

Devonian Health Group Inc.

Interim Condensed Financial Statements
For the three-month and the six-month periods ended
January 31, 2018

INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE THREE-MONTH AND THE SIX-MONTH PERIODS ENDED JANUARY 31, 2018

Statement regarding interim condensed financial statements

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

Devonian Health Group Inc.

INTERIM CONDENSED STATEMENT OF INCOME

"Unaudited"

	For the three-month period ended January 31,		For the six-month period ended January 31,	
	2018	2017	2018	2017
RESEARCH AND DEVELOPMENT EXPENSES	\$ 277,276	\$ 98,390	\$ 533,705	\$ 178,882
OPERATING EXPENSES				
Administrative expenses	418,003	333,842	716,886	584,438
Financial expenses (Note 12)	88,329	167,410	176,895	325,030
	506,332	501,252	893,781	909,468
LOSS BEFORE INCOME TAXES	(783,608)	(599,642)	(1,427,486)	(1,088,350)
IMPÔTS SUR LE BÉNÉFICE	-	-	-	-
Deferred	-	(979)	-	(88,301)
NET LOSS	\$ (783,608)	\$ (598,663)	\$ (1,427,486)	\$ (1,000,049)
Loss per share (Note 13)				
basic and diluted	\$ (0.013)	\$ (0.022)	\$ (0.024)	\$ (0.037)

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

Devonian Health Group Inc.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended January 31,

“Unaudited”

	Number				Amount					
	Shares	Stock options	Warrants	Total	Share capital	Stock options	Warrants	Contributed surplus	Deficit	Total
BALANCE , as at July 31, 2017	58,744,787	1,897,423	4,217,782	64,859,992	\$ 10,978,344	\$ 477,326	\$ 861,525	\$ 428,104	\$ (4,556,975)	\$ 8,188,324
Net loss	-	-	-	-	-	-	-	-	(1,427,486)	(1,427,486)
Issuance of shares and warrants (Note 9)	40,000	-	-	40,000	10,800	-	-	-	-	10,800
Stock options exercised (Note 9)	-	(40,000)	-	(40,000)	20,640	(20,640)	-	-	-	-
Stock-based compensation	-	-	-	-	-	14,312	-	-	-	14,312
	40,000	(40,000)	-	-	31,440	(6,328)	-	-	(1,427,486)	(1,402,374)
BALANCE , as at January 31, 2018	58,784,787	1,857,423	4,217,782	64,859,992	\$ 11,009,784	\$ 470,998	\$ 861,525	\$ 428,104	\$ (5,984,461)	\$ 6,785,950

	Number			Amount					
	Shares	Warrants issued	Total	Share issued	Warrants issued	Equity component of convertible debentures	Contributed surplus	Deficit	Total
BALANCE , as at July 31, 2016	26,307,754	8,797,181	35,104,935	\$ 3,132,808	\$ 612,437	\$ 366,643	\$ 196,786	\$ (181,260)	\$ 4,127,414
Net loss	-	-	-	-	-	-	-	(1,000,049)	(1,000,049)
Issuance of shares and warrants	1,976,337	(1,794,403)	211,934	730,806	(137,905)	-	-	-	592,901
Equity component of convertible debentures	-	-	-	-	-	84,965	-	-	84,965
Tax effect of convertible debentures	-	-	-	-	-	(16,145)	-	-	(16,145)
	1,976,337	(1,764,403)	211,934	730,806	(137,905)	68,820	-	(1,000,049)	(338,328)
BALANCE , as at January 31, 2017	28,284,091	7,032,778	35,316,869	\$ 3,863,614	\$ 474,532	\$ 435,463	\$ 196,786	\$ (1,181,309)	\$ 3,789,086

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

Devonian Health Group Inc.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at	January 31, 2018	July 31, 2017
	(unaudited)	(audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,085,771	\$ 2,204,883
Commodity taxes recoverable	52,750	72,030
Subscription receivable	-	135
Inventories (Note 5)	35,800	14,465
Prepaid expenses	195,434	257,790
	1,369,755	2,549,303
SECURITY DEPOSIT, bearing interest at 0.78%, maturing in 2019	14,400	14,400
FIXED ASSETS (Note 6)	3,967,193	4,106,683
INTANGIBLE ASSETS	4,888,000	4,888,000
	\$ 10,239,348	\$ 11,558,386

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

Devonian Health Group Inc.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (continued)

As at	January 31, 2018	July 31, 2017
	(unaudited)	(audited)
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 200,218	\$ 110,376
Current portion of long-term debt	481,041	160,347
	681,259	270,723
LONG-TERM DEBT (Note 7)	2,772,139	3,099,339
	3,453,398	3,370,062
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	11,009,784	10,978,344
Stock options (Note 9)	470,998	477,326
Warrants (Note 9)	861,525	861,525
Contributed surplus	428,104	428,104
Deficit	(5,984,461)	(4,556,975)
	6,785,950	8,188,324
	\$ 10,239,348	\$ 11,558,386

Statutes of incorporation and nature of activities (Note 1)

Going concern assumption (Note 2)

Commitments (Note 11)

On behalf of the Board,

(s) Pierre Colas _____, Director

(s) André Boulet _____, Director

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

Devonian Health Group Inc.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six-month period ended January 31,

2018

2017

“Unaudited”

OPERATING ACTIVITIES

Net loss	\$ (1,427,486)	\$ (1,000,049)
Items not affecting cash		
Amortization of fixed assets	139,490	139,489
Amortization of discount on convertible debentures	-	30,176
Write-off of deferred share issuance costs	-	47,450
Interest on convertible debentures	-	63,989
Stock-based compensation	14,312	-
Deferred income taxes	-	(88,301)
	<u>(1,273,406)</u>	<u>(807,246)</u>
Net change in non-cash working capital items	<u>150,278</u>	<u>66,121</u>
	<u>(1,123,406)</u>	<u>(741,125)</u>

INVESTING ACTIVITIES

Increase in deferred share issuance costs	-	(49,847)
	-	(49,847)

FINANCING ACTIVITIES

Repayment of long-term debt	(6,506)	(320,693)
Issuance of shares and warrants	10,800	592,901
Debentures issued	-	138,500
	<u>4,294</u>	<u>410,708</u>

DECREASE IN CASH AND CASH EQUIVALENTS

	(1,119,112)	(380,264)
CASH, beginning of period	<u>2,204,883</u>	<u>528,396</u>
CASH, end of period	\$ 1,085,771	\$ 148,132

Cash flows from operating activities include interest of \$174,658 (January 31, 2017 – \$218,345).

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

1. STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES

Devonian Health Group Inc. was incorporated under the Québec Business Corporations Act on March 27, 2015. The Company is the result of an amalgamation under the Business Corporations Act (BCA), completed on March 27, 2015, between Devonian Technologies Inc., Devonian Pharmaceutiques Inc., Devonian Cosmétiques Inc. and Consultant Go Contact Inc.

On May 12, 2017, Devonian Health Group Inc. realized a transaction which establishes a reverse takeover of Orletto Capital Inc., such as planned in the agreement between the companies on May 15, 2015 and amended on April 7, 2016. The financial statements of the company resulting from the amalgamation of Orletto Capital Inc. and Devonian Health Group Inc. are considered to be the continuity of the financial statements of Devonian Health Group Inc. Following this transaction, 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. 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. GOING CONCERN ASSUMPTION

These 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 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. Furthermore, the Company has not completed the development of any product likely to generate the level of sales necessary to enable the Company to continue its operations without outside financing. The Company's liquidity are limited considering its ongoing projects. Consequently, the Company's ability to continue as a going concern depends on its ability to obtain, in a timely matter, further financing to complete research and development projects and market products, achieve profitable operations and generate positive cash flows from operations, as to which no assurance can be given.

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

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

3. BASIS OF PREPARATION

a) Statement of compliance

These unaudited interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and adopted by the Accounting Standards Board, including the IAS 34 standard, Interim Financial Reporting, and on a basis consistent with those accounting policies followed by the Company in the most recent audited annual financial statements. Certain information, in particular the accompanying notes, normally included in the annual financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, the interim condensed financial statements do not include all of the information required for full annual financial statements, and therefore, should be read in conjunction with the audited financial statements and the notes thereto for the year ended July 31, 2017.

These interim condensed financial statements were approved by the Board of Directors on March 28, 2018.

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts 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 financial statements is as follows:

- Going concern;
- Deferred income taxes;
- Value of fixed assets and intangible assets;

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

3. BASIS OF PREPARATION (continued)

The estimates that have the most significant effect on the amounts recognized in the financial statements are as follows:

- Fair value of shares, warrants and stock options;
- Useful life of fixed assets and intangible assets;

Currency translation

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

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and basis of measurement applied in these interim condensed financial statements are the same as those applied by the Company in its financial statements for the year ended July 31, 2017.

New accounting standards applied

On August 1, 2016, the Company applied the following amendment:

IAS 16 - Fixed Assets and IAS 38 - Intangible Assets

In May 2014, IASB issued an amendment to these standards. Entitled “Clarification of Acceptable Methods of Depreciation and Amortization”, the amendment specifies that a revenue-based depreciation and amortization method can no longer be used. The depreciation and amortization method must reflect the consumption of the future benefits of an asset. The amendment of these standards had no impact on the Company’s financial statements.

New standards and interpretations not yet effective

The International Financial Reporting Interpretation Committee (IFRC) and the International Accounting Standards Board (IASB) have published new standards whose application will be mandatory for fiscal years beginning after August 1, 2016 or subsequent years. Many of these new accounting policies will have no impact on the results and the statement of the financial position of the Company, so they are not discussed below.

IAS 7 - Statement of Cash Flows

In February 2016, IASB issued amendments of limited scope to IAS 7 - Statement of Cash Flows to require that companies provide information concerning changes in their financing liabilities. The amendments will apply prospectively to fiscal years beginning on or after January 1, 2017. Earlier

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

application is permitted. These amendments will not have any significant impact on the Company's financial statements.

IAS 12 - Income Taxes

In January 2016, IASB issued amendments to IAS 12 - Income Taxes on the accounting of future tax assets relating to unrealized losses. Essentially, these amendments aim to clarify when a future tax asset should be recognized in regard to an unrealized loss. These amendments will apply to the financial statements of fiscal years beginning on or after January 1, 2017. These amendments will not have any significant impact on the Company's financial statements.

New standards and interpretations not yet effective

IFRS 9 - Financial Instruments

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

IFRS 15 - Revenue from Contracts with Customers

In May 2014, IASB issued IFRS 15 - Revenue from Contracts with Customers to replace IAS 18 and IAS 11. This new standard provides guidance on the method to be used and when to recognize revenue as per a unique model, except for loan contracts, financial instruments and insurance contracts. This standard is retrospectively applicable from January 1, 2018. The Company will assess the impact of this new standard when it will recognize revenues from its ordinary activities.

IFRS 2 - Share-based Payment

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

IFRS 16 - Leases

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

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, IASB issued IFRIC 23 - Uncertainty over Income Tax Treatments. IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12 - Income Taxes, when there is

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

uncertainty over income tax treatments. It specifically addresses whether a company considers each tax treatment independently or collectively, the assumptions a company makes about the examination of tax treatments by taxation authorities, how a company determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates and how a company considers changes in facts and circumstances.

This standard will apply to fiscal years beginning on or after January 1, 2019, with earlier application permitted. This standard will not have any significant impact on the Company's financial statements.

5. INVENTORIES

	January 31, 2018		July 31, 2017
	(unaudited)		(audited)
Raw materials	\$ 35,800	\$	11,808
Goods in process	-		1,853
Finished goods	-		804
	\$ 35,800	\$	14,465

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

6. FIXED ASSETS

							January 31, 2018	July 31, 2017
							(unaudited)	(audited)
	Building	Land	Leasehold improve- ments	Production and laboratory equipment	Computer equipment	Furniture and equipment	Total	Total
Cost								
Balance, beginning of period	\$ 2,537,676	\$ 562,324	\$ 2,100	\$ 1,543,990	\$ 20,568	\$ 62,100	\$ 4,728,758	\$ 4,728,758
Acquisitions	-	-	-	-	-	-	-	-
Balance, end of period	2,537,676	562,324	2,100	1,543,990	20,568	62,100	4,728,758	4,728,758
Accumulated amortization								
Balance, beginning of period	231,374	-	840	347,637	14,352	27,872	622,075	345,529
Amortization expenses	51,728	-	212	77,834	3,456	6,260	139,490	276,546
Balance, end of period	283,102	-	1,052	425,471	17,808	34,132	761,565	622,075
Carrying value, end of period	\$ 2,254,574	\$ 562,324	\$ 1,048	\$ 1,118,519	\$ 2,760	\$ 27,968	\$ 3,967,193	\$ 4,106,683

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

7. LONG-TERM DEBT

	January 31, 2018	July 31, 2017
Loan, secured by a hypothec on the universality of movable and immovable property, tangible and intangible, present, of a carrying value of \$8,924,938, and future of the Company, bearing interest at the lender’s variable rate plus 6%, repayable in monthly instalments of \$53,449, maturing in 2023	\$ 3,253,180	\$ 3,259,686
Current portion	481,041	160,347
	\$ 2,772,139	\$ 3,099,339

At the closing of the public financing, following the receipt by Investissement Québec of \$650,000 applicable in reduction of the loan principal balance, Investissement Québec agrees to grant the Company a moratorium of principal repayment on the loan of twelve months from May 2017.

The Company has committed to Investissement Québec, upon any subsequent financing by equity, to repay the loan of an amount equal to 5% of the gross proceeds of the financing if the amount collected is lower than \$2,000,000 and 10% of the gross proceeds of the financing if the amount collected is higher than \$2,000,000. Consequently, further to the private placement closed on July 12, 2017 without the intervention of a broker, the Company repaid to Investissement Québec, on August 21, 2017, an amount of \$6,506 corresponding to 5% of the \$130,125 total gross proceed.

On August 25, 2017, Investissement Québec removed the requirements to which the Company was subjected regarding capital at the end of each of its financial years:

- A ratio debt/equity of 2 maximum;
- A minimum ratio of working capital of 1.3.

8. SHAREHOLDERS' EQUITY

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.

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

8. SHARE CAPITAL (continued)

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.

Description of authorized share capital

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

	January 31, 2018	July 31, 2017
Share capital issued includes:		
58,784,787 shares (July 31, 2017 – 58,744,787)	\$ 11,009,784	\$ 10,978,344

The 58,784,787 outstanding shares as at January 31, 2018 are classified into 21,239,893 exchangeable subordinate voting shares, 17,578,371 subordinate voting shares and 19,966,523 multiple voting shares. The 21,239,893 exchangeable subordinate voting shares can be exchanged into subordinate voting shares at the rate of, 6,068,537 shares on May 18, 2018, 6,068,537 shares on November 18, 2018 and 9,102,818 shares on May 18, 2019.

Among the 58,784,787 outstanding shares as at January 31, 2018, 19,888,497 shares were escrowed, according to an escrow agreement as required by the Applicable Securities Regulations. According to this escrow agreement, the balance of 19,888,497 shares will be released at the rate of 2,260,807 shares on May 18, 2018 and on November 18, 2018, 3,333,865 shares on May 18, 2019 and on November 18, 2019 and finally, 8,699,153 shares on May 18, 2020.

On August 25, 2017, 40,000 stock options were exercised for a gross proceed of \$10,800.

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

9. STOCK OPTIONS AND WARRANTS

a) Stock options

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the six-month period ended January 31, 2018 and the year ended July 31, 2017:

	January 31, 2018		July 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	1,897,423	\$ 0.61	-	\$ -
Options held by the directors of Orletto Capital Inc. after consolidation	-	-	200,000	0.27
Options granted to the agent during the concurrent placement	-	-	537,423	0.75
Options granted to directors and consultants	-	-	860,000	0.60
Options granted to members of management and employees	-	-	300,000	0.60
Stock option exercised	(40,000)	0.27		
Outstanding, end of year	1,857,423	\$ 0.61	1,897,423	\$ 0.61
Options exercisable, end of year	1,632,423		1,672,423	
Weighted average fair value of the options granted during the year	\$ -		\$ -	0.25

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

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
\$0.27	160,000	1.61 year	\$ 0.27	160,000	\$ 0.27
\$0.60	1,160,000	4.42 years	\$ 0.60	935,000	\$ 0.60
\$0.75	537,423	1.28 year	\$ 0.75	537,423	\$ 0.75

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

9. STOCK OPTIONS AND WARRANTS

b) Warrants

The following table summarizes information about the Company’s warrants and the changes during the six-month period ended January 31, 2018 and the year ended July 31, 2017:

	January 31, 2018		July 31, 2017	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	4,217,782	\$ 1.10	8,797,181	\$ 0.30
Granted	-	-	4,217,782	1.10
Exercised	-	-	(5,209,517)	0.30
Expired	-	-	(3,587,664)	0.30
Outstanding, end of year	4,217,782	\$ 1.10	4,217,782	\$ 1.10
Warrants exercisable, end of year	4,151,028	\$ 1.10	4,151,028	\$ 1.10
Weighted average fair value of the warrants granted during the year	\$ -		\$ -	0.20

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

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
\$1.10	4,217,782	1.28 year	\$ 1.10	4,151,028	\$ 1.10

Among the 4,217,782 warrants, 63,241 warrants were escrowed on January 31, 2018, according to an escrow agreement required by the Applicable Securities Regulations. According to this escrow agreement, the balance of 63,641 warrants will be released at the rate of 7,027 warrants on May 18, 2018 and November 18, 2018, 10,541 warrants on May 18, 2019 and on November 18, 2019 and finally, 28,105 warrants on May 18, 2020.

Devonian Health Group Inc.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

As at January 31, 2018

“Unaudited”

10. RELATED PARTY TRANSACTIONS

The principal officers of the Company are the President and the Directors. During the six-month period ended January 31, 2018, the Company has paid the president a total remuneration of \$125,385 (January 31, 2017 - \$ 80,000).

During the six-month period ended January 31, 2018, the Company has paid a salary of \$16,000 to the President’s spouse who was acting as the interim chief financial officer (January 31, 2017 – \$16,000).

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

11. COMMITMENTS

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

The contract of \$1,222,497 will be payable over twelve months. On January 31, 2018, the balance of the commitment is established at \$836,507.

On July 24, 2017, the Company signed a lease for the rental of a vehicle. On January 31, 2018, the contractual obligations under such lease amount to \$24,465.

The Company has committed to an employee to issue 20,000 stock options. The terms of these options will be determined at the time of grant.

12. FINANCIAL EXPENSES

Financial expenses for the six-month period ended January 31, were as follows:

	January 31, 2018	January 31, 2017
Interest expenses and bank charges	\$ 2,237	\$ 12,520
Interest on long-term debt	174,658	218,345
Amortization of discount on convertible debentures	-	30,176
Interest on convertible debentures	-	63,9889
	\$ 176,895	\$ 325,030

Devonian Health Group Inc.

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“Unaudited”

13. LOSS PER SHARE

The following table provides a reconciliation between the weighted average number of common shares used to calculate the basic and diluted earnings per share.

	Six-month period ended January 31, 2018	Six-month period ended January 31, 2017
Weighted average number of common shares used to calculate the basic and diluted earnings per share	58,779,512	26,972,984

For the six-month periods ended January 31, 2018 and January 31, 2017, the impact of the warrants is excluded from the calculation of the diluted loss per share, as they would be anti-dilutive.

14. 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.

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at January 31, 2018, the Company has current debts of \$681,259 (July 31, 2017- \$270,723). The maturity date of the long-term debt is presented in Note 7. 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.

Financial instruments

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

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

Devonian Health Group Inc.

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14. FINANCIAL INSTRUMENTS (continued)

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

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

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

15. SIGNIFICANT EVENTS

On September 28, 2017 the Company announced that it has signed its first exclusive marketing and distribution agreement with Altius Healthcare Inc. to distribute its patented Purgenesis™ anti-aging treatment products in Canada. The exclusive distribution agreement includes upfront payment for each treatment as well as up to 25% in royalties based on sales.

16. SUBSEQUENT EVENTS

On February 1, 2018, the Company completed the agreement to acquire all the issued and outstanding shares of Altius Healthcare Inc., a corporation governed by the Business Corporations Act (Ontario) which owns and operates the company producing, importing, marketing and distributing generic and branded “Altius” medicines.

Altius is expected to maintain its existing operations as a new division of Devonian. Altius will continue to acquire licenses and distribute drugs for the Canadian market.

The acquisition is based under the terms of a share purchase agreement between Devonian, the shareholders of Altius and Altius and pursuant to which, subject to the Company fulfilling all the requirements of the Exchange of TSX growth prior to March 7, 2018, the Company will acquire all of the issued and outstanding shares of Altius in exchange for the issuance of 8,403,361 units of the Company. Each unit consists of one subordinate voting share and one subordinate voting warrant at a price of \$ 1.19 per subordinate share for a period of 36 months following their issuance. This transaction is carried out on a cashless and debt-free basis at the reporting date and the purchase price may be adjusted upon receipt of the working capital report to be provided by Altius. The Subordinate Voting Shares will be held in escrow for a period of thirty-six months.

On February 9, 2018, 40,000 stock options were exercised for total gross proceeds of \$ 10,800.

On March 16, 2018, the board of directors approved the grant of 250,000 options to certain directors and consultants of the Corporation. These options are exercisable at a price of \$ 1.20 per subordinate voting share for a period of five (5) years from the date of grant.