



DEVONIAN HEALTH GROUP INC.

Interim Condensed Consolidated Financial Statements for the three-month periods ended
October 31, 2023 and 2022
(Unaudited)

Devonian Health Group Inc.
Consolidated Statements of Financial Position
As at October 31, 2023 and July 31, 2023

(Unaudited)

	October 31, 2023 \$	July 31, 2023 \$
Assets		
Current assets		
Cash	4,944,326	5,062,936
Accounts receivable (note 4)	933,165	865,714
Tax credits receivable	75,054	75,054
Inventories (note 6)	144,098	159,783
Prepaid expenses (note 5)	166,233	181,491
	<u>6,262,876</u>	<u>6,344,978</u>
Property, plant, equipment, and right-of-use assets	2,610,635	2,684,022
Intangible assets	5,472,234	5,505,394
Goodwill	4,643,084	4,643,084
	<u>18,988,829</u>	<u>19,177,478</u>
Liabilities		
Current liabilities		
Accounts payable (note 7)	1,299,284	1,255,806
Current portion of lease liability	22,132	21,646
Current portion of long-term debt (note 8)	3,580,000	3,580,000
	<u>4,901,416</u>	<u>4,857,452</u>
Lease liability	66,927	72,574
	<u>4,968,343</u>	<u>4,930,026</u>
Shareholders' Equity		
Share capital (note 9)	29,699,888	29,345,454
Stock options (note 10)	1,555,408	1,555,408
Warrants (note 11)	4,879,256	5,008,023
Contributed surplus	4,033,850	3,764,921
Deficit	(26,147,916)	(25,426,354)
	<u>14,020,486</u>	<u>14,247,452</u>
	<u>18,988,829</u>	<u>19,177,478</u>
Material uncertainty related to going concern (note 1)		

Approved by the Board of Directors

(s) Pierre Montanaro, Director

(s) André Boulet, Director

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

Devonian Health Group Inc.

Consolidated Statements of Net Loss and Comprehensive Loss For the three-month periods ended October 31, 2023 and 2022

(Unaudited)

	October 31 2023 \$	October 31 2022 \$
Distribution revenues	1,272,520	410,353
Operating expenses		
Cost of sales	756,465	263,618
Research and development expenses	367,931	339,070
Administrative expenses	788,874	907,317
Financial expenses (note 12)	80,812	96,804
	<u>1,994,082</u>	<u>1,606,809</u>
Net loss and comprehensive loss	<u>(721,562)</u>	<u>(1,196,456)</u>
Net loss per share (note 13)		
Basic	(0.005)	(0.009)
Diluted	(0.005)	(0.009)

Additional information to the interim consolidated statements of net loss and comprehensive loss (notes 1, 3 and 12)

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

Devonian Health Group Inc.

Consolidated Statements of Changes in Equity

For the three-month periods ended October 31, 2023 and 2022

(Unaudited)

	Number				Amount					
	Shares	Stock options	Warrants	Total	Share capital \$	Stock options \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
For the three-month period ended October 31, 2022										
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)	127,839	-	-	127,839	55,496	-	-	-	-	55,496
Stock-based compensation (note 10)	-	975,000	-	975,000	-	216,050	-	-	-	216,050
Issuance of warrants (note 11)	-	-	127,839	127,839	-	-	29,914	-	-	29,914
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	-	(1,196,456)	(1,196,456)
	127,839	975,000	127,839	1,230,678	55,496	216,050	29,914	-	(1,196,456)	(894,996)
Balance as at October 31, 2022	131,266,474	9,050,000	42,798,164	183,114,638	27,627,678	1,329,083	4,768,068	3,676,907	(22,023,203)	15,377,533
For the three-month period ended October 31, 2023										
Balance as at July 31, 2023	144,457,805	10,725,000	45,570,160	200,752,965	29,345,454	1,555,408	5,008,023	3,764,921	(25,426,354)	14,247,452
Issuance of shares (note 9)	2,272,727	-	-	2,272,727	359,838	-	-	-	-	359,838
Share issuance costs: In cash	-	-	-	-	(5,404)	-	-	-	-	(5,404)
Issuance of warrants (note 11)	-	-	2,272,727	2,272,727	-	-	140,162	-	-	140,162
Warrants expired (note 11)	-	-	(2,415,090)	(2,415,090)	-	-	(268,929)	268,929	-	-
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	-	(721,562)	(721,562)
	2,272,727	-	(142,363)	2,130,364	354,434	-	(128,767)	268,929	(721,562)	(226,966)
Balance, as at October 31, 2023	146,730,532	10,725,000	45,427,797	202,883,329	29,699,888	1,555,408	4,879,256	4,033,850	(26,147,916)	14,020,486

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

Devonian Health Group Inc.

Consolidated Statements of Cash Flows

For the three-month periods ended October 31, 2023 and 2022

(Unaudited)

	October 31 2023 \$	October 31 2022 \$
Cash flows from		
Operating activities		
Net loss	(721,562)	(1,196,456)
Items not affecting cash:		
Amortization of property, plant, equipment, and right-of-use asset	73,387	69,032
Amortization of intangible assets	33,159	37,809
Amortization of discount on convertible debentures, net of settlement of original issue discount	-	(352,779)
Amortization of discount on emergency business account loan	-	1,706
Interest on lease liability	-	266
Interest on convertible debentures	-	493
Stock-based compensation	-	216,050
	<u>(615,016)</u>	<u>(1,223,879)</u>
Net change in non-cash working capital items	<u>6,966</u>	<u>(20,696)</u>
	<u>(608,050)</u>	<u>(1,244,575)</u>
Investing activities		
Maturity of guaranteed investment certificates	-	5,000,000
Financing activities		
Lease liability	(6,435)	(1,745)
Convertible debentures	-	(297,387)
Issuance of shares and warrants	495,875	-
	<u>489,440</u>	<u>(299,132)</u>
Increase (decrease) in cash	<u>(118,610)</u>	<u>3,456,293</u>
Cash and cash equivalents– Beginning of period	<u>5,062,936</u>	<u>2,805,191</u>
Cash and cash equivalents– End of period	<u>4,944,326</u>	<u>6,261,484</u>

For the period ended October 31, 2023, cash flow from operating activities includes interest paid of \$116,449 (2022 - \$98,518), and \$0 for the discount portion on convertible debentures (2022-\$697,000 of which \$399,613 for the discount portion of the convertible debentures and does not include any tax paid (2022 none).

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

Devonian Health Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

October 31, 2023

(Unaudited)

1 Statutes of incorporation, nature of activities and material uncertainty related to going concern

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.

These interim condensed consolidated financial statements (the "consolidated 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 accumulated losses of \$26,147,916 since its inception and anticipates that losses will continue for the foreseeable future. The Company's liquidity is limited to its ongoing operations and related activities. Consequently, the Company's ability to continue as a going concern depends also on its ability to source products from pharmaceutical suppliers, its ability to distribute its products and generating positive cash flows, the ability to obtain further financing to complete research and development projects, and to market its developed products. There is no assurance that the Company can achieve all these planned activities.

In addition, the Company's long-term debt matures in January 2024 (note 8) and the Company will need to use its current cash on hand to repay this debt or find another financial partner. Management continues to negotiate for further financing that could provide further funding to the Company to continue its activities. Based on current cash forecasts the Company has approximately enough cash flow until April 2024. The success of these negotiations is contingent on many factors outside the Company's control and its ability to successfully complete such financing which raises the concern of 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.

2 Significant accounting policies

Declaration of compliance

The 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, as published by IASB, have been omitted or summarized. These consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the years ended July 31, 2023, and 2022.

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(Unaudited)

These condensed consolidated interim financial statements were adopted by the board of directors on December 18, 2023

Significant accounting policies

The consolidated financial statements were based on the significant accounting policies described in the Company's consolidated financial statements for the year ended July 31, 2023.

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, revenues 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, 2023, 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.

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

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

	October 31 2023 \$	October 31 2022 \$
Research and development – Amortization of property, plant and equipment and right-of-use asset	73,387	69,032
Cost of sales – Amortization of intangible assets	32,435	37,809
Administrative expenses – Salaries and employer's contributions	217,051	180,492
Administrative expenses – Stock-based compensation	-	216,050
Research and development expenses – Salaries and employer's contributions	71,597	89,282

4 Accounts receivable

	October 31 2023 \$	July 31 2023 \$
Trade	700,162	663,631
Sales taxes	92,556	100,829
Interest receivable	140,447	101,254
	<u>933,165</u>	<u>865,714</u>

Devonian Health Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

October 31, 2023

(Unaudited)

5 Prepaid expenses

	October 31 2023 \$	July 31 2023 \$
Prepaid expenses	34,213	49,471
Deposits	132,020	132,020
	<u>166,233</u>	<u>181,491</u>

6 Inventories

	October 31 2023 \$	July 31 2023 \$
Raw materials	143,011	139,920
Finished goods	1,087	19,863
	<u>144,098</u>	<u>159,783</u>

7 Accounts payable

	October 31 2023 \$	July 31 2023 \$
Suppliers	561,088	753,601
Accrued expenses	711,001	423,466
Salaries, payroll deductions and contributions	27,195	78,739
	<u>1,299,284</u>	<u>1,255,806</u>

8 Long-term debt

	October 31 2023 \$	July 31 2023 \$
Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of \$7,989,289, interest payable monthly at the Toronto Dominion Bank's prime rate plus 6% (13.2%; July 31 2023 – 13.2%), principal repayable at maturity in January 2024*	3,500,000	3,500,000
Canada Emergency Business Account Loan maturing in January 2024	80,000	80,000
	<u>3,580,000</u>	<u>3,580,000</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.

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(Unaudited)

9 Share capital

Issuance

Private Financing

On September 1, 2023, the Company completed a private financing by issuing 2,272,727 units, at a price of \$0.22 per unit for gross proceeds of \$500,000. Each unit consists of one subordinate voting share and one share purchase warrant. Each warrant entitles his holder to acquire one subordinate voting share at a price of \$0.28 for a period of two years following the date of issue. Related costs of \$5,404 for this issue were recorded as a reduction in share capital.

The fair value of the 2,272,727 shares and the 2,272,727 warrants was estimated at \$359,838 and \$ 140,162 respectively, according to the following assumptions:

Risk-free interest rate	5 %
Expected duration	2 years
Expected volatility	94 %
Share price	\$0.22
Expected dividend	Nil

10 Stock option plan

The following table summarizes information about the options outstanding and exercisable as at October 31, 2023:

Exercise price \$	Options outstanding and exercisable		
	Number of options outstanding	Weighted average remaining contractual life	Options exercisable
0.12	751,645	7.17 years	751,645
0.15	2,658,355	6.74 years	2,658,355
0.20	835,000	9.39 years	835,000
0.21	625,000	6.48 years	625,000
0.34	150,000	9.19 years	150,000
0.40	1,345,000	8.05 years	1,345,000
0.44	150,000	7.9 years	150,000
0.50	2,700,000	8.25 years	2,000,000
0.60	1,510,000	4.69 years	1,510,000

Devonian Health Group Inc.

Notes to Interim Condensed Consolidated Financial Statements

October 31, 2023

(Unaudited)

11 Warrants

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

	October 31 2023		July 31 2023	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding, beginning of period	45,570,160	0.37	42,670,325	0.37
Issued	2,272,727	0.28	8,219,168	0.21
Expired	(2,415,090)	0.50	(269,331)	0.40
Exercised	-	-	(5,050,002)	0.15
Outstanding, end of period	45,427,797	0.36	45,570,160	0.37

The following table summarizes information about warrants outstanding as at October 31, 2023:

Exercise price \$	Warrants outstanding	
	Number of warrants outstanding	Average remaining contractual life
0.194	201,982	1.25 year
0.20	7,997,765	1.60 year
0.218	179,137	0.25 year
0.225	291,393	0.25 year
0.237	272,467	0.75 year
0.26	252,055	1.25 year
0.263	146,561	0.50 year
0.28	2,272,727	1.83 year
0.30	150,278	1.38 year
0.338	190,727	0.25 year
0.40	32,897,660	0.07 year
0.52	87,840	2.88 years
0.59	78,078	1.89 year
0.61	73,540	2.35 years
0.64	101,202	2 years
0.65	100,822	2.25 years
0.69	93,564	3.48 years
0.95	39,999	2.88 years

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Notes to Interim Condensed Consolidated Financial Statements

October 31, 2023

(Unaudited)

12 Financial expenses

Financial expenses are as follows:

	October 31 2023 \$	October 31 2022 \$
Interest expenses and bank charges	2,283	1,425
Interest on long-term debt	116,449	98,518
Interest on lease liability	1,273	266
Amortization of discount on convertible debentures	-	16,835
Amortization of discount on Canada Emergency Business Account Loan	-	1,706
Interest on deposit certificate	(39,193)	(22,439)
Interest expenses on convertible debentures	-	493
	<u>80,812</u>	<u>96,804</u>

13 Net loss per share

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

	October 31 2023	October 31 2022
Weighted average number of shares used to calculate the basic loss per share	<u>145,964,721</u>	<u>131,200,559</u>
Items excluded from the calculation of diluted loss per share:		
Stock options	10,725,000	9,050,000
Warrants	45,427,797	42,798,164

For the three-month periods ended October 31, 2023, and 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.

14 Subsequent events

On December 4, 2023, the Company announced that it had granted a total of 3,765,610 stock options to members of management and one director.

