Q2- 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS - FOR THE QUARTER ENDED JANUARY 31, 2021.

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, 2021. It also provides a review of our performance by comparing the Company's results of operations on a consolidated basis, for the three-month and the six-month periods ended January 31, 2021, with the three-month and six-month periods ended January 31, 2020. 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 March 18, 2021. 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 is now bearing 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.

<u>About Altius Healthcare inc.</u>
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 JANUARY 31, 2021

Atopic dermatitis (AD) research and development

During the second quarter, the 12 Canadian clinical sites used in the Phase 2 clinical trial to assess the efficacy and safety of Thykamine ™ for the treatment of mild to moderate atopic dermatitis (AD) in adult population, have finalized their closure process.

Positive results were released on February 18, 2021, to the effect that:

- Thykamine ™ monotherapy obtained positive results for the primary endpoint of the study, providing a statistically significant improvement in skin clearance as determined by the Investigator's Global Assessment (IGA);
- The trial showed statistically significant results for the secondary endpoint of the study, of body surface area (BSA);
- Thykamine ™ was well tolerated with a safety profile consistent with previous studies;
- The efficacy and safety profile justifies switching from Thykamine ™ to phase 3 in adult patients with mild to moderate atopic dermatitis;
- The efficacy and safety profile justifies advancement to a clinical trial in the pediatric population with mild to moderate atopic dermatitis.

The Phase 2, double-blind, randomized, placebo-controlled trial designed to assess the efficacy and safety of Thykamine ™ cream as monotherapy (0.05%, 0.1% and 0.25%) compared to placebo in dermal clearance as measured by the Investigator's Global Assessment (“IGA”) in adult patients with mild to moderate atopic dermatitis. Efficacy and safety were evaluated weekly, over a four-week treatment period (twice daily). A total of 162 patients, spread over several sites in Canada, were recruited for this study.

Thykamine ™ 0.1% demonstrated a significant improvement in the primary endpoint of skin clearance (IGA) for all times measured (week 1: $p = 0.006$; week 2: $p < 0.001$; week 3: $p < 0.001$; week 4: $p = 0.002$) resulting in the demonstration of a rapid onset of the therapeutic effect.
In addition, Thykamine ™ treatment achieved statistically significant differences from placebo for its key secondary efficacy endpoint, body surface area (BSA). Thykamine ™, at doses of 0.05% and 0.1% demonstrated statistically significant results of BSA after 2 weeks, ($p = 0.036$ and $p = 0.001$ respectively), 3 weeks ($p = 0.02$ and 0.002 respectively) and 4 weeks ($p = 0.04$ and $p = 0.004$ respectively) of therapy.

Thykamine ™ was shown to be safe and well tolerated throughout the study with no product-related adverse events (AEs) reported.
A more detailed and comprehensive analysis of the study data will be presented at a dermatology conference and subsequently published in a peer-reviewed medical journal.

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.

Private placement

On December 29, 2020, the Company completed a private financing, by issuing 10,100,000 units at a price of $ 0.12 per unit, for gross proceeds of 1,212,000 $. Each unit is made up of one subordinate voting share and one-half share purchase warrant. Each warrant will confer on its holder the right to acquire one subordinate voting share at a price of $ 0.15 until December 29, 2022.

In connection with this private placement, the Company paid finder's fees to Raymond James Ltd for a cash amount of $ 22,100 and various related costs for an amount of $ 13,571.

5. SUMMARY OF OPERATING RESULTS FOR THE QUARTER ENDED JANUARY 31, 2021.

Net loss

For the quarter ended January 31, 2021, the net loss stood at $ 846,031 ($ 0.010) per share while for the six-month period ended January 31, 2021, the net loss is $ 1,651,083 ($ 0.020) per share.
For the same corresponding periods for the year ended July 31, 2020, the Company had realized a net loss of $ 1,316,682 ($ 0.018) per share and $ 2,138,903 ($0.031) per share, respectively. This increase in net income is mainly attributable to a significant decrease in costs incurred in Research and Development as well as a decrease in administrative expenses, partially offset by a reduction in distribution revenues.

Distribution Revenues

During the second quarter ended January 31, 2021, distribution revenues of $ 342,967 were recorded while these revenues total $ 884,886 for the six-month period ended on the same date. These revenues come from the sale of Cleo-35 and Pantoprazole Magnesium through its subsidiary Altius Healthcare inc.

For the same corresponding periods of the previous fiscal year, revenues of $ 401,692 and $ 1,439,678 were recorded by the Company.
This decrease in revenues for the second quarter of fiscal 2021 is mainly attributable to the distribution of Pantoprazole Magnesium. Following a supply shortage in 2019 which lasted for a period of more than 8 months, the product was finally replenished continuously during the month of December 2019, thus creating a build-up of stocks in the market. for this month, and thus generating higher revenues than expected for the second 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 January 31, 2021, costs incurred for research and development activities amounted to $ 130,708, while they total $ 406,307 for the first half of 2021. These costs are mainly attributable to 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 tangible assets at the Montmagny extraction center. Research and development costs of $ 509,809 and $ 1,027,890 were incurred for the same corresponding periods of the previous year.
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 $ 395,841 for the quarter ended January 31, 2021 and to $ 941,138 for the six-month period ended on the same date, is made up of the costs of acquiring the products, distribution costs, royalties, indirect expenses attributable to the products distributed as well as the amortization expense of the Company's intangible assets.For the same corresponding periods of fiscal year 2020, cost of goods sold was $ 461,312 and $ 1,207,394, respectively.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:

	Three-month period ended January 31, 2021	Three-month period ended January 31, 2020	Six-month period ended January 31, 2021	Six-month period ended January 31, 2020
	$	$	$	$
Salaries and emloyee benefits	81,613	74,011	133,649	145,140
Stock based compensation	58,712	16,639	64,515	33,278
Professionnal fees	68,784	180,324	147,890	255,059
property taxes	25,950	25,232	53,494	51,686
Others	207,893	233,845	426,281	639,694
	442,952	530,051	825,829	1,124,857

For the quarter ended January 31, 2021, salary expenses are in the order of $ 81,613 while for the six-month period ended January 31, 2021, they total $ 133,649. For the same corresponding periods of the fiscal year ended July 31, 2020, salary costs were $ 74,011 and $ 145,140, respectively. These charges relate mainly to members of the management as well as the personnel of the extraction plant. This slight decrease can be explained in part by the emergency wage subsidy from Canada, for which the Company was able to benefit.

For the three-month period ended January 31, 2021, stock-based compensation expense of $ 58,712 (a non-cash charge) was recorded following the grant of options on December 29, 2020, to a member of the management of the Company as well as an expense related to the granting of options to employees during fiscal years 2018 and 2019, according to the approved stock option plan by the board of directors. For the semester ended on the same date, this charge is $ 64,515.
For the same corresponding period of 2020, stock-based compensation expense of $ 16,639 and $ 33,278 was recorded following the granting of options to employees during 2017 to 2019.

For the quarter ended January 31, 2021, professional fees of $ 68,784 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 first half of the year ended on the same date, this charge totals $ 147,890.
For the second quarter and the first half of the fiscal year ended January 31, 2020, professional fees in the order of $ 180,324 and $ 255,059 respectively, had been recorded, also for the preparation of the annual financial Statements and for corporate work.
For the quarter and the six-month period ended January 31, 2021, the property tax expense of $ 25,950 and $ 53,494, respectively, is related to the Montmagny site. We note a respective similar charge of $ 25,232 and $ 51,686 for the same corresponding periods of fiscal 2020.

For the three-month period ended January 31, 2021, the other costs of $ 207,893 are mainly attributable to the operating costs of 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. For the semester ended on the same date, the other costs total $ 426,281.
This decrease, compared to other expenses for the same corresponding periods of the previous fiscal year, which totaled $ 233,845 and $ 639,694, respectively, is mainly due to a reduction in travel expenses, and sales and promotions expenses incurred.

Financial expenses

During the three-month period ended January 31, 2021, financial expenses of $ 260,051 were mainly related to long-term debt and debentures issued in July and August 2018. For the six-month period ended on the same date, financial expenses totaling $ 408,511 are noted.

These costs include non-cash charges of $ 256,131 related to the amortization of the discount on the debentures, the change in the fair value of the derivative component of the convertible debentures, as well as interest on the debentures, payable in Company units. For the corresponding periods of fiscal 2020, financial expenses of $ 217,202 and $ 218,440 were also related to long-term debt and debentures issued in July and August 2018.

The increase in these fees compared to the same corresponding period of fiscal 2020 is mainly explained by the gain of $ 165,174 on the change in the fair value of the derivative related to convertible debentures that had been recorded during the first half of the year 2020, thus reducing financial charges by the same amount, while for the six-month period ended January 31, 2021, we recorded a loss of $ 31,273 on the change in the fair value of the derivative.

6. SELECTED QUATERLY FINANCIAL INFORMATION

	Quarter ended								
	January 31, 2021	October 31, 2020	July 31, 2020	April 30 2020	January 31 2020	October 31 2019	July 31, 2019	April 30 2019	January 31 2019
	$	$	$	$	$	$	$	$	$
Revenues	342,967	541,919	324,115	379,362	401,692	1,037,986	150,459	160,658	2,208,876
Net (Loss)	(845,031)	(805,051)	(1,244,979)	(990,893)	(1,316,683)	(822,221)	(808,200)	(1,103,701)	403,614
Basic (loss) per share	(0.010)	(0.010)	(0.014)	(0.013)	(0.018)	(0.011)	(0.017)	(0.017)	0.007
Diluted (loss) per share	(0.010)	(0.010)	(0.014)	(0.013)	(0.018)	(0.011)	(0.017)	(0.017)	0.007

7. FINANCIAL SITUATION

Liquidity and capital resources

As at January 31, 2021, the Company had cash, totaling $ 853,277 compared to $ 917,017 as at July 31, 2020. For the period ended January 31, 2021, the net decrease in cash which amounted to $ 59,740 is mainly attributable to the $ 1,20,454 incurred to finance general operating activities, partially offset by financing activities of $ 1,230,714.

Total assets as at January 31, 2021 amount to $ 15,828,693 compared to $ 16,696,247 as at July 31, 2020. This decrease of $867,554 is mainly attributable to the net decrease of 512,827 the tangible and intangible assets, following an amortization charge of the same amount as well as a reduction of receivables in the order of $ 251,328. The total liabilities as at January 31, 2021 amounted to $ 6,799,82 compared to $ 7,312,017 as at July 31, 2020, a decrease of $512,725, 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 January 31, 2021, is mainly attributable to the Private Placement completed on December 29, 2020.

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 March 18, 2021, the number of issued and outstanding shares was 93,260,688 while the number of outstanding options granted under the stock option plan was 7,030,000. The Company also had 9,940,653 warrants, allowing holders to subscribe for one share of the Company's subordinate voting share at a price ranging from $ 0.15 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 six-month period ended January 31, 2021, the Company paid them a total remuneration of $ 323,658, which was recorded in administrative expenses and whose main components are $ 159,730 in salaries and benefits, $ 100,000 in management fees and $ 63,928 as stock-based compensation expense for options granted between 2018 and 2019.
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 six-month period ended January 31, 2021 resulted in an increase in long-term debt.

Exchange rate risk

During the quarter ended January 31, 2021, 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 January 31, 2021, 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 $ 17,500 of the Company's net loss for the period ended January 31, 2021.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulty meeting commitments related to financial liabilities. As at January 31, 2021, the Company had current debts of $ 1,925,397. 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 January 31, 2021, 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.