



Devonian Health Group Inc.

Interim Condensed Consolidated Financial Statements
For the nine-month periods ended
April 30, 2020 and 2019

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIODS
ENDED APRIL 30, 2020 AND APRIL 30, 2019**

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 April 30, 2020, and the interim consolidated statements of the net income and comprehensive income, changes in equity and cash flows for the nine-month period ended April 30, 2020 and April 30, 2019. The auditors have not examined or audited these interim consolidated financial statements.

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

Devonian Health Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	For the three-month period ended April 30,		For the nine-month period ended April 30,	
	2020	2019	2020	2019
DISTRIBUTION REVENUES	\$ 599,390	\$ 509,561	\$ 2,347,843	\$ 5,761,103
OPERATING EXPENSES				
Cost of sales	189,167	167,994	1,067,097	2,618,711
Research and development expenses	189,100	220,140	1,056,980	536,453
Selling expenses	10,393	61,792	119,283	130,195
Administrative expenses (Note 4)	1,001,936	1,109,070	2,816,152	4,224,160
Financial fees (Note 17)	147,312	136,736	451,779	419,790
	1,537,908	1,695,732	5,511,291	7,929,309
LOSS FROM OPERATIONS	(938,518)	(1,186,171)	(3,163,448)	(2,168,206)
OTHER ITEM				
Compensation revenue	99,600	-	99,600	-
LOSS BEFORE INCOME TAXES	(838,918)	(1,186,171)	(3,063,848)	(2,168,206)
INCOME TAXES				
Recoverable	-	(147,965)	-	21,800
Deferred	(50,205)	(48,650)	(148,783)	(144,645)
NET LOSS AND COMPREHENSIVE LOSS	\$ (788,713)	\$ (989,556)	\$ (2 915,065)	\$ (2 045,361)
Net loss and comprehensive loss per share (note 18)				
Basis and et diluted	\$ (0,011)	\$ (0,015)	\$ (0,042)	\$ (0,030)

Additional information to the statements of income (Note 4)

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

Devonian Health Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED APRIL 30, 2020 AND JULY 31, 2019

(unaudited)

	Number						Amount									
	Shares issued	Shares subscribed	Stock options	Warrants issued	Warrants subscribed	Total	Share capital issued	Share capital subscribed	Stock options	Warrants issued	Warrants subscribed	Equity component of convertible debentures	Contributed surplus	Deficit	Total	
BALANCE, as at July 2018	67,348,148	-	3,512,423	12,621,143	-	83,481,714	\$ 16,681,762	\$ -	\$ 511,593	\$ 2,676,651	\$ -	\$ 181,191	\$ 428,104	\$ (7,744,043)	\$ 12,735,258	
Issuance of shares and warrants (Note 13)	286,431	-	-	269,331	-	555,762	67,397	-	-	17,578	-	-	-	-	84,975	
Warrants expired	-	-	-	(4,217,782)	-	(4,217,782)	-	-	-	(861,525)	-	-	861,525	-	-	
Options expired (Note 14)	-	-	(637,423)	-	-	(637,423)	-	-	(200,099)	-	-	-	200,099	-	-	
Stock-based compensation (note 14)	-	-	170,000	-	-	170,000	-	-	109,737	-	-	-	-	-	109,737	
Equity component of convertible debentures	-	-	-	-	-	-	-	-	-	-	-	171,824	-	-	171,824	
Tax effect of convertible debentures	-	-	-	-	-	-	-	-	-	-	-	(45,533)	-	-	(45,533)	
Net loss and comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,979,416)	(2,979,416)	
	286,431	-	(467,423)	(3,948,451)	-	(4,129,443)	\$,67,397	\$ -	(90,362)	(843,947)	-	126,291	1,061,624	(2,979,416)	(2,658,413)	
BALANCE, as at July 31, 2019	67,634,579	-	3,045,000	8,672,692	-	79,352,271	\$ 16,749,159	\$ -	421,231	\$ 1,832,704	\$ -	\$ 307,482	\$ 1,489,728	\$ (10,723,459)	\$ 10,076,845	
Issuance of shares and warrants (Note 13)	2,451,263	-	-	1,541,257	-	3,992,520	504,923	-	-	70,213	-	-	-	-	575,136	
Share issuance costs																
In cash	-	-	-	-	-	-	(23,548)	-	-	-	-	-	-	-	(23,548)	
In warrants	-	-	-	63,600	-	63,600	(3,180)	-	3,180	-	-	-	-	-	-	
Subscription of shares and warrants (note 13)	-	11,993,122	-	-	1,933,122	13,926,244	-	1,670,342	-	134,658	-	-	-	-	1,805,000	
Options expired (Note 14)	-	-	(375,000)	-	-	(375,000)	-	-	(68,250)	-	-	-	68,250	-	-	
Stock-based compensation (note 14)	-	-	625,000	-	-	625,000	-	-	140,624	-	-	-	-	-	140,624	
Net loss and comprehensive loss for the nine-month period	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,915,065)	(2,915,065)	
	2,451,263	11,993,122	250,000	1,604,857	1,933,122	18,232,364	478,195	1,670,342	72,374	73,393	134,658	-	68,250	(2,915,065)	(417,853)	
BALANCE, as at April 30, 2020	70,085,842	11,993,122	3,295,000	10,277,549	1,933,122	97,584,635	\$ 17,227,354	\$ 1,670,342	\$ 493,605	\$ 1,906,097	\$ 134,658	\$ 307,482	\$ 1,557,978	\$ (13,638,524)	\$ 9,658,992	

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

Devonian Health Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at,	April 30, 2020	July 31, 2019
	(unaudited)	(audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 332,533	\$ 244,590
Cash held in trust	1,775,000	-
Subscription receivable	30,000	-
Account receivable (Note 5)	232,148	433,619
Income taxes receivable	-	50,161
Tax credit receivable (Note 6)	-	114,383
Inventories (Note 7)	154,720	188,588
Prepaid expenses	88,308	113,320
Security deposit, bearing interest at 0.78%	-	5,553
	<hr/>	<hr/>
	2,612,709	1,150,194
FIXED ASSETS (Note 8)	3,359,821	3,561,175
INTANGIBLE ASSETS (Note 9)	7,189,014	7,768,496
GOODWILL (Note 9)	4,668,219	4,668,219
	<hr/>	<hr/>
	\$ 17,829,763	\$ 17,148,084

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

Devonian Health Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

As at,	April 30, 2020	July 31, 2019
	(unaudited)	(audited)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 10)	\$ 2,561,785	\$ 1,875,644
	2,561,785	1,875,644
LONG-TERM DEBT (Note 11)	3,500,000	3,000,000
CONVERTIBLE DEBENTURES ISSUED (Note 12)	1,498,522	1,436,349
DEFERRED INCOME TAXES	610,464	759,246
	<u>8,170,771</u>	<u>7,071,239</u>
SHAREHOLDERS' EQUITY		
Share capital issued (Note 13)	17,227,354	16,749,159
Share capital subscribed (Note 13)	1,670,342	-
Stock options (Note 14)	493,605	421,231
Warrants issued (Note 14)	1,906,097	1,832,704
Warrants subscribed (Note 14)	134,658	-
Equity component of convertible debentures	307,482	307,482
Contributed surplus	1,557,978	1,489,728
Deficit	<u>(13,638,524)</u>	<u>(10,723,459)</u>
	<u>9,658,992</u>	<u>10,076,845</u>
	<u>\$ 17,829,763</u>	<u>\$ 17,148,084</u>

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 2)

Commitments (Note 16)

On behalf of the Board,

(s) Tarique Saiyed, President of the Audit Committee

(s) André Boulet, President & Chief Executive Officer

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

Devonian Health Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

For the nine-month periods ended April 30,

	2020	2019
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ (2,915,065)	\$ (2,045,361)
Items not affecting cash		
Amortization of fixed assets	201,354	201,355
Amortization of intangible assets	579,482	562,181
Amortization of discount on convertible debentures	70,382	54,730
Interest capitalized on convertible debentures	126,927	121,006
Stock-based compensation	140,624	83,886
Deferred income taxes	(148,783)	(144,645)
	<u>(1,945,078)</u>	<u>(1,166,848)</u>
Net change in non-cash working capital items	<u>1,086,569</u>	<u>112,682</u>
	<u>(858,509)</u>	<u>(1,054,166)</u>
INVESTING ACTIVITIES		
Acquisition of fixed intangible assets	-	(118,110)
FINANCING ACTIVITIES		
Repayment of long-term debt	-	(92,833)
Variation of long-term debt	500,000	-
Issuance of shares and warrants	416,452	-
Share and warrants subscribed	1,805,000	-
Convertible debentures issued	-	697,000
	<u>2,721,452</u>	<u>604,167</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,862,943</u>	<u>(568,109)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>244,590</u>	<u>981,982</u>
CASH AND CASH EQUIVALENTS, end of nine-month period	<u>\$ 2,107,533</u>	<u>\$ 413,873</u>

The Company's cash and cash equivalents consist of the following:

Cash	\$ 332,533	\$ 413,873
Cash held in trust	1,705,000	-
	<u>\$ 2,107,533</u>	<u>\$ 413,873</u>

For the nine-month period ended April 30, 2020, cash flows from operating activities include interest paid of \$252,273 (2019 - \$240,879).

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(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. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

Further financing will continue to be required since it is impossible to estimate when the Company will achieve profitability. Management continues to negotiate further financing and different agreements that could create positive cash flows. The success of these negotiations is contingent on many factors outside Company's control and its ability to successfully complete such financings and agreements is tinged with material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

The recent emergence of a new, highly contagious form of coronavirus [COVID - 19], which the World Health Organization declared to be a pandemic in March 2020, has resulted in numerous deaths, which have adversely affected global trade. and contributed to significant volatility in global equity and the debt markets. The impact of the epidemic is evolving rapidly, and most countries around the world have responded with severe restrictions. These measures, along with the general uncertainty surrounding the dangers of COVID-19, have resulted in significant disruption of economic activity, and have had a negative impact on several industries.

The Company continues to operate during the current pandemic. For the time being, the company's supply chain remains intact and research and development activities continue. The Company will continue to monitor the evolution of the pandemic and continuously assess the potential impact it may have on its business, including the supply chain, customer demand and clinical trials. The situation is constantly changing, and the final duration and extent of the economic and financial impacts on the business are not known at this stage, so it is not possible to estimate and disclose its financial effects for the time being.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

Declaration of compliance

These unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. As a result, certain information and notes normally included in annual financial statements prepared in accordance with IFRS have been omitted or summarized. These interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended July 31, 2019.

These financial statements were approved by the Board of Directors on June 23, 2020.

Basis of measurement

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

Functional and presentation currency

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

Significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the significant accounting policies as described in the Company's consolidated financial statements for the year ended July 31, 2019. The annual consolidated financial statements are available on SEDAR at www.sedar.com. These methods have been applied throughout the periods presented except as the following elements:

IFRS 16 – Leases

On August 1, 2019, the Company adopted IFRS 16, published by the IASB in January 2016. 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 didn't have any significant impact on the Company's consolidated financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

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

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to use judgment and make estimates and assumptions that affect the application of accounting policies and the carrying value of assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognized in the period in which the estimates are revised and in any future periods affected by these revisions. The Company's significant comparable judgments and estimates are presented in the consolidated financial statements for the year ended July 31, 2019 and remain unchanged.

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

The statements of income include the following items:

	April 30, 2020	April 30, 2019
Administrative expenses - amortization of fixed assets	\$ 201,354	\$ 201,355
Administrative expenses - amortization of intangible assets	\$ 579,482	\$ 562,181
Administrative expenses - salaries and employer's contributions	\$ 252,388	\$ 254,223
Administrative expenses - stock-based compensation	\$ 140,624	\$ 83,886
Research and development expenses - salaries and employer's contributions	\$ 63,137	\$ 61,349

5. ACCOUNTS RECEIVABLE

	April 30, 2020 (unaudited)	July 31, 2019 (audited)
Trade	\$ 185,882	\$ 84,734
Commodity taxes	46,266	174,350
Amount receivable from a private company, without interest	-	25,135
Compensation receivable	-	149,400
	\$ 232,148	\$ 433,619

6. TAX CREDIT AND GRANT RECEIVING

	April 30, 2020	July 31, 2019
BALANCE , beginning of year	\$ 114,383	\$ 131,390
Tax credit for research & development accounted for	-	306,156
Tax credit for research & development received	(114,383)	(323,163)
BALANCE , end of period	\$ -	\$ 114,383

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.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

7. INVENTORIES

	April 30, 2020	July 31, 2019
Raw materials	\$ 121,513	\$ 157,364
Finished goods	33,207	31,244
	\$ 154,720	\$ 188,588

8. FIXED ASSETS

	2020						
	Building	Land	Leasehold improvements	Production and laboratory equipment	Computer equipment	Furniture and equipment	Total
Cost							
Balance, July 31, 2019	\$ 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		4,728,758
Accumulated amortization							
Balance, July 31, 2019	436,602	-	2,100	655,603	20,568	52,710	1,167,583
Amortization expenses	76,747	-	-	115,319	-	9,288	201,354
Balance, end of period	513,349	-	2,100	770,922	20,568	61,998	1,368,937
Carrying value, April 30, 2020	\$ 2,024,327	\$ 562,324	\$ -	\$ 773,068	\$ -	\$ 102	\$ 3,359,821

9. INTANGIBLE ASSETS AND GOODWILL

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

Goodwill arising from the business combination is allocated to groups of cash-generating units (CGU) likely to benefit from the business combination. The calculation of the impairment test for the group of CGU consisting of the distribution of pharmaceutical products activities in which the goodwill is allocated is based on the value in use of the CGU, determined using the expected cash flow method. This calculation mainly depends on the assumptions made to estimate the cash flows, the growth of these flows and the discount rate used.

	Intellectual property	Patents	Website	Licences, trademarks and distribution rights	Total
Cost					
Balance, July 31, 2019	\$ 4,888,000	\$ 136,693	\$ 49,833	\$ 3,812,822	\$ 8,887,348
Acquisitions					
Separate	-	-	-	-	-
Through business combination	-	-	-	-	-
Balance April 30, 2020	4,888,000	136,693	49,833	3,812,822	8,887,348
Accumulated amortization					
Balance, July 31, 2019	-	25,614	9,944	1,083,294	1,118,852
Amortization	-	28,487	9,346	541,649	579,482
Balance, April 30, 2020	-	54,101	19,290	1,624,943	1,698,334
Carrying value April 30, 2020	\$ 4,888,000	\$ 82,592	\$ 30,543	\$ 2,187,879	\$ 7,189,014

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

10. ACCOUNTS PAYABLE

	April 30, 2020	July 31, 2019
Suppliers	\$ 1,051,811	\$ 831,583
Accrued expenses	1,503,974	1,032,180
Salaries, payroll deductions and contributions	6,000	11,881
	<u>\$ 2,561,785</u>	<u>\$ 1,875,644</u>

11. LONG-TERM DEBT

	April 30, 2020	July 31, 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 \$10,548,835, interest payable monthly at the Toronto Dominion Bank's variable rate plus 6%, principal repayable at maturity in January 2024	\$ 3,500,000	\$ 3,000,000
	<u>\$ 3,500,000</u>	<u>\$ 3,000,000</u>

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

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:

- If the subordinate voting shares comprised in the units are not subject to resale restrictions by a recognized stock exchange immediately following the issuance, the five-day average of the CMPA (weighted average share price) immediately prior to the interest payment date will be applicable and the exercise price of the warrants included in the units will be equal to the one obtained for the price of the shares based on the conversion rate of interest plus 30%.
- If the subordinate voting shares are subject to resale restrictions after they are issued, 90% of the five-day average of the CMPA immediately prior to the interest payment date will be applicable and the exercise price of the warrants will be equal to the one obtained for the price of the shares based on the conversion rate of interest plus 30%.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

12. CONVERTIBLE DEBENTURES (continued)

If at any time after the closing date, the CMPA of the subordinate voting shares of the Company, for 20 consecutive trading days, is equal to or greater than \$1.85 and not less than 5,000 subordinate voting shares are traded daily on TSX Venture Exchange or 20,000 or more subordinate voting shares are traded daily on a recognized stock exchange other than the TSX Venture Exchange (subject to adjustment for reverse and deferred shares, stock dividends, or other similar transactions in subordinate voting shares that occur after the closing date), the Company may, within 20 trading days of such period, advise the holders of its irrevocable election to convert all debentures then outstanding, to a number of units equal to the principal amount of the debenture at a price of \$0.75 for principal and accrued and unpaid interest as calculated above.

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

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

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

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

The following table presents the changes in convertible debentures for the nine-month period ended April 30, 2020 and the year ended July 31, 2019:

	April 30, 2020	July 31, 2019
Balance, beginning of year	\$ 1,436,349	\$ 758 172
Issuance of convertible debentures	-	697 000
Amount classified as equity	-	(171 824)
Amortization of discount	70,382	74 196
Capitalized interest	126,927	163 780
	1,633,658	1,521,324
Conversion of interest into units	(135,136)	(84,975)
Balance, end of period	\$ 1,498,522	\$ 1,436,349

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

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 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.

	April 30, 2020	July 31, 2019_
Share capital includes:		
70,085,842 shares issued (July 31, 2019 - 67,634,579)	\$ 17,227,354	\$ 16,749,159
11,993,122 shares subscribed	1,670,342	-

The 70,085,842 outstanding shares as at April 30, 2020 are classified into 50,119,319 subordinate voting shares and 19,966,523 multiple voting shares of which 8,699,153 shares are subject to an escrow agreement required by the Legislation. Under this agreement, 8,699,153 shares will be released on May 18, 2020. In addition, 8,403,361 shares were also voluntarily escrowed and will be released on February 1, 2021.

Issuance

a) Private placement

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

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

Devonian Health Group Inc.

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13. SHARE CAPITAL (continued)

Issuance

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

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

Related costs of \$ 7,648 for this share issue were recorded. The Company paid an intermediation fee for a cash consideration of \$15,900 and a total of 63,600 warrants to subscribe for 63,600 subordinate voting shares at a price of \$1.00 per subordinate voting share, until August 21, 2021.

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

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

On December 5, 2019, the Company also issued 500,000 units at a price of \$0.25 per unit, for gross proceeds of \$125,000. Each unit consists of one subordinate voting share and one-half of one share purchase warrant. Each warrant entitles its holder to acquire one subordinate voting share at a price of \$0.50 per share, up to 24 months after the date of issue. The maturity date of the warrants may be accelerated at the Company's option if certain conditions, relating to the share price, are fulfilled.

The fair value of the 500,000 shares and 500,000 half warrants was estimated at \$ 117,261 and \$ 7,739 respectively, based on the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	1.58%
Average expected life	0.67 year
Expected volatility	156%
Share price	\$0.16
Expected dividends	Nil

b) Interest on convertible debentures

On January 28, 2020, the Company issued 190,727 units at a unit price of \$0.26, in consideration of the \$49,589 in interest owed to the holder of the debenture issued in the first tranche of the private offering closed on July 19, 2018. Each unit consists of a subordinate voting share and a warrant giving the holder the right to subscribe to a subordinate voting share of the Company at a price of \$0.34 for a period of 48 months. These units were issued against interest due as at July 19, 2019, for a total amount of \$49,589.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

13. SHARE CAPITAL (continued)

Issuance

b) Interest on convertible debentures

The fair value of the 190,727 shares and 190,727 warrants was estimated at \$37,481 and \$12,108 respectively based on the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	1.79%
Average expected life	0.67 year
Expected volatility	156%
Share price	\$0.225
Expected dividends	Nil

On the same date, 30,006 shares at a unit price of \$0.168 were issued to an administrator, who held debentures issued in the second tranche of the private offering closed on August 31, 2018. These shares were issued against interest due as at August 31, 2019 for a total amount of \$5,041.

In addition, 179,137 units were issued at a unit price of \$0.168 to the holders of debentures issued in the second tranche of the private placement closed on August 31, 2018, and in consideration of interest due to them as at August 31, 2019 in the amount of \$30,095. Each unit consists of a subordinate voting share and a warrant. Each warrant gives the holder the right to subscribe to a subordinate voting share of the Company at a price of \$0.218 for a period of 48 months.

The fair value of the 179,137 shares and 179,137 warrants was estimated at \$17,470 and \$12,625 respectively based on the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	1.79%
Average expected life	0.67 year
Expected volatility	156%
Share price	\$0.225
Expected dividends	Nil

On February 18, 2020, the Company issued 291,393 units at a unit price of \$0.173, in consideration of the \$50,411 in interest owed to the holder of the debenture issued in the first tranche of the private offering closed on July 19, 2018. Each unit consists of a subordinate voting share and a warrant giving the holder the right to subscribe to a subordinate voting share of the Company at a price of \$0.225 for a period of 48 months. These units were issued against interest due as at July 19, 2019, for a total amount of \$50,411.

The fair value of the 291,393 shares and 291,393 warrants was estimated at \$31,714 and \$18,697 respectively based on the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	1.70%
Average expected life	1 year
Expected volatility	157%
Share price	\$0.225
Expected dividends	Nil

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

Devonian Health Group Inc.

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13. SHARE CAPITAL (continued)

Subscription

Private placement

On April 27, 2020, the Company completed a private placement, without the assistance of a broker, for total gross proceeds of \$ 1,805,000.

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

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

Each unit consists of one subordinate voting share and one share subscription warrant. Each warrant will entitle the holder to acquire a 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 the 1,993,122 warrants was estimated at \$ 170,342 and \$ 134,658 respectively based on 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

14. STOCK OPTIONS AND WARRANTS

Stock options

Under the stock option plan, put in place on May 29, 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 new stock option plan, and according to the applicable regulations.

On April 22, 2020, the Company granted a director of the Company 625,000 stock options. These options are exercisable at a price of \$ 0.21 for a period of 10 years from their date of grant and are exercisable on the date of grant. The fair value of these options has been estimated at \$ 91,250 based on the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	0.36%
Average expected life	1.5 year
Expected volatility	167%
Share price	\$0.21
Expected dividends	Nil

The Company recorded an expense of \$140,624 during the nine-month period ended April 30, 2020. (2019 - \$ 83,886)

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

14. STOCK OPTIONS AND WARRANTS (continued)

Stock options

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the year 2019 and the nine-month period ended April 30, 2020:

	April 30, 2020		July 31, 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	(637,423)	0.72
Options granted to directors and consultants	625,000	0.21	150,000	0.60
Options granted to members of management and employees	-		20,000	0.60
Outstanding, end of period	3,295,000	\$ 0.57	3,045,000	\$ 0.66
Options exercisable, end of period	2,560,000		2,310,000	
Weighted average fair value of the options granted during the period	\$ 0.15		\$ 0.06	

The following table summarizes information about options outstanding and exercisable as at April 30, 2020:

Exercise price	Options outstanding			Options exercisable		
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable	Weighted average exercise price	
\$0.21	625,000	10 years	\$ 0.21	625,000	\$ 0.21	
\$0.60	2,420,000	5.81 year	\$ 0.60	2,060,000	\$ 0.60	
\$1.20	250,000	2.87 year	\$ 1.20	250,000	\$ 1.20	

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

Devonian Health Group Inc.

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As at April 30, 2020

(Unaudited)

14. STOCK OPTIONS AND WARRANTS (continued)

Warrants

In August 2019, as part of a private financing, the Company issued 630,000 warrants. Each warrant will entitle the holder to acquire one Subordinate Voting Share at a price of \$ 0.50 per share until August 2021. The Company has also issued 63,600 warrants under this same private financing, enabling the subscription of 63,600 subordinate voting shares at a price of \$ 1.00 per subordinate voting share to August 21, 2021.

As part of the second tranche of private financing, the Company also intends to issue 500,000 half-share warrants. Each Warrant entitles the holder thereof to acquire one Subordinate Voting Share at a price of \$ 0.50 per share for up to 24 months from the date of issue.

In addition, on January 28, 2020, the Company issued 190,727 exercisable warrants at a price of \$0.34 and 179,137 exercisable warrants at a price of \$0.168 for a period of 48 months. These warrants were issued in consideration of interest owed by the Corporation to debenture holders issued on July 19, 2018 and August 31, 2018.

On February 18, 2020, the Company issued 291,393 exercisable warrants at a price of \$ 0.225 for a period of 48 months following the date of issue. These warrants were granted in consideration of the interest that the Company owed to the holder of the debenture issued on July 19, 2018.

The following table summarizes information about the Company's warrants and the changes during the year 2019 and the nine-month period ended April 30, 2020:

	April 30, 2020		July 31, 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
Granted	1,604,857	0.41	269,331	0.39
Expired	-		(4,217,782)	1.10
Outstanding, end of year	10,277,549	\$ 1.09	8,672,692	\$ 1.16
Warrants exercisable, end of period	1,874,188	\$ 0.51	269,331	\$ 0.065
Weighted average fair value of the warrants granted during the period	\$ 0.046		0.065	

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

14. STOCK OPTIONS AND WARRANTS (continued)

Warrants

The following table summarizes information about warrants outstanding and exercisable as at April 30, 2020:

Exercise price	Warrants outstanding			Warrants exercisable	
	Number of warrants outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of warrants exercisable	Weighted average exercise price
\$0.218	179,137	3.75 years	\$ 0.218	179,137	\$ 0.218
\$0.225	291,393	3.89 years	\$ 0.225	291,393	\$ 0.225
\$0.34	190,727	3.75 years	\$ 0.34	190,727	\$ 0.34
\$0.38	173,831	2.98 years	\$ 0.38	173,831	\$ 0.38
\$0.40	95,500	2.98 years	\$ 0.40	95,500	\$ 0.40
\$0.50	880 000	1.33 year	\$ 0.50	630,000	\$ 0.50
\$1.00	63,600	1.33 year	\$ 1.00	63,600	\$ 1.00
\$1.19	8,403,361	0.75 year	\$ 1.19	-	-

Among the 10,277,549 warrants, 8,403,361 warrants issued during 2018, are voluntarily escrowed and will be released on February 1, 2021.

15. 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, 2019. The Company has committed to the private lender not to redeem preferred or common shares without its prior written consent.

16. COMMITMENTS

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

The contract, which totaled \$ 1,222,497 at the beginning, was amended to total \$ 2,821,511.

In February 2020, this contract was further amended to total \$ 3,154,881. As of April 30, 2020, the balance of the commitment related to the amended contract was \$ 453,708.

The Company has leases commitments for the rental of office space and a vehicle. As at April 30, 2020, the contractual obligations related to the leases are \$ 31,708 and the payments to be made in the following fiscal years are as follows:

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at April 30, 2020

(Unaudited)

16. COMMITMENTS (continued)

2020 -	\$	7,927
2021 -	\$	7,927
2022 -	\$	7,927
2023 -	\$	7,927

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 January 31, 2020, the balance of this commitment was \$60,000.

17. FINANCIAL EXPENSES

Financial expenses are as follows:

	April 30 2020	April 30 2019
Interest expenses and bank charges	2,197	3,175
Interest on long-term debt	252,273	240,879
Amortization of discount on convertible debentures	70,382	54,730
Capitalized interest on convertible debentures	126,927	121,006
	<u>451,779</u>	<u>419,790</u>

18. NET INCOME AND COMPREHENSIVE INCOME PER SHARE

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

	April 30, 2020	April 30, 2019
Weighted average number of shares used to calculate the basic income per share	<u>69,328,985</u>	<u>67,356,542</u>

Items excluded from the calculation of diluted income:

	April 30, 2020	April 30, 2019
Stock options	3,295,000	3,582,423
Warrants	10,277,549	12,716,643
Convertible debentures	<u>4,525,334</u>	<u>4,525,334</u>

For the nine-month period ended April 30, 2020 and 2019, the impacts of the warrants, stock options as well as the convertible debentures were excluded from the calculation of diluted loss per share as they would have an anti-dilutive effect.

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

Devonian Health Group Inc.

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(Unaudited)

19. RELATED PARTY TRANSACTIONS

The principal executives are the President of the Company, the President of the subsidiary, the interim Chief Financial Officer and the Directors. During the nine-month period ended April 30, the Company has paid them a total remuneration of \$ 493,247 (2019 – \$ 475,472) of which the main components are:

	April 30, 2020	April 30, 2019
Salaries and advantages	\$ 207,000	\$ 199,819
Stock-based compensation	\$ 136,247	\$ 75,653
Management fees	\$ 150,000	\$ 200,000

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

20. 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:

	Balance, as at July 31 2019	Cash flows from financing activities	Equity component of convertible debentures	Changes without cash consideration Other changes ¹	Balance, as at April 30 2020
Convertibles debentures (note 12)	\$ 1,436,349	\$ -	\$ -	\$ 62,173	\$ 1,498,522
Long-term debt (note 11)	3,000,000	500,000	-	-	3,500,000
	\$ 4,436,349	\$ 500,000	\$ -	\$ 62,173	\$ 4,998,522

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

21. SUBSEQUENT EVENTS

On May 4, 2020, 146,561 units at a price of \$ 0.202 per unit as well as 24,549 shares at a price of \$ 0.202 per share were respectively issued to holders of debentures issued during the second tranche of the private placement closed on August 31 2018 and to a director, also holder of debentures issued during this same tranche of the private placement closed on August 31, 2018.

These units and these shares were issued in consideration of interest due on February 28, 2020 for a respective amount of \$ 29,605 and \$ 4,959. Each warrant gives its holder the right to subscribe to a subordinate voting share in the share capital of the Company at a price of \$ 0.263 for a period of 48 months following the closing of the transaction.

On May 4, 2020, the 11,993,122 shares subscribed (note 13) as well as the 1,993,122 warrants subscribed were issued, following regulatory authorizations.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

22. COMPARATIVE INFORMATION

Certain figures as at April 30, 2019 have been reclassified to conform to the presentation used in the year 2020. An amount of \$ 73,556 which was classified as cost of sales has been applied against sales in accordance with IFRS 15. A total of \$ 1,886,304 related to promotion and marketing expenses which had been classified in cost of sales in 2019, has been reclassified in administrative expenses.

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