# AREV NUTRITION SCIENCES INC.

## FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2017

Stated in Canadian Funds

## TABLE OF CONTENTS

SATURNA GROUP
CHARTERED PROFESSIONAL ACCOUNTANTS LLP

1066 West Hastings Street, Suite 1250
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**INDEPENDENT AUDITORS' REPORT**

**To the Shareholders of AREV Nutrition Sciences Inc.**

We have audited the accompanying financial statements of AREV Nutrition Sciences Inc. which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**
In our opinion, these financial statements present fairly, in all material respects, the financial position of AREV Nutrition Sciences Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

**Emphasis of Matter**
Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of AREV Nutrition Sciences Inc. to continue as a going concern.

Saturna Group LLP

Chartered Professional Accountants LLP

Vancouver, Canada

April 30, 2018

## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of AREV Nutrition Sciences Inc.:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management, and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external auditors.

30 April 2018

The financial statements were approved by the Board of Directors on 30 April 2018 and were signed on its behalf by:

| | |
|---|---|
| *"Stephane Maher"* | *"Mike Withrow"* |
| Stephane Maher, Director | Mike Withrow, Director |

## STATEMENTS OF FINANCIAL POSITION

| | Note | As at 31 December 2017 | As at 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | | **$ 1,058,578** | $ 194,137 |
| Amounts receivable | | **38,769** | 10,905 |
| Inventory | (7) | **41,876** | 22,884 |
| Prepaid expenses and deposits | | **52,406** | 15,918 |
| | | **1,191,629** | 243,844 |
| **Non-current Assets** | | | |
| Property and equipment | (8) | **467,198** | 401,342 |
| Intangible assets | (9) | **-** | 148,852 |
| | | **467,198** | 550,194 |
| | | **$ 1,658,827** | $ 794,038 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Accounts payable and accrued liabilities | (10) | **$ 361,228** | $ 231,115 |
| Due to related parties | (13) | **53,667** | 15,808 |
| | | **414,895** | 246,923 |
| **Non-current Liabilities** | | | |
| Convertible debentures | (12) | **284,675** | 363,360 |
| | | **699,570** | 610,283 |
| **EQUITY** | | | |
| Share capital | | **3,037,378** | 1,292,769 |
| Share subscriptions receivable | (14) | **(37,500)** | (5,000) |
| Shares issuable | (14) | **7,500** | - |
| Equity portion of convertible debenture | | **43,193** | 59,750 |
| Contributed surplus | | **514,639** | 422,248 |
| Deficit | | **(2,605,953)** | (1,586,012) |
| | | **959,257** | 183,755 |
| | | **$ 1,658,827** | $ 794,038 |

| | | | |
|---|---|---|---|
| Nature of Operations and Going Concern | (1) | Commitments | (15) |
| | | Subsequent events | (18) |

The financial statements were approved by the Board of Directors on 30 April 2018 and were signed on its behalf by:

*"Stephane Maher"*
Stephane Maher, Director

*"Mike Withrow"*
Mike Withrow, Director

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

| | Note | **Year ended 31 December 2017** | Year ended 31 December 2016 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **EXPENSES** | | | |
| **General and Administrative** | | | |
| Advertising and marketing | | **$ 39,789** | $ 10,772 |
| Amortization and depreciation | (8,9) | **51,584** | 7,202 |
| Consulting fees | | **110,678** | 22,198 |
| Management fees | (13) | **163,188** | 47,733 |
| Office and administration | | **79,477** | 2,812 |
| Professional fees | | **110,976** | 40,715 |
| Rent and utilities | | **42,672** | 36,102 |
| Share-based payments | (13,14) | **197,000** | 35,000 |
| Transfer agent and regulatory fees | | **29,012** | 23,416 |
| **Loss Before Other Income (Expenses)** | | **$ (824,376)** | $ (225,950) |
| **Other Income (Expenses)** | | | |
| Accretion expense | (12) | **(24,658)** | (8,110) |
| Gain on forgiveness of debt | | **10,162** | - |
| Interest expense | | **(36,628)** | (17,598) |
| Write-down of intangible assets | (9) | **(144,441)** | - |
| **Net Loss and Comprehensive Loss** | | **$ (1,019,941)** | $ (251,658) |
| **Basic and Diluted Loss per Common Share** | | **$ (0.07)** | $ (0.12) |
| **Weighted Average Number of Shares Outstanding** | | **14,508,526** | 2,041,967 |

**AREV NUTRITION SCIENCES INC.**
*Canadian Funds*

Statement 3

## STATEMENT OF CHANGES IN EQUITY

| | Shares | Amount | Share Subscriptions Receivable | Shares Issuable | Equity Portion of Convertible Debentures | Contributed Surplus | Deficit | Total Shareholders' Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|
| **BALANCE 31 DECEMBER 2015** | 1,013,200 $ | 747,769 $ | - $ | - $ | - $ | 422,248 $ | (1,334,354) $ | (164,337) |
| Shares issued for cash | 5,200,000 | 260,000 | (5,000) | - | - | - | - | 255,000 |
| Shares issued for equipment | 2,000,000 | 100,000 | - | - | - | - | - | 100,000 |
| Shares issued for intangible assets | 3,000,000 | 150,000 | - | - | - | - | - | 150,000 |
| Shares issued for compensation | 700,000 | 35,000 | - | - | - | - | - | 35,000 |
| Equity component of convertible debentures | - | - | - | - | 59,750 | - | - | 59,750 |
| Net loss for the year | - | - | - | - | - | - | (251,658) | (251,658) |
| **BALANCE 31 DECEMBER 2016** | 11,913,200 $ | 1,292,769 $ | (5,000) $ | - $ | 59,750 $ | 422,248 $ | (1,586,012) $ | 183,755 |
| Shares issued for cash | **4,838,000** | **1,202,000** | **-** | **7,500** | **-** | **-** | **-** | **1,209,500** |
| Share issuance costs | **-** | **(81,791)** | **-** | **-** | **-** | **45,391** | **-** | **(36,400)** |
| Shares issued for debt | **233,000** | **69,500** | **-** | **-** | **-** | **-** | **-** | **69,500** |
| Shares issued for warrant exercise | **3,100,000** | **285,000** | **-** | **-** | **-** | **-** | **-** | **285,000** |
| Shares issued for compensation | **600,000** | **150,000** | **-** | **-** | **-** | **-** | **-** | **150,000** |
| Shares issued for convertible debenture | **2,300,000** | **119,900** | **-** | **-** | **(16,557)** | **-** | **-** | **103,343** |
| Share subscriptions receivable | **-** | **-** | **(32,500)** | **-** | **-** | **-** | **-** | **(32,500)** |
| Share based payments | **-** | **-** | **-** | **-** | **-** | **47,000** | **-** | **47,000** |
| Net loss for the year | **-** | **-** | **-** | **-** | **-** | **-** | **(1,019,941)** | **(1,019,941)** |
| **BALANCE 31 DECEMBER 2017** | **22,984,200 $** | **3,037,378 $** | **(37,500) $** | **7,500 $** | **43,193 $** | **514,639 $** | **(2,605,953) $** | **959,257** |



- The accompanying notes form an integral part of these financial statements -

## STATEMENT OF CASH FLOWS

| | Year ended 31 December 2017 | Year ended 31 December 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Net Loss for the Year** | **$ (1,019,941)** | $ (251,658) |
| **Items not Affecting Cash:** | | |
| Accretion of discount on convertible debentures | **24,658** | 8,110 |
| Amortization and depreciation | **51,584** | 7,202 |
| Share-based payments | **197,000** | 35,000 |
| Write-down of intangible assets | **144,441** | - |
| | **(602,258)** | (201,346) |
| **Net Change in Non-cash Working Capital** | | |
| Amounts receivable | **(27,864)** | (6,424) |
| Inventory | **(18,992)** | (22,884) |
| Prepaid expenses and deposits | **(36,488)** | (7,625) |
| Accounts payable and accrued liabilities | **152,613** | 122,896 |
| Due to related parties | **84,859** | 4,135 |
| | **(448,130)** | (111,248) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | **(113,029)** | (4,552) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issuance of common shares | **1,169,500** | 255,000 |
| Share issuance costs | **(36,400)** | - |
| Proceeds from warrant exercises | **285,000** | - |
| Advances from related party | **-** | 53,216 |
| Proceeds from credit facility | **68,376** | - |
| Repayment of credit facility | **(68,376)** | - |
| Share subscriptions received | **7,500** | - |
| | **1,425,600** | 308,216 |
| **Net Increase in Cash** | **864,441** | 192,416 |
| Cash position – beginning of year | **194,137** | 1,721 |
| **Cash Position – End of Year** | **$ 1,058,578** | $ 194,137 |
| **Non-cash investing and financing activities** | | |
| Agent's warrants issued for unit issuance costs | **$ 45,391** | $ - |
| Common shares issued for acquisition of intangible assets | **-** | 150,000 |
| Common shares issued for acquisition of property and equipment | **-** | 100,000 |
| Convertible debenture issued for acquisition of property and equipment | **-** | 300,000 |
| Convertible debenture issued as settlement for amount due to related party | **-** | 93,348 |
| Convertible debenture issued as settlement of related party accounts payable | **-** | 21,652 |
| Fair value of equity portion of the convertible debentures issued | **-** | 59,750 |
| Shares issued for conversion of convertible debenture | **119,900** | - |
| Shares issued for settlement of amounts due to a related party | **22,500** | - |
| Units issued for settlement of amounts due to related parties | **47,000** | - |
| **Supplementary cash flow disclosures** | | |
| Cash paid for interest | **$ 3,158** | $ - |



- The accompanying notes form an integral part of these financial statements -

## NOTES TO THE FINANCIAL STATEMENTS

### 1) Nature of operations and going concern

AREV Nutrition Sciences Inc. (formerly Immunall Science Inc.) (the "Company") was incorporated under the Business Corporations Act (Alberta) on 22 November 2005. On 30 June 2016, the Company changed its name to AREV Nutrition Sciences Inc. and changed its incorporation jurisdiction to British Columbia. The Company was a research company engaged in the business of developing and commercializing technology related to the growth and extraction of active ingredients from American ginseng. During 2014, the Company ceased its ginseng operations and is currently developing and plans on distributing its line of natural health products. The registered address of the Company is Suite 440, 890 West Pender Street, Vancouver, BC, V6C 1J9. The principal place of business of the Company is Unit 2, 9049 Shaughnessy Street, Vancouver, BC, V6P 6R9. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "AREV".

These financial statements (the "Financial Statements") have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at 31 December 2017, the Company has not generated any revenues from operations. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These factors indicate the existence of a material uncertainty that may cast doubt on the ability of the Company to continue as a going concern. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

| | | **31 December 2017** | | 31 December 2016 |
|---|---|---|---|---|
| Working capital surplus (deficiency) | **$** | **776,734** | $ | (3,079) |
| Deficit | **$** | **(2,605,953)** | $ | (1,586,012) |

### 2) Basis of preparation – Statement of Compliance

These Financial Statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and related IFRS Interpretations Committee ("IFRICs") as issued by the International Accounting Standards Board ("IASB") and have been prepared under the historical cost convention, except for certain financial instruments.

## NOTES TO FINANCIAL STATEMENTS

The preparation of the Financial Statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

## 3) Significant accounting policies

### a) Basis of presentation

These Financial Statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value. These financial statements are presented in Canadian dollars, which is also the Company’s functional currency.

### b) Use of estimates and judgements

The preparation of the Financial Statements in conformity with IFRS requires the Company’s management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Significant areas requiring the use of estimates include the recoverability of inventory, the useful lives and recoverability of property and equipment and intangible assets, fair value of share-based payments and convertible debentures, and unrecognized deferred income tax assets.

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company’s ability to continue as a going concern.

### c) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

### d) Inventory

Inventory is comprised of nutritional products, and is recorded at the lower of cost or net realizable value on a first-in first-out basis. The Company establishes inventory reserves for estimated obsolete or unsaleable inventory equal to the difference between the cost of inventory and the estimated realizable value based upon assumptions about future and market conditions.

### e) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of operations during the period in which they are incurred.

Depreciation of property and equipment is provided using the straight-line method at the following rates approximating their estimated useful lives:

| | |
|---|---|
| Equipment | 10 years |
| Leasehold improvements | 3 years |

### f) Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses. The Company's patent is amortized using the straight-line method over its estimated remaining life of 16 years. The Company's health product formulations and related product licences have an indefinite life.

### g) Impairment

The carrying value of long-term assets is reviewed annually for indicators that the carrying value of an asset or cash-generating unit may not be recoverable. If indicators of impairment exist, the recoverable amount of the asset or cash-generating unit is estimated. If the carrying value of the asset or cash-generating unit exceeds the recoverable amount, the asset or cash-generating unit is written down with an impairment recognized in the statement of operations.

The recoverable amount of an asset or cash generating unit is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold for in an arm's length transaction. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the asset or cash generating unit in its present form.

Reversals of impairments are recognized when there are indicators that an impairment loss recognized in prior periods may no longer exist, or may have decreased. In this event, the carrying amount of the asset or cash generating unit is increased to its revised recoverable amount with an impairment reversal recognized in the statement of operations. The revised recoverable amount is limited to the original carrying amount less amortization as if no impairment had been recognized for the asset or cash generating unit for prior periods.

### h) Comprehensive loss

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders. The Company does not have any items that impact comprehensive income (loss).

### i) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted loss per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same, as the exercise of stock options and share purchase warrants is considered to be anti-dilutive.

### j) Share-based payments

The fair value of the stock options is measured at the grant date and recognized as share-based payments expense, with a corresponding increase in share-based payment reserve over the vesting period. The fair value of the stock is measured using the Black Scholes option pricing model taking into account the terms and conditions upon which the stock options were granted. The Company measures share-based compensation to non-employees at the fair value of the goods or services received. If the fair value of the goods or services cannot be measured reliably, the value of the options is used, measured using the Black-Scholes option pricing model. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of stock options that will ultimately vest. When stock options are exercised, the amount previously recorded as share based payments is recorded as share capital.

### k) Income taxes

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, plus any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## l) Financial instruments

### i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

*Financial assets at fair value through profit or loss*

Financial assets are classified as fair value through profit or loss when the financial asset is held for trading or it is designated as fair value through profit or loss. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as fair value through profit or loss are stated at fair value with any gain or loss recognized in the statement of operations. The Company's cash is classified as fair value through profit or loss.

*Held-to-maturity investments*

Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity investments.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to the statement of operations. The Company does not have any assets classified as available-for-sale.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of amounts receivable.

*Impairment of financial assets*

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to the statement of operations in the period. Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For marketable securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of operations to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of available-for-sale equity securities, impairment losses previously recognized through the statement of operations are not reversed through the statement of operations. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

**ii) Non-derivative financial liabilities**

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities, and amounts due to related parties.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

**iii) Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

## 4) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount and classification of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments and areas involving estimates, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognized in the Financial Statements.

### a) Key sources of estimation uncertainty

Useful life of property and equipment and intangible assets

The Company reviews the estimated lives of its property and equipment and intangible assets at the end of each reporting period. There were no material changes in the lives of property and equipment for the fiscal years ended 31 December 2017 and 2016.

Share based payments

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 3. The fair value of stock options granted is measured using the Black-Scholes option pricing model, which was created for use in estimating the fair value of freely tradable, fully transferable options. The Company's stock options have characteristics significantly different from those of traded options, and changes in the highly subjective input assumptions can materially affect the calculated values. The fair value of stock options granted using Black-Scholes do not necessarily provide a reliable measure of the fair value of the Company's stock option awards.

Income taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that probable future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery.

### b) Key sources of judgement uncertainty

Going concern evaluation

As discussed on note 1, these Financial Statements have been prepared under the assumptions applicable to a going concern. If the going concern assumption were not appropriate for these Financial Statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used and such adjustments could be material.

The Company reviews the going concern assessment at the end of each reporting period. There were no material changes to the assessment as at 31 December 2017.

## 5) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company is currently assessing the impact, if any, that these standards might have on its Financial Statements.

### a) IFRS 9, Financial Instruments

In July 2014, the IASB issued IFRS 9, Financial Instruments (IFRS 9). IFRS 9 replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. It also introduces additional changes relating to financial liabilities and aligns hedge accounting more closely with risk management. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption of the new standard permitted. The Company does not intend to early adopt IFRS 9. Management is currently reviewing the impact that this standard will have on the Company's Financial Statements.

### b) IFRS 15 – Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued and replaces IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC-31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five –step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption of the new standard permitted. The Company does not intend to early adopt IFRS 15. Management is currently reviewing the impact that this standard will have on the Company's Financial Statements.

### c) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. This standard is effective for annual reporting periods on or after 1 January 2019. Early adoption is permitted if IFRS 15 has also been adopted. Management is currently reviewing the impact that this standard will have on the Company's Financial Statements.

## 6) Financial instruments and risk management

### a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at 31 December 2017 are as follows:

| | Fair value measurements using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for financial instruments (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Carrying amount at 31 December 2017 |
| **Cash** | **$ 1,058,578** | **$ -** | **$ -** | **$ 1,058,578** |

The fair values of other financial instruments, which include amounts receivable, accounts payable and accrued liabilities, credit facility, and amounts due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

The initial fair value of the liability component of the Company's convertible debenture, with a carrying amount of $284,675 as at 31 December 2017. The fair value for the liability component of convertible debenture was estimated using the discounted cash flows technique. The valuation model considers the present value of expected payments, discounted using a discount rate that approximates the market rate for the Company's loans and borrowings. The estimated fair value would increase (decrease) if the market rate of borrowing were lower (higher).

### b) Credit Risk

Credit risk is the risk of financial loss to the Company if any counterparty fails to discharge its obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and amounts receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Amounts receivable consists primarily of GST receivable from the Government of Canada. The carrying amount of financial assets represents the maximum credit exposure.

### c) Interest Rate Risk

The Company's cash may contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

### d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising debt or equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. Management closely monitors cash flow requirements to ensure that it has sufficient cash on demand to meet operational and financial obligations as they become due.

## 7) Inventory

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Finished nutritional goods | **$ 41,876** | $ 22,884 |

## 8) Property and equipment

| | Equipment | Leasehold Improvements | Total |
|---|---|---|---|
| **COST OR DEEMED COST** | | | |
| **Balance at 31 December 2015** | $ 2,550 | $ 3,200 | $ 5,750 |
| Additions | 404,552 | - | 404,552 |
| **Balance at 31 December 2016** | $ 407,102 | $ 3,200 | $ 410,302 |
| Additions | **113,029** | **-** | **113,029** |
| **Balance at 31 December 2017** | **$ 520,131** | **$ 3,200** | **$ 523,331** |
| **DEPRECIATION** | | | |
| **Balance at 31 December 2015** | $ 2,550 | $ 356 | $ 2,906 |
| Depreciation for the year | 4,988 | 1,066 | 6,054 |
| **Balance at 31 December 2016** | $ 7,538 | $ 1,422 | $ 8,960 |
| Depreciation for the year | **46,106** | **1,067** | **47,173** |
| **Balance at 31 December 2017** | **$ 53,644** | **$ 2,489** | **$ 56,133** |
| **CARRYING AMOUNTS** | | | |
| **At 31 December 2016** | $ 399,564 | $ 1,778 | $ 401,342 |
| **At 31 December 2017** | **$ 466,487** | **$ 711** | **$ 467,198** |

On 16 September 2016, the Company purchased assembled apparatus for extracting oils from natural biomass using fast freezing extraction methods from a director of the Company. The purchase price of $400,000 was payable by issuance of 2,000,000 common shares with a fair value of $0.05 per share and a $300,000 convertible debenture. Refer to Note 12. The shares were issued on 9 December 2016. Refer to Note 14.

## 9) Intangible assets

| | Patents | Intellectual Property | Total |
|---|---|---|---|
| **COST OR DEEMED COST** | | | |
| **Balance at 31 December 2015** | $ - | $ - | $ - |
| Additions | 75,000 | 75,000 | 150,000 |
| **Balance at 31 December 2016** | $ 75,000 | $ 75,000 | $ 150,000 |
| Impairment | **(75,000)** | **(75,000)** | **(150,000)** |
| **Balance at 31 December 2017** | **$ -** | **$ -** | **$ -** |
| **DEPRECIATION** | | | |
| **Balance at 31 December 2015** | $ - | $ - | $ - |
| Depreciation for the period | 1,148 | - | 1,148 |
| **Balance at 31 December 2016** | $ 1,148 | $ - | $ 1,148 |
| Depreciation for the period | **4,411** | **-** | **4,411** |
| Impairment | **(5,559)** | **-** | **(5,559)** |
| **Balance at 31 December 2017** | **$ -** | **$ -** | **$ -** |
| **CARRYING AMOUNTS** | | | |
| **At 31 December 2016** | $ 73,852 | $ 75,000 | $ 148,852 |
| **At 31 December 2017** | **$ -** | **$ -** | **$ -** |

On 16 September 2016, the Company purchased a patent from a director of the Company. The purchase price of $75,000 was payable by issuance of 1,500,000 common shares with a fair value of $0.05 per share. The shares were issued on 9 December 2016. Refer to Note 14.

On 16 September 2016, the Company entered into an agreement to purchase certain natural health product formulations and product licences with Health Canada from the Chief Executive Officer ("CEO") of the Company. The purchase price of $75,000 was payable by issuance of 1,500,000 common shares with a fair value of $0.05 per share. The shares were issued on 9 December 2016. Refer to Note 14.

During the year ended 31 December 2017, the Company recorded a write down of intangible assets as the carrying values of the intangible assets could not be supported.

## 10) Accounts payable and accrued liabilities

| | **31 December 2017** | 31 December 2016 |
|---|---|---|
| Trade payables | **$ 106,122** | **$ 101,391** |
| Trade payables – related parties (Note 13) | **130,962** | **31,826** |
| Accrued interest payables (Note 12) | **45,517** | **12,052** |
| Other payables and accrued liabilities | **78,627** | **85,846** |
| | **$ 361,228** | **$ 231,115** |

## 11) Credit facility

On 23 May 2017, the Company entered into a credit facility agreement with a director of the Company to fund its operations. The credit facility is unsecured, bears interest at 10% per annum, compounded monthly. The credit facility was repaid in full on 4 December 2017.

| | | 31 December 2017 | | 31 December 2016 |
|---|---|---|---|---|
| **Opening balance** | **$** | **-** | $ | - |
| Withdrawals from credit facility | | **(68,376)** | | - |
| Interest | | **(3,158)** | | - |
| Repayment of credit facility | | **71,534** | | - |
| **Closing Balance** | **$** | **-** | $ | - |

## 12) Convertible debentures

On 16 September 2016, the Company issued a $300,000 convertible debenture to a company controlled by a director of the Company for the purchase of equipment. Refer to Note 8. The debenture is unsecured, bears interest at 10% per annum, is due on 16 September 2018, and can be converted into units of the Company at $0.05 per unit. Each unit will consist of one common share and one transferable share purchase warrant. The share purchase warrants will be exercisable at a price of $0.05 per share for a period of two years from the date of issuance. The Company recorded the initial fair value of the debenture at $256,807, using a discount rate of 20%, which is management's estimate of the prevailing market rate for a company of similar size and operations. The convertible feature of the convertible debenture was recorded as equity, at an amount of $43,193, on initial recognition. As at 31 December 2017, the unamortized discount on the debenture was $15,325 (2016 - $37,330), and the carrying value of the debenture was $284,675 (2016 - $262,670). As at 31 December 2017, accrued interest of $38,712 (2016 - $8,712) is included in accounts payable and accrued liabilities. Subsequent to year-end, the convertible debenture was converted (Note 18).

On 16 September 2016, the Company issued a $115,000 convertible debenture to a director of the Company for settlement of debt. The debenture is unsecured, bears interest at 10% per annum, is due on 16 September 2018, and can be converted into units of the Company at $0.05 per unit. Each unit will consist of one common share and one transferable share purchase warrant. The share purchase warrants will be exercisable at a price of $0.05 per share for a period of two years from the date of issuance. The Company recorded the initial fair value of the debenture at $98,443, using a discount rate of 20%, which is management's estimate of the prevailing market rate for a company of similar size and operations. The convertible feature of the convertible debenture was recorded as equity, at an amount of $16,557, on initial recognition. On 20 April 2017, the Company's $115,000 convertible debenture was converted into 2,300,000 units of the Company at $0.05 per unit, with each unit consisting of one common share and one share purchase warrant of the Company. As at 31 December 2017, the unamortized discount on the debenture was $nil (2016 - $14,310), and the carrying value of the debenture was $nil (2016 - $100,690). As at 31 December 2017, accrued interest of $6,805 (2016 - $3,340) is included in accounts payable and accrued liabilities.

## 13) Related party transactions

Transactions and balances with related parties not disclosed elsewhere in the Financial Statements are as follows:

**RELATED PARTY DISCLOSURE**

| Name and Principal Position | Period[i] | | Remuneration or fees[ii] | Share-based awards | Amounts Payable |
|---|---|---|---|---|---|
| The Chief Executive Officer of the Company | 2017 | $ | 102,600 | - | 4,135 |
| | 2016 | $ | 27,733 | 25,000 | 4,135 |
| The former Chief Financial Officer of the Company | 2017 | $ | 19,167 | 87,500 | 14,167 |
| | 2016 | $ | - | - | - |
| A director of the Company | 2017 | $ | - | 15,000 | - |
| | 2016 | $ | - | - | - |
| A director of the Company | 2017 | $ | - | - | - |
| | 2016 | $ | 2,000 | 10,000 | - |
| A director of the Company | 2017 | $ | - | - | 49,532 |
| | 2016 | $ | 18,000 | 31,826 | 43,499 |

(i) For the years ended 31 December 2017 and 2016
(ii) Amounts disclosed were paid or accrued to the related party.

On 8 July 2015, the Company entered into an agreement with a director of the Company to advance funds to the Company for a maximum amount of $100,000 to cover operating costs. The loan was unsecured, bore interest at 10% per annum, compounded monthly, and was due on demand. During the year ended 31 December 2015, $51,805 was advanced to the Company. During the year ended 31 December 2016, a further $41,543 was advanced to the Company. On 16 September 2016, the Company entered into an agreement with this director to convert $93,348 in principal, $7,319 in accrued interest, and $14,333 in accounts payable owed to this director into a convertible debenture with a principal balance of $115,000. This note was converted on 20 April 2017. See Note 14.

Included in accounts payable as at 31 December 2017 is $116,975 (2016 - $nil) owing to a company with directors in common for the purchase of fast freeze extraction equipment (see Note 8).

These transactions were in the normal course of operations, which is the amount of consideration established and agreed to by the related parties.

## 14) Share capital

### a) Authorized capital:

- unlimited common shares without par value
- 20,000,000 preferred shares, issuable in one or more series
- 20,000,000 redeemable preferred shares, issuable in one or more series

**b) Issued or allotted and fully paid:**

As at 31 December 2017, the Company had subscriptions received of $7,500.

On 14 December 2017, the Company issued 45,000 common shares of the Company in full and final settlement of $22,500 owing to a former chief financial officer of the Company.

On 4 December 2017, the Company issued 2,600,000 common shares for proceeds of $260,000 pursuant to the exercise of warrants.

On 28 November 2017 the Company closed a private placement for 4,838,000 Units at a price of $0.25 per Unit for gross proceeds of $1,209,500, of which $37,500 was received subsequent to year-end; accordingly, this amount has been recorded as a share subscription receivable as at 31 December 2017. Each Unit is comprised of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable at a price of $0.40 for a period of 18 months form the date of issuance.

On 21 November 2017, the Company entered into debt settlement agreement with the Chief Executive Officer of the Company. The Company issued 108,000 Units of the Company in full and final settlement of $27,000 of debt owing to the Chief Executive Officer.

On 12 November 2017, the Company entered into debt settlement agreement with a director of the Company. The Company issued 80,000 Units of the Company in full and final settlement of $20,000 of debt owing to the director.

On 2 October 2017, the Company issued 500,000 common shares for proceeds of $50,000 pursuant to the exercise of warrants.

On 5 September 2017, the Company issued 600,000 common shares of the Company as signing bonuses to consultants. The Company recognized a share-based payment expense of $150,000 in connection with the transaction.

On 20 April 2017, the Company issued 2,300,000 units in connection with the conversion of a convertible debenture. Each unit consists of one common share of the Company and one transferable share purchase warrant. The share purchase warrants is exercisable at a price of $0.05 per share for a period of two years from the date of issuance. The $115,000 principal balance of the debenture was converted at $0.05 per share (see Note 10).

On 9 December 2016, the Company issued 1,500,000 common shares with a fair value of $75,000 to the CEO of the Company for the purchase of intangible assets at $0.05 per share. Refer to Note 8.

On 9 December 2016, the Company issued 1,500,000 common shares with a fair value of $75,000 to a director of the Company for the purchase of intangible assets at $0.05 per share. Refer to Note 8.

On 9 December 2016, the Company issued 2,000,000 common shares with a fair value of $100,000 to a director of the Company for the purchase of equipment at $0.05 per shares. Refer to Note 7.

On 9 December 2016, the Company issued 700,000 common shares with a fair value of $35,000 to the CEO of the Company and a director of the Company as signing bonuses.

On 15 November 2016, the Company issued 5,200,000 units at a price of $0.05 per unit for proceeds totalling $260,000, of which $5,000 is recorded in share subscriptions receivable as at 31 December 2016. These subscriptions receivable were received during the year ended 31 December 2017. Of these units, 200,000 units for proceeds of $10,000 were issued to a brother of a director of the Company, 200,000 units for proceeds of $10,000 were issued to a director of the Company, and 600,000 units for proceeds of $30,000 were issued to a brother of a director of the Company. Each unit consisted of one common share and one share purchase warrant exercisable at $0.10 per share until 16 May 2018. The warrants are subject to an accelerator clause in the event the majority of trading volume in the shares of the Company over 10 consecutive trading days exceeds $0.15, then notice may be given to warrant holders to exercise within 30 days failing which the warrants will expire.

On 24 August 2016, the Company consolidated its common shares on the basis of 33 pre-consolidation common shares to 1 post-consolidation common share. All the figures as to the number of common shares, prices of issued shares, as well as the loss per share, in the financial statements are post-consolidation amounts and the prior year comparatives have been retroactively restated to present the post-consolidation amounts.

### c) Stock options

The Company has a stock option plan pursuant to which the Board of the Company may grant options to purchase common shares to the officers, directors, and employees of the Company or affiliated companies and to consultants retained by the Company.

The aggregate number of common shares reserved for issuance under the stock option plan is set at a maximum of 10% of the total number of shares outstanding at the time the options are granted. Furthermore, the aggregate number of shares issuable to one individual may not exceed 5% of the total number of issued and outstanding common shares of the Company. The exercise price of all options issued under the stock option plan may not be less than the closing market price on the last business day prior to the date the option was granted.

Option activity during the period is summarized as follows:

| Option ACTIVITY | **31 December 2017** | **Weighted average exercise price** | 31 December 2016 | Weighted average exercise price |
|---|---|---|---|---|
| **Balance – beginning of year** | **-** | **$ -** | - | $ - |
| Granted | **200,000** | **0.37** | **-** | - |
| **Balance – end of year** | **200,000** | **$ 0.37** | **-** | $ - |

## NOTES TO FINANCIAL STATEMENTS

As at 31 December 2017 and 2016, the Company had the following stock options outstanding:

| Expiry date | | Exercise Price | 31 December 2017 Outstanding | 31 December 2017 Exercisable | 31 December 2016 Outstanding |
|---|---|---|---|---|---|
| 18 September 2022 | $ | 0.25 | 100,000 | 100,000 | - |
| 7 December 2022 | $ | 0.49 | 100,000 | 100,000 | - |
| | | | 200,000 | 200,000 | - |

For the year ended 31 December 2017 and 2016, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

| | | 31 December 2017 | | 31 December 2016 |
|---|---|---|---|---|
| **Total Options Granted** | | 200,000 | | - |
| Weighted average exercise price | $ | 0.37 | $ | - |
| Weighted average remaining life of the outstanding options in years | | 4.83 | | - |
| Estimated grant date fair value | $ | 47,000 | $ | - |
| Estimated grant date fair value per option | $ | 0.24 | $ | - |

### d) Warrants

| WARRANT ACTIVITY | 31 December 2017 | | Weighted average exercise price | 31 December 2016 | | Weighted average exercise price |
|---|---|---|---|---|---|---|
| **Balance – beginning of period** | 5,200,000 | $ | 0.10 | - | $ | - |
| Issued | 4,864,600 | | 0.23 | 5,200,000 | | 0.10 |
| Exercised | (3,100,000) | | 0.09 | - | | - |
| **Balance – end of period** | 6,964,600 | $ | 0.20 | 5,200,000 | $ | 0.10 |

Details of warrants outstanding as at 31 December 2017 are as follows:

| Expiry Date | | Exercise Price | 31 December 2017 | 31 December 2016 |
|---|---|---|---|---|
| 16 May 2018 | $ | 0.10 | 2,600,000 | 5,200,000 |
| 20 April 2019 | | 0.05 | 1,800,000 | - |
| 28 November 2019 | | 0.40 | 2,564,600 | - |
| | | | 6,964,600 | 5,200,000 |

Details of weighted-average exercise price and the remaining life of warrants are as follows:

| | | 31 December 2017 | | 31 December 2016 |
|---|---|---|---|---|
| The outstanding warrants have a weighted-average exercise price of: | $ | 0.23 | $ | 0.10 |
| The weighted average remaining life of the outstanding warrants is: | | 1.62 | | 1.37 |

## 15) Commitments

The Company has a licencing and royalty memorandum of understanding with the initial developer of the technology that is being utilized exclusively by the Company for the production of products from ginseng roots. As part of the memorandum of understanding, the Company is required to pay a royalty of 5% of the invoiced cost of each production run incurred by the Company.

On 16 September 2016, the Company entered into an agreement with the CEO of the Company whereby the Company agreed to pay $8,000 per month for services rendered. The Company also paid the CEO of the Company a one-time signing bonus of $25,000 by issuance of 500,000 common shares upon signing of the agreement. The Company is to pay a one-time bonus of $100,000 payable by the issuance of 1,000,000 common shares of the Company, immediately following public filing of annual financial statements of the Company which show revenue in excess of $1,000,000 in the completed fiscal year.

On 27 August 2015, the Company entered into a premises lease agreement that started on 1 September 2015 and ends on 31 August 2018 with a two year option to extend. Expected annual payments under this lease arrangement are as follows:

| | | |
|---|---|---|
| 2018 | **$** | **22,046** |

## 16) Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to sustain future development of the business. The capital structure of the Company consists of cash and equity comprised of issued share capital, share subscriptions receivable, equity portion of convertible debentures, and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it according to economic market conditions. Management monitors the Company's ongoing capital requirements against unrestricted net working capital and assesses expected capital requirements for the fiscal period. In order to maintain or adjust the capital structure, the Company may adjust spending, issue new shares, sell assets, or incur debt.

The Company is not subject to externally imposed capital requirements and there have been no changes to the Company's capital management policy during the period ended 31 December 2017.

## 17) Comparative figures

Certain of the prior year figures have been reclassified to conform to the current year’s presentation.

## 18) Income taxes

The tax effect (computed by applying the Canadian federal and provincial statutory rate) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

## NOTES TO FINANCIAL STATEMENTS

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Canadian statutory income tax rate | | **26%** | | 26% |
| Income tax recovery at statutory rate | **$** | **(265,185)** | $ | (65,431) |
| Tax effect of: | | | | |
| Permanent differences and other | | **29,067** | | 9,707 |
| Change in enacted tax rates | | **(34,288)** | | 22,130 |
| Change in unrecognized deferred income tax assets | | **270,406** | | 33,594 |
| Income tax provision | **$** | **–** | $ | – |

The significant components of deferred income tax assets and liabilities are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| Deferred income tax assets | | | | |
| Non-capital losses carried forward | **$** | **713,749** | $ | 485,461 |
| Property and equipment | | **204,179** | | 1,556 |
| Cumulative eligible capital | | **-** | | 144,094 |
| Share issuance costs | | **7,862** | | - |
| Total gross deferred income tax assets | **$** | **925,790** | $ | 631,111 |
| Unrecognized deferred income tax assets | | **(925,790)** | | (631,111) |
| Net deferred income tax assets | **$** | **–** | $ | – |

As at December 31, 2017, the Company has the following non-capital losses carried forward, which are available to offset future years' taxable income. These losses expire as follow:

| Year of expiry | $ |
|---|---|
| 2026 | 270,129 |
| 2027 | 302,300 |
| 2028 | 175,433 |
| 2029 | 265,794 |
| 2030 | 80,537 |
| 2031 | 17,965 |
| 2032 | 107,630 |
| 2033 | 90,057 |
| 2034 | 127,109 |
| 2035 | 132,874 |
| 2036 | 297,329 |
| 2037 | 776,356 |
| | 2,643,513 |

## 19) Subsequent events

On 8 January 2018, a company controlled by a director of the Company converted a $300,000 convertible debenture into 6,000,000 units of the Company. Each unit consists of one common share and one common share warrant. After converting the debenture, the company controlled by a director of the Company exercised 2,000,000 warrants at a price of $0.05 per warrant.

On 17 January 2018, the Company announced a binding agreement (the Acquisition Agreement") to acquire 100% of the issued and outstanding shares of We Grow BC Ltd. ("WGBC"). WGBC is a private company located in British Columbia and holds a Cultivation License pursuant to the Access for Cannabis Medical Purposes Regulations under Health Canada. The Company's intention is to enter into an amalgamation by plan of arrangement where the amalgamation shall take place between a wholly owned subsidiary of AREV and WGBC.

On 8 February 2018, the Company issued 405,000 stock options to officers and consultants of the Company at a price of $0.56 per option for a period of five years from the date of issuance. 25,000 of these options will vest immediately, and the remaining 380,000 options will vest on a two year vesting schedule: one third immediately, one third at the one year mark, and one third at the second year mark.

Subsequent to year-end, the Company issued 1,700,000 common shares in connection with the exercise of warrants.