# Q1 2020

## MANAGEMENT’S DISCUSSION AND ANALYSIS - FOR THE QUARTER ENDED OCTOBER 31, 2019.

### 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, 2019. 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, 2019, with the three-month period ended October 31, 2018. It should be read in conjunction with the consolidated and audited financial statements of the Company for the years ended July 31, 2019 and July 31, 2018. 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, 2019. 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. On May 12, 2017, the Company was continued under the Canada Business Corporations Act. Acquired on February 1, 2018, Altius Healthcare Inc., a corporation governed by the Business Corporations Act (Ontario), is a wholly owned subsidiary of Devonian Health Group Inc.
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 ™. 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.

About Altius Healthcare

Based in Concord, Ontario, Altius Healthcare is a specialty pharmaceutical company focused on the acquisition and licensing of safe and innovative medicines and health products designed to help people of all age to lead a healthier life. Altius then leverages its expertise in the commercialization activities required to successfully launch and distribute these drugs in Canada.

Altius' current portfolio includes two pharmaceutical drugs: Pantoprazole magnesium and Cleo-35.

Pantoprazole Magnesium belongs to the family of medications called proton pump inhibitors (PPIs). Proton pump inhibitors are used to relieve symptoms of acid reflux or gastroesophageal reflux disease (GERD) also known as heartburn or acid regurgitation. They are also used to treat conditions requiring reduction of stomach acid, such as gastric (stomach) or duodenal (intestinal) ulcers, in combination with antibiotics in many instances.

Cleo-35® is a drug that contains a combination of two ingredients: cyproterone and ethinyl estradiol. Cyproterone belongs to a group of medicines called antiandrogens. Ethinyl estradiol belongs to a group of medicines called estrogens. Together, they are used to treat hormonal acne in women. This medicine works by regulating the hormones affecting the skin.

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, 2019

***Private placement***

On August 21, 2019, the Company completed a non-brokered private placement (the "Offering") of 1,260,000 units of the Company (the "Units") at a price of $ 0.25 per unit for total gross proceeds of $ 315,000. Each unit consists of one subordinate voting share of the Corporation (a "Subordinate Voting Share") and one-half of one subordinate voting share purchase warrant of the Corporation. Each whole warrant (a "Warrant") entitles the holder thereof to acquire one subordinate voting share at a price of $ 0.50 per subordinate voting share during the 24-month period following the closing date of the offering. As part of this private placement, the Company paid intermediation fees for a cash consideration of $ 15,900 and a total of 63,600 warrants to subscribe for a maximum of 63,600 subordinate voting shares at a price of $ 1.00 per subordinate voting share, within 24 months of the closing of the offering. The net proceeds of the offering will be used for working capital and corporate overhead. The Company may subsequently proceed to subsequent closures up to maximum aggregate gross proceeds of $ 5,000,000. All securities issued in connection with the Offering are subject to a four month and one day restricted period for resale ending on December 22, 2019 as planned by securities legislation.

On December 5, 2019, the Company issued 500,000 units at a price of $ 0.25 per unit, for total gross proceeds of $ 125,000 subscribed on October 2019. Each unit consists of one subordinate voting share and one half of one share purchase warrant. Each warrant entitles the holder thereof to acquire one subordinate voting share at a price of $ 0.50 per share, within 24 months of the closing of the offering.

***Additional loan***

On August 21, 2019, the Company entered into an amendment to the loan agreement already announced on January 2019 (the "Loan Agreement") with a group of private lenders to increase the maximum loan amount to $ 3,500, 000. This $ 500,000 additional loan has the same terms and conditions as those provided for in the Initial Loan Agreement. It is understood that the $ 500,000 additional loan may be repaid at the Company's option without penalty.

***Payment of interest on debentures***

On October 17, 2019, the Company announced its intention to issue 190,727 units at a price of $ 0.26 per share, for interest payments of $ 49,589 as at July 19, 2019, to the holder of the debenture issued on the first tranche of the private placement closed on July 19, 2018. Each Unit consists of one subordinate voting share and one warrant entitling the holder thereof to subscribe for one subordinate voting share of the Company at a price of $ 0.34 for a period of 48 months. On the same date, the Company also announced its intention to issue 30,006 shares at a price of $ 0.168 and 179,137 units at a unit price of $ 0.168, in exchange for $ 35,136 interest due to the holders of the debenture issued on August 31, 2018. Each unit consists of one subordinate voting share and one warrant. Each warrant entitles its holder to subscribe for one subordinate voting share of the Company's share capital at a price of $ 0.218 for a period of 48 months. This issue is conditional on its acceptance by the regulatory authorities.

***Clinical Dermatology Advisory Committee***

On September 4, 2019, the Company announced the establishment of a Clinical Dermatology Advisory Committee comprised of key opinion leaders from across Canada. The Clinical Dermatology Advisory Committee's objective is to provide clinical, scientific, research and strategic direction to the Company as the development of its cannabinoid-based pharmaceutical products progresses.

***Cannabis Research License***

On October 3, 2019, the Company obtained a Cannabis Research License, issued in accordance with the Cannabis Act and the Cannabis Regulations. This license allows the Company to launch its pharmaceutical cannabis research program at its facility in Montmagny, Quebec location. This license also applies to satellite research sites located in the laboratories of Drs Suha Jabaji, PhD (Department of Plant Sciences, McGill University) and Louis Flamand, Ph.D., MBA (Department of Microbiology and Immunology, Laval University).

## 5. SUMMARY OF OPERATING RESULTS FOR THE QUARTER ENDED OCTOBER 31, 2019

### *Net loss*

For the quarter ended October 31, 2019, the net loss amounted to $ 922,285 ($ 0.013) per share. For the same period ended October 31, 2018, the Company realized a net loss of $ 656,585 ($ 0.009) per share. This decrease in net income is mainly attributable to a decrease in sales and an increase in research and development expenses of $ 213,347 incurred during the quarter ended October 31, 2019. The Company, which for the moment records sales by through its subsidiary Altius Healthcare, incurs operating expenses, including administrative expenses and financial expenses, in addition to the research and development costs necessary to develop its products and to prepare his clinical trials.

### *Distribution Revenues*

During the quarter ended October 31, 2019, a total of $ 1,037,851 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 prior year period, revenues of $ 1,935,772 were recorded by the Company. This significant drop in distribution revenues is still attributable to the disruption of Pantoprazole magnesium supplies. Management believes this disruption should be addressed in the next quarter.

The Company did not record sales of cosmeceutical products, anti-aging Purgenesis ™, during the first quarter of year 2020. The Company's management is currently studying various marketing opportunities with the addition of various partners and continually evaluates various business 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, 2019 | Quarter ended October 31, 2018 |
|---|---|---|
| | $ | $ |
| Patents | 27,928 | 21,499 |
| Salaries and employee benefits | 23,550 | 20,821 |
| Dermatitis Atopic, Phase II | 379,762 | 172,753 |
| Consultants fees | 3,180 | 6,000 |
| | 434,420 | 221,073 |

During the quarter ended October 31, 2019, research and development expenses were $ 434,420. These costs are mainly attributable to the costs incurred in the clinical study on atopic dermatitis, the costs related to patents, as well as the payroll of employees assigned to this sector. Research and development expenses of $ 221,073 were incurred for the same period in 2018. This increase compared to the corresponding quarter of 2018 is mainly due to an increase in costs incurred in the clinical study on atopic dermatitis.

### ***Cost of sales***

Cost of sales of $ 584,750 for the three months ended October 31, 2019 is comprised of product acquisition costs, distribution fees, royalties and overhead costs attributable to products sold by Altius Healthcare. For the same period in 2018, cost of sales of $ 1,360,129 was also comprised of product acquisition costs, distribution costs, royalties and overhead costs attributable to distributed products.

### ***Sales expenses***

Selling expenses totaling $ 62,937 for the three-month period ended October 31, 2019 are attributable to the expenses of the representatives incurred for the sale of the two products distributed by Altius Healthcare, namely Cleo-35 and Pantoprazole Magnesium. For the quarter ended October 31, 2018, these selling expenses totaled $ 38,099.

### ***Operating expenses***

<u>General administration expenses</u>

The breakdown of General administrative expenses is as follows:

| | Quarter ended October 31, 2019 | Quarter ended October 31, 2018 |
|---|---|---|
| | $ | $ |
| Salaries and emloyee benefits | 71,129 | 102,205 |
| Stock based compensation | 16,639 | 25,567 |
| Professional fees | 74,735 | 64,927 |
| Amortization of intangible assets | 199,416 | 183,957 |
| Amortization of fix assets | 67,911 | 67,911 |
| Property taxes | 25,051 | 26,454 |
| Others | 321,845 | 348,245 |
| | 776,726 | 819,266 |

For the quarter ended October 31, 2019, salaries and benefits in the amount of $ 71,129 are mainly related to the members of management. For the same period ended October 31, 2018, salaries and benefits expenses of $ 102,205 were also attributable to the management. This decrease is mainly attributable to employee benefits granted to a management employee that were recorded during the quarter ended October 31, 2018. In addition, for the quarter of 2019, there was a slight increase in the payroll expense affected to the research and development sector to the detriment of administrative expenses.

For the three-month period ended October 31, 2019, stock-based compensation expense of $ 16,639 (non-cash expense) was recorded following the granting of stock options to employees during fiscal years 2017, 2018 and 2019, according to the stock option plan approved by the Board of Directors. For the same comparative period of 2018, stock-based compensation expense of $ 25,567 was recorded following the granting of stock options to employees during 2017 and 2018.

For the quarter ended October 31, 2019, professional fees of $ 74,735 are mainly related to expenses incurred for the preparation of the financial statements for the year ended July 31, 2019 and to various corporate activities. For the corresponding period in 2018, professional fees of $ 64,927 were mainly related to corporate work and expenses incurred in the preparation of the financial statements for the year ended July 31, 2018.

For the quarters ended October 31, 2019 and October 31, 2018, amortization expense of $ 67,911 and $ 67,911 respectively is related mainly to all tangible assets acquired in April 2015.
Primarily related to acquired intangible assets and those generated upon the acquisition of Altius Healthcare, amortization expense for intangible assets of $ 199,416 was recorded during the quarter ended October 31, 2019, while a charge of $ 183,957 was recorded for the same corresponding period of 2018.

For the three-month period ended October 31, 2019, property taxes of $ 25,051 relate to the Montmagny site, compared to $ 26,454 for the same period in 2018.

For the three-month period ended October 31, 2019, other expenses of $ 321,845 are mainly attributable to the operating costs of the Montmagny and Altius sites, travel expenses, promotional expenses and advertising, management fees, office supplies and the various expenses related to the Company's stock market securities. This slight decrease compared to the same quarter last year is mainly due to a decrease in travel expenses, as well as a decrease in management fees recorded during the 2019 quarter.

***Financial expenses***

During the three-month period ended October 31, 2019, there are financial expenses of $ 150,508 primarily related to long-term debt and debentures issued in July and August 2018. For the corresponding period of 2018, financial expenses of $ 139,408 were also related to long-term debt and debentures issued in July and August 2018. The increase in these costs compared to the same period in 2018 is mainly due to an interest expense and Amortization of the additional discount related to the convertible debentures issued at the end of August 2018 as well as an increase of $ 500,000 in long-term debt.

## 6. SELECTED QUATERLY FINANCIAL INFORMATION

| | Quarter ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | October 31, 2019 | July 31, 2019 | April 30 2019 | January 31 2019 | October 31 2018 | July 31, 2018 | April 30 2018 | January 31 2018 | October 31 2017 |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenues | 1,037,851 | 176, 651 | 509,561 | 3,315,770 | 1,935,772 | 1,084,050 | 2,083,802 | - | - |
| Net (Loss) | (922,285) | (934,055) | (989,556) | (399,220) | (656,585) | (1,161,823) | (597,759) | (783,608) | (643,878) |
| Basic (loss ) per share | (0.013) | (0.014) | (0.015) | (0.006) | (0.009) | (0.017) | (0.010) | (0.013) | (0.011) |
| Diluted (loss) per share | (0.013) | (0.014) | (0.015) | (0.006) | (0.009) | (0.017) | (0.010) | (0.013) | (0.011) |

## 7. FINANCIAL SITUATION

### *Liquidity and capital ressources*

As at October 31, 2019, the Company had cash totaling $ 441,719 compared to $ 244,590 as at July 31, 2019. For the period ended October 31, 2019, the net increase in cash amounted to $ 197,129 is mainly attributable to $ 916,452 generated by financing activities, partially offset by $ 719,323 in costs incurred to fund general operations.

Total assets as at October 31, 2019 totaled $ 17,711,402 compared to $ 17,148,084 as at July 31, 2019. The increase of $ 563,318 is mainly due to the $ 715,878 increase in accounts receivable and the net increase in cash $ 197,129, partially offset by a $ 267,236 decrease in tangible and intangible assets as a result of amortization expense of the same amount. The liability as at October 31, 2019 is $ 8,123,751 compared to $ 7,071,239 as at July 31, 2019, an increase of $ 1,052,512, mainly due to an increase of $ 536,949 in operating debts, as well as a $ 500,000 increase in long-term debt and an increase in convertible debentures totaling $ 64,765, partially offset by a decrease in deferred taxes of $ 49,202.

### *Financing activities*

Cash generated by financing activities for the period ended October 31, 2019, is attributable to the increase in long-term debt of $ 500,000, as well as to the private placement totaling $ 416,452, net of related fees $ 7,648 and intermediation fees of $ 15,900.

To date, the Company has financed its operations through private placements of shares and subscription rights as well as the issuance of convertible debentures and public shares.

The Company's profitability is based on factors such as its ability to market, sell and distribute its cosmeceuticals and pharmaceuticals, as well as the success of various clinical studies and the various approvals of regulatory bodies, as well as its 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, 2019, the number of issued and outstanding shares was 69,394,579 while the number of outstanding options granted under the stock option Plan was 3,045,000. The Company also had 8,403,361 warrants entitling the holders to subscribe for one subordinate voting share of the Company at a price of $ 1.19 per share and 1,212,931 warrants entitling the holders to subscribe for one subordinate voting share of the Company at a price ranging from $ 0.38 to $ 1.00. (See note 13 and 14 to our financial statements).

## 9. RELATED PARTY TRANSACTIONS

The principal executives are the President of the Corporation, the President of the subsidiary, the interim chief financial officer and the Directors. During the three-month period ended October 31, 2019, the Company paid them a total remuneration of $ 123,163, which was recorded in administrative expenses and whose main components are $ 58,000 in salaries and benefits, $ 50,000 in management fees and $ 15,163 as stock-based compensation expense.
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 during the quarter ended October 31, 2019 resulted in the issuance of the Company's shares and an additional tranche of long-term debt.

### *Exchange rate risk*

During the quarter ended October 31, 2019, 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 debt with the Private Lender Group, which bears interest at a variable rate. Based on the net exposures presented above as at October 31, 2019, 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 $ 8,822 of the Company's net loss for the quarter ended October 31, 2019.

### *Liquidity risk*

Liquidity risk is the risk that the Company will have difficulty meeting commitments related to financial liabilities. As at October 31, 2019, the Company had current debts of $ 2,412,593. The Company's operating and capital expenditure budgets as well as major operations outside the normal scope of its activities are reviewed and approved by the Board of Directors. The Company monitors its liquidity, enabling it 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 80% 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. 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, 2019 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, 2019, 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 anticipates that losses will continue for the foreseeable future. However, management believes that the business combination that occurred last 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 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. 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 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.