

NOTICE TO READER

April 11, 2025

Restatement of Audited Consolidated Financial Statements for the years ended July 31, 2024 and 2023

The audited consolidated financial statements of the Corporation for the years ended July 31, 2024 and 2023 (the "Consolidated Financial Statements") and the Independent Auditor's Report thereon, appended hereto, are being refiled in order to reflect corrections or reclassification of certain amounts related to distribution revenues, cost of sales, selling and administrative expenses and income taxes, as further described in note 25.

This notice does not form part of the Consolidated Financial Statements.

Devonian Health Group Inc.

Consolidated Financial Statements
July 31, 2024 and 2023



Independent auditor's report

To the Shareholders of Devonian Health Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Devonian Health Group Inc. and its subsidiary (together, the Company) as at July 31, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at July 31, 2024 and 2023;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers LLP
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Emphasis of matter – amended consolidated financial statements

We draw attention to note 25 to the consolidated financial statements, which describes that the consolidated financial statements on which we originally reported on November 28, 2024 have been amended, and describes the matters that gave rise to the amendments of the consolidated financial statements. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended July 31, 2024. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter

How our audit addressed the key audit matter

Impairment assessments of intellectual property

Refer to note 2 – Material accounting policies and note 8 – Intangible assets and goodwill to the consolidated financial statements.

As at July 31, 2024, the Company had intellectual property of \$4,888,000. This intellectual property is still under development and not yet ready for use, and is therefore not yet amortized.

For these intangible assets not yet ready for use, management carries out annually an impairment test. Management determines whether there is impairment by evaluating whether the carrying value of these intangible assets exceeds their recoverable amount.

Our approach to addressing the matter included the following procedures, among others:

- Testing how management determined the recoverable value of intellectual property by performing the following, among other things:
 - Evaluating, with the assistance of professionals having specialized skill and knowledge in the field of valuation, the appropriateness of the method applied to determine the recoverable amount of intellectual property.
 - Assessing, with the assistance of professionals having specialized skill and knowledge in the field of research and development, the relevance of the expenses.
- Testing relevant costs included in management's determination by tracing these costs on a sample basis to supporting documents.



Key audit matter

How our audit addressed the key audit matter

To estimate the recoverable amount of intellectual property, management uses a cost approach based on the level of research and development expenses incurred and that are still relevant as at the consolidated statement of financial position date. Management considers relevant an expense that has made it possible to advance scientific knowledge in connection with intellectual property, with the ultimate objective of commercialization.

As the recoverable amount determined using the cost method is higher than the carrying value of intellectual property, no depreciation has been recorded.

We considered this a key audit matter due to the critical judgments made by management on relevant expenses as at the consolidated statement of financial position date to determine the recoverable amount of intellectual property. This has resulted in a high degree of audit effort in performing audit procedures to test the recoverable amount determined by management. The audit effort involved the use of professionals with specialized skill and knowledge.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sébastien Bellemare.

/s/PricewaterhouseCoopers LLP

Montréal, Quebec
April 11, 2025

¹ CPA auditor, public accountancy permit No. A116819

Devonian Health Group Inc.

Consolidated Statements of Financial Position

As at July 31, 2024 and 2023

	2024 \$ (Restated – note 25)	2023 \$
Assets		
Current assets		
Cash and cash equivalents	9,862,511	5,062,936
Accounts receivable (note 4)	7,965,975	865,714
Tax credits receivable	154,210	75,054
Inventories (note 6)	60,889	159,783
Interest reserve (note 10)	160,000	-
Prepaid expenses (note 5)	256,225	181,491
	<u>18,459,810</u>	<u>6,344,978</u>
Property, plant and equipment and right-of-use asset (note 7)	2,496,091	2,684,022
Intangible assets (note 8)	5,134,465	5,505,394
Goodwill (notes 2 and 8)	4,643,084	4,643,084
	<u>30,733,450</u>	<u>19,177,478</u>
Liabilities		
Current liabilities		
Accounts payable (note 9)	13,780,243	1,255,806
Income tax liability (note 25)	847,198	-
Current portion of lease liability	44,682	21,646
Current portion of long-term debt (note 10)	2,075,617	3,580,000
	<u>16,747,740</u>	<u>4,857,452</u>
Lease liability	125,724	72,574
	<u>16,873,464</u>	<u>4,930,026</u>
Shareholders' Equity		
Share capital (note 11)	29,838,321	29,345,454
Stock options (note 12)	2,071,861	1,555,408
Warrants (note 13)	862,261	5,008,023
Contributed surplus	8,340,731	3,764,921
Deficit	(27,253,188)	(25,426,354)
	<u>13,859,986</u>	<u>14,247,452</u>
	<u>30,733,450</u>	<u>19,177,478</u>
Material uncertainty related to going concern (note 1)		

Approved by the Board of Directors

(s) Luc Grégoire, Director

(s) André Boulet, Director

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

Devonian Health Group Inc.

Consolidated Statements of Net Loss and Comprehensive Loss For the years ended July 31, 2024 and 2023

	2024 \$ (Restated – note 25)	2023 \$ (Restated – note 25)
Distribution revenues (note 25)	19,305,986	2,345,389
Operating expenses		
Cost of sales (note 25)	11,826,082	1,181,295
Research and development expenses	1,287,895	1,354,221
Selling and administrative expenses (note 25)	6,805,451	4,134,124
Net financial expenses (note 15)	366,194	275,356
	<u>20,285,622</u>	<u>6,944,996</u>
Net loss and comprehensive loss before income tax	(979,636)	(4,599,607)
Income tax expense (notes 17 and 25)	847,198	-
Net loss and comprehensive loss (note 25)	<u>(1,826,834)</u>	<u>(4,599,607)</u>
Net loss per share (notes 16 and 25)		
Basic	(0.012)	(0.034)
Diluted	(0.012)	(0.034)
Additional information to the consolidated statements of net loss and comprehensive loss (notes 1, 3, 16 and 18)		

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

Devonian Health Group Inc.

Consolidated Statements of Changes in Equity

For the years ended July 31, 2024 and 2023

	Number				Amount					
	Shares	Stock options	Warrants	Total	Share capital \$	Stock options \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
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 11)	8,219,168	-	-	8,219,168	870,450	-	-	-	-	870,450
Share issuance costs	-	-	-	-	(37,121)	-	-	-	-	(37,121)
In cash	-	-	-	-	(37,121)	-	-	-	-	(37,121)
Stock-based compensation (note 12)	-	2,900,000	-	2,900,000	-	484,875	-	-	-	484,875
Issuance of warrants (note 13)	-	-	8,219,168	8,219,168	-	-	492,826	-	-	492,826
Warrants exercised (note 13)	5,050,002	-	(5,050,002)	-	930,643	-	(173,143)	-	-	757,500
Warrants expired (note 13)	-	-	(269,331)	(269,331)	-	-	(48,814)	48,814	-	-
Options exercised (note 12)	50,000	(50,000)	-	-	9,300	(3,300)	-	-	-	6,000
Options expired (note 12)	-	(200,000)	-	(200,000)	-	(39,200)	-	39,200	-	-
Net loss and comprehensive loss	-	-	-	-	-	-	-	-	(4,599,607)	(4,599,607)
	13,319,170	2,650,000	2,899,835	18,869,005	1,773,272	442,375	270,869	88,014	(4,599,607)	(2,025,077)
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 11)	3,764,727	-	-	3,764,727	508,758	-	-	-	-	508,758
Share issuance costs	-	-	-	-	(15,891)	-	-	-	-	(15,891)
In cash	-	-	-	-	(15,891)	-	-	-	-	(15,891)
Stock-based compensation (note 12)	-	7,400,221	-	7,400,221	-	731,459	-	-	-	731,459
Issuance of warrants (note 13)	-	-	3,764,727	3,764,727	-	-	215,042	-	-	215,042
Warrants expired (note 13)	-	-	(36,393,037)	(36,393,037)	-	-	(4,360,804)	4,360,804	-	-
Options expired (note 12)	-	(1,537,500)	-	(1,537,500)	-	(215,006)	-	215,006	-	-
Net loss and comprehensive loss	-	-	-	-	-	-	-	-	(1,826,834)	(1,826,834)
	3,764,727	5,862,721	(32,628,310)	(23,000,862)	492,867	516,453	(4,145,762)	4,575,810	(1,826,834)	(387,466)
Balance – as at July 31, 2024 (Restated – note 25)	148,222,532	16,587,721	12,941,850	177,752,103	29,838,321	2,071,861	862,261	8,340,731	(27,253,188)	13,859,986

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

Devonian Health Group Inc.
Consolidated Statements of Cash Flows
For the years ended July 31, 2024 and 2023

	2024 \$ (Restated – note 25)	2023 \$
Cash flows from		
Operating activities		
Net loss and comprehensive loss	(1,826,834)	(4,599,607)
Items not affecting cash		
Amortization of property, plant and equipment and depreciation of right-of-use asset	301,901	287,743
Amortization of intangible assets	370,929	135,708
Amortization of discount on convertible debentures – net of settlement of original issue discount	-	(352,779)
Amortization of discount on emergency business account loan	-	3,577
Interest on convertible debentures	-	493
Stock-based compensation	731,459	484,875
	<u>(422,545)</u>	<u>(4,039,990)</u>
Changes in non-cash working capital items (note 19)	<u>6,056,379</u>	<u>(316,256)</u>
	<u>5,633,834</u>	<u>(4,356,246)</u>
Investing activities		
Maturity of guaranteed investment certificate	-	5,000,000
Acquisition of property, plant and equipment	(4,247)	-
	<u>(4,247)</u>	<u>5,000,000</u>
Financing activities		
Principal payments on lease liability	(33,538)	(14,666)
Warrant exercised	-	757,500
Convertible debentures	-	(297,387)
Stock options exercised	-	6,000
Repayment of long-term debt	(3,580,000)	-
Proceeds from loan	2,075,617	-
Issuance of shares and warrants	707,909	1,162,544
	<u>(830,012)</u>	<u>1,613,991</u>
Increase in cash	<u>4,799,575</u>	<u>2,257,745</u>
Cash and cash equivalents – Beginning of year	<u>5,062,936</u>	<u>2,805,191</u>
Cash and cash equivalents – End of year	<u>9,862,511</u>	<u>5,062,936</u>

For the year ended July 31, 2024, cash flows from operating activities include interest paid of \$362,073 (2023 – \$428,895) and no amount for the discount portion of the convertible debentures (2023 – \$697,000, of which \$399,613 was for the discount portion of the convertible debentures), and no taxes paid (2023 – \$nil).

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

Devonian Health Group Inc.

Notes to Consolidated Financial Statements

July 31, 2024 and 2023

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

Devonian Health Group Inc. (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 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.

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 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. The success of these negotiations is contingent on many factors outside of 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 consolidated statements of financial position 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 Material accounting policies

Declaration of compliance

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Board of Directors on April 10, 2025.

Devonian Health Group Inc.

Notes to Consolidated Financial Statements

July 31, 2024 and 2023

Basis of measurement

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

Functional and presentation currency

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

Consolidation

These consolidated financial statements include the accounts of the Company and the accounts of its subsidiary, Altius Healthcare Group L.P. (formerly Altius Healthcare Inc.). Intercompany balances, income, expenses and cash flows are fully eliminated upon consolidation.

Distribution revenues recognition

Revenues from the distribution of pharmaceutical and cosmeceutical products are recognized when the terms of a contract with a client are fulfilled, i.e., when:

- the control of the product has been transferred to the client; and
- the product is received by the client or the transfer to the client of the ownership title occurs upon shipment.

After delivery, the client assumes obsolescence and loss risks with respect to such goods. Revenues are recognized according to the prices set in the contracts, less estimated sales rebates or returns.

Use of estimates and judgments

The preparation of consolidated financial statements in compliance with IFRS Accounting Standards 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.

Information relating to critical judgments in applying accounting policies that have the most significant impact on the amounts recognized in the consolidated financial statements is as follows:

Devonian Health Group Inc.

Notes to Consolidated Financial Statements

July 31, 2024 and 2023

- Impairment of intangible assets

Evaluating indicators of impairment of intangible assets being amortized at the end of each period requires the use of judgments, assumptions and estimates to determine whether there are indicators that could give rise to the impairment obligation to carry out an impairment test of these intangible assets. When there are indications that intangible assets may have become impaired, an impairment test should be carried out wherever possible at the level of the individual asset, or the cash generating unit (CGU), i.e. as much as possible, a small identifiable group of assets that generates cash inflows largely independent of the cash inflows generated by other assets, or group of assets, to which the asset belongs. An impairment loss is recognized when the carrying amount of the asset or CGU exceeds its recoverable amount. Evaluating recoverable values requires the use of estimates and assumptions for expected revenues, discount rates and operating expenses. In addition, the Company may use other approaches to determine fair recoverable value. Changes in any of the assumptions and estimates used to determine the recoverable amount of intangible assets measured at amortized cost could impact the impairment analysis.

- Impairment testing of intangible assets that are not yet ready for use

Annually, management carries out an impairment test of its intangible assets that are not yet ready for use. The Company determines whether there is depreciation by evaluating whether the carrying value of these assets exceeds their recoverable amount. In such a case, the depreciation of these fixed assets is recognized in profit or loss in the period during which it is recognized as a loss.

- Payables to wholesalers

Management uses judgment in estimating provisions for sale deductions such as cash discounts, allowances, returns, rebates, chargebacks and distribution fees.

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 as at the date of the consolidated statements of financial position, while other assets and liabilities are translated at the exchange rate in effect as at the date of transactions. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate, except for amortization, which is translated at the historical exchange rate. Exchange gains and losses resulting from this translation are recognized in net loss.

Income taxes

The Company provides for income taxes using the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined based on deductible or taxable temporary differences between the carrying value and tax values of assets and liabilities using enacted or substantively enacted income tax rates in effect for the year in which the differences are expected to be reversed.

Devonian Health Group Inc.

Notes to Consolidated Financial Statements

July 31, 2024 and 2023

The Company establishes a valuation allowance against deferred tax assets if, based on available information, it is likely that some or all of the deferred tax assets will not be realized.

Financial instruments

- Classification and measurement

Classification and measurement of financial assets include the following categories: amortized cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification of financial assets is generally based on the business model by which a financial asset is managed and the characteristics of the contractual cash flows. Financial liabilities are classified and measured in two categories: amortized cost and FVTPL.

- Financial assets measured at amortized cost

Financial assets measured at amortized cost, i.e., cash and cash equivalents and accounts receivable, are measured at fair value as at the date on which the Company becomes a party to the contractual provisions of the instrument. They are subsequently measured at amortized cost using the effective interest rate method, net of impairment losses.

- Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost, i.e., accounts payable, long-term debt and convertible debentures (debt host), are initially measured at fair value. They are subsequently measured at amortized cost using the effective interest rate method.

- Fair value

The fair value of a financial instrument generally corresponds to the consideration for which the instrument would be exchanged in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. This measurement is carried out at a definite time and could be modified over the future presentation periods due to market conditions and other factors.

Fair value is established using the quoted prices of the most advantageous active market for that instrument to which the Company has immediate access. If there is no active market, fair value is established on internal or external valuation methods, such as discounted cash flow models. The fair value established using these valuation models requires the use of assumptions in regard to the amount and timing of the estimated future cash flows, as well as for many other variables. To determine these assumptions, readily observable market data are used when available. Otherwise, the Company uses the best possible estimates. Since they are based on estimates, fair values may not be realized in the event of an actual sale or immediate settlement of these instruments.

Devonian Health Group Inc.

Notes to Consolidated Financial Statements

July 31, 2024 and 2023

- Impairment of financial assets

Financial assets recognized at amortized cost are subject to an impairment test at each reporting date. The Company estimates the expected credit losses based on the history of its credit losses and the credit risk assessment of its customers, and, if applicable, the net change in expected credit losses on accounts receivable is recognized in net loss.

The amount of the impairment loss is equal to the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate of the financial asset. The Company uses historical trends of the probability of default, the timing of recovery and its judgment in estimating future cash flows.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected loss rates are based on the Company's historical credit losses experienced over the three-year period prior to the period-end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Research and development expenses and tax credits

Research and development expenses are expensed as incurred. However, development expenses are deferred when they meet the accepted criteria for deferral up to the amount that is reasonably certain to be recovered. As at July 31, 2024 and 2023, no development costs were deferred.

Tax credits for research and development are recognized in loss or deferred as a reduction of related expenses. Tax credits are recognized when there is reasonable assurance that the Company has met the requirements and that the credits will be received.

Inventories

Inventories of raw materials and finished products are valued at the lower of cost and net realizable value, the cost being determined using the first-in, first-out method.

The net realizable value is the estimated selling price in the ordinary course of business less variable selling expenses that apply.

Share issuance costs

Costs directly identifiable with the issuance of shares are deferred as an asset until the issuance of the shares. At issuance, these costs are recorded as a reduction of share capital. In case of abandonment, these costs are recognized in net loss.

Devonian Health Group Inc.

Notes to Consolidated Financial Statements

July 31, 2024 and 2023

Property, plant and equipment

Property, plant and equipment are initially recorded at cost and, subsequently, at cost less amortization and accumulated impairment losses.

Amortization is based on the estimated useful life of each component of property, plant and equipment using the straight-line method and over the following periods:

Building	
Structure and shell	40 years
Improvements, mechanical and plumbing systems	20 years
Leasehold improvements	5 years
Production and laboratory equipment	10 years
Computer equipment	3 years
Furniture and equipment	5 years

The residual value, the estimated useful life and the amortization method are reviewed at the end of each reporting date, and any changes in estimates are accounted for on a prospective basis. Amortization is recorded when the asset is ready to be used.

Right-of-use asset and lease liability

Leases are recognized as a right-of-use asset and a corresponding lease liability at the commencement date. Each lease payment is allocated between a reduction of the liability and finance cost. The finance cost is recognized in net financial expenses in the consolidated statements of net loss and comprehensive loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The lease liability is measured at the value of lease payments to be made, discounted using the incremental borrowing rate at the lease commencement date, over the lease term.

Right-of-use asset is measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the lease commencement date, any initial direct costs and related restoration costs. The right-of-use asset is depreciated over the lease term on a straight-line basis. The depreciation starts at the commencement date of the lease.

Costs associated with short-term leases and leases of low-value assets are included in the consolidated statements of net loss and comprehensive loss.

Intangible assets

Intangible assets, comprising intellectual property, website development costs and patents related to cosmeceuticals, are recorded at cost and, subsequently, at cost less amortization and accumulated impairment losses.

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Intangible assets acquired in the business combination, being licences, trademarks and distribution rights, are initially recognized at fair value as at the acquisition date. After initial recognition, they are recorded at cost less accumulated amortization and accumulated impairment losses, using the same method used for intangible assets acquired separately.

Amortization is based on the estimated useful life using the straight-line method and the following periods:

Patents	2 to 13 years
Licences, trademarks and distribution rights	4 to 12 years
Website	4 years

No amortization for the intellectual property has been recognized, since it is still under development. The amortization method and estimated useful life will have to be reviewed at each reporting date.

Goodwill

Goodwill is allocated to the group of CGUs benefiting from the synergy of the business combination. Goodwill is initially recognized at cost as an asset, and is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized, but is subject to annual impairment testing or more frequently when events or circumstances indicate that there may be impairment. The Company determines whether there is impairment by assessing whether the carrying amount to which the goodwill relates exceeds its recoverable amount. In such a case, the loss of value is initially attributed to goodwill and any excess is allocated to the carrying amount of assets proportionately. Any impairment of goodwill is recognized in loss in the period in which it is recognized as a loss. Impairment losses on goodwill are not reversed in subsequent periods.

Impairment of non-financial assets

The carrying value of property, plant and equipment and intangible assets is tested for impairment at each reporting date in order to determine if there is any indication that an asset has experienced a loss of value. If any such evidence exists, the recoverable value of the asset is estimated.

The recoverable value of an asset, CGU or group of CGUs for goodwill impairment purposes is the higher between its value in use and its fair value less costs of sale. To determine the value in use, the estimated future cash flows are discounted to their present value by applying a discount rate that reflects current market assessments, the time value of money and risks specific to the asset. For the purpose of impairment testing, assets are grouped to form the smallest group of assets that generates cash flows that are largely independent of cash flows from other assets or groups of assets (CGU).

An impairment loss is recognized whenever the carrying value of an asset or a CGU exceeds its estimated recoverable value. Impairment losses are recognized in loss.

Impairment losses recognized in previous years are assessed at the reporting date to determine whether there are indications that confirm that the loss has decreased or if it still exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying value of assets does not exceed the carrying value that would have been determined, after depreciation, if no impairment loss had been recognized.

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Convertible debentures

Convertible debentures were compound financial instruments within the meaning of IAS 32, Financial Instruments: Presentation, and had a liability component and an embedded derivative component.

- Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is an asset, the entire hybrid contract is measured at fair value through net loss. If a hybrid contract contains a host that is not an asset, embedded derivatives are recorded at fair value separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Subsequent changes in fair value are recorded in the consolidated statements of net loss and comprehensive loss.

The convertible debentures issued by the Company were a hybrid financial instrument that could be converted into units composed of common shares and warrants of the Company at the option of the holder. The hybrid financial instrument was recognized as a liability, with the initial carrying value of the convertible debentures (host) being the residual amount of the proceeds after separating the derivative component, which was recognized at fair value. Any directly attributable transaction costs were allocated to the host and derivative components in proportion to their initial carrying amounts. Subsequent to initial recognition, the host component of the hybrid financial instrument was measured at amortized cost using the effective interest method. The derivative component of the hybrid financial instrument was measured at FVTPL. Subsequent changes in fair value were recorded in the consolidated statements of net loss and comprehensive loss.

Fair value of warrants

The proceeds from the issuance of units are distributed between shares and warrants issued based on their relative fair values using the proportional distribution method. At the time the warrants are exercised, their value is reclassified to share capital. The value of warrants that have not been exercised at maturity is reclassified to contributed surplus.

Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid financial instruments with an initial term of three months or less, when applicable.

Stock-based compensation

The Company has a Stock Option Plan under which directors, executives, employees and consultants can be granted stock options of the Company.

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Each grant is treated separately with its proper vesting period and its own fair value at the grant date, determined by the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period of each grant according to the number of options granted that are estimated to ultimately vest. Any revision of estimate is immediately recognized. Any consideration paid by the employees on exercise or purchase of stock options is credited to share capital. The value attributed to stock options is transferred to share capital at the issuance of shares.

In the normal course of business, the Company grants options in exchange for goods or services to parties other than staff members. For these transactions, the Company evaluates the fair value of goods or services received and, in counterpart, increases the equity by the same amount unless the fair value cannot be reliably estimated. In this case, the fair value is the value of options issued on the market as at the date the goods or services are received.

Net loss per share

Basic loss per share is calculated by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding during the year. Diluted loss per share is calculated by taking into account the potential dilution that could occur in the event that the warrants, stock options and the convertible debt conversion options to issue shares are exercised at the beginning of the year or at the date of their issuance, if later. The treasury stock method is used to determine the dilution effect of the warrants and options.

Provision

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are not recognized for future operating losses.

If the effect of time value of money is material, provisions are measured at the present value of cash flows expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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

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

	2024 \$	2023 \$
Research and development – amortization of property, plant and equipment and depreciation of right-of-use asset	301,901	287,743
Cost of sales – amortization of intangible assets	370,929	135,708
Selling and administrative expenses – salaries and employer's contributions	1,319,847	832,460
Selling and administrative expenses – stock-based compensation	731,459	484,875
Research and development expenses – salaries and employer's contributions ⁽ⁱ⁾	179,980	343,817
Cost of sales – cost of inventories	8,381,785	775,002

- i) The Company is eligible for refundable tax credits for research and development from the Government of Quebec for an amount of \$143,991, which has been credited for research and development costs (2023 – \$75,074).

4 Accounts receivable

	2024 \$	2023 \$
Trade	7,686,347	663,631
Sales taxes	279,628	100,829
Interest receivable	-	101,254
	<hr/> 7,965,975	<hr/> 865,714

5 Prepaid expenses

	2024 \$	2023 \$
Prepaid expenses	256,225	49,471
Deposits	-	132,020
	<hr/> 256,225	<hr/> 181,491

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6 Inventories

	2024 \$	2023 \$
Raw materials	-	139,920
Finished goods	60,889	19,863
	<u>60,889</u>	<u>159,783</u>

7 Property, plant and equipment and right-of-use asset

	2024							
	Building \$	Land \$	Leasehold improvements \$	Production and laboratory equipment \$	Computer equipment \$	Furniture and equipment \$	Right- of-use asset \$	Total \$
Cost								
Balance – Beginning of year	2,537,676	562,324	2,100	1,607,399	27,328	65,600	127,047	4,929,474
Variation	-	-	-	4,247	-	-	92,226	96,473
Balance – End of year	<u>2,537,676</u>	<u>562,324</u>	<u>2,100</u>	<u>1,611,646</u>	<u>27,328</u>	<u>65,600</u>	<u>219,273</u>	<u>5,025,947</u>
Accumulated amortization								
Balance – Beginning of year	847,060	-	2,100	1,282,579	23,948	63,150	26,615	2,245,452
Variation	-	-	-	-	-	-	(17,497)	(17,497)
Amortization	102,616	-	-	160,576	2,253	700	35,756	301,901
Balance – End of year	<u>949,676</u>	<u>-</u>	<u>2,100</u>	<u>1,443,155</u>	<u>26,201</u>	<u>63,850</u>	<u>44,874</u>	<u>2,529,856</u>
Carrying value – End of year	<u>1,588,000</u>	<u>562,324</u>	<u>-</u>	<u>168,491</u>	<u>1,127</u>	<u>1,750</u>	<u>174,399</u>	<u>2,496,091</u>
	2023							
	Building \$	Land \$	Leasehold improvements \$	Production and laboratory equipment \$	Computer equipment \$	Furniture and equipment \$	Right- of-use asset \$	Total \$
Cost								
Balance – Beginning of year	2,537,676	562,324	2,100	1,607,399	27,328	65,600	39,938	4,842,365
Variation	-	-	-	-	-	-	87,109	87,109
Balance – End of year	<u>2,537,676</u>	<u>562,324</u>	<u>2,100</u>	<u>1,607,399</u>	<u>27,328</u>	<u>65,600</u>	<u>127,047</u>	<u>4,929,474</u>
Accumulated amortization								
Balance – Beginning of year	744,444	-	2,100	1,122,004	21,695	62,450	5,016	1,957,709
Amortization	102,616	-	-	160,575	2,253	700	21,599	287,743
Balance – End of year	<u>847,060</u>	<u>-</u>	<u>2,100</u>	<u>1,282,579</u>	<u>23,948</u>	<u>63,150</u>	<u>26,615</u>	<u>2,245,452</u>
Carrying value – End of year	<u>1,690,616</u>	<u>562,324</u>	<u>-</u>	<u>324,820</u>	<u>3,380</u>	<u>2,450</u>	<u>100,432</u>	<u>2,684,022</u>

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8 Intangible assets and goodwill

	2024				
	Intellectual property \$	Patents \$	Website \$	Licences, trademarks and distribution rights \$	Total \$
Cost					
Balance – Beginning of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Balance – End of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Accumulated amortization					
Balance – Beginning of year	-	112,803	49,833	3,219,318	3,381,954
Amortization	-	5,956	-	364,973	370,929
Balance – End of year	-	118,759	49,833	3,584,291	3,752,883
Carrying value – End of year	4,888,000	17,934	-	228,531	5,134,465
					2023
	Intellectual property \$	Patents \$	Website \$	Licences, trademarks and distribution rights \$	Total \$
Cost					
Balance – Beginning of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Balance – End of year	4,888,000	136,693	49,833	3,812,822	8,887,348
Accumulated amortization					
Balance – Beginning of year	-	100,176	47,325	3,098,745	3,246,246
Amortization	-	12,627	2,508	120,573	135,708
Balance – End of year	-	112,803	49,833	3,219,318	3,381,954
Carrying value – End of year	4,888,000	23,890	-	593,504	5,505,394

Licences, trademarks and distribution rights

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

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Impairment test

Goodwill from the acquisition of businesses is allocated to the group of CGUs that will likely benefit from the business combination. For goodwill, there is a group of CGUs and the valuation was carried out by comparing the net assets of the Company to the market capitalization as at July 31, 2024 and 2023, which is considered a level 1 measure. The Company's stock market value being higher than its net assets, no depreciation was recorded.

To estimate the recoverable amount of intellectual properties, management used the cost approach based on the level of research and development expenses incurred and that are still relevant at the consolidated statements of financial position dates. Management considers relevant an expense that has made it possible to advance scientific knowledge in connection with intellectual property, with the ultimate objective of commercialization. As the recoverable amount of intellectual properties is higher than the carrying value, no depreciation has been recorded.

9 Accounts payable

	2024 \$ (Restated – note 25)	2023 \$
Suppliers	3,716,003	753,601
Accrued expenses	10,049,394	423,466
Salaries, payroll deductions and contributions	14,846	78,739
	<u>13,780,243</u>	<u>1,255,806</u>

10 Long-term debt

	2024 \$	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 \$8,088,982, interest payable monthly at the Toronto Dominion Bank's prime rate plus 6% (13.20%), principal repaid on maturity in January 2024	-	3,500,000
Loan, secured by the universality of movable and immovable property, tangible and intangible, present and future of the Company, for a carrying value of \$7,700,557, interest payable monthly at the National Bank's prime rate plus 8.80% (15.75%), principal payable in January 2025 ⁽ⁱ⁾	2,075,617	-
Canada Emergency Business Account Loan, maturing on January 2024	-	80,000
	<u>2,075,617</u>	<u>3,580,000</u>

- i) The lender has made available to the borrowers a term loan in the amount of \$2,160,000, which includes an interest reserve in the amount of \$160,000. From the sixth month following the date of disbursement of the loan, interest will be payable monthly from the interest reserve.

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11 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, have a 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.

	2024	2023
	\$	\$
Share capital issued		
148,222,532 shares (2023 – 144,457,805)	29,838,321	29,345,454

The 148,222,532 shares outstanding as at July 31, 2024 are all subordinate voting shares.

Issuance

a) Interest on convertible debentures

During the year ended July 31, 2023, the Company issued 181,404 units to holders of debentures issued on July 19, 2018 and August 31, 2018, at a unit price ranging from \$0.40 to \$0.53. These units were issued in consideration for the interest owed to them for a total amount of \$84,725. Each unit is composed of one subordinate voting share and one warrant. Each warrant grants its holder the right to subscribe for one subordinate voting share of the share capital of the Company at a price ranging from \$0.52 to \$0.69 for a period of 48 months.

The fair values of the 181,404 shares and 181,404 warrants were estimated at \$84,725 and \$48,887, respectively, according to the following weighted average assumptions:

Risk-free interest rate	3.5%
Average expected duration	4 years
Expected volatility	92%
Share price	\$0.43 – \$0.57
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 one subordinate voting share issued at a price of \$0.75 and one warrant exercisable at a price of \$0.95, for a period of 48 months following the date of their issue.

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The fair value of the 39,999 shares and 39,999 warrants was estimated at \$20,360 and \$9,640, respectively, based on 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

c) 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 subscription warrant. Each warrant entitles its holder to acquire one subordinate voting share, at a price of \$0.28 per share, until September 2025.

Related costs of \$5,404 for this issue of shares were recognized as a reduction in share capital.

The fair value of the 2,272,727 shares issued and the 2,272,727 warrants issued was estimated at \$359,838 and \$140,162, respectively, according to the Black-Scholes valuation model and using the following assumptions:

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

On March 13, 2024, the Company completed a private financing by issuing 1,492,000 units at a price of \$0.15 per unit, for gross proceeds of \$223,800. Each unit consists of one subordinate voting share and one share subscription warrant. Each warrant entitles its holder to acquire one subordinate voting share at a price of \$0.20 per share, for a period of two years following the date of issue.

Related costs of \$10,487 for this issue of shares were recognized as a reduction in share capital.

The fair value of the 1,492,000 shares issued and the 1,492,000 warrants issued was estimated at \$148,920 and \$74,880, respectively, according to the Black-Scholes valuation model and using the following assumptions:

Risk-free interest rate	5%
Average expected duration	2 years
Expected volatility	94%
Share price	\$0.20
Expected dividend	\$nil

On June 6, 2023, the Company completed a private financing through the issuance of a total of 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 warrant entitles its holder to acquire one subordinate voting share at a price of \$0.20 per share until June 2025.

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Related costs of \$37,121 for this share issuance were recorded as reduction of share capital.

The fair value of the 7,997,765 shares issued and the 7,997,765 warrants issued was estimated at \$765,365 and \$434,299, respectively, according to the Black-Scholes valuation model and using the following assumptions:

Risk-free interest rate	5%
Average expected duration	2 years
Expected volatility	94%
Share price	\$0.275
Expected dividend	\$nil

d) Exercise of warrants

During the year ended July 31, 2023, the Company issued 5,050,002 subordinate voting shares, at a unit price of \$0.15 per share, for gross proceeds of \$757,500, following the exercise of 5,050,002 warrants. The value of \$173,143 that had been assigned to these warrants was reclassified to share capital.

e) Exercise of stock options

On January 26, 2023, the Company issued 50,000 subordinate voting shares at a price of \$0.12 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 the share capital of the Company.

12 Stock Option Plan

Under the Stock Option Plan put in place in May 2017, and modified in February 2024, for a fixed options plan up to 20%, the members of the Board of Directors can attribute stock options allowing the directors, executives, employees and consultants of the Company to acquire shares of the Company.

The maximum number of options that may be granted under the Stock Option Plan is equal to a maximum of 20% of the number of subordinate voting shares outstanding as at January 9, 2024, or 29,346,106 options to purchase actions. If a stock option granted under the Stock Option Plan is canceled, terminated, expired, abandoned or forfeited for any reason in accordance with the terms of the Stock Option Plan without having been exercised, the unexercised shares in question will again be available for the purposes of the Stock Option Plan.

No stock purchase option may be granted to an eligible participant in the Stock Option Plan if the shares covered by this grant added to those covered by the options already granted, combined with all the shares reserved for all other equity compensation mechanisms of the Company, exceed 10% of the total shares of the Company issued and in circulation, this number being calculated on the date of grant of stock options, for a period of twelve (12) months, subject to the Company obtaining disinterested shareholder approval in accordance with the policies of the exchange.

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The options granted under the Stock Option Plan cannot exceed a duration of ten years and must be granted at the price and under the conditions that the administrators deem necessary in order to achieve the objective of the Stock Option Plan, in accordance with the applicable regulations. The exercise price of the option cannot be lower than the market price.

During the year, the Company granted 7,400,221 stock options to consultants and directors, employees and members of management. These options can be exercised at a price ranging from \$0.125 to \$0.21 for a period of ten years from the date of grant. Of these stock options, 7,200,221 are exercisable on the grant date.

The fair value of these options was estimated at \$754,259 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	3.4% – 5.0%
Average expected life	5 – 6 years
Expected volatility	95%
Share price	\$0.125 – \$0.15
Expected dividend	\$nil

During the year ended July 31, 2023, the Company granted 2,900,000 stock options to consultants, directors of employees and members of the management of the Company. These options can be exercised at a price ranging from \$0.20 to \$0.50, for a period ranging from five to ten years from the date of grant. These options are exercisable on the grant date. The fair value of these options was estimated at \$619,975 based on the Black-Scholes valuation model and using the following weighted average assumptions:

Risk-free interest rate	3.5% – 5%
Average expected life	3.5 – 5 years
Expected volatility	92%
Share price	\$0.20 – \$0.50
Expected dividend	\$nil

The Company recorded an expense of \$731,459 during the year (2023 – \$484,875).

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.

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The following table summarizes the situation of the Company's Stock Option Plan and the changes incurred during the years ended July 31, 2024 and 2023:

	<u>2024</u>		<u>2023</u>	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	10,725,000	0.34	8,075,000	0.34
Options expired	(1,537,500)	0.31	(200,000)	1.20
Options exercised	-	-	(50,000)	0.12
Options granted to directors and consultants	781,000	0.13	2,550,000	0.40
Options granted to members of management and employees	6,619,221	0.127	350,000	0.48
Outstanding – End of year	<u>16,587,721</u>	<u>0.26</u>	<u>10,725,000</u>	<u>0.34</u>
Options exercisable – End of year	<u>15,687,721</u>	<u>0.25</u>	<u>10,025,000</u>	<u>0.33</u>
Weighted average fair value of the options granted during the year		<u>0.10</u>		<u>0.21</u>

The following table summarizes information about the options outstanding and exercisable as at July 31, 2024:

<u>Options outstanding and exercisable</u>			
Exercise price \$	Number of options outstanding	Number of options exercisable	Weighted average remaining contractual life
0.12	751,645	751,645	7.42 years
0.125	3,765,610	3,765,610	9.34 years
0.145	500,000	300,000	9.89 years
0.15	4,972,966	4,972,966	8.21 years
0.20	835,000	835,000	8.63 years
0.21	675,000	675,000	6.01 years
0.34	50,000	50,000	8.44 years
0.40	1,127,500	1,127,500	7.30 years
0.50	2,700,000	2,000,000	7.40 years
0.60	1,210,000	1,210,000	3.94 years

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13 Warrants

The following table summarizes information about the Company's warrants and the changes during the years:

	2024		2023	
	Number	Weighted average exercise price \$	Number	Weighted average exercise price \$
Outstanding – Beginning of year	45,570,160	0.37	42,670,325	0.37
Issued	3,764,727	0.25	8,219,168	0.21
Expired	(36,393,037)	0.40	(269,331)	0.40
Exercised	-	-	(5,050,002)	0.15
Outstanding – End of year	12,941,850	0.24	45,570,160	0.37

The following table summarizes information about warrants outstanding as at July 31, 2024:

	Warrants outstanding	
Exercise price \$	Number of warrants outstanding	Average remaining contractual life
0.194 – 0.30	12,366,805	0.22 – 1.62 years
0.52 – 0.69	535,046	1.14 – 2.73 years
0.95	39,999	2.13 years

14 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, 2023. The Company has committed to the lender not to redeem preferred or common shares without its prior written consent.

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15 Net financial expenses

Net financial expenses are as follows:

	2024 \$	2023 \$
Interest expenses and bank charges	10,377	5,784
Interest on long-term debt	362,073	428,895
Interest on lease liability	7,381	4,090
Interest on deposit certificate	(73,910)	(184,318)
Amortization of discount on convertible debentures	-	16,835
Amortization of discount on Canada Emergency Business Account loan	-	3,577
Amortization of financial fees	60,273	-
Interest expense on convertible debentures	-	493
	<hr/>	<hr/>
	366,194	275,356

16 Net loss per share

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

	2024 \$	2023 \$
Weighted average number of shares used to calculate the basic loss per share	<hr/> 147,109,779	<hr/> 135,566,455
Items excluded from the calculation of diluted loss per share:		
Stock options	16,587,721	10,725,000
Warrants	12,941,850	45,570,160

For the years ended July 31, 2024 and 2023, the impacts of the warrants, stock options and convertible debentures were excluded from the calculation of diluted loss per share as they would have had an anti-dilutive effect.

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17 Income taxes

The presented recovery of income taxes differs from the amount of the income tax expense calculated using the Canadian statutory tax rates, mainly due to the following:

	2024 \$ (Restated – note 25)	2023 \$
Canadian statutory tax rate	26.50%	26.50%
Recovery calculated using the statutory tax rates	(259,604)	(1,218,896)
Increase (decrease) in income tax expense from:		
Stock-based compensation	193,837	128,492
Variation of potential tax assets not recognized	1,035,757	1,075,544
Non-deductible fees	392	1,833
Previously unrecognized deferred tax asset	(128,982)	-
Adjustment of previous year tax rate allocation	12,299	-
Other individually insignificant items	(6,501)	13,027
Current tax expense	847,198	-

The significant components of the deferred tax assets (liabilities) of the Company are as follows:

	2024 \$ (Restated – note 25)	2023 \$
Deferred long-term tax assets		
Tax losses	5,391,481	4,899,819
Financing fees	29,347	41,476
Research and development expenses	1,495,872	1,237,762
Lease liability	45,158	24,969
	6,961,858	6,204,026
Deferred long-term tax liabilities		
Fixed assets and intangible assets	650,826	824,678
Right-of-use asset	46,216	26,614
	697,042	851,292
	6,264,816	5,352,734
Potential tax assets not recognized	(6,264,816)	(5,352,734)
	-	-

The Company's non-capital losses that may be used to reduce taxes in future years total \$20,287,433 at the federal level and \$20,420,560 at the provincial level and expire at various dates between 2030 and 2044.

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The balance of the research and development expenses that may be used to reduce taxes in future years is \$5,640,254 at the federal level and \$5,650,726 at the provincial level. The Company may take advantage of the tax benefit related to these expenses for an indefinite period.

A deferred tax asset of \$697,042 (2023 – \$851,292) is recorded relative to the items listed above, being an amount equal to the deferred tax liability recorded.

18 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 year ended July 31, 2024, the Company has paid its principal executives a total remuneration of \$2,852,725 (2023 – \$1,679,048), which has been recognized in administrative expenses and of which the main components are:

	2024 \$	2023 \$
Salaries and benefits	2,088,919	1,057,960
Consultant fees	83,047	283,250
Management fees	-	66,668
Stock-based compensation	680,759	271,170

19 Details of consolidated statements of cash flows

Changes in non-cash working capital items

The changes in non-cash working capital items for the years ended July 31, 2024 and 2023 are as follows:

	2024 \$ (Restated – note 25)	2023 \$
Accounts receivable	(7,100,261)	(550,976)
Tax credits receivable	(79,156)	(52,594)
Inventories	98,894	(5,161)
Prepaid expenses	(74,735)	(61,273)
Interest reserve	(160,000)	-
Accounts payable	12,524,439	353,748
Income tax liability	847,198	-
	<u>6,056,379</u>	<u>(316,256)</u>

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20 Reconciliation of liabilities from financing activities

The table below shows the changes in liabilities arising from the Company's financing activities, which includes changes in cash flows and changes without cash consideration:

			Changes without cash consideration	
	Balance as at July 31, 2023	Net cash flows from financing activities	Other changes ⁽ⁱ⁾	Balance as at July 31, 2024
	\$	\$	\$	\$
Term loan (note 10)	-	2,075,617	-	2,075,617
Long-term debt (note 10)	3,580,000	(3,580,000)	-	-
	3,580,000	(1,504,383)	-	2,075,617

			Changes without cash consideration	
	Balance as at July 31, 2022	Net cash flows from financing activities	Other changes ⁽ⁱ⁾	Balance as at July 31, 2023
	\$	\$	\$	\$
Convertible debentures (note 11)	680,165	(697,000) ⁽ⁱⁱ⁾	16,835	-
Long-term debt (note 10)	3,576,423	-	3,577	3,580,000
	4,256,588	(697,000)	20,412	3,580,000

i) Other changes include amortization of the discount on convertible debentures and the long-term debt and changes in fair value of the embedded derivative of convertible debentures.

ii) Including \$369,613, classified as operating activities representing the initial issue discount.

21 Economic dependence

During the year, the Company realized 45% (2023 – 37%) of its revenues from one client and 99% (2023 – 94%) of its purchases of inventories from one supplier.

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22 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: interest rate risk.

Interest rate risk

The Company has a long-term loan bearing interest at a variable rate. Consequently, the Company is exposed to interest rate risk based on changes in the prime rate. Based on the balance as at July 31, 2024, a 1% increase in the prime rate would increase interest expense by \$21,600 over a 12-month horizon.

Credit risk

The Company's cash and cash equivalents are maintained at major financial institutions; therefore, the Company considers the risk of non-performance of these instruments to be remote.

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

As at July 31, 2024, approximately 67% (2023 – 50%) of receivables were due from a single client.

Liquidity risk (Restated – note 25)

Liquidity risk is the risk that the Company might have difficulty meeting its commitments associated with financial liabilities. As at July 31, 2024, the Company had current debt of \$14,627,441 (2023 – \$1,255,806). The maturity date of the long-term debt is presented in note 10.

The Company monitors its cash resources. The Company believes that it does not have sufficient liquidity to meet its obligations, and management is considering the possibility of obtaining additional funds through the issuance of shares or debentures, or finding another financial partner (note 1).

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The table below categorizes the Company's financial liabilities (including interest) into relevant maturity groupings based on the remaining periods as at the consolidated statement of financial position date to the contractual maturity dates.

	Less than 3 months \$	3 months to 1 year \$	1 year to 5 years \$	Over 5 years \$	Total \$
Long-term debt	85,392	2,242,350	-	-	2,327,742
Lease liability	11,170	33,512	125,725	-	170,407
Accounts payable	7,517,669	6,262,574	-	-	13,780,243
Income tax liability	-	847,198	-	-	847,198

Fair value

The fair value of long-term debt is comparable to its carrying value, due to its variable rate. Interest based on variable rates is determined using the rate in effect at the end of the year.

23 Segment information

The Company is currently operating in a single reportable operating segment in Canada, which is the pharmaceutical sector.

The following table details the breakdown of distribution revenues during the financial years:

	July 31, 2024 \$ (Restated – note 25)	July 31, 2023 \$
Pantoprazole Magnesium	2,038,954	1,474,341
Cléo-35	384,620	871,048
Dexlansoprazole	16,882,412	-
	<u>19,305,986</u>	<u>2,345,389</u>

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24 Subsequent events

On October 8, 2024, the Board of Directors approved the granting of 3,298,611 stock options of the Company at an exercise price of \$0.16 for a period of ten years from the grant date and in accordance with the terms and conditions of the Company's Stock Option Plan. These options granted to officers of the Company are exercisable on their grant date.

On December 23, 2024, the Board of Directors approved the grant of 1,535,715 stock options of the Company at an exercise price of \$0.19 for a period of ten years from the grant date and in accordance with the terms and conditions of the Company's Stock Option Plan. These options granted to independent directors of the Company are exercisable on their grant date.

In December 2024, the Company repaid the entirety of its external debt, which amounted to \$2,111,781 as at the end of the first quarter of 2025 (see note 10).

On February 7, 2025, the Company announced that Altius Healthcare Group L.P. had been informed that one of its licensors does not intend to exercise its contractual license renewal option for the distribution of Dexlansoprazole for an additional term. Altius Healthcare Group L.P. will continue selling Dexlansoprazole until April 17, 2025, when the license agreement will terminate, and will continue to sell Pantoprazole Magnesium and Cléo-35 thereafter.

During the second quarter of 2025, following the announcement of the non-renewal of the distribution agreement for Dexlansoprazole (see above), the Company updated its financial forecast and decided not to pay the bonuses recognized for a total amount of \$700,000 in accrued expenses as at July 31, 2024. As a result, in the second quarter of 2025, the Company reversed the entire amount.

25 Restatements

Revenues and expenses

The Company has previously recognized certain expenses related to drug sales as reductions of sales in 2024 and in the costs of sales in 2023. During the preparation of the quarterly financial statements for 2025, the Company noted that the accounting treatment of a portion of these expenses was incorrect. It was determined that these charges should be recognized as expenses in the consolidated statements of net loss and comprehensive loss, and they are now included in selling and administrative expenses.

Furthermore, after obtaining additional information, one of the estimates included in accrued expenses was updated by the Company, resulting in a decrease of accrued expenses and the related selling expenses by an amount of \$245,000.

Income tax

Following the preparation of the tax returns, it was noted that current tax expense had not been recorded in the consolidated statements of net loss and comprehensive loss. The consolidated financial statements have been corrected by recording the tax expense and its counterpart in the consolidated statements of financial position.

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The following table shows the impact of the changes on the lines of the adjusted consolidated financial statements:

	For the year ended July 31, 2024		
	As previously reported	Impact	Adjusted
	\$	\$	\$
Current liabilities			
Accounts payable (note 9)	14,025,243	(245,000)	13,780,243
Income tax liability	-	847,198	847,198
Current liabilities	16,145,542	602,198	16,747,740
Shareholders' equity			
Deficit	(26,650,990)	(602,198)	(27,253,188)
Shareholders' equity	14,462,184	(602,198)	13,859,986
	For the year ended July 31, 2024		
	As previously reported	Impact	Adjusted
	\$	\$	\$
Net loss and comprehensive loss			
Distribution revenues	17,815,509	1,490,477	19,305,986
Selling and administrative expenses	(5,559,974)	(1,245,477)	(6,805,451)
Net loss and comprehensive loss before income tax	(1,224,636)	245,000	(979,636)
Income tax expense	-	(847,198)	(847,198)
Net loss and comprehensive loss	(1,224,636)	(602,198)	(1,826,834)
Net loss per share			
Basic and diluted	(0.008)	(0.004)	(0.012)
	For the year ended July 31, 2023		
	As previously reported	Impact	Adjusted
	\$	\$	\$
Net loss and comprehensive loss			
Cost of sales	1,453,048	(271,753)	1,181,295
Selling and administrative expenses	3,862,371	271,753	4,134,124

The restatements had no effect on the consolidated statements of cash flows from operations, aside from the impact of these adjustments on the components of cash flows from operating activities.

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26 Quarterly adjustments (unaudited supplementary information)

The adjustments have the following effects on the interim consolidated financial statements.

For the fiscal year ended July 31, 2023

	For the three-month period ended October 31, 2022			For the three-month period ended January 31, 2023		
	Previously stated \$	Adjustments \$	Adjusted \$	Previously stated \$	Adjustments \$	Adjusted \$
Cost of sales	263,618	(59,761)	203,857	322,991	(66,098)	256,893
Selling and administrative expenses	907,317	59,761	967,078	785,157	66,098	851,255

	For the three-month period ended April 30, 2023			For the three-month period ended July 31, 2023		
	Previously stated \$	Adjustments \$	Adjusted \$	Previously stated \$	Adjustments \$	Adjusted \$
Cost of sales	265,446	(56,143)	209,303	600,993	(89,752)	511,241
Selling and administrative expenses	(1,107,815)	56,143	1,163,958	1,062,082	89,752	1,151,834

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For the fiscal year ended July 31, 2024

	For the three-month period ended October 31, 2023			For the three-month period ended January 31, 2024		
	Previously stated \$	Adjustments \$	Adjusted \$	Previously stated \$	Adjustments \$	Adjusted \$
Revenues	1,272,520	97,543	1,370,063	2,277,170	77,910	2,355,080
Selling and administrative expenses	788,874	97,543	886,417	1,616,461	77,910	1,694,371
	For the three-month period ended April 30, 2024			For the three-month period ended July 31, 2024		
	Previously stated \$	Adjustments \$	Adjusted \$	Previously stated \$	Adjustments \$	Adjusted \$
Revenues	5,125,571	305,912	5,431,483	9,140,248	1,009,112	10,149,360
Selling and administrative expenses	1,243,988	305,912	1,549,900	1,910,650	764,112	2,674,762
Income tax expense	-	271,335	271,335	-	575,863	575,863

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	For the nine-month period ended April 30, 2024		
	Previously stated \$	Adjustments \$	Adjusted \$
Income tax liability	-	271,335	271,335
Deficit	(27,731,943)	(271,335)	(28,003,278)