



Devonian Health Group Inc.

Interim Condensed Consolidated Financial Statements
For the three-month and six-month periods ended
January 31, 2021 and 2020

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIODS
ENDED JANUARY 31, 2021 AND JANUARY 31, 2020**

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 January 31, 2021, and the interim consolidated statements of the net income and comprehensive income, changes in equity and cash flows for the six-month period ended January 31, 2021 and January 31, 2020. 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

	For the three-month period ended January 31, (unaudited)		For the six-month period ended January 31, (unaudited)	
	2021	2020	2021	2020
DISTRIBUTION REVENUES	\$ 342,967	\$ 401,692	\$ 884,886	\$ 1,439,678
OPERATING EXPENSES				
Research and development expenses	130,708	509,809	406,307	1,027,890
Cost of sales	395,841	461,312	941,138	1,207,394
Administrative expenses	442,952	530,051	825,829	1,124,857
Financial expenses (Note 18)	260,051	217,202	408,511	8,44021
	1,229,552	1,718,374	2,581,785	3,578,581
LOSS BEFORE OTHER ITEMS	(886,585)	(1,316,682)	(1,696,899)	(2,138,903)
OTHER ITEMS				
Government loan grant	40,554	-	45,816	-
NET LOSS AND COMPREHENSIVE LOSS	\$ (846,031)	\$ (1,316,682)	\$ (1,651,083)	\$ (2,138,903)
Net loss per share (Note 19)				
Basis	\$ (0.01)	\$ (0.018)	\$ (0.02)	\$ (0.031)
Diluted	\$ (0.01)	\$ (0.018)	\$ (0.02)	\$ (0.031)

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 SIX-MONTH PERIODS ENDED JANUARY 31, 2021 AND JANUARY 31, 2020

(unaudited)

	Number										
	Shares	Stock options	Warrants	Total	Share capital	Stock options	Warrants	Contributed surplus	Deficit	Total	
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	
Issuance of shares and warrants (Note 13)	10,335,814	-	5,251,982	15,587,796	1,073,993	-	193,417	-	-	1,267,410	
Share issuance costs											
In cash	-	-	-	-	(35,671)	-	-	-	-	(35,671)	
Stock-based compensation (Note 14)	-	801,645	-	801,645	-	64,515	-	-	-	64,515	
Net loss and comprehensive loss for the three-month period	-	-	-	-	-	-	-	-	(1,651,083)	(1,651,083)	
	10,335,814	801,645	5,251,982	16,389,441	1,038,322	64,515	193,417	-	(1,651,083)	(354,829)	
BALANCE , as at January 31, 2021	92,858,355	7,030,000	17,941,681	117,530,036	\$ 20,060,230	\$ 761,600	\$ 2,332,741	\$ 1,557,978	\$ (15,683,148)	\$ 9,029,401	
											2020
BALANCE , as at July 31, 2019	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 and warrants (Note 13)	2,159,870	-	1,249,864	3,409,734	497,942	-	69,326	-	-	567,268	
Share issuance costs											
In cash	-	-	-	-	(23,548)	-	-	-	-	(23,548)	
In warrants	-	-	63,600	63,600	(3,180)	-	3,180	-	-	-	
Options expired (Note 13)	-	(375,000)	-	(375,000)	-	(68,250)	-	68,250	-	-	
Stock-based compensation (Note 14)	-	-	-	-	-	33,278	-	-	-	33,278	
Net loss and comprehensive loss for the three-month period	-	-	-	-	-	-	-	-	(2,138,903)	(2,138,903)	
	2,159,870	(375,000)	1,313,464	3,098,334	471,214	(34,972)	72,506	68,250	(2,138,903)	(1,561,905)	
BALANCE , as at January 31, 2020	69,794,449	2,670,000	9,986,156	82,450,605	17,237,952	386,259	1,936,446	1,557,978	(11,796,191)	9,322,444	

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

Devonian Health Group Inc.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at,	January 31, 2021	July 31, 2020
	(unaudited)	(audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 853,277	\$ 913,017
Account receivable (Note 5)	259,056	510,384
Tax credit receivable (Note 6)	164,773	164,773
Inventories (Note 7)	63,843	86,575
Prepaid expenses	40,862	61,749
	1,381,811	1,736,498
PROPERTY, PLANT, EQUIPMENT AND RIGHT-OF-USE		
ASSETS (Note 8)	3,183,797	3,317,043
INTANGIBLE ASSETS (Note 9)	6,620,001	6,999,622
GOODWILL (Note 9)	4,643,084	4,643,084
	\$ 15,828,693	\$ 16,696,247

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,	January 31, 2021	July 31, 2020
	(unaudited)	(audited)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable (Note 10)	\$ 1,918,140	\$ 2,627,659
Current portion of lease liability	<u>7,257</u>	<u>7,257</u>
	1,925,397	2,634,916
LONG-TERM DEBT (Note 11)	3,567,870	3,509,855
CONVERTIBLE DEBENTURES (Note 12)	1,294,484	1,152,075
LEASE LIABILITY	<u>11,541</u>	<u>15,171</u>
	6,799,292	7,312,017
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	20,060,230	19,021,908
Stock options (Note 14)	761,600	697,085
Warrants (Note 15)	2,332,741	2,139,324
Contributed surplus	1,557,978	1,557,978
Deficit	<u>(15,683,148)</u>	<u>(14,032,065)</u>
	9,029,401	9,384,230
	<u>\$ 15,828,693</u>	<u>\$ 16,696,247</u>

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 2)

Commitments (Note 17)

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 six-month periods ended January 31,

	2021	2020
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Net loss and comprehensive loss	\$ (1,651,083)	\$ (2,138,903,)
Items not affecting cash		
Amortization of fixed assets	133,246	135,822
Amortization of intangible assets	379,621	391,519
Amortization of discount on convertible debentures	111,136	74,403
Interest on convertible debentures	113,722	134,908
Stock-based compensation	64,515	33,278
Unrealized gain on derivatives	31,273	(165,174)
	(817,570)	(1,534,147)
Net change in non-cash working capital items	(472,884)	903,219
	(1,290,454)	(630,928)
FINANCING ACTIVITIES		
Variation of lease liability	(3,630)	-
Government loan	58,015	-
Variation of long-term debt	-	500,000
Issuance of shares and warrants	1,176,329	416,452
	1,230,714	916,452
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(59,740)	285,524
CASH AND CASH EQUIVALENTS, beginning of year	913,017	244,590
CASH AND CASH EQUIVALENTS, end of period	\$ 853,277	\$ 530,114

For the six-month period ended January 31, 2021, cash flows from operating activities include interest paid of \$149,088 (2020 - \$172,828) and do not include any tax paid.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(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).

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. 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.

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, 2020

These financial statements were approved by the Board of Directors on March 22, 2021.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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, 2020. 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:

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, 2020 and remain unchanged.

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

The statements of income include the following items:

	January 31, 2021	January 31, 2020
Research and development expenses - amortization of fixed assets	\$ 133,246	\$ 135,822
Cost of sales - amortization of intangible assets	\$ 379,621	\$ 391,519
Administrative expenses - salaries and employer's contributions	\$ 133,649	\$ 145,140
Administrative expenses - stock-based compensation	\$ 64,515	\$ 33,278
Research and development expenses - salaries and employer's contributions	\$ 31,956	\$ 45,626

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

5. ACCOUNTS RECEIVABLE

	January 31, 2021 (unaudited)	July 31, 2020 (audited)
Trade	\$ 189,577	\$ 282,615
Commodity taxes	69,479	227,769
Others	-	-
	<u>\$ 259,056</u>	<u>\$ 510,384</u>

6. TAX CREDIT AND GRANT RECEIVING

	January 31, 2021	July 31, 2020
BALANCE , beginning of year	\$ 164,773	\$ 114,383
Tax credit for research & development accounted for	-	164,773
Tax credit for research & development received	-	(114,383)
BALANCE , end of period	<u>\$ 164,773</u>	<u>\$ 164,773</u>

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.

7. INVENTORIES

	January 31, 2021	July 31, 2020
Raw materials	\$ 4,236	\$ 4,236
Finished goods	59,607	82,339
	<u>\$ 63,843</u>	<u>\$ 86,575</u>

8. FIXED ASSETS

	2021						
	Building	Land	Leasehold improve- ments	Production and laboratory equipment	Computer equipment	Right-of- Furniture-use-asset and equipment	Total
Cost							
Balance, July 31, 2020	\$ 2,537,676	\$ 562,324	\$ 2,100	\$ 1,543,990	\$ 20,568	\$ 62,100	4,758,232
Acquisitions	-	-	-	-	-	-	-
Balance, January 31, 2021	<u>2,537,676</u>	<u>562,324</u>	<u>2,100</u>	<u>1,543,990</u>	<u>20,568</u>	<u>29,474</u>	<u>4,758,232</u>
Accumulated amortization							
Balance, July 31, 2020	539,216	-	2,100	809,837	20,568	62,100	1,441,189
Amortization expenses	51,728	-	-	77,834	-	-	133,246
Balance, January 31, 2021	<u>59,9449</u>	<u>-</u>	<u>2,100</u>	<u>887,671</u>	<u>20,568</u>	<u>62,100</u>	<u>1,574,435</u>
Carrying value, January 31, 2021	\$ 1,946,732	\$ 562,324	\$ -	\$ 656,319	\$ -	\$ -	3,183,797

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

9. INTANGIBLE ASSETS AND GOODWILL

Licenses, trademarks, and distribution rights

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

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.

	Intellectual property	Patents	Website	Licences, trademarks and distribution rights	Total
Cost					
Balance, July 31, 2020	\$ 4,888,000	\$ 136,693	\$ 49,833	\$ 3,812,822	\$ 8,887,348
Acquisitions					
Separate	-	-	-	-	-
Through business combination	-	-	-	-	-
Balance, January 31, 2021	4,888,000	136,693	49,833	3,812,822	8,887,348
Accumulated amortization					
Balance, July 31, 2020	-	59,830	22,405	1,805,491	1,887,726
Amortization	-	12,291	6,231	361,099	379,621
Balance, January 31, 2021	-	72,121	28,636	2,165,590	2,267,347
Carrying value January 31, 2021	\$ 4,888,000	\$ 64,572	\$ 21,197	\$ 1,646,232	\$ 6,620,001

10. ACCOUNTS PAYABLE

	January 31, 2021	July 31, 2020
Suppliers	\$ 620,692	\$ 1,540,240
Accrued expenses	1,278,448	1,052,772
Salaries, payroll deductions and contributions	19,000	34,647
	\$ 1,918,140	\$ 2,627,659

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

11. LONG-TERM DEBT

	January 31, 2021	July 31, 2020
Loan, secured by the universality of movable and immovable property, tangible, and intangible, present and future of the Company, for a carrying value of \$9,785,376, interest payable monthly at the Toronto Dominion Bank's prime rate plus 6% (8.45%) principal repayable at maturity in January 2024*	\$ 3,500,000	\$ 3,000,000
Canada Emergency Business Account Loan	67,870	9,855
	<u>\$ 3,567,870</u>	<u>\$ 3,509,855</u>

*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.

12. CONVERTIBLE DEBENTURES

The principal amount of the debentures (\$1,697,000 as at January 31, 2021 and July 31, 2020) 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:

- 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%.
- 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:

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

12. CONVERTIBLE DEBENTURES (continued)

Expected life	1.5 year
Risk-free interest rate	0.43%
Expected volatility	85%

	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 as of July 31, 2020	1,083,668	68,407	1,152,075
	Six-month period ended January 31, 2021		
	Host	Derivative	Total
	\$	\$	\$
Balance as of July 31, 2020	1,083,668	68,407	1,152,075
Accretion	111,136		111,136
Change in fair value of derivative		31,273	31,273
Balance as of January 31, 2021	1,194,804	99,680	1,294,484

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.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

13. SHARE CAPITAL (continued)

	January 31, 2021	July 31, 2020
Share capital includes:		
92,858,355 shares issued (July 31, 2020 – 82,522,540)	\$ 20,060,230	\$ 19,021,908

The 92,858,355 outstanding shares as at January 31, 2021 are classified into 72,891,832 subordinate voting shares and 19,966,523 multiple voting shares (July 31, 2020- 82,522,540 outstanding shares are classified into 62,556,017 subordinate voting shares and 19,966,523 multiple voting shares).

Among the 72,891,832 subordinate voting shares, 8,403,361 shares were voluntarily escrowed and will be released on February 1, 2021.

Issuance

On October 19, 2020, the Company issued 33,832 shares at a unit price of \$ 0.149 and 201,982 units at a unit price of \$ 0.149, in exchange for the \$ 35,136 interest it owed in August 2020, to the holders of the debentures issued in August 2018. Each unit consists of one subordinate voting share and one warrant. Each warrant grants its holder the right to subscribe to one subordinate voting share of the share capital of the Company at a price of \$ 0.194 for a period of 48 months.

The fair value of the 235,814 shares and the 201,982 warrants has been estimated at \$35,136 and \$20,274 respectively, based on the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	1%
Average expected life	2.5 years
Expected volatility	85%
Share price	\$0.155
Expected dividends	Nil

On December 29, 2020, the Company completed a private financing, without the intermediary of a broker, by issuing 10,100,000 units at a price of \$ 0.12 per unit, for gross proceeds of \$ 1,212,000. Each unit is made up of one subordinate voting share and one-half share purchase warrant. Each warrant will confer on its holder the right to acquire one subordinate voting share at a price of \$ 0.15 until December 29, 2022.

The Company paid finder's fees for a cash amount of \$ 22,100 and related costs for an amount of \$13,571.

The fair value of the 10,100,000 shares issued and the 5,050,000 warrants issued was estimated at \$ 1,038,857 and \$ 173,143 respectively, according to the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	0.43%
Average expected life	1.5 year
Expected volatility	85%
Share price	\$0.12
Expected dividends	Nil

14. STOCK OPTIONS PLAN

Stock options

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

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

14. STOCK OPTIONS PLAN (Continued)

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.

On December 29, 2020, the Company granted 801,645 stock options to a member of management. These options are exercisable from their grant date at a price of \$ 0.12, for a period of ten years. The fair value of these options was estimated at \$ xx xxx according to the Black & Scholes valuation model and using the following assumptions:

Risk-free interest rate	0.43 %
Average expected life	2.5 years
Expected volatility	95%
Share price	\$ 0.12
Expected dividends	Nil

The Company recorded an expense of \$64,515 during the six-month period ended January 31, 2021. This charge includes an amount of \$ 11,606 (January 31, 2020 - \$ 33,278) attributable to options granted in 2018 and 2019.

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the year 2020 and the six-month period ended January 31, 2021:

	January 31, 2021		July 31, 2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of period	6,228,355	\$ 0.37	3,045,000	\$ 0.66
Options expired	-	-	(375,000)	0.60
Options granted to directors and consultants	-		2,560,000	0.16
Options granted to members of management and employees	801,645	0.12	998,355	0.15
Outstanding, end of year	7,030,000	0.37	6,228,355	0.37
Options exercisable, end of period	6,702,500	\$ 0.45	5,895,855	\$ 0.49
Weighted average fair value of the options granted during the year	\$ 0.07		\$ 0.08	

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

14. STOCK OPTIONS PLAN (Continued)

The following table summarizes information about options outstanding and exercisable as at January 31, 2021:

Exercise price	Options outstanding		Options exercisable
	Number of options outstanding	Weighted average remaining contractual life	Number of options exercisable
\$0.12	801,645	9.91 years	801,645
\$0.15	2,933,355	9.40 years	2,933,355
\$0.21	625,000	9.23 years	625,000
\$0.60	2,420,000	5.57 years	2,092,500
\$1.20	250,000	2.12 years	250,000

15. Warrants

The following table summarizes information about the Company's warrants and the changes during the year 2020 and the six-month period ended January 31, 2021:

	January 31, 2021		July 31, 2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	12,689,699	\$ 0.89	8,672,692	\$ 1.16
Granted	5,251,982	0.15	4,017,007	0.32
Outstanding, end of year	17,941,681	\$ 0.67	12,689,699	\$ 0.89
Warrants exercisable, end of period	9,538,320	\$ 0.25	4,286,338	\$ 0.37

The following table summarizes information about warrants outstanding and exercisable as at January 31, 2021:

Exercise price	Number of warrants outstanding	Weighted average remaining contractual life
\$ 0.15	5,050,000	1.91 year
\$ 0.194	201,982	3.75 years
\$ 0.218	179,137	3 years
\$ 0.225	291,393	3 years
\$ 0.237	272,467	3.50 years
\$ 0.25	1,993,122	1.25 years
\$ 0.263	146,561	3.25 years
\$ 0.338	190,727	3 years
\$ 0.38	173,831	2.23 years
\$ 0.40	95,500	2.23 years
\$ 0.50	880,000	0.63 years
\$ 1.00	63,600	0.58 years
\$ 1.19	8,403,361	0.001 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.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

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, 2020. The Company has committed to the private lender not to redeem preferred or common shares without its prior written consent.

17. COMMITMENTS

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, 2021, the balance of this commitment was \$40,000.

18. FINANCIAL EXPENSES

Financial expenses are as follows:

	January 31 2021	January 31 2020
Interest expenses and bank charges	2,956	1,475
Interest on long-term debt	149,424	172,828
Amortization of discount on convertible debentures	111,136	74,403
Interest on convertible debentures	113,722	134,908
Embedded derivative convertible debentures – Change in fair value	31,273	(165,174)
	<u>\$ 408,511</u>	<u>\$ 218,440</u>

19. INCOME PER SHARE

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

	January 31 2021	January 31 2020
Weighted average number of shares used to calculate the basic income per share	84,524,694	68,991,425

Items excluded from the calculation of diluted income:

	January 31 2021	January 31 2020
Stock options	7,030,000	3,045,000
Warrants	17,941,681	9,616,282
Convertible debentures	4,525,334	4,525,334

For the six-month period ended January 31, 2021 and 2020, 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.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at January 31, 2021

(Unaudited)

20. 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 six-month period ended January 31, 2021 the Company has paid them a total remuneration of \$ 323,658 (January 31, 2020 – \$ 246,328) of which the main components are:

	January 31 2021	January 31 2020
Salaries and advantages	\$ 159,730	\$ 116,000
Stock-based compensation	\$ 63,928	\$ 30,328
Management fees	\$ 100,000	\$ 100,000

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

21. 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 2020	Cash flows from financing activities	Changes without cash consideration Other changes ⁽¹⁾	Balance, as at January 31, 2021
Convertibles debentures (note 12)	\$ 1,152,075	\$ -	\$ 142,409	\$ 1,294,484
Long-term debt (note 11)	3,509,855	58,015	-	3,567,870
	\$ 4,661,930	\$ 58,015	\$ 142,409	\$ 4,862,354

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

22. SUBSEQUENT EVENTS

On February 4 and March 16, 2021, the Company issued 252,055 units at a unit price of \$ 0.20 and 150,278 units at a unit price of \$ 0.23, respectively, in exchange for the interest it owed, to the holders of the debentures issued in July and August 2018. Each unit consists of one subordinate voting share and one warrant. Each warrant grants its holder the right to subscribe to one subordinate voting share of the share capital of the Company at a price of \$ 0.26 and 0.30 respectively, for a period of 48 months.

On February 16, 2021, the Company cashed all the research and development tax credits. (Note 6).

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