# AREV BRANDS INTERNATIONAL LTD.
## (FORMERLY AREV NUTRITION SCIENCES INC.)

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

Stated in Canadian Funds

(Unaudited – Prepared by Management)

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

| | Note | | As at September 30 2018 | | As at 31 December 2017 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash | | $ | 221,376 | $ | 1,058,578 |
| Amounts receivable | | | 9,609 | | 38,769 |
| Inventory | (7) | | 41,876 | | 41,876 |
| Prepaid expenses and deposits | | | 29,918 | | 52,406 |
| Deferred transaction costs | (8) | | 488,415 | | - |
| | | | 791,194 | | 1,191,629 |
| **Non-current Assets** | | | | | |
| Property and equipment | (9) | | 588,254 | | 467,198 |
| Intangible assets | (10) | | 5,250,000 | | - |
| | | $ | 6,629,448 | $ | 1,658,827 |
| **LIABILITIES** | | | | | |
| **Current Liabilities** | | | | | |
| Accounts payable and accrued liabilities | (11) | $ | 203,596 | $ | 361,228 |
| Due to related parties | (14) | | 56,797 | | 53,667 |
| | | | 260,393 | | 414,895 |
| **Non-current Liabilities** | | | | | |
| Convertible debentures | (13) | | 436,325 | | 284,675 |
| | | | 696,718 | | 699,570 |
| **EQUITY** | | | | | |
| Share capital | (15) | | 8,869,877 | | 3,037,378 |
| Shares issuable | (15) | | - | | 7,500 |
| Share subscriptions receivable | (15) | | (5,000) | | (37,500) |
| Equity portion of convertible debenture | (13) | | 29,086 | | 43,193 |
| Contributed surplus | (15) | | 1,117,624 | | 514,639 |
| Deficit | | | (4,078,857) | | (2,605,953) |
| | | | 5,932,730 | | 959,257 |
| | | $ | 6,629,448 | $ | 1,658,827 |

| | | | |
|---|---|---|---|
| Nature of Operations and Going Concern | (1) | Commitments | (16) |
| Basis of Preparation - Statement of Compliance | (2) | | |

The condensed consolidated financial statements were approved by the Board of Directors on 27 November 2018 and were signed on its behalf by:

*"Mike Withrow"*
Mike Withrow, Director

*"Scott McDermid"*
Scott McDermid, Director


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

## AREV Brands International Ltd.

***(formerly AREV Nutrition Sciences Inc.)***

***Canadian Funds***

*(Unaudited)*

## Condensed Consolidated Interim Statement of Comprehensive Loss

| | Note | Nine month period ended 30 September 2018 | Nine month period ended 30 September 2017 | Three month period ended 30 September 2018 | Three month period ended 30 September 2017 |
|---|---|---|---|---|---|
| **CONTINUING OPERATIONS** | | | | | |
| **EXPENSES** | | | | | |
| **General and Administrative** | | | | | |
| Advertising and marketing | | $ 119,983 | $ 37,437 | $ 31,210 | $ 385 |
| Amortization and depreciation | (9) | 40,180 | 34,450 | 13,487 | 11,483 |
| Consulting and management fees | (14) | 253,112 | 180,605 | 106,650 | 60,210 |
| Insurance expense | | 4,327 | 2,404 | 1,442 | 1,442 |
| Office and administration | | 38,544 | 12,055 | 11,361 | 2,413 |
| Professional fees | (14) | 87,393 | 59,474 | 58,610 | 26,090 |
| Rent and utilities | | 40,608 | 39,602 | 16,592 | 12,596 |
| Share-based payments | (15) | 602,985 | 172,000 | 528,077 | 172,000 |
| Transaction costs | | 37,612 | - | 37,612 | - |
| Transfer agent and regulatory fees | | 29,366 | 12,840 | 9,444 | 6,911 |
| **Loss Before Other Expenses** | | (1,254,110) | (550,867) | (814,485) | (293,530) |
| **Other Expenses** | | | | | |
| Accretion expense | | (6,264) | - | (6,633) | - |
| Impairment of deferred transaction costs | (8) | (203,094) | - | (87,500) | - |
| Interest expense | | (9,436) | (47,024) | (8,779) | (14,657) |
| **Loss and Comprehensive Loss** | | $ (1,472,904) | $ (597,891) | $ (917,397) | $ (308,187) |
| **Basic and Diluted Loss per Common Share** | | (0.04) | (0.04) | (0.02) | (0.02) |
| **Weighted Average Number of Shares Outstanding** | | 34,405,994 | 13,347,641 | 38,429,309 | 14,369,731 |

## CONDENSED CONSOLIDATED INTERIM 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 2016** | 11,913,200 $ | 1,292,769 $ | (5,000) $ | - $ | 59,750 $ | 422,248 $ | (1,586,012) $ | 183,755 |
| Shares issued for convertible debenture | 2,300,000 | 119,900 | - | - | (16,557) | - | - | 103,343 |
| Shares issued for compensation | 600,000 | 150,000 | - | - | - | - | - | 150,000 |
| Share subscriptions received | - | - | 5,000 | - | - | - | - | 5,000 |
| Share based payments | - | - | - | - | - | 22,000 | - | 22,000 |
| Net loss for the period | - | - | - | - | - | - | (597,891) | (597,891) |
| **BALANCE 30 SEPTEMBER 2017** | 14,813,200 $ | 1,562,669 $ | - $ | - $ | 43,193 $ | 444,248 $ | (2,183,903) $ | (133,793) |
| | | | | | | | | |
| **BALANCE 31 DECEMBER 2017** | 22,984,200 $ | 3,037,378 $ | (37,500) $ | 7,500 $ | 43,193 $ | 514,639 $ | (2,605,953) $ | 959,257 |
| Shares issued for convertible debenture | 6,000,000 | 327,499 | - | - | (43,193) | - | - | 284,306 |
| Shares issued for warrant exercise | 9,600,000 | 605,000 | - | - | - | - | - | 605,000 |
| Shares returned to treasury | (350,000) | - | - | - | - | - | - | - |
| Shares issued for debt settlement | 500,000 | 150,000 | - | - | - | - | - | 150,000 |
| Shares issued for intangible assets | 9,500,000 | 4,750,000 | - | - | - | - | - | 4,750,000 |
| Equity portion of convertible debenture | - | - | - | - | 29,086 | - | - | 29,086 |
| Share subscriptions received | - | - | 32,500 | (7,500) | - | - | - | 25,000 |
| Share based payments | - | - | - | - | - | 602,985 | - | 602,985 |
| Net loss for the period | - | - | - | - | - | - | (1,472,904) | (1,472,904) |
| **BALANCE AT 30 SEPTEMBER 2018** | 48,234,200 $ | 8,869,877 $ | (5,000) $ | - $ | 29,086 $ | 1,117,624 $ | (4,078,857) $ | 5,932,730 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

| | Nine month period ended 30 September 2018 | Nine month period ended 30 September 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Loss for the period** | $ (1,472,904) | $ (597,891) |
| **Items not Affecting Cash** | | |
| Amortization and depreciation | 40,180 | 34,450 |
| Stock-based compensation | 602,985 | 172,000 |
| Impairment of deferred transaction costs | 203,094 | - |
| Accretion of discount on convertible debentures | 6,264 | 19,212 |
| | (620,381) | (372,229) |
| **Net Change in Non-cash Working Capital** | | |
| Amounts receivable | 29,160 | (14,299) |
| Prepaid expenses | 22,488 | 10,000 |
| Inventory | - | 5,435 |
| Accounts payable and accrued liabilities | (170,406) | 114,169 |
| **Net cash used in operating activities** | (739,139) | (256,924) |
| **INVESTING ACTIVITIES** | | |
| Purchase of equipment | (11,236) | - |
| Acquisition of intangible assets | (50,000) | - |
| Deferred transaction costs | (691,509) | - |
| **Net cash used in investing activities** | (752,745) | - |
| **FINANCING ACTIVITIES** | | |
| Proceeds from warrant exercises | 605,000 | - |
| Share subscriptions receivable, net | 25,000 | 5,000 |
| Due to (advances from) related parties | 24,682 | 6,098 |
| Proceeds from loan agreements | - | 70,282 |
| **Net cash provided by financing activities** | 654,682 | 81,380 |
| **Change in cash** | (837,202) | (175,544) |
| Cash position – beginning of period | 1,058,578 | 194,137 |
| **Cash Position – end of period** | $ 221,376 | $ 18,593 |



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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1) Nature of operations and going concern

AREV Brands International Ltd. (formerly AREV Nutrition Sciences Inc.) (the "Company") was incorporated under the Business Corporations Act (Alberta) on 22 November 2005. On 30 June 2017, the Company changed its name to AREV Nutrition Sciences Inc. and changed its incorporation jurisdiction to be British Columbia and on 12 September 2018 changed its name to AREV Brands International Ltd. 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. The Company moved its focus to R&D of formulations and is currently developing and plans on distributing its line of branded natural health and cannabis infused 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 condensed consolidated interim 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 30 September 2018, 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.

| | 30 September 2018 | 31 December 2017 |
|---|---|---|
| Working capital surplus (deficiency) | $ 530,801 | $ 776,734 |
| Accumulated (deficit) | $ (4,078,857) | $ (2,605,953) |

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

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The Financial Statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting except for cash flow information.

Since the Financial Statements do not include all disclosures required by IFRS for annual financial statements, they should be read in conjunction with the Company's audited annual financial statements for the year ended 31 December 2017.

The policies set out were consistently applied to all the periods presented unless otherwise noted below. The preparation of Financial Statements in accordance with IAS 1 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

The preparation of 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.

## 3) Significant accounting policies

The accounting policies and methods of computation followed in preparing these Financial Statements are the same as those followed in preparing the most recently audited annual financial statements. For a complete summary of significant accounting policies, please refer to the Company's audited annual financial statements for the year ended December 31, 2017.

### 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) Basis of Consolidation

These Financial Statements incorporate the financial statements of the Company and its controlled subsidiaries. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when an investor has existing rights that give it the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a Company's share capital. All significant intercompany transactions and balances have been eliminated.

The Financial Statements include the financial statements of the Company and its significant subsidiaries listed in the following table:

| Name of Subsidiary | Country of Incorporation | Ownership Interest | Functional Currency |
|---|---|---|---|
| Deutsche Medizinal Cannabis UG | Germany | 100% | EUR |

## c) 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, 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.

## d) Financial instruments

### i) Non-derivative financial assets

The Company initially recognizes financial assets measured at amortized cost 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.

*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 profit or loss 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 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.

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.

**ii) <u>Non-derivative financial liabilities</u>**

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) <u>Share capital</u>**

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company reviews the estimated lives of its property and equipment at the end of each reporting period. There were no material changes in the lives of property and equipment for the fiscal periods ended 30 September 2018 or 2017.

Share based payments

Management assesses the fair value of stock options granted in accordance with the accounting policy. 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 30 September 2018.

## 5) Accounting standards issued but not yet effective and new accounting standards adopted during the period

### 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 16, Leases

In January 2017, 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.

### New accounting standards adopted during the period

### b) 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 adopted IFRS 9 on 1 January 2018 retrospectively and no differences of any significance have been noted in relation to the adoption of the standard.

### c) 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 amended standard was adopted on 1 January 2018 and did not have an impact on the condensed interim 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 30 September 2018 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 30 September 2018 |
| Cash | $ 221,376 | $ - | $ - | $ 221,376 |

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.

### 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

| | 30 September 2018 | 31 December 2017 |
|---|---|---|
| Finished nutritional goods | $ 41,876 | $ 41,876 |

## 8) Deferred transaction costs

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 was to enter into an amalgamation by plan of arrangement where the amalgamation would take place between a wholly owned subsidiary of AREV and WGBC. During the nine month period ended 30 September 2018 the Company incurred deferred transaction costs in the amount of $338,094 (31 December 2017 - $nil) in connection with the transaction. On 10 July 2018 the Company announced that it will not be proceeding with the proposed transaction. The Company reached a settlement with WCGB whereby WCGB agreed to pay the Company $135,000 and return 350,000 common shares of the Company to treasury. Accordingly, the Company wrote down the deferred transaction costs to the recoverable amount of $135,000 and recognized an impairment loss of $203,094.

As at 30 September 2018, the Company has incurred an additional $438,415 of transaction costs related to the acquisition of a property in British Columbia and $50,000 of transaction costs related to the acquisition of AdviceScene Enterprises Inc. dba Seventails Cultivation (Note 18).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 9) Property and equipment

| COST OR DEEMED COST | Equipment | Leasehold Improvements | Total |
|---|---|---|---|
| **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 |
| Additions | 161,236 | - | 161,236 |
| **Balance at 30 September 2018** | $ 681,367 | $ 3,200 | $ 684,567 |
| **DEPRECIATION** | | | |
| **Balance at 31 December 2016** | $ 7,538 | $ 1,422 | $ 8,960 |
| Depreciation for the period | 46,106 | 1,067 | 47,173 |
| **Balance at 31 December 2017** | 53,644 | 2,489 | 56,133 |
| Depreciation for the period | 39,469 | 711 | 40,180 |
| **Balance at 30 September 2018** | $ 93,113 | $ 3,200 | $ 96,313 |
| **CARRYING AMOUNTS** | | | |
| **At 31 December 2017** | $ 466,487 | $ 711 | $ 467,198 |
| **At 30 September 2018** | $ 588,254 | $ - | $ 588,254 |

### 10) Intangible assets

| COST OR DEEMED COST | Total |
|---|---|
| **Balance at 31 December 2016** | $ 150,000 |
| Impairment | (150,000) |
| **Balance at 31 December 2017** | - |
| Additions | 5,250,000 |
| **Balance at 30 September 2018** | $ 5,250,000 |
| **DEPRECIATION** | |
| **Balance at 31 December 2016** | $ 1,148 |
| Depreciation for the period | 4,411 |
| Impairment | (5,559) |
| **Balance at 31 December 2017 and 30 September 2018** | $ - |
| **CARRYING AMOUNTS** | |
| **At 31 December 2017** | $ - |
| **At 30 September 2018** | $ 5,250,000 |

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.

On July 12, 2018 the Company announced it has entered into an asset purchase and sale agreement dated 3 July 2018 with Matthew Harvey carrying on business under the branding "BC Bud Depot", to acquire 100% of the assets under the BCBD brand in consideration for issuance of 9,500,000 common shares of the Company at a deemed price of $0.50 per share and $500,000, of which $50,000 is payable in cash (paid) and $450,000 is payable by way of a convertible debenture issued by the Company accruing interest at 8% per annum, for an aggregate value of $5,250,000. The outstanding principal amount and outstanding accruing interest of the Convertible Debenture shall be convertible into common shares of the Company at the price of $0.50 per common share.

### 11) Accounts payable and accrued liabilities

| | 30 September 2018 | 31 December 2017 |
|---|---|---|
| Trade payables and accrued liabilities | $ 178,774 | $ 184,749 |
| Trade payables – related parties | 10,147 | 130,962 |
| Accrued interest payable | 14,675 | 45,517 |
| | $ 203,596 | $ 361,228 |

### 12) 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.

| | 30 September 2018 | 31 December 2017 |
|---|---|---|
| **Opening balance** | $ - | $ - |
| Withdrawals from credit facility | - | (68,376) |
| Interest | - | (3,158) |
| Repayment of credit facility | - | 71,534 |
| **Closing Balance** | $ - | $ - |

### 13) Convertible debentures

On 16 September 2017, 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.  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 30 September 2018, accrued interest on the debenture totalled $Nil (2017 - $6,805) and is included in accounts payable and accrued liabilities.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. 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. On 8 February 2018 convertible debenture was converted into units of the Company. Each Unit consists of one common share and one common share warrant. The total principal amount of the convertible debenture exercised is $300,000, and the debentures were converted at a price of $0.05. After converting the debenture, 2,000,000 of the resulting warrants were exercised at a price of $0.05 per common share for a total cost of $100,000.

On July 3, 2018 the Company issued a $450,000 convertible debenture related to the asset purchase and sale agreement with Matthew Harvey (Note 10). The debenture accrues interest at 8% per annum, is due in one year from issuance and is convertible into common shares of the Company at the price of $0.50 per common share.

### 14) 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 former Chief Executive Officer of the Company | 2018 | $ 72,000 | $ - | $ 4,135 |
| | 2017 | $ 72,000 | $ - | $ 18,375 |
| The former Chief Financial Officer of the Company | 2018 | $ 15,385 | $ 75,750 | $ - |
| | 2017 | $ 4,167 | $ 87,500 | $ 4,167 |
| The Chief Financial Officer of the Company | 2018 | $ 5,000 | $ 24,092 | $ - |
| | 2017 | $ - | $ - | $ - |
| A Director of the Company | 2018 | $ - | $ - | $ - |
| | 2017 | $ - | $ 22,000 | $ - |
| A Director of the Company | 2018 | $ - | $ - | $ 52,662 |
| | 2017 | $ - | $ - | $ 49,757 |
| A Director of the Company | 2018 | $ - | $ 84,452 | $ - |
| | 2017 | $ - | $ - | $ - |

(i) For the nine month periods ended 30 September 2018 and 30 September 2017
(ii) Amounts disclosed were paid or accrued to the related party.

Included in accounts payable as at 30 September 2018 is $Nil (31 December 2017 - $116,975) owing a company with directors in common for the purchase of fast freeze extraction equipment.

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

## 15) 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:

Share issuances during the period ended September 30, 2018:

On 8 February 2018 The Company announced that a company controlled by a director of the Company has converted the second of two convertible debentures into units of the Company. Each Unit consists of one common share and one common share warrant. The total principal amount of the convertible debenture exercised is $300,000, and the debentures were converted at a price of $0.05 for 6,000,000 shares. After converting the debenture, 2,000,000 of the resulting warrants were exercised at a price of $0.05 per common share for a total cost of $100,000.

During the period ended September 30, 2018, the Company issued 9,600,000 common shares for proceeds of $605,000 pursuant to the exercise of warrants.

During the period ended September 30, 2018, the Company returned 350,000 common shares to the treasury in relation to the Acquisition Agreement with We Grow BC Ltd. (Note 8).

During the period ended September 30, 2018, the Company settled $150,000 of debt by the issuance of 500,000 common shares.

On July 3, 2018 the Company issued 9,500,000 common shares of the Company at a deemed price of $0.50 per share to acquire 100% of the assets under the BCBD brand (Note 10).

Share issuances during the year ended December 31, 2017:

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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).

### c) Summary of stock option activity

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.

On 8 February 2018 the Company granted 405,000 stock options to officers and consultants of the Company at a price of $0.56 per option for a period of 5 years from the date of issuance. During the period ended 30 September 2018, the Company cancelled these options.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 14 September 2018 the Company granted 1,400,000 stock options to officers and consultants of the Company at a price of $0.40 per option for a period of 5 years from the date of issuance.

On 20 September 2018 the Company granted 300,000 stock options to officers and consultants of the Company at a price of $0.325 per option for a period of 5 years from the date of issuance.

Option activity during the period is summarized as follows:

| OPTION ACTIVITY | 30 September 2018 | Weighted average exercise price | 31 December 2017 | Weighted average exercise price |
|---|---|---|---|---|
| **Balance – beginning of year** | 200,000 | $ 0.37 | - | $ - |
| Granted | 2,105,000 | 0.42 | 200,000 | 0.37 |
| Expired/Cancelled | (405,000) | 0.56 | - | - |
| **Balance – end of period** | 1,900,000 | $ 0.39 | 200,000 | $ 0.37 |

As at 30 September 2018 the Company had the following stock options outstanding:

| Expiry date | Exercise Price | 30 September 2018 Outstanding | 30 September 2018 Exercisable |
|---|---|---|---|
| 18 September 2022 | $ 0.25 | 100,000 | 100,000 |
| 7 March 2022 | 0.49 | 100,000 | 100,000 |
| 14 September 2023 | 0.40 | 1,400,000 | 1,400,000 |
| 20 September 2023 | 0.325 | 300,000 | 300,000 |
| | | 1,900,000 | 1,900,000 |

For the period ended 30 September 2018 and year ended 31 December 2017, the Company issued stock options to its directors, officers, employees, and consultants and recognized stock-based compensation as follows:

| | Period ended 30 September 2018 | Year ended 31 December 2017 |
|---|---|---|
| **Total Options Granted** | 2,105,000 | 200,000 |
| Weighted average exercise price | $ 0.42 | $ 0.37 |
| Weighted average remaining life of the outstanding options in years | 4.87 | 4.83 |
| Estimated grant date fair value | $ 602,985 | $ 66,000 |
| Estimated grant date fair value per option | $ 0.29 | $ 0.33 |

### d) Warrants

| WARRANT ACTIVITY | 30 September 2018 | Weighted average exercise price | 31 December 2017 | Weighted average exercise price |
|---|---|---|---|---|
| **Balance – beginning of period** | 6,964,600 | $ 0.20 | 5,200,000 | $ 0.10 |
| Issued | 6,000,000 | 0.05 | 4,864,600 | 0.40 |
| Exercised | (9,600,000) | 0.06 | (3,100,000) | 0.09 |
| Expired | (200,000) | 0.08 | - | - |
| **Balance – end of period** | 3,164,600 | $ 0.33 | 6,964,600 | $ 0.25 |

Details of warrants outstanding as at 30 September 2018 are as follows:

| Expiry Date | Exercise Price | 30 September 2018 | 31 December 2017 |
|---|---|---|---|
| 16 May 2018 | $ 0.10 | - | 2,600,000 |
| 20 April 2019 | 0.05 | 600,000 | 1,800,000 |
| 28 November 2019 | 0.40 | 2,564,600 | 2,564,600 |
| | | 3,164,600 | 6,964,600 |

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

| | 30 September 2018 | 30 September 2017 |
|---|---|---|
| The outstanding warrants have a weighted-average exercise price of: | $ 0.33 | $ 0.08 |
| The weighted average remaining life of the outstanding warrants is: | 1.05 | 1.16 |

## 16) 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 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 | $ 5,476 |
| **Total** | $ 5,476 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 17) 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, 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 30 September 2018.

### 18) Proposed transactions

On 21 August 2018, the Company announced a binding agreement to acquire 100% of the issued and outstanding shares of AdviceScene Enterprises Inc. dba Seventails Cultivation. The Acquisition Agreement provides for the aggregate purchase price for the Acquisition of the Seventails' Shares to have a deemed value of $5,250,000 comprised of $500,000 in cash and 9,500,000 common shares of AcquireCo. It is anticipated a total of 9,500,000 AREV shares will be issued at a deemed price of $0.50 per AREV Share pursuant to the agreement. An aggregate deemed value of $5,000,000. If the Valuation reports a higher valuation range limit lower than $5,000,000 but equal to or greater than $4,000,000 then the Purchase price shall comprise of $500,000 in cash and 9,500,000 common shares at the deemed price equal to $0.56. Concurrent with the completion of the Acquisition at the Closing, AcquireCo shall have completed a financing raising a minimum of $3,000,000 in net proceeds, which $3,000,000 in net proceeds shall be provided to Seventails as an inter-corporate loan from AcquireCo to Seventails as a subsidiary of AcquireCo.

### 19) Subsequent events

Subsequent to September 30, 2018, the Company:

i) Announced it has completed the asset purchase (the "Acquisition Agreement") dated November 9, 2018 with Alternative Extracts Inc. ("AEI") to acquire 100% of the Bare Topicals assets in consideration for issuance of 500,000 common shares of the Company at a deemed price of $0.32 per share issued by the Company, for an aggregate value of $160,000.

ii) Issued 500,000 stock options to Directors, Officers and Consultants of the Company at a price of $0.41 for a period of 5 years from the issuance date.