



## **Devonian Health Group Inc.**

Condensed Interim Consolidated Financial Statements  
Nine-month period ended  
**April 30, 2023**

# Devonian Health Group Inc.

## Condensed Interim Consolidated Statements of Financial Position

As at

Unaudited

	April 30, 2023 \$	July 31, 2022 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,128,337	2,805,191
Guaranteed investment certificate	-	5,000,000
Accounts receivable (note 5)	438,379	314,738
Tax credits receivable (note 6)	-	22,460
Inventories	202,283	154,622
Prepaid expenses	47,276	120,218
	<u>5,816,275</u>	<u>8,417,229</u>
<b>Property, plant, equipment, and right-of-use assets</b>	2,757,409	2,884,656
<b>Intangible assets</b>	5,536,694	5,641,102
<b>Goodwill</b>	<u>4,643,084</u>	<u>4,643,084</u>
	<u>18,753,462</u>	<u>21,586,071</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	1,230,561	1,035,177
Current portion of lease liability	21,166	6,030
Long-term debt maturing (note 7)	<u>3,580,000</u>	<u>-</u>
	4,831,727	1,041,207
<b>Long-term debt</b> (note 7)	-	3,576,423
<b>Convertible debentures</b> (note 8)	-	680,165
<b>Lease liability</b>	<u>78,144</u>	<u>15,747</u>
	<u>4,909,871</u>	<u>5,313,542</u>
<b>Shareholders' Equity</b>		
Share capital (note 9)	28,617,210	27,572,182
Stock options (note 10)	1,450,783	1,113,033
Warrants (note 11)	4,573,724	4,737,154
Contributed surplus	3,764,921	3,676,907
Deficit	<u>(24,563,047)</u>	<u>(20,826,747)</u>
	<u>13,843,591</u>	<u>16,272,529</u>
	<u>18,753,462</u>	<u>21,586,071</u>
<b>Material uncertainty related to going concern</b> (note 2)		

### Approved by the Board of Directors

(s) Pierre Montanaro, Director

(s) André Boulet, Director

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

# Devonian Health Group Inc.

## Condensed Interim Consolidated Statements of Net Loss and Comprehensive Loss For the three-month periods and nine-month periods ended

Unaudited

	For the three-month period ended		For the nine-month period ended	
	April 30 2023 \$	April 30 2022 \$	April 30 2023 \$	April 30 2022 \$
<b>Distribution revenues</b>	406,100	729,139	1,269,220	1,693,066
<b>Operating expenses</b>				
Cost of sales	265,446	448,305	852,055	1,405,275
Research and development expenses	470,343	248,019	1,145,026	510,882
Administrative expenses	1,107,815	499,650	2,800,289	2,047,003
Financial expenses (note 12)	48,562	228,375	200,150	397,031
	1,892,166	1,424,349	5,005,520	4,360,191
<b>Net loss and comprehensive loss</b>	<b>(1,486,066)</b>	<b>(695,210)</b>	<b>(3,736,300)</b>	<b>(2,667,125)</b>
<b>Net loss per share (note 13)</b>				
Basic	(0.01)	(0.01)	(0.03)	(0.02)
Diluted	(0.01)	(0.01)	(0.03)	(0.02)

**Additional information to the condensed interim consolidated statements of net loss and comprehensive loss**  
(notes 2, 4 and 12)

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

# Devonian Health Group Inc.

## Condensed Interim Consolidated Statements of Changes in Equity

### For the nine-month periods

	Number			Amount						
	Shares	Stock options	Warrants	Total	Share capital \$	Stock options \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
<b>For the nine-month period ended April 30, 2022</b>										
Balance as at July 31, 2021	93,460,688	6,940,000	9,740,653	110,141,341	20,208,600	765,205	540,421	3,387,704	(17,378,445)	7,523,485
Issuance of shares (note 9)	36,977,947	-	-	36,977,947	7,313,265	-	-	-	-	7,313,265
Share issuance costs:										
In cash	-	-	-	-	(171,565)	-	-	-	-	(171,565)
Stock-based compensation (note 10)	-	2,220,000	-	2,220,000	-	532,687	-	-	-	532,687
Issuance of warrants (note 11)	-	-	35,666,394	35,666,394	-	-	4,347,958	-	-	4,347,958
Warrants exercised (note 11)	700,000	-	(700,000)	-	221,882	-	(46,882)	-	-	175,000
Warrants expired (note 11)	-	-	(943,600)	(943,600)	-	-	(29,963)	29,963	-	-
Options expired (note 10)	-	(375,000)	-	(375,000)	-	(35,223)	-	35,223	-	-
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	-	(2,667,125)	(2,667,125)
	<u>37,677,947</u>	<u>1,845,000</u>	<u>34,022,794</u>	<u>73,545,741</u>	<u>7,363,582</u>	<u>497,464</u>	<u>4,271,113</u>	<u>65,186</u>	<u>(2,667,125)</u>	<u>9,530,220</u>
<b>Balance, as at April 30, 2022</b>	<b>131,138,635</b>	<b>8,785,000</b>	<b>43,763,447</b>	<b>183,687,082</b>	<b>27,572,182</b>	<b>1,262,669</b>	<b>4,811,534</b>	<b>3,452,890</b>	<b>(20,045,570)</b>	<b>17,053,705</b>
<b>For the nine-month period ended April 30, 2023</b>										
Balance as at July 31, 2022	131,138,635	8,075,000	42,670,325	181,883,960	27,572,182	1,113,033	4,737,154	3,676,907	(20,826,747)	16,272,529
Issuance of shares (note 9)	221,403	-	-	221,403	105,085	-	-	-	-	105,000
Options expired (note 10)	-	(200,000)	-	(200,000)	-	(39,200)	-	39,200	-	-
Options exercised (note 10)	50,000	(50,000)	-	-	9,300	(3,300)	-	-	-	6,000
Stock-based compensation (note 10)	-	2,125,000	-	2,125,000	-	380,250	-	-	-	380,250
Issuance of warrants (note 11)	-	-	221,403	221,403	-	-	58,527	-	-	58,527
Warrants exercised (note 11)	5,050,002	-	(5,050,002)	-	930,643	-	(173,143)	-	-	757,500
Warrants expired (note 11)	-	-	(269,331)	(269,331)	-	-	(48,814)	48,814	-	-
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	-	(3,736,300)	(3,736,300)
	<u>5,321,405</u>	<u>1,875,000</u>	<u>(5,097,930)</u>	<u>2,098,475</u>	<u>1,045,028</u>	<u>337,750</u>	<u>(163,430)</u>	<u>88,014</u>	<u>(3,736,300)</u>	<u>(2,428,938)</u>
<b>Balance, as at April 30, 2023</b>	<b>136,460,040</b>	<b>10,150,000</b>	<b>37,748,162</b>	<b>183,982,435</b>	<b>28,617,210</b>	<b>1,450,783</b>	<b>4,573,724</b>	<b>3,764,921</b>	<b>(24,563,047)</b>	<b>13,843,591</b>

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

# Devonian Health Group Inc.

## Condensed Interim Consolidated Statements of Cash Flows For the nine-month periods ended

Unaudited

	April 30 2023 \$	April 30 2022 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net loss for the period	(3,736,300)	(2,667,125)
Items not affecting cash:		
Amortization of property, plant, equipment, and right-of-use asset	214,356	200,321
Amortization of intangible assets	104,408	559,090
Amortization of discount on convertible debentures, net of settlement of original issue discount	(352,779)	261,986
Amortization of discount on emergency business account loan	3,578	4,764
Unrealized loss (gain) on derivatives	-	(287,077)
Interest on lease liability	2,747	-
Interest on convertible debentures	493	200,163
Stock-based compensation	380,250	532,687
	<u>(3,383,247)</u>	<u>(1,195,191)</u>
Net change in non-cash working capital items	<u>252,603</u>	<u>(525,687)</u>
	<u>(3,130,644)</u>	<u>(1,720,567)</u>
<b>Investing activities</b>		
Sale of guaranteed investment certificates	5,000,000	-
Acquisition of property, plant, and equipment	-	(70,337)
	<u>5,000,000</u>	<u>(70,337)</u>
<b>Financing activities</b>		
Principal payments on lease liability	(12,323)	(3,736)
Convertible debentures	(297,387)	-
Issuance of shares and warrants	-	10,763,182
Warrants exercised	757,500	175,000
Options exercised	6,000	-
	<u>453,790</u>	<u>10,934,446</u>
<b>Increase in cash and cash equivalents</b>	2,323,146	9,143,542
<b>Cash and cash equivalents – Beginning of period</b>	<u>2,805,191</u>	<u>344,795</u>
<b>Cash and cash equivalents – End of period</b>	<u>5,128,337</u>	<u>9,488,337</u>

For the period ended April 30, 2023, cash flow from operating activities includes interest paid of \$ 315,106 (2022 - \$ 223,433), and \$ 697,000 of which \$ 369,613 for the discount portion on convertible debentures and does not include any tax paid (2022- none).

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

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

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Unaudited

### 1 Statutes of incorporation and nature of activities

The Company was incorporated under the *Business Corporations Act* (Québec) on March 27, 2015. On May 12, 2017, the Company was continued under the *Canada Business Corporations Act*.

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 effort focused towards new solutions in the medical sector as well as in the cosmetic sector. The Company's head office is located at 360, Rue des Entrepreneurs, Montmagny, Québec.

### 2 Material uncertainty related to going concern

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

Management continues to negotiate further financing and different agreements that could create positive cash flows. (Note 21). The success of these negotiations is contingent on many factors outside the Company's control and its ability to successfully complete such financings and agreements is tinged with material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

### 3 Significant accounting policies

#### Declaration of compliance

The condensed consolidated interim 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 annual consolidated financial statements for the years ended July 31, 2022, and July 31, 2021.

These condensed consolidated interim financial statements were adopted by the board of directors on June 22, 2023.

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

### Significant accounting policies

The interim condensed consolidated financial statements were based on the significant accounting policies described in the Company's consolidated financial statements for the year ended July 31, 2022.

### Use of estimates and judgments

The preparation of condensed consolidated interim financial statements requires management to use judgment, make estimates and make assumptions that affect the application of accounting policies and the carrying value of assets, liabilities, income and expenses. Actual results could differ from estimated results. Significant accounting judgments and estimates applied by the Company are presented in the consolidated financial statements for the year ended July 31, 2022, and remain unchanged. Estimates and underlying assumptions are reviewed regularly. Any revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected by such revisions.

## 4 Additional information to the condensed interim consolidated statements of net loss and comprehensive loss

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

	April 30 2023 \$	April 30 2022 \$
Research and development – Amortization of property, plant and equipment and right-of-use asset	199,608	200,321
Cost of sales – Amortization of intangible assets	104,409	559,090
Administrative expenses – Salaries and employer's contributions	462,118	414,524
Administrative expenses – Stock-based compensation	380,250	532,687
Research and development expenses – Salaries and employer's contributions	329,780	89,339

## 5 Accounts receivable

	April 30 2023 \$	July 31 2022 \$
Trade	276,295	219,952
Sales taxes	98,626	65,444
Interest receivable	63,458	29,342
	<u>438,379</u>	<u>314,738</u>

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

### 6 Tax credits receivable

	April 30 2023 \$	July 31 2022 \$
Balance, beginning of period	22,460	16,251
Tax credits for research and development accounted for	-	22,460
Tax credits for research and development received	(22,460)	(16,251)
	<hr/>	<hr/>
Balance, end of period	-	22,460

### 7 Long-term debt

	April 30 2023 \$	July 31 2022 \$
Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of \$ 8,186,820, interest payable monthly at the Toronto Dominion Bank's prime rate plus 6% (12.70 %; July 31 2022 – 10.7%), principal repayable at maturity in January 2024*	3,500,000	3,500,000
Canada Emergency Business Account Loan	80,000	76,423
	<hr/>	<hr/>
	3,580,000	3,576,423

\* 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.

### 8 Convertible debentures

	Host \$	Derivative \$	April 30 2023 Total \$
Balance as of July 31, 2022	680,165	-	680,165
Accretion	16,835	-	16,835
Matured	(697,000)	-	(697,000)
	<hr/>	<hr/>	<hr/>
Balance as at April 30, 2023	-	-	-



# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

	July 31, 2022		
	Host \$	Derivative \$	Total \$
Balance as at July 31, 2021	1,325,949	361,583	1,687,532
Accretion	354,216	-	354,216
Matured	(1,000,000)	-	(1,000,000)
Change in fair value of derivative	-	(361,583)	(361,583)
Balance as at July 31, 2022	680,165	-	680,165

## 9 Share capital

### Issuance

#### a) Interest on convertible debentures

During the nine-month period ended April 30, 2023, the Company issued 181,404 units, at a unit price ranging from \$0.40 to \$0.53 in exchange for the \$84,725 of interest it owed to holders of debentures issued in 2018. Each unit consists of one subordinate voting share and one warrant. Each warrant entitles its holder to subscribe to one subordinate voting share of the capital stock of the Company at a price ranging from \$0.52 to \$0.69 for a period of 48 months following their date of subscription. The fair value of the 181,404 shares and 181,404 warrants was estimated at \$84,725 and \$48,887 respectively, based on the following weighted average assumptions:

Risk-free interest rate	3.5 %
Average expected duration	3 years
Expected volatility	92 %
Share price	\$0.455
Expected dividend	Nil

#### b) Convertible debentures

On September 14, 2022, the Company issued 39,999 units following the conversion of debentures that had been issued on August 31, 2018, for a total consideration of \$30,000. Each unit includes a subordinate voting share issued at a price of \$0.75 and a warrant exercisable at a price of \$0.95, for a period of 4 years following the date of their issuance. The fair value of the 39,999 shares and the 39,999 warrants was estimated at \$ 20,360 and \$ 9,640 respectively, according to the following weighted average assumptions:

Risk-free interest rate	3.5%
Average expected duration	4 years
Expected volatility	92%
Share price	\$0.455
Expected dividend	Nil

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

c) Exercise of warrants

In December 2022, the Company issued 5,050,002 subordinate voting shares, at a unit price of \$0.15 per unit, for total gross proceeds of \$757,500, following the exercise of 5,050 002 warrants that had been issued on December 29, 2020. The value of \$117,286 that had been allocated to these warrants was reclassified to capital stock.

d) Exercise of stock options

On January 26, 2023, the Company issued 50,000 subordinate voting shares, at a unit price of \$0.12 per share, for gross proceeds of \$6,000, following the exercise of 50,000 stock options by a member of management. The value of \$3,300 that had been allocated to these options was reclassified to capital stock.

### 10 Stock option plan

On August 24, 2022, the Company granted 300,000 stock options to employees as well as 675,000 stock options to a consultant and members of the Board of Directors, exercisable at a price of \$0.50 per subordinate voting share. Among these 975,000 options, 350,000 are exercisable immediately for a period of 5 years, while 375,000 are exercisable immediately for a period of 10 years and finally, 250,000 stock options will be exercisable from the 26 February 2023, for a period of 10 years.

The fair value of these options was estimated at \$290,550 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	3.5%
Average expected life	3.5 years
Expected volatility	92%
Share price	\$0.50
Expected dividend	Nil

On January 6, 2023, the Company granted 50,000 stock options to a member of management and 100,000 stock options to members of the Board of Directors, exercisable immediately at \$0.34 per subordinate voting share, for a period of 10 years.

On the same date, the Company also granted 1,000,000 stock options to a consultant, exercisable at a price of \$0.50 per subordinate voting share, for a period of 10 years. Of these 1,000,000 options, 300,000 are exercisable immediately, while 700,000 will be exercisable depending on the achievement of specific objectives.

The fair value of these options was estimated at \$224,800 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	4 %
Average expected life	5 years
Expected volatility	92%
Share price	\$0.30
Expected dividend	Nil

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

The Company recorded an expense of \$380,250 during the nine-month period ended April 30, 2023 (2022 – \$532,687).

The determination of the volatility assumption of stock options is based on a historical volatility analysis over a period equal to the expected life of the options.

The following table summarizes the situation of the Company's stock option plan and the changes incurred during the nine-month period ended April 30, 2023, and the year ended July 31, 2022:

	April 30 2023		July 31 2022	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of year	8,075,000	0.34	6,940,000	0.33
Options expired	(200,000)	1.20	(1,085,000)	0.49
Options exercised	(50,000)	0.12		
Options granted to directors and consultants	1,775,000	0.49	1,695,000	0.45
Options granted to members of management and employees	350,000	0.48	525,000	0.40
Outstanding, end of period	9,950,000	0.37	8,075,000	0.34
Options exercisable, end of period	9,250,000	0.36	8,075,000	0.34
Weighted average fair value of the options granted during the period		0.24		0.24

The following table summarizes information about the options outstanding and exercisable as at April 30, 2023:

Exercise price	Options outstanding		Options exercisable	
	Number of options outstanding	Weighted average remaining contractual life		
0.12 \$	751,645	7.66 years	751,645	
0.15 \$	2,658,355	7.15 years	2,658,355	
0.20 \$	60,000	7.89 years	60,000	
0.21 \$	625,000	6.98 years	625,000	
0.34 \$	150,000	9.68 years	150,000	
0.40 \$	1,345,000	8.55 years	1,345,000	
0.44 \$	150,000	8.40 years	150,000	
0.50 \$	2,700,000	8.61 years	2,000,000	
0.60 \$	1,510,000	3.32 years	1,510,000	

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

### 11 Warrants

The following table summarizes information about the Company's warrants and the changes during the nine-month period ended April 30, 2023, and the year ended July 31, 2022, all of which are exercisable:

	April 30 2023		July 31 2022	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of year	42,670,325	0.37	9,740,653	0.23
Issued	221,403	0.65	35,666,394	0.41
Expired	(269,331)	0.40	(2,036,722)	0.38
Exercised	(5 050 002)	0.15	(700,000)	0.25
Outstanding, end of period	37,572,395	0.40	42,670,325	0.37

The following table summarizes information about warrants outstanding and exercisable as at April 30, 2023:

Warrants outstanding		
Exercise price \$	Number of warrants outstanding	Average remaining contractual life
0.194	201,982	1.75 years
0.218	179,137	0.75 year
0.225	291,393	0.75 year
0.237	272,467	1.25 year
0.26	252,055	1.75 year
0.263	146,561	1 year
0.30	150,278	1.88 years
0.338	190,727	0.75 year
0.40	32,897,660	0.57 year
0.50	2,415,090	0.37 year
0.52	87,840	3.38 years
0.59	78,078	2.39 years
0.61	73,540	2.85 years
0.64	101,202	2.50 years
0.65	100,822	2.75 years
0.69	93,564	3.98 years
0.95	39,999	3.38 years

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

Unaudited

### 12 Net Financial expenses

Financial expenses are as follows:

	April 30 2023	April 30 2022
	\$	\$
Interest expenses and bank charges	3,610	3,398
Interest on long-term debt	315,106	223,433
Interest on lease liability	2,747	674
Amortization of discount on convertible debentures	16,835	261,986
Amortization of discount on Canada Emergency Business Account Loan	3,578	4,764
Embedded derivative convertible debentures – Change in fair value	-	(287,077)
Interest on deposit certificate	(134,219)	-
Interest expense on convertible debentures	493	200,163
	<u>208,150</u>	<u>397,031</u>

### 13 Net loss per share

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

	April 30 2023	April 30 2022
	\$	\$
Weighted average number of shares used to calculate the basic loss per share	<u>131,625,338</u>	<u>114,954,391</u>
Items excluded from the calculation of diluted loss per share:		
Stock options	9,950,000	8,785,000
Warrants	37,572,395	43,763,447
Convertible debenture	-	4,525,334

For the nine-month periods ended April 30, 2023, and April 30, 2022, the impacts of the warrants, stock options and the convertible debentures were excluded from the calculation of diluted loss per share as they would have an anti-dilutive effect.

# Devonian Health Group Inc.

## Notes to Condensed Interim Consolidated Financial Statements

April 30, 2023

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Unaudited

### 14 Related party transaction

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, 2023, the Company has paid them a total remuneration of \$1,140,491 (2022– \$810,699), which has been recognized in administrative expenses and of which the main components are:

	April 30 2023 \$	April 30 2022 \$
Salaries and benefits	645,486	381,639
Management fees	66,668	150,000
Consultant and Board of Directors fees	190,917	-
Stock-based compensation	237,420	279,060

### 15 Subsequent events

On May 11, 2023, the Company approved the granting of 775,000 stock options to directors and consultants. These options are exercisable immediately, at a price of \$0.20 for a period of 10 years, from the date of grant.

On June 6, 2023, the Company completed a private placement by issuing 7,997,765 units at a price of \$0.15 per unit, for gross proceeds of \$1,199,665. Each unit consists of one subordinate voting share and one share purchase warrant. Each share purchase warrant entitles its holder to acquire one subordinate voting share at a price of \$0.20 per share for a period of 24 months following the date of issue.