PreveCeutical Medical Inc.
(Formerly Carrara Exploration Corp.)

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

Expressed in Canadian Dollars

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PREVECEUTICAL MEDICAL INC.
(Formerly Carrara Exploration Corp.)

We have audited the accompanying consolidated financial statements of PreveCeuctical Medical Inc., which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PreveCeutical Medical Inc. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter
The financial statements of PreveCeutical Medical Inc. as at December 31, 2016 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those statements dated May 30, 2017.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 23, 2018

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PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

Consolidated Statements of Financial Position

Expressed in Canadian Dollars

As at December 31		2017		2016
ASSETS				
Current				
Cash	$	**104,478**	$	-
Accounts receivable		**78,425**		28,500
Inventory		**57,246**		59,861
Prepaid and deposits (Note 5)		**1,130,679**		16,652
Share subscriptions receivable (Note 10)		**-**		99,500
		1,370,828		204,513
Deposits (Note 5)		**1,052,501**		-
Property, equipment and furniture (Note 6)		**149,437**		2,670
Intangible assets (Note 7)		**26,894**		-
Total Assets	**$**	**2,599,660**	$	207,183
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities				
Bank indebtedness	$	**-**	$	47,036
Accounts payable and accrued liabilities		**198,485**		189,565
Callable debt (Note 8)		**76,202**		73,227
Convertible debt - short term (Note 8)		**12,196**		11,293
Government remittances payable		**17,608**		182,123
		304,491		503,244
Convertible debt - long term (Note 9)		**2,639,509**		-
		2,944,000		503,244
SHAREHOLDERS' DEFICIENCY				
Share capital (Note 10)		**5,995,039**		1,763,955
Equity portion of convertible debt (Notes 8 and 9)		**418,688**		3,232
Share based compensation reserve		**3,724,041**		1,186,975
Deficit		**(10,482,108)**		(3,250,223)
Total shareholders' deficiency		**(344,340)**		(296,061)
Total liabilities and shareholders' deficiency	**$**	**2,599,660**	$	207,183

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

"Stephen Van Deventer" signed Director

"Greg Reid" signed Director

PreveCeutical Medical Inc.
(Formerly Carrara Exploration Corp.)
Consolidated Statements of Operations and Comprehensive Loss
Expressed in Canadian Dollars

Years ended December 31,		2017		2016
REVENUE				
Product sales	**$**	**22,234**	$	31,054
Cost of sales		**7,935**		33,122
Gross profit (loss)		**14,299**		(2,068)
EXPENSES				
Amortization (Notes 6 and 7)		**19,305**		481
Business development and investor relations		**628,739**		176,149
Consulting fees (Note 13)		**120,518**		264,801
Insurance		**16,385**		-
Inventory management		**50,258**		24,171
Marketing and promotion		**154,508**		84,391
Meetings and conventions		**47,297**		36,367
Office and general		**57,686**		30,836
Professional fees		**384,913**		216,341
Rent, utilities, repair and maintenance		**124,104**		40,459
Research and development (Note 5)		**517,612**		-
Salaries and wages (Note 13)		**645,406**		401,441
Share-based compensation (Notes 11 and 12)		**1,234,103**		1,186,975
Transfer agent and filing fees		**51,250**		10,147
Travel and meals		**423,402**		212,433
Vehicle expenses		**32,150**		17,629
Total expenses		**4,507,636**		2,702,621
LOSS FROM OPERATIONS		**(4,493,337)**		(2,704,689)
Foreign exchange gain (loss)		**4,997**		(2,186)
Accretion expense (Notes 8 and 9)		**(156,434)**		-
Interest expense (Notes 8 and 9)		**(98,907)**		(20,342)
Intangible asset impairment (Note 7)		**-**		(400,000)
Listing cost (Note 4)		**(2,585,202)**		-
Loss before income tax recovery		**(7,328,883)**		(3,127,217)
Income tax recovery (Note 16)		**96,998**		-
Net loss and comprehensive loss	**$**	**(7,231,885)**	$	(3,127,217)
Basic and diluted loss per common share	**$**	**(0.16)**	$	(0.082)
Weighted average number of common shares outstanding		**44,767,576**		38,063,193

The accompanying notes are an integral part of these consolidated financial statements.

PreveCeutical Medical Inc.
(Formerly Carrara Exploration Corp.)
Consolidated Statements of Changes in Shareholders' Deficiency
Expressed in Canadian Dollars

	Number of shares	Amount $	Equity component of convertible loan $	Share based compensation reserve $	Deficit $	Total $
Balance at December 31, 2015	17,000,000	160,300	-	-	(123,006)	37,294
Issue of shares	23,627,408	1,664,232	-	-	-	1,664,232
Share issue cost	-	(60,577)	-	-	-	(60,577)
Convertible loan equity	-	-	3,232	-	-	3,232
Share-based compensation	-	-	-	1,186,975	-	1,186,975
Net loss for the year	-	-	-	-	(3,127,217)	(3,127,217)
Balance as at December 31, 2016	**40,627,408**	**1,763,955**	**3,232**	**1,186,975**	**(3,250,223)**	**(296,061)**
Common shares of PreveCeutical – reverse takeover adjustment	8,266,867	4,133,433	-	181,733	-	4,315,166
Convertible loan equity (Note 9)	-	-	512,657	-	-	512,657
Adjustment to convertible loan equity	-	-	(203)	-	-	(203)
Issue of shares upon exercise of options and warrants	67,943	20,377	-	-	-	20,377
Issue of shares	2,000	926	-	-	-	926
Shares issued for services	140,285	76,348	-	-	-	76,348
Options issued for supply agreement (Note 5)	-	-	-	1,121,229	-	1,121,229
Share-based compensation	-	-	-	1,234,104	-	1,234,104
Recognition of deferred tax liability	-	-	(96,998)	-	-	(96,998)
Net loss for the year	-	-	-	-	(7,231,885)	(7,231,885)
Balance as at December 31, 2017	**49,104,503**	**5,995,039**	**418,688**	**3,724,041**	**(10,482,108)**	**(344,340)**

The accompanying notes are an integral part of these consolidated financial statements.

PreveCeutical Medical Inc.
(Formerly Carrara Exploration Corp.)
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars

Years ended December 31		**2017**		2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the year	$	**(7,231,885)**	$	(3,127,217)
Adjustments to net loss:				
Amortization		**19,305**		481
Listing costs		**2,585,202**		-
Intangible asset impairment		**-**		400,000
Share-based compensation		**1,234,103**		1,186,975
Accretion expense		**156,434**		-
Accrued interest		**98,907**		3,752
Income tax recovery		**(96,998)**		
Shares issued for services		**76,348**		-
		(3,158,584)		(1,536,009)
Change in cash on working capital items:				
Accounts receivable and GST receivable		**(43,004)**		(27,881)
Inventory		**2,615**		(59,861)
Prepaid expenses and deposits		**(1,044,896)**		10,031
Share subscription receivable		**99,500**		700
Accounts payable and accrued liabilities		**9,846**		297,688
Government remittances payable		**(164,515)**		-
Net cash used in operating activities		**(4,299,038)**		(1,315,332)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, equipment and furniture		**(166,072)**		(3,151)
Acquisition of intangible assets		**(26,894)**		(400,000)
Cash received on acquisition of 1050962 B.C. Ltd.		**1,828,031**		-
Costs incurred for acquisition of 1050962 B.C. Ltd.		**(105,390)**		-
Net cash provided by (used in) investing activities		**1,529,675**		(403,151)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of common shares and warrants		**-**		1,603,655
Shares issued upon warrants exercise		**20,377**		-
Callable debt and other instruments		**-**		70,000
Convertible debt		**2,900,500**		14,000
Net cash provided by financing activities		**2,920,877**		1,687,655
Change in cash during the year		**151,514**		(30,828)
Bank indebtedness, beginning of the year		**(47,036)**		(16,208)
Cash (bank indebtedness), end of the year	**$**	**104,478**	$	(47,036)

Supplemental Cash Flow Information (Note 14)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

PreveCeutical Medical Inc. (formerly Carrara Exploration Corp.) (the "Company") was incorporated on December 15, 2014 under the laws of British Columbia. The Company's principal business activity has been the exploration of exploration and evaluation assets. On June 21, 2017, the Company changed its name from Carrara Exploration Corp. to PreveCeutical Medical Inc.

The Company is located at 1177 West Hastings Street, Suite 2200, Vancouver, British Columbia, V6E 2K3, Canada and its registered office is at 1040 West Georgia Street, Suite 1170, Vancouver, British Columbia V6E 4H1, Canada.

On March 21, 2017, the Company and a private British Columbia company, PreveCeutical Medical Inc. (formerly 1050962 B.C. Ltd., hereinafter referred to as "0962"), entered into an Amalgamation Agreement (the "Agreement"). The Agreement was structured as a three-cornered amalgamation whereby 0962 was amalgamated with a newly incorporated British Columbia subsidiary of the Company, 1110607 B.C. Ltd. ("Subco") (the "Transaction") (Note 4). Prior to the Transaction, the Company, effective June 21, 2017, consolidated all of its issued and outstanding common shares on the basis of one (1) post-consolidation share for every three (3) pre-consolidation shares.

Effective June 30, 2017, the Company and 0962 completed the Transaction. On July 31, 2017, the Company and 0962 completed a vertical short form amalgamation (the "Amalgamation") and retained the Company's name, PreveCeutical Medical Inc.

Pursuant to the Transaction, the Company carries on the business of 0962 of licensing, branding and marketing nutraceutical and wellness products.

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operations for the foreseeable future and be able to realize assets and satisfy liabilities in the normal course of business. If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary for the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used. Such adjustments could be material.

Several conditions exist that cast significant doubt about the ability of the Company to continue as a going concern. The Company does not have significant revenue to date and has incurred operating losses since inception. As at December 31, 2017, the Company had a deficit which is being funded by debt and issuance of equity. Management anticipates that the Company will meet its obligations and maintain its operations to support its payments to creditors and realize profits from future business activities. The Company is dependent on its ability to raise further capital through equity financing to meet its commitments and fund its ongoing operations.

As at December 31, 2017 and 2016, the Company reported the following:

As at December 31,	**2017**	**2016**
Net loss for the year	$ 7,231,885	$ 3,127,217
Working capital available/(deficiency)	$ 1,066,337	$ (298,731)
Deficit	$ 10,482,108	$ 3,250,223

2. BASIS OF PREPARATION

Statement of Compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 23, 2018.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Critical Accounting Estimates and Judgments

The preparation of these consolidated financial statements requires management to make estimates and judgments and to form assumptions that affect the reported amounts and other disclosures in these consolidated financial statements. 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 these assumptions 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 under different assumptions and conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised and all future periods that are affected by the change in estimate.

Critical Accounting Estimates

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amounts of assets and liabilities within the next financial year. Critical accounting estimates include, but are not limited to, the following:

- Intangible assets – useful life

  Following initial recognition, the Company carries the value of intangible assets at cost less accumulated amortization and any accumulated impairment losses. Amortization is recorded on the straight-line basis based upon management's estimate of the useful life and residual value. The estimates are reviewed at least annually and are updated if expectations change as a result of the technical obsolescence or legal and other limits to use. A change in the useful life or residual value will impact the reported carrying value of the intangible assets resulting in a change in related amortization expense.

- Property, equipment and furniture – useful lives

  The Company estimates the useful lives and selects methods used to allocate amortization amounts of property, equipment and furniture on a systematic basis. Technical obsolescence of the tangible assets could significantly impact estimated residual useful lives and in turn carrying values being over or understated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments (Continued)

Critical Accounting Estimates (Continued)

- Income tax

  The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make estimates in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant tax authorities, which occurs subsequent to the issuance of the consolidated financial statements.

- Share-based compensation

  The fair value of stock options granted and compensatory warrants is measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The Company estimates volatility based on historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the entities' expected share price volatility. The expected life of the options is based on historical experience and general option holder behavior. Dividends were not taken into consideration as the Company does not expect to pay dividends. Management also makes an estimate of the number of options that will forfeit and the rate is adjusted to reflect the actual number of options that actually vest.

- Convertible debts

  The convertible debts were separated into their liability and equity components on the consolidated statements of financial position. The liability component is initially recognized at fair value, calculated at the net present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for non-convertible debt with similar terms at the time of issue.

- Fair value of consideration to acquire the Company

  The fair value of consideration to acquire Company comprised common shares, warrants and options. Common shares were valued on the date of issuance of the shares, and the warrants and options were valued using the Black-Scholes option pricing model. The Company applied IFRS 2 *Share-based Payment* in accounting for and assessing the Transaction.

Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Critical accounting judgments include, but are not limited to, the following:

- Intangible assets

  The application of the Company's accounting policy for intangible asset expenditures requires judgment in determining whether it is likely that the future economic benefits will flow to the Company, which are based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off to profit or loss in the period the new information becomes available.

  The Company assesses at each reporting date if the intangible assets have indicators of impairment. In determining whether the intangible assets are impaired, the Company assesses certain criteria, including observable decreases in value, significant changes with adverse effect on the entity, a change in market interest rates, evidence of technological obsolescence and future plans.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments (Continued)

Critical Accounting Judgments (Continued)

- Research and development expenditures

  Costs to develop products that will be sold are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any product development costs as at December 31, 2017 and 2016.

- Going concern assumption

  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 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.

- Determination of control in the Transaction

  The determination of the acquirer in the Transaction is subject to judgment and requires the Company to determine which party obtains control of the combining entities. Management applies judgment in determining control by assessing the following three factors: whether the Company has power over 0962; whether the Company has exposure or rights to variable returns from its involvement with 0962; and whether the Company has the ability to use its powers over 0962 to affect the amount of its returns. In exercising this judgment, management reviewed the representation on the Board of Directors and key management personnel, the party that initiated the transaction, and each of the entities' activities. 0962 was deemed to be the acquirer in the Transaction.

  The assessment of whether an acquisition constitutes a business is also subject to judgment and requires the Company to review whether the acquired entity contains all three elements of a business, including inputs, processes and the ability to create output. The Transaction was accounted for as a reverse acquisition and the difference between the fair value of net assets acquired and the consideration paid was recorded as a listing cost (Note 4).

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, 0962. Subsidiaries are consolidated from the date of acquisition being the date that the Company obtains control. A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investees. All intercompany transactions and balances have been eliminated on consolidation. Effective July 31 ,2017, the Company and 0962 amalgamated. As a result of the Transaction described in note 4, the accounting acquirer is deemed to be 0962.

Financial Instruments

The Company classifies its financial instruments in the following categories: fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments (Continued)

Financial assets

Financial assets are classified at FVTPL when they are either held-for-trading for the purpose of short-term profit-taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transactions costs. Gains or losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not suitable to be classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. These are included in non-current assets if it is management's intent to hold the instrument for a period in excess of twelve months. They are carried at fair value with changes in fair value recognized in other comprehensive income as a component of equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired.

Financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value, net of any transaction costs directly attributable to the issuance of the instrument, and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Transaction costs directly attributable to the acquisition or issue of a financial asset or liability not measured at FVTPL are added to the carrying amount of the financial asset or financial liability and are amortized to operations using the effective interest rate method.

As at December 31, 2017, the Company's financial instruments are comprised of cash, accounts receivable, callable debt, convertible debt, accounts payable and accrued liabilities. Cash is classified as FVTPL; accounts receivable is classified as loans and receivables; and callable debt, convertible debt, accounts payable and accrued liabilities are classified as other financial liabilities.

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability are not based on observable market data.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compound Financial Instruments

Compound financial instruments issued by the Company comprise convertible debt in Canadian dollars that can be converted to common shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at the fair value of a similar liability that does not have a conversion option. The conversion component is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and conversion components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the discounted cash flows. Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

Property, Equipment and Furniture

Property, equipment and furniture is recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded using the declining-balance method, other than leasehold improvements, and is intended to amortize the cost of the assets over their estimated useful lives.

Computer equipment	55%
Computer software	40%
Office equipment	20%
Leasehold improvements	Over lease period

Any additions for equipment are amortized during the year on a prorated basis. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible Assets

Recognition and measurement

Intangible assets include licenses and trademarks acquired by the Company and have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of operations and comprehensive loss as incurred.

Amortization

Amortization is recorded using the straight-line method and is intended to amortize the cost of the assets over their estimated useful lives. The estimated useful life of the Company's trademarks is 15 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Inventory

Inventories comprises of CellB9 held for resale and is measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average value. Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the anticipated selling price less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and Development

The Company incurs costs on activities that relate to research and development of new products. Research and development costs are expensed, except in cases where development costs meet certain identifiable criteria for deferral, including technical feasibility. Development costs are capitalized only if the expenditures can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Deferred development costs are amortized over the life of related commercial production, or in the case of serviceable property and equipment, are included in the appropriate property group and are depreciated over its estimated useful life. As at December 31, 2017, the Company has not capitalized any research and development costs.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of long-lived assets to determine whether there is an indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment charge (if any).

The recoverable amount used for this purpose is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its recorded amount, the recorded amount of the asset is reduced to its recoverable amount. An impairment charge is recognized immediately in the statements of operations and comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to a maximum amount equal to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

Share Capital

Incremental costs directly attributed to the issuance of common shares are shown in equity as a reduction, net of tax, of the proceeds received on issue. Shares issued for non-monetary consideration are valued based on the fair value of the goods or services received unless the fair value of the shares are a more reliable measure.

Share-based Compensation

The Company has a stock option plan, described in Note 11, which grants stock options to the Company's directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model and is recognized over the vesting period. For directors and employees, the fair value of the options is measured at the date of grant. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based compensation reserve. Consideration received on the exercise of stock options is recorded as share capital and the recorded amount to share-based compensation reserve is transferred to share capital. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Where the terms and conditions of options are modified, the increase in the fair value of the options, measured immediately before and after the modification, is charged to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue

Revenue is derived primarily from the sales of its product CellB9.

Revenue for product sales is recognized when the significant risks and rewards of ownership have been transferred to the customer, which generally occurs on delivery to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement in the product, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

Foreign Exchange

Functional currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), which has been determined to be the Canadian dollar. The functional currency of the entity's subsidiary is the Canadian dollar.

Foreign currency transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Income Taxes

The provision for income taxes consists of current and deferred tax expense and is recorded in operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted at the end of the period, adjusted for amendments to tax payable for previous years.

Deferred tax assets and liabilities are computed using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities on the consolidated statements of financial position and their corresponding tax values, using the enacted or substantively enacted income tax rates at each statement of financial position date. Deferred tax assets also result from unused losses, tax credits and other deductions carried forward. The valuation of deferred tax assets is reviewed on a regular basis and adjusted to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Loss per Share

The Company presents the basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below and include only those which the Company reasonably expects may be applicable to the Company at a future date. The Company intends to adopt these standards and interpretations when they become effective and is currently assessing their impact on the consolidated financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Classification and measurement of financial assets:

  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- Classification and measurement of financial liabilities:

  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- Impairment of financial assets:

  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- Hedge accounting:

  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The final version of this new standard is effective for the Company's annual period beginning January 1, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

IFRS 15 *Revenue from Contracts with Customers*

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing 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*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Revenue is recognized based on a five-step model:
  1. Identify the contract with customer;
  2. Identify the performance obligations;
  3. Determine the transaction price;
  4. Allocate the transaction price to the performance obligations; and
  5. Recognize revenue when (or as) the performance obligations are satisfied.

- New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The final version of this new standard is effective for the Company's annual period beginning January 1, 2018.

IFRS 16 *Leases*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.

- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.

- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.

- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.

- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The new standard is effective for the Company's annual period beginning January 1, 2019.

4. REVERSE TAKEOVER TRANSACTION

On March 21, 2017, the Company and 0962 entered into the Agreement and the Transaction was effective on June 30, 2017. Pursuant to the terms of the Transaction, 0962 became a wholly owned subsidiary of the Company by way of a "three-cornered amalgamation" with 1110607 B.C. Ltd., a wholly owned subsidiary of the Company. Prior to the Transaction, the Company consolidated all of its issued and outstanding common shares on the basis of one (1) post-consolidation share for every three (3) pre-consolidation shares and changed its name to "PreveCeutical Medical Inc.".

Following the Transaction, all of the issued and outstanding shares of 0962 were cancelled and the Company issued an equal number of shares to the former shareholders of 0962, resulting in a reverse takeover of the Company by 0962. As at June 30, 2017, the former shareholders of 0962 held 83% of the issued and outstanding common shares in the capital of the Company.

The transaction was considered a reverse takeover since the legal acquiree is the accounting acquirer and its former shareholders end up controlling the consolidated entity after the completion of this transaction. Consequently, the historical results of operations are those of 0962.

At the time of the Transaction, the Company's assets consisted primarily of cash, and it did not have any processes capable of generating outputs; therefore, the Company did not meet the definition of a business. Accordingly, as the Company did not qualify as a business in accordance with IFRS 3 *Business Combinations*, the Transaction did not constitute a business combination; however, by analogy it has been accounted for as a reverse takeover. Therefore, 0962, the legal subsidiary, has been treated as the accounting parent company, and the Company, the legal parent, has been treated as the accounting subsidiary in these consolidated financial statements. As 0962 was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these consolidated financial statements at their historical carrying values.

The following summarizes the reverse takeover, the purchase consideration, and the assets acquired and the liabilities assumed on June 30, 2017, the Transaction date:

Net assets acquired:		
Cash	$	1,828,031
GST receivable		6,921
Prepaid		402
Accounts payable and accrued liabilities		-
Net assets assumed	$	1,835,354
Consideration:		
Common shares issued	$	4,133,433
Stock options granted		142,049
Broker warrants issued		39,684
Legal and other transaction costs		105,390
	$	4,420,556

The fair value of the 8,266,867 common shares issued amounted to $4,133,433, based on the concurrent financing value of the Company's common shares at the time of the Transaction of $0.50 per share. The fair values of the 399,568 stock options and 124,566 broker warrants were determined using the Black-Scholes option pricing model with the following weighted average assumptions: exercise price - $0.30, expected life – 2.96 years, volatility – 114%, risk-free rate – 1.21%, and dividend yield – 0%.

As the acquisition was not considered a business combination, the excess value of consideration paid over the net assets acquired are expensed as a listing cost in the consolidated statements of operations and comprehensive loss:

Consideration paid	$	4,420,556
Net tangible assets acquired		(1,835,354)
	$	2,585,202

5. PREPAID AND DEPOSITS

	2017	2016
Current		
Advance to UniQuest for projects	$385,907	$ -
Other prepaids and deposits	165,470	16,652
R&D supply deposit – short-term	579,302	-
	1,130,679	16,652
Advance to UniQuest for equipment	483,210	
Office deposit	27,364	-
R&D supply deposit – long-term	541,927	-
	$2,183,180	$16,652

During the year ended December 31, 2017, the Company entered into three research and development contracts with UniQuest Pty Limited ("UniQuest"). Payments made to UniQuest have been recorded as a prepayment and amounts for work completed is expensed to research and development ("R&D").

During the year ended December 31, 2017, the Company entered into a R&D supply agreement effective September 18, 2017 with a licensed producer of medical cannabis ("Supplier"). In exchange for 2,564,103 options, the Supplier will supply samples of cannabis-derived products and ingredient information for use by the Company in its R&D program. Each option is exercisable to one common share of the Company at $0.78 per share for a period of 24 months from the grant date. The fair value of the stock options was determined using the Black-Scholes option pricing model with the following assumptions: exercise price - $0.78, expected life – 2 years, volatility – 107%, risk-free rate – 1.54%, and dividend yield – 0%.

6. PROPERTY, EQUPMENT AND FURNITURE

	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
COST	$	$	$	$	$
Balance, December 31, 2015	-	-	-	-	-
Additions	-	1,683	1,468	-	3,151
Balance, December 31, 2016	-	1,683	1,468	-	3,151
Additions	34,519	13,857	34,753	82,943	166,072
Balance, December 31, 2017	34,519	15,540	36,221	82,943	169,223
ACCUMULATED AMORTIZATION					
Balance, December 31, 2015	-	-	-	-	-
Amortization	-	334	147	-	481
Balance, December 31, 2016	-	334	147	-	481
Amortization	9,493	1,925	3,740	4,147	19,305
Balance, December 31, 2017	9,493	2,259	3,887	4,147	19,786
Net book value, December 31, 2016	-	1,349	1,321	-	2,670
Net book value, December 31, 2017	25,026	13,281	32,334	78,796	149,437

7. INTANGIBLE ASSETS

	Licenses	Trademarks	Total
COST	$	$	$
Balance, December 31, 2015	-	-	-
Additions	400,000	-	400,000
Impairment	(400,000)	-	(400,000)
Balance, December 31, 2016	-	-	-
Additions	-	26,894	26,894
Balance, December 31, 2017	-	26,894	26,894
ACCUMULATED AMORTIZATION			
Balance, December 31, 2015	-	-	-
Amortization	-	-	-
Balance, December 31, 2016 and 2017	-	-	-
Net book value, December 31, 2016	-	-	-
Net book value, December 31, 2017	-	26,894	26,894

Trademark costs includes costs for registering and filing the Company's trademarks, which included filing in Australia and Europe.

During the year ended December 31, 2016, the Company acquired intangibles with indefinite useful life acquired from the purchase of Cornerstone Global Partners Inc. ("CGP") property with an estimated fair value of $400,000. As at December 31, 2016, the Company determined that there were indicators of impairment and performed an impairment test on the licenses. The recoverable amount was estimated based on fair value less costs of disposal under the replacement cost methodology that relied on level 3 inputs. The carrying amounts exceeded the recoverable amounts, and accordingly, an impairment of $400,000 was recognized.

8. SHORT-TERM DEBT

Callable Debt - License Agreement Loan

The Company entered into a loan agreement with CGP on February 6, 2016 for $105,000 to purchase the license agreement. The loan bears interest at 5% per annum, is unsecured and is due on demand. During the year ended December 31, 2016, the Company repaid $35,000. The loan, which matured February 1, 2017, was extended to February 1, 2018. As at December 31, 2017, the balance on the loan was $76,202 (2016 - $73,227) and $2,975 (2016 - $3,227) in interest expense was accrued during the year.

Convertible debt – short term

On March 28, 2016, the Company entered into a convertible debt agreement with an employee. The convertible debt is unsecured and bears simple interest at 5% per annum and is payable on a quarterly basis. The loan, which matured March 27, 2017, was extended to March 27, 2018. This debt is convertible into common shares in the capital of the Company at $0.10 per share. Interest of $700 (2016 - $525) has been accrued for the year ended December 31, 2017. Total accrued interest of $1,225 at December 31, 2017 is included in the convertible debt balance. A reconciliation of the convertible debt is as follows:

8. SHORT-TERM DEBT (Continued)

Convertible debt – short term (Continued)

Balance, December 31, 2015	$	-
Issuance of convertible debt		14,000
Equity portion of convertible debt		(3,232)
Accrued and accreted interest		525
Balance, December 31, 2016		11,293
Accreted interest		203
Interest expense		700
Balance, December 31, 2017	$	12,196

9. LONG-TERM DEBT

Convertible debts – long term

The Company has entered into two revolving line of credit facility agreements with two officers and directors (the “Lenders”). Both bear simple interest of 5% per annum and are convertible into common shares in the capital of the Company.

The first credit facility agreement was entered into on December 9, 2016 in the principal amount of $1,000,000. The agreement was amended March 31, 2017, wherein the principal amount was increased by $1,000,000 to a total of $2,000,000. Under the terms of the agreement and waiver (the “Waiver”) dated September 30, 2017, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible, after October 28, 2017, into common shares of the Company at the price of $0.50 per share. As at December 31, 2017, the Company has drawn the full $2,000,000 under the facility agreement and has accrued interest of $79,949.

The second facility was entered into on May 9, 2017 for a maximum of $1,000,000. Under the terms of the agreement and the Waiver, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible after October 28, 2017 into units, each consisting of one common share of the Company and one common share purchase warrant at a price of $0.50 per unit. Each common share purchase warrant entitles the holder to purchase one common share of the Company at the price of $1.00 for a period of 24 months after the issuance of the units, subject to acceleration. As at December 31, 2017, $900,500 was drawn on the facility and has accrued interest to December 31, 2017 of $15,283.

The first and second credit facilities are due on demand; however, by signing the Waiver, the Lenders waive the right to demand on the funds until January 31, 2019.

The Company bifurcated the notes into their components using a discounted cash flow model with an estimated fair value interest rate of 15.5% to estimate the fair value of the liability component with the remaining balance representing the equity component. A reconciliation of the convertible debts is as follows:

Balance, December 31, 2015 and 2016	$	-
Issuance of convertible debt		2,900,500
Equity portion of convertible debt		(512,657)
Accreted interest		156,434
Interest expense		95,232
Balance, December 31, 2017	$	2,639,509

10. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common Class “A” voting shares without par value.

Escrow shares

On June 30, 2017, and in connection with the Transaction, the Company entered into an escrow agreement whereby certain shares, warrants, convertible debentures and stock options of the Company will be held in escrow.

At December 31, 2017, there were 29,786,040 common shares, 3,405,000 stock options, 324,000 warrants and convertible debentures in the principal amount of $2,295,000 held in escrow.

Issuance

During the year ended December 31, 2017, the Company issued:

- 8,266,867 in connection with the Transaction (Note 4);
- 2,000 common shares fair valued at $926 for which proceeds were received in fiscal 2016;
- 140,285 common shares for services fair valued at $76,348; and
- 67,943 common shares for warrants and options exercised for gross proceeds of $20,377.

During the year ended December 31, 2016, the Company issued 23,627,408 common shares for gross proceeds of $1,664,232 and incurred $60,577 in share issuance costs.

11. STOCK OPTIONS

Stock Option Plan

Stock options to purchase common shares have been granted to directors, employees, contractors and consultants at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company’s rolling stock option plan is 10% of the number of shares outstanding (the “Plan”). Options granted under the Plan vest immediately or over a period of time at the discretion of the Board of Directors.

Under the plan, the number of shares reserved for issuance to any one optionee will not exceed 5% of the then issued and outstanding shares. The options are non-assignable and non-transferable and will be exercisable up to 10 years from the date of grant. The minimum exercise price of an option granted under the Plan must not be less than the discounted market price, as such term is defined in the policies of the Canadian Securities Exchange (“CSE”) and other applicable regulatory authorities.

The changes in stock options outstanding are as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at December 31, 2015	-	$ -
Granted	4,050,000	$ 0.25
Cancelled	(450,000)	$ 0.25
Balance at December 31, 2016	3,600,000	$ 0.25
Granted	1,169,568	$ 0.55
Granted (Note 5)	2,564,103*	$ 0.78
Exercised	(100)	$ 0.25
Balance at December 31, 2017	7,333,571	$ 0.48

* The CSE approved the issuance of options outside of the Company’s option plan.

11. STOCK OPTIONS (Continued)

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

Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
May 18, 2019	132,900	$ 0.66	1.38
August 29, 2019	220,000	$ 0.81	1.66
September 19, 2019	2,564,103	$ 0.78	1.72
September 19, 2019	100,000	$ 0.50	1.72
August 10, 2020	3,349,900	$ 0.25	2.61
August 31, 2020	250,000	$ 0.25	2.66
June 30, 2021	450,000	$ 0.50	3.50
September 7, 2021	266,668	$ 0.30	3.69
Total	7,333,571	$ 0.48	2.33

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

Date of Expiry	Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
August 10, 2020	3,350,000	$ 0.25	3.61
August 31, 2020	250,000	$ 0.25	3.66
Total	3,600,000	$ 0.25	3.61

When the Company issues stock options, it records a share-based compensation in the year or period which the options are granted and/or vested. The expense is estimated using the following assumptions. Due to the lack of historical pricing information for the Company, the expected volatility is based on an average of historical prices of a comparable group of companies within the same industry. The risk-free interest rate is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the expected life of the stock options. The Company used historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common shares. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the share-based compensation recorded in the accompanying consolidated statements of operations and comprehensive loss.

The Company used the Black-Scholes option pricing model to determine the fair value of the options granted with the following weighted average assumption:

	2017	**2016**
Risk-free interest rate	1.46%	1%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	110%	50%
Expected option life in years	2.39	2.0
Forfeiture rate	0.00%	0.00%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these input assumptions can materially affect the fair value estimate. During the year ended December 31, 2017, the Company recorded $315,301 (2016 - $1,186,975) in relation to the vesting of the stock options.

12. WARRANTS

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at December 31, 2015 and 2016	-	$ -
Issued	8,595,766	$ 0.74
Exercised	(67,843)	$ 0.30
Balance at December 31, 2017	8,527,923	$ 0.75

As at December 31, 2017, the Company had the following warrants outstanding and exercisable:

Date of Expiry	Number Outstanding	Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
June 30, 2018	4,271,200	4,271,200	$ 1.00	0.50
December 21, 2018	56,723	53,723	$ 0.30	0.97
July 12, 2022	4,200,000	1,400,000	$ 0.50	4.53
Total	8,527,923	5,724,923	$ 0.75	2.49

During the year ended December 31, 2017, in connection with the Transaction (Note 4), the Company issued:

- 4,271,200 share purchase warrants entitling the holders thereof to purchase one common share of the Company at a price of $1.00 until June 30, 2018; and

- 124,566 broker warrants with a fair value of $39,684, entitling the holders thereof to purchase one common share of the Company at a price of $0.30 until December 21, 2018.

On July 12, 2017, 4,200,000 performance warrants were issued at an exercise price of $0.50 per warrant with the expiry date of July 12, 2022 to certain consultants, officer and other persons. The performance warrants will vest as follows:

- One third on the issue date;
- One third on the date of filing of a patent application in Canada, Australia or the United States by the Company for any of its technologies, including synthetic scorpion venom, gene therapy for obesity and diabetes or sol-gel delivery platform; and
- One third on the date of the filing of an additional patent application in Canada, Australia or the United States by the Company for any of its technologies, including synthetic scorpion venom, gene therapy for obesity and diabetes or sol-gel delivery platform.

During the year ended December 31, 2017, the Company recorded $918,802 in share-based compensation in relation to the vesting of the warrants. The Company used the Black-Scholes option pricing model to determine the fair value of the warrants issued with the following weighted average assumptions:

	2017	**2016**
Risk-free interest rate	1.79%	N/A
Expected dividend yield	0.00%	N/A
Expected stock price volatility	120%	N/A
Expected option life in years	4.44	N/A
Forfeiture rate	0.00%	N/A

13. RELATED PARTIES

Key Management Compensation

The Company's key management consist of the following executive officers and directors:

Name	Position	Nature of transaction
Stephen Van Deventer	CEO and Chairman	Management Services
Kimberly Van Deventer	Director, President	Management Services
Shabira Rajan	CFO and Controller	Management Services
Harendra Parekh	Chief Research Officer	Management Services
Makarand Jawadekar	Director, Chief Scientific Officer	Management Services
Brian Harris (resigned October 2017)	Director, VP Corporate Development	Management Services

The remuneration of key management is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

		2017		2016
Salaries and wages	$	410,863	$	324,000
Management consulting		285,025		194,000
	$	695,888	$	518,000

Related Party Transactions

Other related transactions for the years ended December 31, 2017 and 2016 included stock options, incentive warrants, rental payment, and interest.

Except as disclosed elsewhere in the consolidated financial statements, related party transactions for the years ended December 31, 2017 and 2016 are as follows.

		2017		2016
Transactions with company owned by key management personnel				
Rent	$	10,000	$	24,000
Interest payable accrued on loan		2,975		3,227
Royalty		563		1,001
	$	13,538	$	28,228
Accrued loan interest payable to certain officers and directors of the Company	$	95,232	$	-
Stock options and warrants issued to certain officer and directors	$	211,000	$	646,075

13. RELATED PARTIES (Continued)

Related Party Payable

As at December 31, 2017, $54,962 (2016 - $69,376) is payable to related parties for services incurred and reimbursement of expenses and recorded in accounts payable and accrued liabilities.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	2017	2016
Interest expense	$ 98,907	$ 3,831
Interest paid	$ -	$ -
Options issued included in prepaid and deposits	$ 1,121,229	$ -
Shares issued included in accounts payable in prior years	$ 926	$ -
Shares issued for services	$ 76,348	$ -
Shares issued on reverse takeover	$ 4,133,433	$ -

15. MANAGEMENT OF CAPITAL

The Company manages its shareholders' deficiency as capital. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its assets and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in demand certificates of deposit with major financial institutions.

There has been no change to the Company's approach to capital management during the year ended December 31, 2017. The Company is not subject to externally imposed capital requirements.

16. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 26.00% (2016 – 26.00%) to the income for the year and is reconciled as follows:

	2017	2016
Loss before income taxes	$ (7,328,883)	$ (3,127,217)
Canadian statutory income tax rate	26%	26%
Expected income tax recovery	(1,905,510)	(813,076)
Items not deductible for income tax purposes	(293,495)	452,502
Effect of change in future tax rates	(76,742)	-
Reversal of temporary differences	672,153	-
Unused tax losses and tax offsets not recognized	1,506,596	360,574
	$ (96,998)	$ -

16. INCOME TAXES (Continued)

The Company recognizes tax benefits on losses or other deductible amounts where it is probable future taxable income for the recognition of deferred tax assets has been met. The Company carries convertible debt with an equity portion for accounting purposes which gives rise to temporary differences that result in deferred tax liabilities for which deferred tax assets can be recognized, consisting of the following:

		2017		2016
Deferred tax liability on equity component of debt	$	(96,998)	$	-
Deferred tax asset recognized to offset liability		96,998		-
	$	-	$	-

Additionally, the Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

		2017		2016
Non-capital losses carried forward	$	7,420,447	$	1,506,757
Excess of undepreciated capital cost over carrying value of fixed assets		19,786		481
Share issuance costs		233,908		52,543
	$	7,674,141	$	1,559,781

Non-capital tax losses carried forward

The Company has accumulated non-capital losses of $7,420,447 that may be deducted against taxable income in future years. The losses expire as follows:

Year		Amount
2035	$	112,380
2036		1,394,377
2037		5,913,690
	$	7,420,447

17. FINANCIAL INSTRUMENTS

The Company's financial instruments classified as level 1 in the fair value hierarchy are cash, accounts receivable, shares subscription receivable, bank indebtedness, callable debt, accounts payable and accrued liabilities and their carrying values approximate the fair values due to their short-term nature. The convertible debt is classified as level 3.

The Company's financial instruments are exposed to certain risks, including credit risk, interest rate risk, liquidity risk and other market risk.

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held through large Canadian financial institutions and shares subscription receivable is due from management. The Company considers its credit risk on cash and shares subscription receivable to be not significant and accounts receivable to be minimal.

17. FINANCIAL INSTRUMENTS (Continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's callable debt (Note 8) and convertible debts (Notes 8 and 9) currently provides for interest at 5% per annum.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements.

At December 31, 2017, the Company had working capital of $1,066,337 compared to working capital deficiency at December 31, 2016 of $298,731. This included cash of $104,478 (2016 – $nil) available to meet short-term business requirements and current liabilities of $304,491 (2016 - $503,244). The Company will require additional financing to meet its obligations (Note 20). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2017:

	1 year	2 to 3 years	Total
Accounts payable and accrued liabilities	$ 198,485	$ -	$ 198,485
Callable debt (Note 8)	76,202	-	76,202
Convertible debt – short term (Note 8)	15,225	-	15,225
Government remittances payable	17,608	-	17,608
Convertible debt – long term (Note 9)	-	3,185,442	3,185,442
	$ 307,520	$ 3,185,442	$ 3,492,962

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2016:

	1 year	2 to 3 years	Total
Accounts payable and accrued liabilities	$ 189,565	$ -	$ 189,565
Callable debt (Note 8)	73,227	-	73,227
Convertible debt – short term (Note 8)	14,525	-	14,525
Government remittances payable	182,123	-	182,123
	$ 459,440	$ -	$ 459,440

17. FINANCIAL INSTRUMENTS (Continued)

Other Market Risk

Other market risk that the Company is exposed to includes currency risk. Currency risk is the risk of loss due to fluctuation of foreign exchange rates and the effects of these fluctuations on foreign currency denominated monetary assets and liabilities. As at December 31, 2017, the Company's currency risk on its foreign currency balances is not significant. The Company does not invest in derivatives to mitigate these risks.

18. SEGMENTED INFORMATION

The Company has one reportable segment being the licensing, branding and marketing nutraceutical and wellness products. Selected segmented financial information is as follows:

		2017		2016
Segmented information				
Product Sales				
Canada	$	4,976	$	18,726
United States		6,208		9,363
Other		11,050		2,965
Total	$	22,234	$	31,054

The Company's long-term assets are located in Canada.

19. COMMITMENTS

The Company entered into a lease agreement for office premises commencing May 1, 2017 with an initial five-year term and a five-year equipment lease commencing July 1, 2017.

Payments committed for the next five years is as follows:

Year		Amount
2018	$	166,784
2019		168,064
2020		168,704
2021		168,704
2022		56,988
	$	729,244

20. EVENTS AFTER THE REPORTING DATE

Subsequent to the year ended December 31, 2017,

a) On January 26, 2018, the Company entered into an agreement with the CEO and President (collectively, the "Lender") for $500,000 in the form of a convertible promissory note bearing interest at 5% per annum. The promissory note is due on demand. The principal amount and any accrued interest is convertible into common shares of the Company at the option of the Lender at $0.50 per share;

b) On January 26, 2018, the Company granted 500,000 stock options to its consultant, Maher Khaled, expiring on January 26, 2020, at an exercise price of $0.50 per share;

c) On January 30, 2018, the Company entered into a research and option agreement with UniQuest to develop non-addictive analgesics for the treatment of pain, which may offer an alternative to addictive opioids;

d) On March 1, 2018, the Company granted 100,000 stock options to its consultant, MI3 Communications Financieres Inc., expiring on February 28, 2019, at an exercise price of $0.40 per share;

e) On March 12, 2018, the Company granted 100,000 stock options to its employee, Christopher Van Deventer, expiring on March 12, 2022, at an exercise price of $0.45 per share;

f) On March 12, 2018, the Company incorporated a subsidiary, PreveCeutical (Australia) Pty Ltd. ("PreveCeutical (Australia)") in Australia;

g) On March 12, 2018 the Company's subsidiary, PreveCeutical (Australia) entered into a consulting services contract with Delakh Services Pty Ltd. for the role of Chief Executive Officer;

h) On March 19, 2018, 56,003 shares were issued to Susan Blond Group for services rendered;

i) On March 28, 2018, the Company entered into a credit facility agreement with the President for $700,000. Under the terms of the agreement, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible into common shares of the Company at the option of the President at $0.50 per share. On April 13, 2018, $70,000 was drawn on the facility, bearing 5% interest, and repayment is due March 28, 2019;

j) Effective April 9, 2018, Kimberly Van Deventer resigned as a director and from her position of President; and

k) On April 20, 2018, the convertible debts (Notes 9 and 20(d)) were amended, reducing the conversion price of $0.50 per share to $0.30 per share.