Q2 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS - FOR THE QUARTER AND THE SIX-MONTH PERIOD ENDED JANUARY 31, 2019.

1. INTRODUCTION

This Management's Discussion & Analysis provides the reader with an overview of the operations and financial position of Devonian Health Group Inc. ("the Company") on January 31, 2019. It also provides a review of our performance by comparing the Company's results of operations on a consolidated basis, for the three-month period and six-month period ended January 31, 2019, with the three-month period and six-month period ended January 31, 2018. It should be read in conjunction with the unaudited interim consolidated financial statements for the three-month and six-month periods ended January 31, 2019 and the consolidated and audited financial statements of the Company for the years ended July 31, 2018 and July 31, 2017. 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 25, 2019. All amounts presented in this document are expressed in Canadian dollars.

2. FORWARD LOOKING STATEMENTS

The information contained in this Management's Discussion & Analysis, as well as the analysis of the results of operations and the financial position may contain statements relating to future results of operations. Certain forward-looking statements made by Management, relative to the results of the research studies as well as the objectives and the expectations of the Company, can be influenced by various risks and uncertainties and therefore generate real results different from those anticipated. The assumptions that support forward-looking statements made by Management are made from data presently available.

3. COMPANY PROFILE

Devonian Health Group is a pharmaceutical company specializing in the development of botanical drugs. Incorporated on March 27, 2015, under the Québec Business Corporations Act, 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. On May 12, 2017, the Company was extended under the Canada Business Corporation Act.
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 ™. The company is proud that 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 ("CDA"). 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.
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, 2019

Financing

On January 19, 2019, the Company refinanced its extraction plant and its pharmaceutical facilities. The loan from Investissement Québec (IQ) with a balance of $ 2,824,883 was repaid in its entirety and replaced by a $ 3,000,000 loan with a group of private lenders. With a 5 years term and secured by a hypothec on the universality of the movable and immovable, tangible and intangible, present and future properties of the Company, the loan bears interest at the lender's floating rate plus 6%, payable monthly and without repayment of capital. In the event of a 50% change in control by acquisition or dilution, all interest payments and principal are payable within 30 days of the date of the change of control. After three years from the date the loan is granted, the Company has the right to repay up to 20% of the loan balance without penalty. If the Company repays the entire loan prior to its maturity date, all remaining interest payments, from the date of repayment to the end of the expected term of the loan, are payable within 30 days. With these new favorable conditions, this new financial partner supports Devonian's strategic objectives by freeing close to $ 641,000 per year, which can be applied to the Company's growth activities.

Research and Development

The Phase 2 clinical trial of Thykamine ™ in adult patients with mild to moderate atopic dermatitis is proceeding as planned. To speed up patient recruitment, Devonian is expanding the number of sites from 6 to 12 clinics in Canada.

In addition, the Company's cosmeceutical R & D program is progressing well and is focused on the external Exposome associated with aging skin, namely solar radiation (UVA / UVB, Infrared A and Blue Light), radiation from blue light from other sources than the sun and pollution.

The emission of blue light, also called high-energy visible light (HEV), comes from the sun as well as digital displays of computers, smartphones, TVs, tablets and LED lamps. The negative impact of blue light on ocular health and the circadian system (sleep) has been reported in several scientific manuscripts. It has also been shown to have adverse effects on various dermal cells, to generate reactive oxygen species (oxidants) and to induce aging of the skin. Devonian completed the formulation of a new blue light photoprotection product. The product was developed as a day cream with Devonian's patented R-Spinasome® as one of the main ingredients. The product is expected to be tested on human in 2019 and should be ready for commercialization in 2020.

About Thykamine™

Thykamine™, the first pharmaceutical product issued from the Devonian SUPREX ™ platform, is a highly innovative product for 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 in 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.

About R-Spinasome®

R-Spinasome®, an active complex of thylakoids extracted from organic green leaves, is the basis of the first anti-aging cosmeceutical treatment marketed under the Purgenesis ™ product line. The structure of this complex is essential for its antioxidant action, which allows it to capture and dissipate the harmful energy generated by reactive oxygen derivatives (ROS), thus restoring the complex to a state ready to be subjected to new activation cycles. This regenerative capacity invests the R-Spinasome® complex with long-lasting antioxidant activity that is still unmatched. In a clinical study of 72 subjects, Purgenesis ™ anti-aging treatment has been shown to provide anti-wrinkle, firmness and hydration results far superior to leading anti-aging creams. more sold. Made of a day cream, night cream and eye cream, the anti-aging treatment is recognized by the Skin Health Program™ of the Canadian Dermatology Association. Purgenesis ™ anti-aging treatment is protected by patents in Japan, Canada, The United States and Europe (#JP5952261; #CDN 2,699,6795; #US 13 / 261,472; #EUR 11 768 299.7).

5. SUMMARY OF OPERATING RESULTS FOR THE QUARTER ENDED JANUARY 31, 2018

Net loss

For the three-month period ended January 31, 2019, the net loss amounted to $ 399,220 ($ 0.006) per share while it stands at $ 1,055,805 (0.016) per share for the six-month period ended same date. For the same comparative periods ended January 31, 2018, the Company realized a net loss of $ 783,608 ($ 0.013) per share and $ 1,427,486 (0.024) per share. This increase in net income is mainly attributable to revenues from distribution and lower research and development expenses, partially offset by higher general and administrative expenses and financial expenses incurred during the period ended January 31, 2019.
The Company, which currently generate sales through its subsidiary Altius Healthcare, incurs operating expenses, including administrative expenses and financial expenses, in addition to the research and development costs necessary to the development of its products and the preparation of its clinical trials.

Revenues

During the quarter ended January 31, 2019, revenues of $ 3,354,684 were recorded. For the six-month period ended January 31, 2019, $ 5,317,215 in revenue was recorded. The Company's revenues are generated by the distribution of two pharmaceutical products, Cleo-35 and Pantoprazole Magnesium, through its subsidiary Altius Healthcare. For the same periods in the prior year, no income was recorded by the Company.
On June 26, 2018, the Company announced the commercial launch of the Purgenesis ™ anti-aging treatment. Some problems with the WEB sales platform for dermatologists have meant that the marketing of the product has been delayed. Technical issues related to the sales platform should be solved in the next quarter.

The Corporation's management continually studies various opportunities for business opportunities in order to expand its potential for projects and products to be distributed

Research and development expenses

The breakdown of Research and development expenses is as follows**:**

	Three-month period ended January 31 , 2019	Three-month period ended January 31 , 2018	Six-month period January 31 , 2019	Six-month period ended January 31 , 2018
	$	$	$	$
Patents	33,964	19,650	55,465	35,579
Salaries and employee benefits	17,607	26,046	38,428	53,026
Quality assurance process & offsite extraction activities	-	300	-	25,620
Dermatitis Atopic, Phase II	43,669	231,280	216,420	410,930
New products development		-	-	1,350
Consultants fees	-	-	6,000	
Applications study of Thykamine™		-	-	7,200
	95,240	277,276	316,313	533,705

During the quarter ended January 31, 2019, research and development expenses amounted to $ 95,240 while for the six-month period, they amounted to $ 316,313. These costs are mainly attributable to the costs incurred in the clinical study on atopic dermatitis, the costs related to patents, as well as the payroll of employees assigned to this sector. Research and development expenses of $ 277,276 and $ 533,705 were respectively incurred for the same periods in 2018. The decrease, compared to the corresponding periods of 2018 is mainly due to the research and development tax credits recorded for a total of $ 191,773 in January 2019, as well as a reduction in extraction activities compared to 2018.

Cost of sales

Cost of sales of $ 2,582,956 for the three-month period ended January 31, 2019 is comprised of acquisition, distribution, royalty and overhead costs attributable to products sold by our subsidiary Altius Healthcare. while it amounted to $ 3,969,844 for the six-month period ended on the same date. For the same periods in year 2018, there was no cost of sales.

Sales expenses

Selling expenses totaling $ 30,305 for the three-month period ended January 31, 2019 and $ 68,403 for the six-month period ended January 31, 2019, are attributable to the expenses of sales representatives incurred for the sale of the two products distributed by Altius Healthcare (Cleo-35 and Pantoprazole Magnesium). For the three-month and six-month periods ended January 31, 2018, no selling expenses were incurred.

Operating expenses

General administration expenses

The breakdown of General administrative expenses is as follows:

	Quarter ended January 31, 2019	Quarter ended January 31, 2018	Six-month period ended January 31, 2019	Six-month period ended January 31, 2018
	$	$	$	$
Salaries and emloyee benefits	81,897	97,324	184,102	165,525
Stock based compensation	26,111	7,156	51,678	14,312
Professional fees	110,782	117,626	175,709	144,592
Amortization of intangible assets	67,910	69,745	135,821	139,490
Amortization of fix assets	189,044	-	373,001	-
Property taxes	28,072	27,161	54,526	54,073
Others	338,552	98,991	686,799	198,894
	842,368	418,003	1,661,636	716,886

For the quarter ended January 31, 2019, salaries and benefits in the amount of $ 81,897 are mainly related to the members of management. For the same period ended January 31, 2018, salaries and benefits expenses of $ 97,324 were also attributable to the management. For the six-month period ended January 31, 2019, salaries and benefits are $ 184,102 compared with $ 165,525 for the same period in 2018. This increase, compared to the previous six-month period, is explained primarily through employee benefits granted to an executive, recognized during the quarter ended October 31, 2018.

For the three-month and six-month periods ended January 31, 2019, stock-based compensation expense (a non-cash charge) of $ 26,111 and $ 51,678, respectively, was recorded as a result of the granting options to employees in fiscal 2017, 2018 and the second quarter of 2019, in accordance with the Corporation's stock option plan. For the same comparable periods of 2018, stock-based compensation expense of $ 7,156 and $ 14,312 was recorded following the granting of options to employees during 2017.

For the quarter ended January 31, 2019 and the six-month period ended on the same date, professional fees of $ 110,782 and $ 175,709 are mainly related to expenses incurred in the preparation of the financial statements for the year ended July 31, 2018, corporate work, and expenses incurred in the preparation of the general annual meeting. For the same periods in 2018, professional fees of $ 117,626 and $ 144,595 were mainly related to corporate work and expenses incurred in the preparation of the financial statements for the year ended July 31, 2017 as well as expenses incurred in the preparation of the general annual meeting and for the proposed acquisition of Altius Healthcare Inc.

For the three-month periods ended January 31, 2019 and January 31, 2018, amortization expense of $ 67,910 and $ 69,745 respectively is related mainly to all tangible assets acquired in April 2015. For the six-month periods ended 31 January 2019 and January 31, 2018, this expense was $ 135,821 and $ 139,490, respectively, and was also related to all tangible assets acquired in April 2015.
In connection with the intangible assets acquired and those generated upon the acquisition of Altius Healthcare, amortization expense for intangible assets of $ 189,044 was recorded during the quarter ended January 31, 2019, while amounted to $ 373,001 for the six-month period ended January 31, 2019. Such an expense was not recognized for the same corresponding periods of 2018.

For the quarter ended January 31, 2019, and the six-month period ended on the same date, a property tax expense of $ 28,072 and $ 54,526 is related to the Montmagny site, while it was respectively $ 27,161 and $ 54,073 for the same periods in 2018.

For the three-month period ended January 31, 2019, other costs of $ 338,552 are mainly attributable to the operating costs of the Montmagny sites and Altius, travel expenses, promotional expenses and advertising, management fees, office supplies and expenses related to the Company's stock market securities. For the six-month period ended January 31, 2019, these other fees amount to $ 686,798. This increase compared to the same periods last year is mainly due to advertising and promotional expenses, travel expenses, website management fees and Altius management fees incurred during the quarter and the six-month period ended January 31, 2019.

Financial expenses

During the three-month period ended January 31, 2019, financial expenses of $ 143,647 are mainly related to long-term debt and debentures issued in July and August 2018. For the same period in 2018, financial expenses of $ 88,329 were mainly related to long-term debt. During the six-month period ended January 31, 2019, financial expenses amounted to $ 283,054 compared to $ 176,895 for the corresponding period of 2018. These increases compared to the same periods in 2018 were mainly due to interest expense and amortization expense of the discount related to the convertible debentures issued in July and August 2018. For the same periods in 2018, no debenture-related expense was recorded, since the latter had been converted into securities of the Company in May 2017.

6. SELECTED QUATERLY FINANCIAL INFORMATION

	January 31 2019	October 31 2018	July 31 2018	April 30 2018	Quarter ended January 31 2018	October 31 2017	July 31 2017	April 30 2017	January 31, 2017
		$	$	$	$	$	$	$	$
Revenues	3,354,684	1,962,531	1,116,157	2,083,802	-	-	-	-	-
Net loss	(399,200)	(656,585)	(1,161,823)	(597,759)	(783,608)	(643,878)	(2,770,858)	(604,808)	(598,663)
Basic loss per share	(0,006)	(0,009)	(0.017)	(0.010)	(0.013)	(0.011)	(0.050)	(0.021)	(0.022)
Diluted loss per share	(0,006)	(0,009)	(0.017)	(0.010)	(0.013)	(0.011)	(0.050)	(0.021)	(0.022)

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7. FINANCIAL SITUATION

Liquidity and capital ressources

As at January 31, 2019, the Company had cash totaling $ 1,261,678 compared to $ 981,982 as at July 31, 2018. For the six-month period ended January 31, 2019, the net increase in cash totaled $ 279,696. $ is mainly attributable to financing activities of $ 604,167 partially offset by costs of $ 253,684 incurred to finance general operations, and capital costs of $ 70,787.

Total assets as at January 31, 2019 totaled $ 20,464,978 compared to $ 19,157,702 as at July 31, 2018. The increase of $ 1,307,276 is mainly due to the increase in accounts receivable of $ 1,361,095 and cash receivables. $ 696 partially offset by amortization of tangible assets for $ 135,821 and a decrease of $ 302,215 in intangible assets, mainly due to amortization expense. The liability as at January 31, 2019 totals $ 8,607,556 compared to $ 6,422,444 as at July 31, 2018, an increase of $ 2,185,112 mainly due to an increase of $ 1,637,865 in operating liabilities, as well as a $ 639,677 increase in convertible debentures, partially offset by a decrease in long-term debt of $ 92,833.

Financing activities

Cash generated by financing activities for the period ended January 31, 2019, is attributable to proceeds of $ 697,000 related to the issuance of debentures in August 2018, partially offset by a repayment of long-term debt of $ 92,833. $.

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

The Company's profitability is based on factors such as its ability to market, sell and distribute its cosmeceutical products, the success of various clinical studies as well as the various approvals of regulatory bodies as well as the 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 25, 2019, the number of issued and outstanding shares was 67,348,148 while the number of outstanding options granted under the Stock Option Plan was 2,995,000. The Company also had 4,217,782 warrants entitling the holders to subscribe for one subordinate voting share of the Company at a price of $ 1.10 per share and 8,403,361 warrants entitling the holders to subscribe for one subordinate vote of the Corporation at a price of $ 1.19 per share. Finally, there were 537,423 broker options issued and outstanding. (See note 15 and 16 to our financial statements).

9. RELATED PARTY TRANSACTIONS

The principal officers of the Corporation are the President, the Interim Chief Financial Officer and the directors. During the six-month period ended January 31, 2019, the Company paid a total compensation of $ 179,136, of which $ 46,137 was recorded as stock-based compensation and $ 26,230 as contribution to the President's Registered Retirement Savings Plan.

During the six-month period ended January 31, 2019, the Company also recorded a charge of $ 200,000 as a management fee, as provided for in the agreement signed by the President of Altius Healthcare and authorized by Altius’s board of Directors. These management fees are part of the "other costs" of administration.

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 fiscal year ended July 31, 2018 resulted in the issuance of debentures and securities of the Company, whereas during the period ended January 31, 2019, they gave rise to the issue of convertible debentures and refinancing of its pharmaceutical facilities.

Exchange rate risk

During the quarter ended October 31, 2018, 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 a private group, which bears interest at a variable rate. Based on the net exposures presented above as at January 31, 2019, and assuming all other variables remain constant, a 1% increase or decrease in the interest rate would result in an increase or decrease of approximately $ 30,000 of the Company's net loss for the full year.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations related to financial liabilities. On January 31, 2019 the Company had current liabilities of 3,353,285. The Company's operating and capital expenditure budgets as well as major operations outside the normal scope of its operations are reviewed and approved by the Board of Directors. The Company monitors its liquidity, which makes it possible 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 95% 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, 2018 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, 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. However, management believes that the business combination that occurred during the 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 on its ability to obtain, in a timely matter, further financing 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.

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 relies on a number of factors beyond the control of the Corporation and its ability to successfully complete such financings and agreements is tinged with significant uncertainty that may cast significant doubt on the Company's ability to continue its exploitation.