



## Q1 2021

### MANAGEMENT'S DISCUSSION AND ANALYSIS - FOR THE QUARTER ENDED OCTOBER 31, 2020.

#### 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, 2020. 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, 2020, with the three-month period ended October 31, 2019. It should be read in conjunction with the consolidated and audited financial statements of the Company for the years ended July 31, 2020 and July 31, 2019. 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, 2020. 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.

#### About Altius Healthcar

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.

Devonian Health Group's business strategy is also to build a portfolio of complementary products that are compatible with its expertise and technology, which will help it achieve revenue and cash flow to enable it to realize its research projects and create value for its shareholders.

#### **4. HIGHLIGHTS FOR THE QUARTER ENDED OCTOBER 31, 2020**

##### **Atopic dermatitis (AD) research and development**

On June 10, 2020, the Company announced the completion of the recruitment for its Phase 2 clinical trial to evaluate the efficacy and safety of Thykamine™ for the treatment of mild to moderate atopic dermatitis (AD) in the adult population.

The study was conducted at 12 Canadian clinical sites. Due to the COVID-19 situation, the closure of all clinical sites (12) will take longer than expected, but we still hope to be able to publish first-rate results at the beginning of 2021.

The Company plans to launch a Phase 2 clinical trial for the same therapeutic indication (DA) in the pediatric population.

##### **About Atopic Dermatitis (AD)**

Atopic dermatitis (AD), also known as eczema, is a type of inflammation of the skin. This results in itching, redness, swelling and cracking that can lead to secondary infection. The condition usually begins during childhood with changing severity over the years. Although the cause of AD is unknown, it is thought to involve genetics, a weakened immune system, and may be triggered by environmental factors. AD is the most common skin disease, and its prevalence continues to increase worldwide. There is currently a pressing need for new, effective, and well tolerated therapeutic options for AD.

##### **About Thykamine™**

Thykamine™, the first pharmaceutical product issued from the Devonian SUPREX™ platform, is a highly innovative product to use in the prevention and treatment of health problems related to inflammation and oxidative stress, including ulcerative colitis, atopic dermatitis, psoriasis, rheumatoid arthritis, and other autoimmune diseases. The anti-inflammatory, anti-oxidative and immunomodulatory properties of Thykamine™ have been demonstrated in a considerable number of in vitro and in vivo studies as well as in a phase IIa clinical study on patients with mild to moderate distal ulcerative colitis. Thykamine™ is currently being developed for ulcerative colitis and atopic dermatitis. Thykamine™ and the SUPREX™ platform are protected by several patents in North America, Europe, and Asia.

##### **Payment of interest on debentures**

On October 19, 2020, the Company issued 33,832 shares at a price of \$ 0.149 per share and 201,982 units at a unit price of \$0.149 in exchange for \$ 35,136 interest due at August 31, 2020, 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 \$ 0.194 for a period of 48 months.



## 5. SUMMARY OF OPERATING RESULTS FOR THE QUARTER ENDED OCTOBER 31, 2020

### ***Net loss***

For the quarter ended October 31, 2020, the net loss stood at \$ 805,051 (\$ 0.010 per share) while for the same corresponding period of 2019, the Company had realized a net loss of \$ 822,221 (\$ 0.011 per share). This slight increase in net income is mainly due to lower operating expenses of \$ 507,975 partially offset by a reduction in distribution revenues of \$ 496,067.

### ***Distribution Revenues***

During the quarter ended October 31, 2020, distribution revenues of \$ 541,919 were recorded. These revenues come from the sale of Cleo-35 and Pantoprazole Magnesium through its subsidiary Altius Healthcare. For the same corresponding period of the previous fiscal year, revenues of \$ 1,037,986 were recorded by the Company. This decrease in revenue for the first quarter of fiscal 2021 is mainly due to Pantoprazole Magnesium. Following a supply shortage in 2019 which lasted for a period of more than 8 months, the product had been temporarily replenished during the month of October 2019, thus creating a build-up of stocks on the market for this month, and thus generating higher revenues than expected for the first quarter of 2020.

According to the partnership announced on February 11, 2020, with the American company SkinScipac Inc. (SkinScipac) whose agreement included payment for the supply of R-Spinasome® on a per kg basis, as well as royalties on gross sales, SkinScipac planned to launch its products in September 2020. However, due to the COVID-19 situation, this launch has been postponed until the third quarter of 2021.

### **Operating expenses**

#### ***Research and development expenses***

During the quarter ended October 31, 2020, research and development expenses amounted to \$ 275,599. These costs are mainly attributable to the costs incurred in the clinical study on atopic dermatitis, costs related to patents, the payroll of employees assigned to this sector as well as the depreciation of the tangible assets of the extraction center of Montmagny. Research and development costs of \$ 518,081 were incurred for the same corresponding period in 2019. This decrease compared to the corresponding quarter of 2020 is mainly due to the end of patient recruitment for the clinical study.

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

The cost of products sold, which amounted to \$ 545,297 for the quarter ended October 31, 2020, is made up of product acquisition costs, distribution costs, royalties, indirect charges attributable to the products distributed as well and the amortization expense of the Company's intangible assets. For the same corresponding period of fiscal 2020, cost of goods sold amounted to \$ 518,081 for the same components as described above. The decrease in cost of sales compared to the first quarter of 2020 is mainly due to lower sales.



## General administration expenses

The breakdown of General administrative expenses is as follows:

	Quarter ended October 31, 2020	Quarter ended October 31, 2019
	\$	\$
Salaries and employee benefits	52,036	71,129
Stock based compensation	5,803	16,639
Professional fees	79,106	74,735
Property taxes	27,544	26,454
Others	218,388	405,849
	<u>382,877</u>	<u>594,806</u>

For the quarter ended October 31, 2020, salary expenses are in the order of \$ 52,036 while for the same period ended October 31, 2019, salary and payroll expenses were \$ 71,129. This decrease is mainly explained by the emergency wage subsidy from Canada, for which the Company was able to benefit.

For the three-month period ended October 31, 2020, a stock-based compensation expense of \$ 5,803 (a non-cash charge) was recorded following the granting of options to employees for 2018 and 2019, according to the stock option plan approved by the Board of Directors. For the same corresponding period of 2020, stock-based compensation expense of \$ 16,639 was recorded following the granting of options to employees during 2017 to 2019.

For the quarter ended October 31, 2020, professional fees of \$ 79,106 are mainly related to the costs incurred for the preparation of the financial statements for the year ended July 31, 2020 as well as to various corporate work. For the corresponding period in 2019, these professional fees of \$ 74,735.

For the quarter ended October 31, 2020, the property tax expense of \$ 27,544 is related to the Montmagny site, while this expense was \$ 26,454 for the same corresponding period in 2020.

For the three-month period ended October 31, 2020, the other costs of \$ 218,388 are mainly attributable to operating costs for the Montmagny and Altius sites, to travel and travel costs, to promotion costs and advertising, management fees, office supplies as well as various costs related to the Company's stock market securities. This decrease compared to the same quarter of the previous fiscal year is mainly due to a reduction in travel expenses, and sales and promotions expenses incurred.

## **Financial expenses**

During the three-month period ended October 31, 2020, financial expenses of \$ 148,459 were mainly related to long-term debt and debentures issued in July and August 2018. For the same corresponding period of 2020, financial charges of \$ 1,238 were also related to long-term debt and debentures issued in July and August 2018. The increase in these charges compared to the same corresponding period for the previous year is mainly explained by the unrealized gain on the fair value of the embedded derivative on the convertible debentures that had been recorded for the three-month period ended October 31, 2019, thus reducing financial expenses by the same amount, whereas for the quarter ended October 31, 2020, we recorded a gain of \$29,941 on the change in the fair value of the derivative.



## 6. SELECTED QUATERLY FINANCIAL INFORMATION

	Quarter ended								
	October 31, 2020	July 31, 2020	April 30 2020	January 31 2020	October 31 2019	July 31, 2019	April 30 2019	January 31 2019	October 31 2018
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	541,919	324,115	379,362	401,692	1,037,986	150,459	160,658	2,208,876	1,484,902
Net (Loss)	(805,051)	(1,244,979)	(990,893)	(1,316,683)	(822,221)	(808,200)	(1,103,701)	403,614	(1,221,413)
Basic (loss ) per share	(0.010)	(0.014)	(0.013)	(0.018)	(0.011)	(0.017)	(0.017)	0.007	(0.017)
Diluted (loss) per share	(0.010)	(0.014)	(0.013)	(0.018)	(0.011)	(0.017)	(0.017)	0.007	(0.017)

## 7. FINANCIAL SITUATION

### ***Liquidity and capital resources***

As at October 31, 2020, the Company had cash, totaling \$ 350,293 compared to \$ 917,017 as at July 31, 2020. For the period ended October 31, 2020, the net decrease in cash which amounted to \$ 562,724 is mainly attributable to the \$ 610,159 incurred to finance general operating activities, partially offset by financing activities of \$ 47,435.

Total assets as at October 31, 2020 amount to \$ 15,596,673 compared to \$ 16,696,247 as at July 31, 2020. This decrease of \$1,099,574 is mainly attributable to the net decrease in cash of \$ 562,724, and of \$ 256,296 of tangible and intangible assets, following an amortization charge of the same amount as well as a reduction of receivables in the order of \$ 243,129. The total liabilities as at October 31, 2020 amounted to \$ 6,956,281 compared to \$ 7,312,017 as at July 31, 2020, a decrease of \$355,736, mainly attributable to lower operating debt, partially offset by an increase in convertible debentures and long-term debt.

### ***Financing activities***

The cash generated by fundraising activities for the period ended October 31, 2020, is mainly attributable to the Emergency Account for Canadian Businesses (CEBA), a financial assistance measure from the Government of Canada aimed at supporting affected Canadian businesses by the COVID-19 pandemic.

To date, the Company has financed its activities through private placements of shares and warrants as well as the issuance of convertible debentures.

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



## 8. OUTSTANDING SHARE DATA

As at December 17, 2020, the number of issued and outstanding shares was 82,758,354 while the number of outstanding options granted under the stock option plan was 6,228,355. The Company also had 8,403,361 warrants allowing holders to subscribe for one subordinate voting share of the Company at a price of \$ 1.19 per share as well as 4,488,320 warrants, allowing holders to subscribe for one share of the Company's subordinate voting share at a price ranging from \$ 0.194 to \$ 1.00. (See notes 14 and 15 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, 2020, the Company paid them a total remuneration of \$ 121,759, which was recorded in administrative expenses and whose main components are \$ 66,250 in salaries and benefits, \$50,000 in management fees and \$ 5,509 as stock-based compensation expense for options granted between 2017 and 2018. 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 quarter ended October 31, 2020 resulted in an increase in long-term debt.

### ***Exchange rate risk***

During the quarter ended October 31, 2020, the Company completed a few foreign currency transactions with a minimum value.

### ***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, 2020, 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, 2020.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will have difficulty meeting commitments related to financial liabilities. As at October 31, 2020, the Company had current debts of \$ 2,197,860. 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 come from the sale of Cléo-35 and Pantoprazole Magnesium. 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, 2020 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 expects that this situation will continue in 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 on its ability to obtain, in a timely matter, further financing to complete research and development projects and market products, achieve profitable operations while generating positive cash flows. No assurance can be given in that matter. 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 that may cast significant doubt on the Company's ability to continue as a going concern.



## **12. SUBSEQUENT EVENT**

### **Private placement**

During the quarter ended October 31, 2020, the Company worked on the setting up of a private placement in the form of units to be issued, for a maximum of \$ 2,000,000, which was filed on December 2<sup>nd</sup>, 2020 to regulatory authorities. Details will be released by the end of 2020.