Nil

b) Private financing

In August 2019 and December 2019, the Company completed a non-brokered private financing by issuing 1,760,000 units at a price of \$0.25 per unit for gross proceeds of \$440,000. Each unit consists of one subordinate voting share and one-half of one share purchase warrant. Each warrant entitles the holder thereof to acquire one subordinate voting share at a price of \$0.50 per share until August 2021.

The fair values of the 1,760,000 shares and 1,760,000 half warrants were estimated at \$397,317 and \$26,783, respectively, according to the Black-Scholes option pricing model, and using the following weighted average assumptions;

Risk-free interest rate	1.58%
Average expected life	0.83 year
Expected volatility	154%
Share price	\$0.16
Expected dividends	Nil

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

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

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

13. SHARE CAPITAL (continued)

Issuance (continued)

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

On May 4, 2020, the Company completed a non-brokered private placement for total gross proceeds of \$1,805,000.

10,000,000 subordinate voting shares were issued at a price of \$ 0.15 per share, for gross proceeds of \$1,500,000.

In addition, 1,188,887 units were issued at a price of \$0.15 per unit, for gross proceeds of \$178,333 and finally, 804,235 units were issued at a price of \$0.1575 per unit for gross proceeds of \$126,667.

Each unit is made up of one subordinate voting share and one share purchase warrant. Each warrant will entitle its holder to acquire one subordinate voting share at a price of \$0.25 per share for a period of 24 months.

The fair value of the 1,993,122 shares and 1,993,122 warrants was estimated at \$ 170,342 and \$134,658 respectively according to the Black-Scholes valuation model and using the following assumptions:

Risk-free interest rate	0.36%
Average expected life	1 year
Expected volatility	185%
Share price	\$0.20
Expected dividends	Nil

Related costs of \$ 20,950 for this share issue were recorded

14. 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 ten years and will be granted at the price and conditions that the directors will consider necessary to reach the goal of the stock option plan, and according to the applicable regulations. The exercise price of the option cannot be lower than the market price.

During fiscal year 2020, the Company granted 2,560,000 stock purchase options to directors of the Company as well as 998,355 stock purchase options to members of management and employees. These options are exercisable at a price ranging from \$0.15 to \$0.21 for a period of ten years from the date of grant. These options are exercisable on the grant date. The fair value of these options was estimated at \$ 278,092 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	0.43%
Average expected life	1.9 years
Expected volatility	95%
Share price	\$0.16
Expected dividend	Nil

On November 26, 2018, the Board of Directors approved the granting of 20,000 stock options to an employee.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

14. STOCK OPTION PLAN (continued)

25% of these options granted are exercisable on the grant date, then 25% per year in subsequent years. These options are exercisable at a price of \$0.60 for a period of ten years from the grant date. The fair value of these options has been estimated at \$2,570 according to the Black-Scholes option pricing model, and using the following weighted average assumptions:

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

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

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

The Company recorded an expense of \$344,104 during the year (2019 - \$109,737). This charge includes an amount of \$ 66,011 (2019- \$ 102,537) attributable to options granted from 2017 to 2019.

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:

	2020		2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	3,045,000	\$ 0.66	3,512,423	\$ 0.67
Options expired	(375,000)	0.60	(537,423)	0.75
Options cancelled	-	-	(100,000)	0.60
Options granted to directors and consultants	2,560,000	0.16	150,000	0.60
Options granted to members of management and employees	998,355	0.15	20,000	0.60
Outstanding, end of year	6,228,355	\$ 0.37	3,045,000	\$ 0.66
Options exercisable, end of year	5,895,855	0.49	2,310,000	0.67
Weighted average fair value of the options granted during the year		\$ 0.08		\$ 0.06

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. STOCK OPTION PLAN (continued)

The following table summarizes information about the options outstanding and exercisable as at July 31, 2020:

Exercise price	Options outstanding		Options exercisable
	Number of options outstanding	Weighted average remaining contractual life	Number of options exercisable
\$0.15	2,933,355	9.9 years	2,933,355
\$0.21	625,000	9.73 years	625,000
\$0.60	2,420,000	6.07 years	2,087,500
\$1.20	250,000	2.62 years	250,000

Devonian Health Group Inc.

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15. WARRANTS

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

	2020		2019	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	8,672,692	\$ 1.16	12,621,143	\$ 1.16
Issued	4,017,007	0.32	269,331	0.39
Expired	-	-	(4,217,782)	1.10
Outstanding, end of year	12,689,699	\$ 0.89	8,672,692	\$ 1.16
Warrants exercisable, end of year	4,286,338	\$ 0.37	269,331	1.10

The following table summarizes information about warrants outstanding as at July 31, 2020:

Exercise price	Warrants outstanding	
	Number of warrants outstanding	Average remaining contractual life
\$0.218	179,137	3.5 years
\$0.225	291,393	3.5 years
\$0.237	272,467	4 years
\$0.250	1,993,122	1.75 years
\$0.263	146,561	3.75 years
\$0.338	190,727	3.5 years
\$0.38	173,831	2.73 years
\$0.40	95,500	2.73 years
\$0.50	880,000	1.13 year
\$1.00	63,600	1.08 year
\$1.19	8,403,361	0.5 year

All warrants are exercisable except for the block of 8,403,361 warrants which are voluntarily escrowed and will be released on February 1, 2021.

Devonian Health Group Inc.

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As at July 31, 2020 and 2019

16. 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, 2019. The Company has committed to the private lender not to redeem preferred or common shares without its prior written consent.

Devonian Health Group Inc.

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As at July 31, 2020 and 2019

17. COMMITMENTS

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

The contract, which initially totaled \$1,222,497, was amended during the last two years to total \$3,156,161. As of July 31, 2020, the balance of the commitment related to the amended contract was \$160,400.

The Company has committed to pay a total amount of \$80,000 over a four-year period to a research project entitled "The Next Generation Agriculture: Botanical extracts and essential oils as the new antimicrobials against microbial contaminants and diseases of Cannabis". As at July 31, 2020, the balance of this commitment was \$60,000.

18. FINANCIAL EXPENSES

Financial expenses are as follows:

	2020	2019
Interest expenses and bank charges	\$ 3,505	\$ 2,548
Interest on long-term debt	327,698	316,117
Amortization of discount on convertible debentures	162,758	102,917
Embedded derivative convertible debentures – Change in fair value	(243,963)	(631,243)
Interest expense on convertible debentures	267,617	258,282
	\$ 517,615	\$ 48,621

19. NET LOSS PER SHARE

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

	2020	2019
Weighted average number of shares used to calculate the basic loss per share	72,406,209	67,430,545

Items excluded from the calculation of diluted loss per share:

	2020	2019
Stock options	6,228,355	3,045,000
Warrants	12,689,699	8,672,692
Convertible debentures	4,525,334	4,525,334

For the years ended July 31, 2020 and 2019, the impacts of the warrants, stock options and the convertible debentures were excluded from the calculation of diluted loss per share as they would have an anti-dilutive effect.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

20. 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:

	2020	2019
Canadian statutory tax rate	26.50%	26.64%
Recovery calculated using the statutory tax rates	\$ (1,159,316)	\$ (858,495)
Increase (decrease) in income tax expense from:		
Amortization of discount on convertible debentures	31,336	19,766
Stock-based compensation	91,188	29,234
Variation of potential tax assets not recognized	1,024,122	832,811
Rate differences and other	-	(42,107)
Non-deductible fees	871	15,419
Gain on settlement of the amount due	-	(46,620)
Adjustment of previous year	32,482	32,482
Other individually insignificant items	(20,682)	(32,482)
	\$ -	\$ (49,992)

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

	2020	2019
Deferred tax assets		
Long-term		
Tax losses	\$ 2,999,587	\$ 2,364,917
Financing fees	139,313	202,322
Research and development expenses	841,344	570,387
Lease liabilities	5,943	-
	3,986,187	3,137,626
Deferred tax liabilities		
Long-term		
Fixed assets and intangible assets	1,415,112	1,529,855
Right-of-use asset	5,858	-
Debentures	57,277	90,828
	1,478,247	1,620,683
	2,507,940	1,516,943
Potential tax assets not recognized	(2,507,940)	(1,516,943)
	\$ -	\$ -

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

20. INCOME TAXES (continued)

The Company's non-capital losses that may be used to reduce taxes in future years total \$11.4 million and expire at various dates between 2034 and 2040.

The balance of the research and development expenses that may be used to reduce taxes in future years is \$3.2 million. The Company may take advantage of the tax benefit related to these expenses for an indefinite period.

A deferred tax asset of \$841,344 (2019 - \$861,437) is recorded relative to the items listed above, being an amount equal to the deferred tax liability recorded.

21. 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 2020, the Company has paid them a total remuneration of \$ 799,029 (2019 - \$673,619), which has been recognized in administrative expenses and of which the main components are:

	2020	2019
Salaries and benefits	\$ 272,500	\$ 258,230
Management fees	\$ 200,000	\$ 316,667
Stock-based compensation	\$ 326,529	\$ 98,722

22. DETAILS OF CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in non-cash working capital

The changes in non-cash working capital items for the fiscal years ended on the dates indicated below are as follows:

	2020	2019
Accounts receivable	\$ (76,765)	\$ 274,432
Income taxes receivable	\$ 50,161	\$ (100,557)
Tax credits receivable	\$ (50,390)	\$ 17,007
Inventories	\$ 102,013	\$ 58,671
Security deposit	\$ -	\$ 8,867
Prepaid expenses	\$ 57,104	\$ 54,662
Accounts payable	\$ 692,029	\$ 705,360
	<u>\$ 774,152</u>	<u>\$ 1,018,442</u>

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

23. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

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

	Balance, as at July 31, 2019	Net cash flows from financing activities	Changes without cash consideration Other changes*	Balance, as at July 31, 2020
Convertible debentures (Note 12)	\$ 1,233,280	\$ -	\$ (81,205)	\$ 1,152,075
Long-term debt (Note 11)	3,000,000	509,855	-	3,509,855
	\$ 4,233,280	\$ 509,855	\$ (81,205)	\$ 4,661,930

* Other changes include amortization of the discount on convertible debentures and changes in fair value of the embedded derivative of convertible debentures.

24. ECONOMIC DEPENDENCE

During the year, the Company realized 54% (2019 - 66%) of its revenues from one client and 94% (2019 - 91%) of its purchases of inventories from one supplier.

25. FINANCIAL INSTRUMENTS

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

Market risk

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

Interest rate risk

The Company has a long-term borrowing bearing interest at variable rate. Consequently, the Company is exposed to interest rate risk based on changes in the prime rate. Based on the balance as at July 31, 2020, a 1% increase in the prime rate would increase interest expense by \$35,000 over a twelve-month horizon (2019 - \$30,000).

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The maximum credit risk is equal to the carrying value of accounts receivable. The Company does not expect to be exposed to a higher than normal credit risk.

As at July 31, 2020, approximately 49% (2019 - 31%) of receivables were due from a single client.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at July 31, 2020, the Company has current debts of \$2,627,659 \$ (2019 – \$2,005,320). The maturity dates of the long-term debt and the convertible debentures are presented in Notes 11 and 12. 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 (Note 2).

The tables below categorize the Company's financial liabilities 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 \$	1-5 years \$	Over 5 years \$	Total \$
Long-term Debt	73,938	221,813	4,239,375	-	4,535,126
Accounts payable and accrued liabilities	1,102,086	85 534		-	1,187,620

Fair value

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

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

26. SEGMENTED INFORMATION

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

27. RESTATEMENTS

Revenues and expenses

The Company has historically recognized all revenues and expenses related to operations with wholesalers on a gross basis, with revenues reported at the gross amounts and amounts recognized as expenses in administration and selling expenses.

During the year ended July 31, 2020, the Company reassessed the accounting treatment of those expenses and determined that all expenses charged by the wholesalers should be recognized in reduction of the revenues.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

27. RESTATEMENTS (continued)

Convertible debentures

The Company has historically split convertible debentures into a liability component and an equity component, under IAS 32.

During the year ended July 31, 2020, the Company reassessed the accounting treatment of the convertible debentures and determined the recognition policy should be changed, in order to split the convertible debentures into a liability component (host) and an embedded derivative.

Goodwill

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

During the year ended July 31, 2020, the Company reassessed the accounting treatment of this operation and determined it should recognize the above receivable against goodwill, removing it from the consolidated statement of income.

Deferred income tax assets

Upon the acquisition of Altius Healthcare Inc., the Company had not considered that its own income tax attributes were available to be used as needed to eliminate income taxes that could have been due upon the materialization of the taxable temporary differences that arose from the acquisition.

Under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the changes described above were applied retrospectively and the comparative information was adjusted for all the periods presented, as if the policies had always been in place.

The following table shows the impact of the changes the adjusted lines of financial statements:

Consolidated Statements of financial position:

	As of August 1, 2018		
	As previously reported	Impact	Adjusted
Liabilities			
Convertible debentures	758,172	311,620	1,069,792
Deferred income taxes	906,883	(906,883)	-
Total Liabilities	1,665,055	(595,263)	1,069,792
Equity			
Equity component of convertible debentures	181,191	(181,191)	-
Deficit	(7,744,043)	776,454	(6,967,589)
Total Equity	(7,562,852)	595,263	(6,967,589)

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

27. RESTATEMENTS (continued)

	As of July 31, 2019		
	As previously reported	Impact	Adjusted
Assets			
Goodwill	4,668,219	(25,135)	4,643,084
Total Assets	4,668,219	(25,135)	4,643,084
Liabilities			
Accounts payable	1,875,644	129,676	2,005,320
Convertible debentures	1,436,349	(203,069)	1,233,280
Deferred income taxes	759,246	(759,246)	-
Total Liabilities	4,071,239	(832,639)	3,238,600
Equity			
Share capital	16,749,159	17,579	16,766,738
Warrants	1,832,704	31,236	1,863,940
Equity component of convertible debentures	307,482	(307,482)	-
Deficit	(10,723,459)	1,066,171	(9,657,288)
Total Equity	8,165,886	807,504	8,973,390

	For the year ending July 31, 2019		
	Previous reported	Impact	Adjusted
Revenue	5,937,754	(1,932,849)	4,004,905
Cost of sales	2,823,859	593,509	3,417,368
Selling expenses	196,431	(196,431)	-
Administrative expenses	5,223,559	(2,621,437)	2,602,122
Research and development expenses	884,375	291,511	1,175,886
Financial expenses	556,643	(508,022)	48,621
Other items	524,535	(25,135)	499,400
Deferred income taxes	(243,162)	193,170	(49,992)
Net loss	(2,979,416)	289,716	(2,689,700)

The changes in accounting policies had no impact on the net cash flows related to operating, investing and financing activities reported in the statement of cash flows as the adjustments were limited to elements reported within operating activities in 2019.

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

28. QUARTERLY ADJUSTMENTS (unaudited-supplementary information)

Consolidated Statements of net loss:

The effects of the adjustments described in note 27 have had the following effects on the unaudited interim consolidated financial statements:

Adjustment to unaudited interim consolidated quarterly statements of financial position:

As at October 31, 2018			
	Previously stated	Adjustments	Adjusted
Current liabilities	3,232,106	63,303	3,295,409
Convertible debentures	1,336,199	980,728	2,316,927
Deferred taxes	904,801	(904,801)	-
Equity component of debentures	307,482	(307,482)	-
Deficit	(8,400,628)	(630,300)	(9,030,928)
As at January 31, 2019			
	Previously stated	Adjustments	Adjusted
Current liabilities	3,353,285	130,757	3,484,042
Convertible debentures	1,397,849	65,438	1,463,287
Deferred taxes	856,422	(856,422)	-
Equity component of debentures	307,482	(307,482)	-
Deficit	(8,799,848)	212,534	(8,587,314)
As at April 30, 2019			
	Previously stated	Adjustments	Adjusted
Current liabilities	1,928,741	62,222	1,990,963
Convertible debentures	1,374,109	194,029	1,568,138
Deferred taxes	807,772	(807,772)	-
Share capital	16,759,627	7,111	16,766,738
Warrants	2,683,761	41,704	2,725,465
Equity component of debentures	307,482	(307,482)	-
Deficit	(9,789,404)	98,390	(9,691,014)
As at July 31, 2019			
	Previously stated	Adjustments	Adjusted
Current liabilities	1,875,644	129,676	2,005,320
Convertible debentures	1,436,349	(203,069)	1,233,280
Deferred taxes	759,246	(759,246)	-
Share capital	16,749,159	17,579	16,766,738
Warrants	1,832,704	31,236	1,863,940
Equity component of debentures	307,482	(307,482)	-
Deficit	(10,723,459)	422,887	(10,300,572)

Devonian Health Group Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

28. QUARTERLY ADJUSTMENTS (unaudited-supplementary information)

	As at October 31, 2019		
	Previously stated	Adjustments	Adjusted
Current liabilities	2,412,593	197,130	2,609,723
Convertible debentures	1,501,114	(419,793)	1,081,321
Deferred taxes	710,044	(710,044)	-
Share capital	17,135,648	17,579	17,153,227
Warrants	1,862,667	31,236	1,893,903
Equity component of debentures	307,482	(307,482)	-
Deficit	(11,645,744)	566,329	(11,079,415)

	As at January 31, 2020		
	Previously stated	Adjustments	Adjusted
Current liabilities	2,581,185	137,316	2,718,501
Convertible debentures	1,481,788	(339,279)	1,142,509
Deferred taxes	660,668	(660,668)	-
Share capital	17,195,640	42,312	17,237,952
Warrants	1,887,400	49,046	1,936,446
Equity component of debentures	307,482	(307,482)	-
Deficit	(12,849,811)	497,090	(12,352,721)

	As at April 30, 2020		
	Previously stated	Adjustments	Adjusted
Current liabilities	2,561,785	119,786	2,681,571
Convertible debentures	1,498,522	(202,148)	1,296,374
Deferred taxes	610,464	(610,464)	-
Share capital	18,897,696	61,009	18,958,705
Warrants	2,040,755	62,723	2,103,478
Equity component of debentures	307,482	(307,482)	-
Deficit	(13,638,524)	338,287	(13,300,237)

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28. QUARTERLY ADJUSTMENTS (unaudited-supplementary information)

Adjustment to unaudited interim consolidated statements of net income and comprehensive income:

	For the three-month period ended October 31, 2018		
	Previously stated	Adjustments	Adjusted
Revenues	1,935,772	(450,870)	1,484,902
Cost of Sales	949,465	142,850	1,092,315
Selling expenses	38,098	(38,098)	-
Administration expenses	819,268	(625,965)	193,303
Research and development expenses	221,073	70,343	291,416
Financial expenses	139,408	560,589	699,997
Deferred taxes	14,382	(14,382)	-

	For the three-month period ended January 31, 2019		
	Previously stated	Adjustments	Adjusted
Revenues	3,315,770	(1,106,894)	2,208,876
Cost of Sales	1,503,760	113,937	1,617,697
Selling expenses	30,305	(30,305)	-
Administration expenses	842,368	(1,264,005)	(421,637)
Research and development expenses	95,240	73,479	168,719
Financial expenses	143,647	(847,836)	(704,189)
Deferred taxes	(59,388)	(59,388)	-

	For the three-month period ended April 30, 2019		
	Previously stated	Adjustments	Adjusted
Revenues	509,561	(348,903)	160,658
Cost of Sales	167,994	170,832	338,826
Selling expenses	61,792	(61,792)	-
Administration expenses	769,776	(529,179)	240,597
Research and development expenses	220,141	71,236	291,377
Financial expenses	136,736	108,872	245,608
Deferred taxes	(5,273)	5,273	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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28. QUARTERLY ADJUSTMENTS (unaudited-supplementary information)

	For the three-month period ended July 31, 2019		
	Previously stated	Adjustments	Adjusted
Revenues	176,651	(26,182)	150,469
Cost of Sales	202,640	165,889	368,529
Selling expenses	66,236	(66,236)	-
Administration expenses	2,792,147	(202,288)	2,589,859
Research and development expenses	347,921	76,453	424,374
Financial expenses	136,852	(329,645)	(192,793)
Deferred taxes	(5,147)	5,147	-
	For the three-month period ended October 31, 2019		
	Previously stated	Adjustments	Adjusted
Revenues	1,037,851	135	1,037,986
Cost of Sales	584,750	161,332	746,082
Selling expenses	62,937	(62,937)	-
Administration expenses	776,726	(181,920)	594,806
Research and development expenses	434,420	83,661	518,081
Financial expenses	150,508	(149,270)	1,238
Deferred taxes	(49,205)	49,205	-
	For the three-month period ended January 31, 2020		
	Previously stated	Adjustments	Adjusted
Revenues	710,602	(308,910)	401,692
Cost of Sales	293,180	168,132	461,312
Selling expenses	45,953	(45,953)	-
Administration expenses	1,037,490	(507,439)	530,051
Research and development expenses	433,460	76,349	509,809
Financial expenses	153,959	63,243	217,202
Deferred taxes	(49,373)	49,373	-

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at July 31, 2020 and 2019

28. QUARTERLY ADJUSTMENTS (unaudited-supplementary information)

	For the three-month period ended April 30, 2020		
	Previously stated	Adjustments	Adjusted
Revenues	698,990	(319,628)	379,362
Cost of Sales	189,167	169,843	359,010
Selling expenses	10,393	(10,393)	-
Administration expenses	1,001,936	(548,908)	453,028
Research and development expenses	189,100	69,831	258,931
Financial expenses	147,312	151,975	299,287
Deferred taxes	(50,205)	50,205	-

29. SUBSEQUENT EVENTS

On October 19, 2020, the Company issued 338,326 shares at a share price of \$ 0.149 and 201,982 units at a unit price of \$ 0.149, in return for the \$ 35,136 in interest it owed on August 2020, to holders of debentures issued on July 31, 2018. Each unit consists 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 of \$ 0.194 for a period of 48 months.