Q2-2020

MANAGEMENT'S DISCUSSION AND ANALYSIS - FOR THE QUARTER ENDED JANUARY 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 January 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 and six-month period ended January 31, 2020, with the three-month period and six-month period ended January 31, 2019. 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 March 23, 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.
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.

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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 JANUARY 31, 2020

Research and development atopic dermatitis (AD)

The Phase II clinical trial of Thykamine ™ in adult patients with mild to moderate atopic dermatitis is progressing as planned. The study is expected to be completed by the end of 2020.

Private placement

As part of the second tranche of its private placement, the Company issued, on December 5, 2019, 500,000 units at a price of $ 0.25 per unit, for total gross proceeds of $ 125,000. The net proceeds of the placement will be used for working capital and general expenses of the Company. Each unit is made up of a subordinate voting share and a half share subscription warrant. Each warrant gives the holder the right to acquire a subordinate voting share at a price of $ 0.50 per share up to 24 months after the date of issue. The expiration date of the warrants may be advanced at the option of the Company if certain conditions are met with respect to the share price.

Payment of interest on debentures

On January 28, 2020, the Company issued 190,727 units at a unit price of $ 0.26, in consideration of the $ 49,589 of interest it owed to the holder of the debenture issued during the first tranche of the private placement, which was closed. July 19, 2018. Each unit is made up of a subordinate voting share and a subscription warrant conferring on its holder the right to subscribe to a 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 the issue of 30,006 shares at a unit price of $ 0.168 and 179,137 units at a unit price of $ 0.168, in return for the $ 35,136 interest it owed to holders of debentures issued on August 31, 2018. Each unit is made up of one subordinate voting share and one warrant. Each warrant gives its holder the right to subscribe for a subordinate voting share in the share capital of the Company at a price of $ 0.218 for a period of 48 months.

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

Net loss

For the quarter ended January 31, 2020, net loss was $ 1,204,067 ($ 0.017) per share while it amounted to $ 2,126,352 (0.031) per share for the six months ended the same date. For the same corresponding periods ended January 31, 2019, the Company had respectively realized a net loss of $ 399,220 ($ 0.006) per share and 1,055,805 (0.016) per share. This decrease in net income is mainly due to a decrease in sales and an increase in research and development costs of $ 338,220 and $ 551,567 respectively incurred during the three-month and six-month periods ended January 31, 2020. The Company, which for the moment is recording distribution sales through its subsidiary Altius Healthcare, incurs expenses in operating costs, in particular administrative and financial costs in addition to research costs and development necessary for the development of its products and the preparation of its clinical trials.

Distribution Revenues

During the quarter ended January 31, 2020, revenues of $ 710,602 were recorded while for the six-month period ended on that same date, revenues amounted to $ 1,748,453. These revenues come mainly from the distribution of Cleo-35 and Pantoprazole Magnesium, via its subsidiary, Altius Healthcare. For the same corresponding periods of the previous fiscal year, revenues of $ 3,315,770 and $ 5,251,541 were recorded by the Company. This significant drop in distribution revenues is attributable to the continued disruption in the supply of Pantoprazole magnesium. Management believes that this disruption should be resolved in the next half year.

The Management of the Company is exploring varying business opportunities in order to maximize revenue and profitability. The Company has entered into an exclusive and worldwide sales and marketing agreement with SkinSciPac Inc., ("SkinScipac") for the marketing of its cosmeceutical products derived from its patented R-Spinasome® technology. (See subsequent events).

Research and development expenses

The breakdown of Research and development expenses is as follows:

	Quarter ended January 31, 2020	Quarter ended January 31, 2019	Six-month period ended January 31, 2020	Six-month period ended January 31, 2019
	$	$	$	$
Patents	28,507	33,964	56,435	55,465
Salaries and employee benefits	22,076	17,607	45,626	38,428
Dermatitis Atopic, Phase II	372,877	43,669	752,639	216,420
Consultants fees	10,000	-	13,180	6,000
	433,460	95,240	867,880	316,313

During the three-month period and the six-month period ended January 31, 2020, research and development expenses were $ 433,460 and $ 867,880 respectively. These costs are mainly attributable to costs incurred in the clinical study of atopic dermatitis, costs related to patents, as well as the payroll of the employees assigned to this sector. Research and development costs of $ 95,240 and $ 316,313 were incurred for the same corresponding periods in 2019. This increase compared to the corresponding periods in 2019 is mainly due to an increase in costs incurred in the clinical study on atopic dermatitis.

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Cost of sales

The cost of products sold amounted to $ 293,180 for the quarter ended January 31, 2020, while there was a cost of products sold of $ 877,930 for the six-month period ended on that same date. Cost of goods are made up of product acquisition costs, distribution costs, royalties and indirect charges attributable to products sold by our subsidiary Altius Healthcare. For the same corresponding periods of fiscal 2019, the cost of products sold, which amounted to $ 1,503,760 and $ 2,450,717, also included product acquisition costs, distribution costs, royalties and indirect charges attributable to the distributed products. The significant drop compared to the same corresponding periods in 2019 is explained by the decrease in sales.

Sales expenses

Selling expenses for the quarter of January 2020 total $ 45,953 while for the semester ended on the same date, they total $ 108,890. These costs are attributable to the costs of representatives incurred for the promotion of Cleo-35. For the quarter ended January 31, 2019 as well as for the six months ended on the same date, these selling costs totaled $ 30,305 and 68,403 respectively. This increase versus 2019 can be attributed to the effect of headcount annualization. In order to streamline the costs and boost the bottom line the company decided to disband its sales force effective December 2020.

Operating expenses

General administration expenses

The breakdown of General administrative expenses is as follows:

	Quarter ended January 31, 2020	Quarter ended January 31, 2019	Six-month period ended 2020-01-31	Six-month period ended January 31,2019
	$	$	$	$
Salaries and emloyee benefits	74,011	81,897	145,140	184,102
Stock based compensation	16,639	26,111	33,278	51,678
Professional fees	180,324	110,782	255,059	175,709
Amortization of intangible assets	193,301	189,044	392,717	373,001
Amortization of fix assets	67,911	67,910	135,822	135,821
Property taxes	26,635	28,072	51,686	54,526
Others	478,669	1,378,834	800,514	2,140,252
	1,037,490	1,882,650	1,814,216	3,115,089

For the quarter ended January 31, 2020, salaries and payroll taxes of around $ 74,011 are mainly related to management staff, while for the six months ended January 31, 2020, this same charge amounted to 145,140 $. For the same corresponding periods in 2019, salary and social security expenses, which were $ 81,897 and $ 184,102 respectively, were also attributable to management staff. This decrease is mainly due to employee benefits granted to an employee of the Management which had been recognized during the six months ended January 31, 2019

For the three-month period and the six-month period ended January 31, 2020, stock-based compensation expense of $ 16,639 and $ 33,278 (non-cash expense) was recognized following the grant of '' 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 corresponding periods in 2019, stock-based compensation expense of $ 26,111 and $ 51,678 had been recorded following the granting of options to employees during 2017, 2018 and 2019.

For the quarter ended January 31, 2020 professional fees of $ 180,324 are mainly related to costs incurred for the preparation of the financial statements for the year ended July 31, 2019 and to various corporate work. The professional fee also includes amounts paid to obtain tax restructuring advise for the entity which is expected to result in positive benefits in the future. For the semester ended January 31, 2020, fees are noted for a total of $ 255,059. As for the same corresponding periods in 2019, professional fees were $ 110,782 and $ 175,709 and were mainly related to corporate work as well as costs incurred for the preparation of the financial statements for the year ended 31 July 2018.

For the quarters ended January 31, 2020 and January 31, 2019, the depreciation expense of $ 67,911 and $ 67,910 respectively, is mainly related to all tangible assets acquired in April 2015. This expense related to the same assets amounted to $ 135,822 and $ 135,821 respectively for the semesters ended January 31, 2020 and January 31, 2019.
Mainly related to the intangible assets acquired and those generated during the acquisition of Altius Healthcare, a depreciation charge for intangible assets of $ 193,301 was recorded during the quarter ended January 31, 2020. For the six months ended on the same date, this charge amounted to $ 392,717. Such an expense had been recorded for the same corresponding periods of 2019 for a respective total of 189,044 and $ 373,001.

For the three and six months ended January 31, 2020, the property tax charge of $ 26,635 and $ 51,686 was related to the Montmagny site, while the same charge was $ 28,072 and $ 54,526 for the same corresponding periods in 2019.

Finally, for the three-month period ended January 31, 2020, the other costs of $ 478,669 are mainly attributable to the operating costs of the Montmagny and Altius sites, to travel and travel expenses, to various costs promotion and advertising, management fees, office supplies and various costs related to the Company's stock market securities. For the six-month period ended on the same date, the other fees total $ 800,514. Other expenses for the corresponding quarter and semester of 2019 were $ 1,378,834 and $ 2,140,252, respectively. This significant decrease compared to the same corresponding periods of the previous year is mainly due to a decrease in the costs of various promotional programs related to the products distributed by Altius. The decrease in these costs is consistent with the decrease in sales compared to 2019.

Financial expenses

During the three-month period and the six-month period ended January 31, 2020, financial expenses of $ 153,959 and $ 304,467, respectively, are noted, mainly related to long-term debt and debentures issued in July and August 2018. For the corresponding periods of 2019, financial costs of $ 143,647 and $ 283,054 were also related to long-term debt and debentures issued in July and August 2018. The increase in these costs compared to the same Corresponding period of 2019 is mainly explained by an interest charge and the amortization of the additional discount in connection with the convertible debentures issued at the end of August 2018 as well as by an increase of $ 500,000 in long-term debt.

6. SELECTED QUATERLY FINANCIAL INFORMATION

	Quarter ended								
	January 31 2020	October 31 2019	July 31 2019	April 30 2019	January 31 2019	October 31 2018	July 31 2018	April 30 2018	January 30 2018
		$	$	$	$	$	$	$	$
Revenues	710,602	1,037,851	176,651	509,561	3,315,770	1,935,772	1,084,050	2,083,802	-
Net loss	(1,204,067)	(922,285)	(934,055)	(989,556)	(399,220)	(656,585)	(1,161,823)	(597,759)	(783,608)
Net loss per share	(0.017)	(0.013)	(0.014)	(0.015)	(0.006)	(0.009)	(0.017)	(0.010)	(0.013)
Net loss diluted per share	(0.017)	(0.013)	(0.014)	(0.015)	(0.006)	(0.009)	(0.017)	(0.010)	(0.013)

7. FINANCIAL SITUATION

Liquidity and capital resources

As at January 31, 2020, the Company had cash, totaling $ 530,114 compared to $ 244,590 as at July 31, 2019. For the period ended January 31, 2020, the net increase in cash which amounted to $ 285,524 is mainly attributable to the $ 916,452 generated by financing activities, partially offset by $ 630,928 in costs incurred to finance general operating activities.

Total assets at January 31, 2020 totaled $ 16,708,589 compared to $ 17,148,084 at July 31, 2019. The decrease of $ 439,495 is mainly due to the decrease of $ 100,393 in accounts receivable and a decrease of $ 527,341 tangible and intangible assets due to an amortization charge of the same amount, partially offset by a net increase in cash of $ 285,524.
The liabilities as at January 31, 2020 are $ 8,223,641 compared to $ 7,071,239 as at July 31, 2019, an increase of $ 1,152,402, mainly due to an increase of $ 705,541 in operating debts and of $ 500,000 of the long-term debt and an increase of $ 45,439 in debentures, partially offset by a decrease in deferred taxes of $ 98,578.

Financing activities

Cash generated by financing activities for the period ended January 31, 2020, 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 March 23, 2020, the number of shares issued and outstanding reached 70,085,842 while the number of options outstanding granted under the stock option plan was 2,670,000. The Company also had 8,403,361 warrants allowing holders to subscribe to a subordinate voting share of the Company at a price of $ 1.19 per share, as well as 1,874,188 warrants, allowing holders to subscribe for a right share subordinate voting rights of the Company at a price varying from $ 0.168 to $ 1.00. (See notes 13 and 14 to our financial statements).

9. RELATED PARTY TRANSACTIONS

The main executives are the president of the Company, the president of the subsidiary, the interim financial director and the directors. During the six-month period, the Company paid them total compensation of $ 246,328 (2019 - $ 379,136) which was recorded in administrative expenses and whose main components are $ 116,000 in salaries and benefits, $ 100,000 in management fees and finally $ 30,328 as an expense attributable to stock-based compensation.

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 six-month period ended January 31, 2020 resulted in the issuance of the Company's shares and an additional tranche of long-term debt.

Exchange rate risk

During the quarter ended January 31, 2020, 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 January 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 $ 17,644 of the Company's net loss for the quarter ended January 31, 2020.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulty meeting commitments related to financial liabilities. As at January 31, 2020, the Company had current debts of $ 2,581,185. 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 73% 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 January 31, 2020, 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.

12. SUBSEQUENT EVENTS

On February 11, 2020, the Company announced the signing of an exclusive, worldwide sales and marketing agreement with SkinSciPac Inc., ("SkinScipac") for the marketing of its cosmeceutical products derived from its patented R-Spinasome® technology.

The agreement includes an undisclosed payment for the supply of R-Spinasome® on a per kg basis as well as royalties on gross worldwide sales. SkinSciPac, in collaboration with Devonian, will be able to manufacture and market products worldwide on the professional and selective skin care market, via its PRIORI Skincare range. Devonian may continue to develop new products using this technology and make them available to SkinSciPac when they are ready for commercialization.

This partnership marks an important milestone for Devonian, which now has a global sales and marketing partner for its skin care products. Established in the biotechnological valley of San Diego in California, SkinSciPac markets cosmeceutical products through its subsidiary, PRIORI Skincare, which works in the skin sciences and biotechnology market in order to create innovative, simple cosmeceutical solutions, effective and natural.

About SkinSciPac Inc.

SkinSciPac is the parent company behind the skin care brand and company PRIORI. PRIORI is managed by a group of consumer and beauty industry innovators who lead a team of scientists combining more than 100 years of experience in cosmeceuticals and who have been the driving force behind some of the largest breakthroughs in professional skin care.

SkinSciPac is dedicated to creating scientific and biotechnological advances in cosmeceuticals and healthy, natural beauty by creating effective solutions for skin care, so that women and men of all ages and ethnic origins can get radiant skin.

For more details, visit www.prioriskincare.com

On February 21, 2020, the Company collected the $ 114,383 in research and development tax credits, which related to research and development expenses eligible under the applicable tax laws for the 2019 fiscal year.