



Q3 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS – FOR THE QUARTER AND THE NINE-MONTH PERIODS ENDED APRIL 30, 2017.

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). It should be read in conjunction with the unaudited condensed financial statements of the Company for the three-month and nine-month periods ended April 30, 2017 and the audited financial statements of the Company for the year ended July 31, 2016. 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 June 26, 2017. 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 that is extracted, 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™". The Company also owns a facility for the extraction of pharmaceutical complexes in Montmagny.



4. SUMMARY OF THE QUARTER ENDED APRIL 30, 2017

Research and development activities

The research and development team worked on the Phase IIa clinical protocol for the treatment of patients with mild to moderate Atopic Dermatitis. The protocol was submitted to Canadian Health authorities who approved it, allowing the Company to initiate the dermatology program. On June 20, 2017, the Company signed a contract with JSS Medical Research for the management of the Phase IIa clinical trial which is expected to be initiated next September.

Financing

In order to achieve its business plan, the Company will require additional funding that it should be able to obtain on the capital markets.

On April 5, 2016, the Company signed a commitment letter with Richardson GMP Limited, (Agent), whereby it committed itself, on a commercially reasonable efforts basis, for a public placement of a minimum of \$6,000,000 and a maximum of \$10,000,000. Under this agreement, the issuer resulting from the merger between the Company and Orletto Capital Inc. (Resulting Issuer) will issue a minimum of 8,000,000 units and a maximum of 13,333,333 units (Placement) at a price of \$0.75 per unit, consisting of one share and one-half of one common share purchase warrant. Each warrant will confer its holder the right to subscribe to one common share of the Resulting Issuer at an exercise price of \$1.10 per share over a period of 24 months following the closing date of the Placement. On April 13, 2017, the Company and the Agent have agreed to reduce the public placement's minimum to \$4,000,000. The Resulting issuer will therefore issue a minimum of 5,333,333 units at the same conditions as those already established.

The Qualifying Transaction, which will be completed by the conventional merger between the Company and Orletto Capital Inc., is subject to the financing and the approval of the Qualifying Transaction by the TSX Venture Exchange Inc. and the securities regulatory authorities having jurisdiction.

On November 8, 2016, the shareholders of the Company unanimously voted in favor of the proposed merger with Orletto Capital Inc. at the annual general and special meeting of shareholders. On November 25, 2016, the shareholders of Orletto Capital Inc. unanimously voted in favor of the proposed merger with the Company at the annual general and special meeting of shareholders.

On February 3, 2017, Orletto Capital Inc filed an amended and restated prospectus dated January 31, 2017 amending and restating the prospectus dated October 27, 2016 relating to the sale and issue of units of the Resulting Issuer, for a minimum amount of \$6,000,000 and a maximum amount of \$10,000,000.



On April 24, 2017, Orletto Capital Inc filed an amended and restated prospectus dated April 21, 2017, amending and restating the amended and restated prospectus dated January 31, 2017, amending and restating the prospectus dated October 27, 2016, relating to the sale and issue of units of the Resulting Issuer, for a minimum amount of \$4,000,000 and a maximum amount of \$10,000,000.

On April 27, 2017, Orletto Capital Inc. announced the end of its public offering. The Company had exceeded the threshold for its minimum offering fixed at \$4,000,000 pursuant to its amended and restated prospectus dated April 21, 2017 amending and restating the amended and restated prospectus dated January 31, 2017 amending and restating the prospectus dated October 27, 2016

On May 15, 2017, Devonian Health Group Inc. announced the completion of the amalgamation and the closing for aggregate gross proceeds of \$ 4,030,674. Devonian Health Group Inc. proceeded with the issuance of the 5,374,232 units at a price of \$0.75 per Unit. Each unit consists of one subordinate voting share and one-half of one share purchase warrant. Each warrant will entitle its holder to purchase one subordinate voting share, at a price of \$1.10 per Warrant Share, until May 12, 2019. In consideration of the services rendered in connection with the Public Offering, the Agent received a cash commission equal to 10% of the gross proceeds of the Public Offering. As additional compensation, the Agent and members of its selling group have been granted an aggregate of 537,423 options, entitling its holder thereof to purchase 537,423 subordinate voting shares, at a price of \$0.75 per subordinate voting share, until May 12, 2019. On May 15, 2017, the subordinate voting shares issued in connection with the amalgamation and issued pursuant to the public offering have begun trading on the TSX-V under the symbol «GSD».

On March 31, 2017, holders of warrants exercised their right to subscribe for 1,733,331 shares of the Company for an amount of \$519,999. On April 28, 2017 holders of warrants exercised their right to subscribe for 1,752,229 shares of the Company for an amount of \$525,671.

5. SUMMARY OF OPERATING RESULTS

Net loss

For the quarter ended April 30, 2017, the net loss amounted to \$604,808 or (\$0.021) per share. During the nine-month period ended April 30, 2017, the Company realized a net loss of \$1,604,857 or (\$0.058) per share. During the same related periods ended April 30, 2016, the Company realized a net loss of \$445,582 or (\$0.018) per share and \$1,431,275 or (\$0.057) per share. The Company, which at the moment has no sales, incurs expenses in operating costs, including administrative costs and financial expenses in addition to the research and development costs necessary for the development of its products and the preparation of its clinical trials.



Revenues

During the quarter ended April 30, 2017 as well as for the nine-month period ended April 30, 2017, no income was recorded by the Company. For the same related periods in 2016, the Company had no revenue. The Management of the Company is continuously looking at different business opportunities to broaden its potential projects. During the period ended April 30, 2017, the Company evaluated different strategies with potential partners to market its cosmeceutical products and thereby generate sources of income in the near future. Despite the seriousness of the discussions, no firm contract has been concluded as of the date of this report. However, negotiations have been initiated with a Canadian Pharmaceutical company for the distribution of Devonian's derma-cosmetic products within the Canadian territory. A US based company has initiated a due-diligence on Devonian's derma-cosmetic products with interest for the US territory.

Research and development expenses

The breakdown of research and development expenses is as follows:

	Three-month period ended April 30, 2017	Three-month period ended April 30, 2016	Nine-month period ended April 30, 2017	Nine-month period ended April 30, 2016
	\$	\$	\$	\$
Patents	24,834	40,390	106,161	125,462
Salaries and employee benefits	24,580	57,300	106,684	132,868
Quality assurance process & offsite extraction activities		66,507	13,665	176,352
Statistical analyses	-		1,786	27,685
Consultant Fees	16,800		16,800	
Applications study of Thykamine™	25,002		25,002	
	91,216	164,197	270,098	462,367



During the quarter ended April 30, 2017, research and development expenses amounted to \$91,216. These expenses are essentially attributable to the expense for the maintenance of the patents, the payroll of the employees allocated to this sector and also to the writing of the protocol of clinical search on the Thykamine™. For the nine-month period ended April 30, 2017, research and development expenses amounted to \$270,098 and are also attributable to the expense for the maintenance of the patents, the payroll of the employees allocated to this sector and to the writing of the protocol of clinical search on the Thykamine™. For the same related periods in 2016, research and development expenses amounted to \$164,197 and \$462,367 were attributable to the maintenance of the patents, the payroll of the employees allocated to this sector, the purchase of supplies and the expenses related to the validation procedures begun in September 2015 and the offsite extraction activities.

Operating expenses

General administration expenses

The breakdown of General administrative expenses is as follows:

	Three-month period ended April 30, 2017	Three-month period ended April 30, 2016	Nine-month period ended April 30, 2017	Nine-month period ended April 30, 2016
	\$	\$	\$	\$
Salaries & employee benefits	103,209	101,304	304,240	269,074
Professional fees	118,079	955	203,590	172,471
Depreciation	67,309	67,322	206,799	206,299
Property taxes	26,923	27,203	80,247	55,976
Others	46,513	38,996	151,595	206,973
	<u>362,033</u>	<u>235,780</u>	<u>946,471</u>	<u>910,793</u>

For the quarter ended April 30, 2017, the salaries and employee benefits amounted to \$103,209 are mainly related to the members of the management. For the same period ended April 30, 2016, expenditures for salaries and employee benefits of \$101,304 were also essentially attributable to the members of the management. For the nine-month period ended April 30, 2017, the salaries and employee benefits amounted to \$304,240 and were also attributable to the members of the management. As for the nine-month period ended on April 30, 2016, this expense was \$269,074. This increase compared to the same nine-month period of the previous year is mainly due to the hiring of 2 new employees.

For the quarter ended April 30, 2017, professional fees of \$118,079 are primarily related to the amendments and restatements of the prospectus dated October 27, 2016, and filed on February 3, 2017 and on April 24, 2017, whereas for the nine-month period ended April 30, 2017, the fees of \$203,590 were mainly related to the



preparation of the annual financial statements, the amendments and restatements of the prospectus dated October 27, 2016, and corporate work. For the same related periods ended April 30, 2016, professional fees of respectively \$955 and \$172,471 were mainly related to accounting and legal fees related to the valuation of the Company's assets, acquired in April 2015, for general corporate work and consultants' fees that had been paid to the management.

For the quarter ended April 30, 2017 and for the nine-month period ended April 30, 2017, the amortization expense of respectively \$67,309 and \$206,799 is mainly related to the tangible assets acquired in April 2015. For the same related periods ended April 30, 2016, the amortization expense of \$67,322 and \$206,299 were also due to the tangible assets acquired in April 2015.

For the three-month and the nine-month periods ended April 30, 2017, property taxes of respectively \$26,923 and \$80,247 are linked to the Montmagny site while they were respectively \$27,203 and \$55,976 for the same related period in 2016. This increase compared to the previous nine-month period of 2016, is due to the fact that the Municipality made late adjustments in connection with the acquisition of the assets in 2015 during the nine-month period ended April 30, 2016.

For the three months period ended April 30, 2017, the other costs of \$46,513 are mainly due to the operating costs of the Montmagny site, travel expenses and office supplies. For the nine-month period ended at the same date, the other costs amount to \$151,595. For the same related period of 2016, the other costs amounted to respectively \$38,996 and \$206,973. This decrease compared to the nine-month period in 2016 is mainly due to the fact that travelling fees and fees related to regulatory affairs had been incurred over the nine-month period ended on April 30, 2016.

Financial expenses

During the three-month and nine-month periods ended April 30, 2017, the financial expenses of respectively \$151,559 and \$476,589 are mainly related to the convertible debentures and the long term debt. For the same related period in 2016, the financial expenses of respectively \$147,665 and \$434,605 were also mainly due to the long-term debt and the convertible debentures.



6. SELECTED QUATERLY FINANCIAL INFORMATION

	Quarter ended							126 days July 31, 2015
	April 30 2017	January 31, 2017	October 31, 2016	July 31, 2016	April 30, 2016	January 31, 2016	October 31, 2015	
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	-	-	-	-	-	-	-	-
Net income (loss)	(604,808)	(598,663)	(401,386)	(391,771)	(445,582)	(521,317)	(464,375)	1, 922,555
Basic income (loss) per share	(0.021)	(.022)	(.014)	(.016)	(.018)	(.021)	(.018)	.089
Diluted income (loss) per share	(0.021)	(.022)	(.014)	(.016)	(.018)	(.021)	(.018)	.086

7. FINANCIAL SITUATION

Liquidity and capital resources

On April 30, 2017, the Company had cash of \$553,085, compared to \$528,396 on July 31, 2016. For the nine-month period ended April 30, 2017, the net increase in cash amounted to \$24,689 is mainly due to the funds generated by the issuance of shares and debentures partly offset by the financing of the general operating activities, the repayment of the long term debt, and the investing activities.

Total assets as at April 30, 2017 were \$10,174,404 compared to \$10,074,520 as at July 31, 2016. The increase is mainly due to the increase in cash, the increase of 150,001 for subscription receivable, the increase of \$143,853 for deferred share issuance costs partly offset by the amortization of fixed assets, inventories and prepaid expenses. On April 30, 2017, total liabilities were \$5,944,456 compared to \$5,947,106 as at July 31, 2016, a decrease of \$2,650. This decrease is mainly due to the reduction of long term debt by \$481,040 and of the deferred income taxes by \$72,156, offset by the increase of the payables by \$351,873 and the increase of the convertible debentures by \$198,673.

Financing activities

The increase in cash generated by the financing activities for the period ended April 30, 2017, is attributable to the \$1,638,571 for the common shares subscribed further to exercise of the warrants and to the issuance of convertible debentures for \$138,500, partly offset by the repayment of the long term debt of \$481,039. Up to now, the Company has financed its activities through private placements of ordinary shares and warrants as well as the issuance of convertible debentures.



The Company's profitability depends on factors such as its ability to market, sell and distribute its cosmeceuticals products, the success of the various clinical studies, the different approvals from regulatory bodies as well as the ability to obtain the necessary funding.

8. OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares. As at April 30, 2017, 28,284,091 common shares and 7,032,778 warrants, including 6,700,001 warrants entitling the holders to subscribe a class A shares of the Company and 332,777 warrants entitling the holders to purchase 1.25 share class A shares of the Company were issued and in circulation.

As at June 26, 2017, and after the completion of the amalgamation and the closing of the public placement, the number of shares issued and outstanding was 58,571,286 among which 14,330,591 subordinate voting shares, 24,274,172 subordinate exchangeable voting shares and 19,966,523 multiple voting shares. There were also 4,131,032 shares purchase warrants.

9. RELATED PARTY TRANSACTIONS

The principal officers of the Corporation are the President and the Chief Financial Officer. During the three-month and nine-month periods ended April 30, 2017, the Company has paid them a total remuneration of respectively \$80,000 and \$240,000.

During the three-month and nine-month periods ended April 30, 2017, the Company has paid a salary of \$8,000 and \$24,000 respectively, to the President's spouse who acted as the company's controller under the direction of the Chief Financial Officer.

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 are from its operating activities, by its accounts payable and the recovery of taxes paid on its purchases. The financing activities carried out during the year ended July 31, 2016, gave rise to the issuance of convertible debentures and common shares. During the nine-month period ended April 30, 2017, they also gave rise to the issuance of convertible debentures and common shares.



Exchange rate risk

During the quarter ended April 30, 2017, the Company carried some transactions of a minimum value in foreign currencies. Management will assess the various options to deal with future changes in the Canadian dollar against the American dollar in the event that the value of the foreign currency transactions would become sizeable. Financial expenses as well as overhead costs may be influenced by these financial instruments.

Interest rate risk

Interest rate risk refers to 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 fluctuation in the rate of interest on its loan from Investissement Québec, which bears interest at a variable rate. According to the net exposure as of April 30, 2017, and assuming that all other variables remain constant, an increase or a decrease of 1% of the interest rate would have increased or a decreased the net loss by approximately \$39,000 for the entire year.

Liquidity risk

Liquidity risk is the risk that the Company has difficulty meeting its commitments associated with financial liabilities. As at April 30, 2017, the Company has current debts of \$744,838. The Company monitors its cash resources, and can thus search additional liquidity when needed.

Risks and uncertainties

The Company's activities involve risks and uncertainties specific to its sector that could have an impact on its activities, its financial situation and its operating results. Refer to Devonian's financial statements as at July 31, 2016 for a discussion of such risks and uncertainties.

11. SUBSEQUENT EVENTS

On May 15, 2017, Devonian Health Group Inc. announced the completion of the amalgamation and the closing for aggregate gross proceeds of \$ 4,030,674. Devonian Health Group Inc. proceeded with the issuance of the 5,374,232 units at a price of \$0.75 per Unit. Each unit consists of one subordinate voting share and one-half of one share purchase warrant. Each warrant will entitle its holder to purchase one subordinate voting share, at a price of \$1.10 per Warrant Share, until May 12, 2019. In consideration of the services rendered in connection with the Public Offering, the Agent received a cash commission equal to 10% of the gross proceeds of the Public Offering. As additional compensation, the Agent and members of its selling group have been granted an aggregate of 537,423 options, entitling its holder thereof to purchase 537,423 subordinate voting shares, at a



price of \$0.75 per subordinate voting share, until May 12, 2019. On May 15, 2017, the subordinate voting shares issued in connection with the amalgamation and issued pursuant to the public offering have begun trading on the TSX-V under the symbol «GSD».

Recently, the United States Patent and trademark Office, granted to Devonian a Trademark on R-Spinasome®, the active ingredient of the Company's derma-cosmetic products. The US agency also granted a Patent (#9,555,068), entitled «Oral compositions and route of administration for the delivery of a Thylakoid extract''» was also granted by. The patent covers the oral delivery of Thylakoid extract for treating or preventing a disease or disorder involving the formation of reactive oxygen species and inflammation in individuals. The patent also covers the use of Thylakoids as a food or a food supplement, as a pellet, as encapsulated granules or powder.

12. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make use of judgments, estimates and assumptions that affect the amounts reported as assets, liabilities and revenues and expenses. The reported amounts reflect Management's best estimate of the most probable set of economic conditions and planned course of actions. Any changes to these assumptions and estimates could have an impact on actual results.

Refer to the audited financial statements for the year ended July 31, 2016, for further details regarding the accounting policies and significant estimates for the purposes of the evaluation and understanding of the financial statements of the Company.

During the period ended April 30, 2017, no change in accounting policy which 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. Furthermore, the Company has not completed the development of any product likely to generate the level of sales necessary to enable the Company to continue its operations without outside financing. The Company's liquidities are minimal. Consequently, the Company's ability to continue as a going concern is uncertain and mandatorily depends on its ability to obtain, in timely matter, further financing and financial support of his creditors 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.

Additional funds will continue to be required for an indefinite period as no estimate can be made as to when the Company will achieve profitability. Management continues to negotiate further financing. 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 future financings.

On April 5, 2016, the Company signed a commitment letter with Richardson GMP Limited, whereby it committed itself, on a commercially reasonable efforts basis, for a public placement of a minimum of \$6,000,000 and a maximum of \$10,000,000. Under this agreement, the resulting issuer from the merger between the Company and Orletto Capital Inc. will issue a minimum of 8,000,000 units and a maximum of 13,333,333 units. On April 13, 2017, the Company and the Agent have agreed to reduce the public placement minimum to \$4,000,000. The resulting issuer will therefore issue a minimum of 5,333,333 units at the same conditions as those already established.

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On April 27, 2017, Orletto Capital Inc. announced the end of its public offering. The Society had exceeded the threshold for its minimum offering fixed at \$4,000,000 pursuant to its amended and restated prospectus dated April 21, 2017 amending and restating the amended and restated prospectus dated January 31, 2017 amending and restating the prospectus dated October 27, 2016.

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