Q1 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS - FOR THE QUARTER ENDED OCTOBER 31, 2018.

1. INTRODUCTION

This Management's Discussion & Analysis provides the reader with an overview of the operations and financial position of Devonian Health Group Inc. ("the Company") on October 31, 2018. It also provides a review of our performance by comparing the Company's results of operations on a consolidated basis, for the three-month period ended October 31, 2018, with the three-month period ended October 31, 2017. It should be read in conjunction with the consolidated and audited financial statements of the Company for the years ended July 31, 2018 and July 31, 2017. The financial data contained in this Management's Discussion & Analysis have been prepared in accordance with International Financial Reporting Standards (IFRS) by Management, based on the information available as at December 17, 2018. All amounts presented in this document are expressed in Canadian dollars.

2. FORWARD LOOKING STATEMENTS

The information contained in this Management's Discussion & Analysis, as well as the analysis of the results of operations and the financial position may contain statements relating to future results of operations. Certain forward-looking statements made by Management, relative to the results of the research studies as well as the objectives and the expectations of the Company, can be influenced by various risks and uncertainties and therefore generate real results different from those anticipated. The assumptions that support forward-looking statements made by Management are made from data presently available.

3. COMPANY PROFILE

Devonian Health Group is a pharmaceutical company specializing in the development of botanical drugs. Incorporated on March 27, 2015, under the Québec Business Corporations Act, the Company, which is the result of a merger, acquired in April 2015, all the assets of Purgenesis Technologies Inc., a company that developed and manufactured patented active complexes from natural sources. The first family of active ingredients available to the Company is currently extracted from organic baby spinach. The flagship product of the Company, PUR0110, shows immunomodulatory, antioxidant and anti-inflammatory properties. It is the first product of a family of active ingredients, extracted using the Supra Molecular Complex Extraction and Stabilization Technology (SUPREX™). It is customary that when a drug is at an advanced stage of development, the code name be changed to a generic name associated with the chemical structure of the product. The PUR0110 will now bear the name of "Thykamine™".

In addition to benefiting from a pharmaceutical complex extraction facility in Montmagny, Devonian also has skin care products developed with the same approach as its pharmaceutical products. The first cosmeceutical product developed by Devonian, is an anti-aging treatment for women, consisting of day creams, night cream and eye contour. R-Spinasome®, Devonian's proprietary natural active ingredient, is an integral part of this product, ready for marketing under the brand name Purgenesis ™. The company is proud that Purgenesis™ have earned the designation of being the first product distributed by dermatologists to be recognized by the Skin Health Program™ of the Canadian Dermatology Association. Backed by objective medical specialists and led by an Expert Advisory Board, the CDA Program provides advice for the maintenance of healthy skin, hair and nails. This product is patented in Canada, Europe, Japan and United States. Devonian intends to market its products under the Purgenesis ™ brand with sales and marketing partners. In Canada, marketing is handled by Altius Healthcare Inc., a wholly owned subsidiary of Devonian.
The company's business strategy is also to build a portfolio of complementary products that align with its expertise, which will drive revenue and cash flow to realize its research projects and create value for its shareholders.

4. HIGHLIGHTS FOR THE QUARTER ENDED OCTOBER 31, 2018

On August 31, 2018, the Company announced the closing of the second tranche of its non-brokered private placement, in the form of unsecured debentures, convertible into units of the Company, at a conversion price of $ 0.75 per unit, for total gross proceeds of $ 697,000, convertible into Company units, at a conversion price of $ 0.75 per unit, for total gross proceeds of $ 697,000. This second tranche of debentures has the same characteristics as those issued on July 19, 2018.

On October 3, 2018, the Company announced that its Purgenesis™ anti-aging treatment was awarded the 2018 Best Anti-Aging Skin Treatment Technology from United Kingdom-based LUX Life Magazine (LUX).

On October 16, 2018, the Company extended the service agreement with JSS Medical Research Inc. by making an amendment to the original contract for an additional $ 1,502,406, bringing the total clinical study contract to $ 2,821,511. The additional amounts provided for in this amendment will be payable over a period extending until December 2019.

5. SUMMARY OF OPERATING RESULTS FOR THE QUARTER ENDED OCTOBER 31, 2018

Net loss

For the quarter ended October 31, 2018, the net loss amounted to $ 656,585 ($ 0.009) per share. For the same period ended October 31, 2017, the Company realized a net loss of $ 643,878 ($ 0.011) per share. This decrease in net income is mainly attributable to the increase of general and administrative expenses and financial expenses recorded in the quarter ended October 31, 2018, partially offset by the sales activities of Altius, and lower research and development expenses. The Company, which records sales through its subsidiary Altius, incurs operating expenses, including administrative expenses, selling expenses and financial expenses, in addition to the research and development expenses required for its operations, the development of its products and the conduct of its clinical trials.

Revenues

During the quarter ended October 31, 2018, a total of $ 1,962,531 in revenue was recorded by the Company. These revenues come from the sale of Cleo-35® and Pantoprazole Magnesium via its subsidiary Altius Healthcare. For the same corresponding period in 2017, no income was recorded. The company's management continually explores opportunities to expand its potential for projects and products to be distributed.

Research and development expenses

The breakdown of Research and development expenses is as follows:

	Quarter ended October 31, 2018	Quarter ended October 31, 2017
	$	$
Patents	21,499	15,929
Salaries and employee benefits	20,821	26,980
Quality assurance process & offsite extraction activities	-	25,320
Dermatitis Atopic, Phase II	172,753	179,650
New products development		1,350
Consultants fees	6,000	
Applications study of Thykamine™		7,200
	221,073	256,429

During the quarter ended October 31, 2018, research and development expenses were $ 221,073. These expenses are mainly attributable to the costs incurred in the clinical study on atopic dermatitis, the fees related to patents and the payroll of employees assigned to this sector. Research and development expenses of $ 256,429 were incurred for the same period in 2017. The decrease compared to the corresponding quarter of 2017 is mainly due to the costs related to the offsite extraction activities incurred in 2017.

Cost of sales

Cost of sales of $ 1,386,888 for the quarter ended October 31, 2018 is comprised of production, distribution, royalty and overhead costs attributable to products sold by our subsidiary Altius Healthcare. For the same corresponding quarter of 2017, there was no cost of sales.

Sales expenses

Selling expenses totaling $ 38 099 for the three-month period ended October 31, 2018 are mainly attributable to the expenses of the representatives incurred for the sale of the two pharmaceutical products distributed by Altius Healthcare. For the same period last year, no selling expenses were incurred.

Operating expenses

General administration expenses

The breakdown of General administrative expenses is as follows:

	Quarter ended October 31, 2018	Quarter ended October 31, 2017
	$	$
Salaries and emloyee benefits	102,205	68,201
Stock based compensation	25,567	7,156
Professional fees	64,927	26,966
Amortization of intangible assets	183,957	-
Amortization of fix assets	67,911	69,745
Property taxes	26,454	26,912
Others	348,245	99,903
	819,266	298,883

For the quarter ended October 31, 2018, salaries and benefits in the amount of $ 102,205 are mainly related to the members of management. For the same period ended October 31, 2017, salaries and benefits expenses of $ 68,201 were also attributable to the executive officers. This increase is explained by the departure of an employee during the last quarter of 2017. This increase is mainly attributable to employee benefits granted, accounted for during the quarter ended October 31, 2018.

For the three-month period ended October 31, 2018, stock-based compensation expense of $ 25,567 (non-cash charge) was recorded following the granting of options to employees, during 2017 and 2018 and according to the stock option plan. For the same period in 2017, stock-based compensation expense of $ 7,156 was recorded.

For the quarter ended October 31, 2018 professional fees of $ 64,927 are mainly related to expenses incurred for the preparation of the financial statements for the year ended July 31, 2018 and to corporate work. For the corresponding period in 2017, professional fees of $ 26,966 were also mainly related to corporate work and expenses incurred in the preparation of the financial statements for the year ended July 31, 2017.

For the quarters ended October 31, 2018 and October 31, 2017, amortization expense of $ 67,911 and $ 69,745 respectively is related mainly to all tangible assets acquired in April 2015.

In connection with acquired intangible assets and those generated upon the acquisition of Altius Healthcare, amortization expense for intangible assets of $ 183,957 was recorded during the quarter ended October 31, 2018. There was no such expense for the same period in 2017.

For the three-month period ended October 31, 2018, property taxes of $ 26,454 relate to the Montmagny site, compared to $ 26,912 for the same period in 2017.

For the three-month period ended October 31, 2018, other costs of $ 348,245 are primarily attributable to the operating costs of the Montmagny and Altius sites, travel and office expenses, and office supplies as well as expenses related to the securities of the Company. For the corresponding period of 2017, the other costs of $ 99,903 were attributable to the Montmagny site's operating expenses, travel and office expenses, office supplies and expenses related to the securities of the Company. This increase of $ 248,342 compared to the same quarter of the previous year is mainly due to advertising and promotional expenses, travel expenses, fees incurred for the management of the website as well as management fees incurred during the three-month period ended October 31, 2018.

<u>Financial expenses</u>

During the three-month period ended October 31, 2018, financial expenses of $ 139,408 were recorded mainly related to long-term debt and convertible debentures. For the corresponding period of 2017, financial expenses of $ 88,566 were related to long-term debt. The increase of $ 50,842 compared to the same period in 2017 is mainly due to an interest expense of $ 36,853 and an amortization expense of $ 15,998 related to the convertible debentures issued. in July and August 2018. For the quarter ended October 31, 2017, no debenture-related expense was recorded, which was converted in May 2017.

6. SELECTED QUATERLY FINANCIAL INFORMATION

	October 31 2018	July 31 2018	April 30 2018	January 31 2018	October 31 2017	July 31 2017	April 30 2017	January 31 2017	October 31 2016
	$	$	$	$	$	$	$	$	$
Revenue	1,962,531	1,116,157	2,083,802	-	-	-	-	-	-
Net loss	(656,585)	(1,161,823)	(597,759)	(783,608)	(643,878)	(2,770,858)	(604,808)	(598,663)	(401,386)
Basic loss per share	(0,009)	(0.017)	(0.010)	(0.013)	(0.011)	(0.050)	(0.021)	(0.022)	(0.014)
Diluted loss per share	(0,009)	(0.017)	(0.010)	(0.013)	(0.011)	(0.050)	(0.021)	(0.022)	(0.014)

7. FINANCIAL SITUATION

Liquidity and capital ressources

As at October 31, 2018, the Company had cash, totaling $ 649,266 compared to $ 981,982 as at July 31, 2018. For the quarter ended October 31, 2018, the net decrease in cash totaled $ 332,716 is mainly attributable to $ 925,354 of expenses incurred to fund general operating activities partly offset by funds generated by financing activities of $ 651,391 and net investment of $ (58,763).

Total assets as at October 31, 2018 totaled $ 19,994,736 compared to $ 19,157,702 as at July 31, 2018. The increase of $837,034 is mainly due to the increase in receivables of $ 1,441,478, partially offset by the net decrease of cash of $ 331,789, amortization of tangible assets for $ 67,911 and a decrease of intangibles of $ 125,194. The liability as at October 31, 2018 totaled $ 7,764,205 compared to $ 6,422,444 as at July 31, 2018, an increase of $ 1,341,761 mainly due to an increase of $ 749,426 in operating liabilities, as well as a $ 578,027 increase in convertible debentures partially offset by a decrease in long-term debt of $ 160,347.

Financing activities

Cash generated by financing activities for the period ended October 31, 2018, is attributable to proceeds of $ 697,000 related to the issuance of debentures in August 2018 and an increase of $ 114,738 due, partially offset by a repayment of long-term debt of $ 160,347.

To date, the Company has financed its activities through private placements of common shares and subscription rights as well as the issuance of convertible debentures, government securities and operating income generated by its subsidiary.

The Company's profitability is based on factors such as its ability to market, sell and distribute its cosmetics and pharmaceutical products, the success of the various clinical studies as well as the various approvals of the regulatory bodies as well as the ability to obtain the necessary funding. The Company's ability to continue as a going concern depends on its ability to realize other types of financing and its ability to generate profitable sales.

8. OUTSTANDING SHARE DATA

As at December 17, 2018, the number of issued and outstanding shares was 67,348,148 while the number of outstanding options granted under the Stock Option Plan was 2,995,000. The Company also had 4,217,782 warrants entitling the holders to subscribe for one subordinate voting share of the Company at a price of $ 1.10 per share and 8,403,361 warrants entitling the holders to subscribe for one subordinate vote of the Corporation at a price of $ 1.19 per share. Finally, there were 537,423 broker options issued and outstanding. (See note 15 and 16 to our financial statements).

9. RELATED PARTY TRANSACTIONS

The principal officers of the Corporation are the President, the Interim Chief Financial Officer and the Directors. During the three-month period ended October 31, 2018, the Company paid them a total remuneration of $ 108,068, of which $ 23,069 was recorded as stock-based compensation and $ 26,230 as a contribution to the President's registered retirement savings plan.

During the quarter ended October 31, 2018, the Company also recorded a charge of $ 100,000 as a management fee, as provided for in the agreement signed by the President of Altius and authorized by the Board of Directors. These management fees are part of the "other fees" for general administration expenses.

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Use and impact of financial instruments

The main financial instruments used by the Company arise from its operating activities, namely its accounts payable and the recovery of taxes paid on its purchases and sales. Its financing activities carried out during the fiscal year ended July 31, 2018 resulted in the issuance of debentures and securities of the Company, whereas during the quarter ended October 31, 2018, they gave rise to the issue of convertible debentures.

Exchange rate risk

During the quarter ended October 31, 2018, the Company completed a few foreign currency transactions with a minimum value. Management will evaluate options to deal with future changes in the Canadian dollar against the US dollar, should the value of foreign currency transactions be significant. Financial charges as well as general administrative expenses could be influenced by these financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the risk of interest rate fluctuations on its loan with Investissement Québec, which bears interest at a variable rate. Based on the net exposures presented above as at October 31, 2018, and assuming all other variables remain constant, a 1% increase or decrease in the interest rate would result in an increase or decrease of approximately $29,325 of the net loss of the Company for the full year.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations related to financial liabilities. On October 31, 2018 the Company had current liabilities of 3,232,106. The Company's operating and capital expenditure budgets as well as major operations outside the normal scope of its operations are reviewed and approved by the Board of Directors. The Company monitors its liquidity, which makes it possible to seek additional liquidity in a timely manner.

Risk of economic dependence (Altius)

The revenues of Altius Healthcare (Altius) currently comes from the sale of Cléo-35 and Pantoprazole Magnesium which accounts for 95% of these revenues. Altius obtains its supplies from third parties and cannot be sure of the manufacture and delivery of these drugs, despite reports of forecasts provided to them.

A break in the supply of Pantoprazole Magnesium would have a negative impact on the company's revenues.

In order to reduce the associated economic risk, Altius' strategy is to acquire rights to market other pharmaceutical products.

Risks and uncertainties related to research and development operations

The Company's operations involve risks and uncertainties specific to its business that could have an impact on its business, financial condition and results of operations. Conducting clinical trials requires the recruitment of patients, and difficulties in recruiting patients could delay the completion of our clinical trials or result in non-completion. In addition, because our human resources are too limited to conduct preclinical studies and clinical trials, we will need to rely on a service provider to conduct our studies and trials and to perform certain data collection and analysis processes. Preclinical or non-clinical studies must be conducted in accordance with good laboratory practice and must conform to the international governance standards of the International Council for Harmonization (ICH). If for any reason, including as a result of failure to comply with the rules and regulations governing the conduct of preclinical studies and clinical trials, or if he neglects to fulfill his contractual obligations in accordance with the terms of the agreements concluded with us, such as failing to conduct tests, compile data or produce reports as a result of testing, we may be subject to delays that may be significant in our commitments.

Risks related to our shares

The price of our shares has been volatile, and an investment in our common shares could suffer a decline in value. Since our listing on the TSX Venture Exchange (TSXV), our valuation and the price of our shares have fluctuated and have had no material relationship to our financial results, asset values, book values, current or historical, or many other criteria based on conventional measures of the value of common shares. Our share price will continue to vary based on several factors, including the risk factors described herein and other circumstances beyond our control. The value of an investment in our common shares or our common share purchase warrants, or both, may fall significantly or vary significantly.

11. SUBSEQUENT EVENTS

On November 26, 2018, the Company issued to an employee 20,000 stock options. 25% of these options granted are exercisable on the grant date, then 25% per year in subsequent years. These options are exercisable at a price of $ 0.60 for a period of ten years from the date of grant.

12. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that may affect the amounts reported as assets, liabilities and income and expenses. These amounts reflect management's best estimate based on overall economic conditions and decisions based on the Company's most probable course of action. Any changes to these assumptions and estimates could have an impact on actual results. The consolidated and audited financial statements for the year ended July 31, 2018 should be referenced for further details regarding significant accounting policies and estimates for the purpose of evaluating and understanding the financial statements of the Company. During the period ended October 31, 2018, no change in accounting policy that could have an impact on the financial statements has occurred.

Going concern

The Company has incurred losses since its inception and expects that this situation will continue in the foreseeable future. However, management believes that the business combination that occurred during the year will enable the Company to generate the necessary sales volume to enable it to continue its operations. The Company’s liquidities are limited considering its ongoing projects. Consequently, the Company's ability to continue as a going concern depends on its ability to obtain, in a timely matter, further financing to complete research and development projects and market products, achieve profitable operations and generate positive cash flows from operations as to which no assurance can be given.

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