

**PreveCeutical Medical Inc.**  
(Formerly Carrara Exploration Corp.)

Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - expressed in Canadian Dollars)

## **NOTICE TO READER**

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

The accompanying unaudited condensed consolidated interim financial statements of PreveCeutical Medical Inc. (the "Company") have been prepared by management and approved by the Audit Committee and Board of Directors (the "Board") of the Company. They include appropriate accounting principles, judgment and estimates in accordance with IFRS for unaudited condensed consolidated interim financial statements.

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

**PreveCeutical Medical Inc.**  
**(Formerly Carrara Exploration Corp.)**  
**Condensed Consolidated Interim Statements of Financial Position**  
(Unaudited - Expressed in Canadian Dollars)

As at	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 2,859,606	\$ 104,478
Accounts receivable	237,314	78,425
Inventory	54,506	57,246
Prepaid and deposits (Note 4)	3,391,457	1,130,679
	<b>6,542,883</b>	<b>1,370,828</b>
Deposits (Note 4)	819,545	1,052,501
Property, equipment and furniture (Note 5)	141,055	149,437
Intangible assets (Note 6)	27,532	26,894
<b>Total Assets</b>	<b>\$ 7,531,015</b>	<b>\$ 2,599,660</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 12)	449,294	198,485
Callable debt (Note 7)	280,767	76,202
Convertible debt – short-term (Note 7)	955,490	12,196
Government remittances payable	-	17,608
	<b>1,685,551</b>	<b>304,491</b>
Convertible debt – long-term (Note 8)	2,553,468	2,639,509
	<b>4,239,019</b>	<b>2,944,000</b>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 9)	12,569,313	5,995,039
Equity portion of convertible debt (Notes 7 and 8)	489,541	418,688
Share based compensation reserve	4,268,934	3,724,041
Deficit	(14,035,792)	(10,482,108)
<b>Total shareholders' equity (deficiency)</b>	<b>3,291,996</b>	<b>(344,340)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>\$ 7,531,015</b>	<b>\$ 2,599,660</b>

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

Approved on behalf of the Board of Directors

"Stephen Van Deventer"

Director

"Greg Reid"

Director

# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

(Unaudited - Expressed in Canadian Dollars)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Product sales	11,231	17,680	13,627	21,348
Cost of sales	1,605	13,432	2,861	17,679
<b>GROSS PROFIT/(LOSS)</b>	9,626	4,248	10,766	3,669
<b>EXPENSES</b>				
Amortization (Note 5)	8,001	-	16,098	-
Business development and investor relations	369,946	235,052	524,088	265,052
Consulting fees (Notes 9 and 12)	52,526	4,855	131,946	10,420
Insurance	2,284	3,642	15,144	5,966
Inventory management	-	10,955	-	21,650
Marketing and promotion	154,788	13,256	213,767	46,333
Meetings and conventions	685	20,026	1,987	46,209
Office and general	10,142	13,039	19,205	16,183
Professional fees	151,633	74,469	229,667	130,659
Rent, utilities, repair and maintenance (Note 12)	45,467	22,234	91,733	31,555
Research and development (Note 4)	812,330	21,350	1,176,930	21,495
Salaries and wages (Note 12)	164,376	141,181	363,176	261,141
Share based compensation (Notes 10 and 11)	260,892	-	404,832	-
Transfer agent and filing fees	25,003	201	32,748	301
Travel and meals	33,628	105,175	179,736	164,661
Vehicle expenses	4,288	7,239	12,268	10,995
Total expenses	2,095,989	672,674	3,413,325	1,032,620
<b>LOSS FROM OPERATIONS</b>	(2,086,363)	(668,426)	(3,402,559)	(1,028,951)
Foreign exchange loss	(134)	(1,082)	(1,006)	(1,242)
Accretion expense (Notes 7 and 8)	(29,883)	-	(102,818)	-
Interest expense (Note 7 and 8)	(51,774)	(24,854)	(97,708)	(32,383)
Listing cost (Note 1)	-	(2,385,752)	-	(2,385,752)
<b>Loss before income tax recovery</b>	(2,168,154)	(3,080,114)	(3,604,091)	(3,448,328)
<b>Deferred income tax recovery</b>	2,270	-	44,693	-
<b>Net loss</b>	(2,165,884)	(3,080,114)	(3,559,398)	(3,448,328)
Foreign exchange gain on translating foreign operations	5,714	-	5,714	-
<b>Comprehensive loss</b>	(2,160,170)	(3,080,114)	(3,553,684)	(3,448,328)
<b>Basic and diluted loss per common share</b>	(0.009)	(0.025)	(0.014)	(0.014)
<b>Weighted average number of outstanding shares</b>	252,079,273	122,352,875	248,839,119	242,868,035

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

**PreveCeutical Medical Inc.**  
**(Formerly Carrara Exploration Corp.)**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)**  
(Unaudited - Expressed in Canadian Dollars)

	Number of shares	Amount \$	Equity Component of convertible loan \$	Share-based Compensation Reserve \$	Deficit \$	Total \$
Balance at December 31, 2016	203,137,040	1,763,955	3,232	1,186,975	(3,250,223)	(296,061)
Issue of shares	41,844,335	4,197,909	-	-	-	4,197,909
Share issue costs	-	(128,250)	-	-	-	(128,250)
Share-based compensation	-	-	-	166,000	-	166,000
Convertible loan equity	-	-	155,363	-	-	155,363
Net loss for the period	-	-	-	-	(3,448,326)	(3,448,326)
<b>Balance as at June 30, 2017</b>	<b>244,981,375</b>	<b>5,833,614</b>	<b>158,595</b>	<b>1,352,975</b>	<b>(6,698,549)</b>	<b>646,635</b>
<b>Balance as at December 31, 2017</b>	<b>245,522,515</b>	<b>5,995,039</b>	<b>418,688</b>	<b>3,724,041</b>	<b>(10,482,108)</b>	<b>(344,340)</b>
Issue of shares, June 2018 Private Placement	128,999,750	6,419,488	-	-	-	6,419,488
Shares issued for service	2,225,365	125,596	-	-	-	125,596
Shares issued for finders' fees	3,118,400	155,920	-	-	-	155,920
Debt conversion	5,772,875	315,457	-	-	-	315,457
Convertible loan equity	-	-	113,276	-	-	113,276
Share issue costs	-	(442,187)	-	-	-	(442,187)
Recognition of deferred tax liability	-	-	(42,423)	-	-	(42,423)
Share-based compensation	-	-	-	544,893	-	544,893
Net loss for the period	-	-	-	-	(3,553,684)	(3,553,684)
<b>Balance as at June 30, 2018</b>	<b>385,638,905</b>	<b>12,569,313</b>	<b>489,541</b>	<b>4,268,934</b>	<b>(14,035,792)</b>	<b>3,291,996</b>

**PreveCeutical Medical Inc.**  
**(Formerly Carrara Exploration Corp.)**  
**Condensed Consolidated Interim Statements of Cash Flows**  
(Unaudited - Expressed in Canadian Dollars)

Six months ended June 30,	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (3,553,684)	\$ (3,448,328)
Adjustments to net loss:		
Amortization – capital assets (Note 5)	16,098	-
Amortization – supply agreement (Note 4)	163,512	-
Listing costs	-	2,199,379
Share-based compensation (Note 10)	404,832	-
Share-based payments (Note 9)	125,596	-
Accretion expenses	102,818	155,363
Accrued interest	97,708	-
Deferred income tax recovery	(44,693)	-
	<b>(2,687,813)</b>	<b>(1,093,586)</b>
Change in cash on working capital items:		
Accounts receivable	(158,889)	(34,395)
Inventory	2,740	748
Prepaid expenses and deposits	(2,191,334)	(211,565)
Accounts payable and accrued liabilities	250,809	(48,804)
Share subscription receivable	-	99,500
Government remittances payable	(17,608)	-
Net cash used in operating activities	<b>(4,802,095)</b>	<b>(1,288,102)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, equipment and furniture	(7,716)	(742,789)
Acquisition of intangible assets	(638)	-
Net cash used in investing activities	<b>(8,354)</b>	<b>(742,789)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issue of common shares and warrants	6,273,282	2,552,175
Transaction cost – Carrara Exploration Corp	-	(515,894)
Callable debt and interest paid	(77,705)	-
Callable debt and other loans	280,000	1,452
Convertible debt	1,090,000	2,326,015
Net cash provided by financing activities	<b>7,565,577</b>	<b>4,363,748</b>
Change in cash and cash equivalents, during the period	<b>2,755,128</b>	<b>2,332,857</b>
Cash and cash equivalents, beginning of the period	<b>104,478</b>	<b>(47,036)</b>
Cash and cash equivalents, end of the period	<b>\$ 2,859,606</b>	<b>\$ 2,285,821</b>

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

Supplemental Cash Flow Information (Note 13)

# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

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### 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 at that time was mineral exploration and acquisition of mineral property assets. On June 21, 2017, the Company changed its name from Carrara Exploration Corp. to PreveCeutical Medical Inc. in connection with the Transaction (as defined below). Subsequent to the Transaction, the Company's principal business activity is the development of innovative options for preventive and curative therapies utilizing organic and nature identical products.

The Company's head office is located at 1177 West Hastings Street, Suite 2200, Vancouver, British Columbia, V6E 2K3, Canada and its registered office is located 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, 1050962 B.C. Ltd. (formerly PreveCeutical Medical Inc., 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 the Company's British Columbia subsidiary, 1110607 B.C. Ltd. (the "Transaction") and continued as PreveCeutical Medical Holdings Inc. ("PMIH"), a wholly-owned subsidiary of the Company. Effective June 30, 2017, the Company and 0962 completed the Transaction.

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.

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

In accordance with International Financial Reporting Standards ("IFRS") 3 *Business Combinations*, the Transaction was not considered a business combination as the Company's assets at that time consisted primarily of cash, and it did not have any processes capable of generating outputs, thus not meeting the definition of a business. The excess value of consideration paid over the net assets acquired was therefore expensed as a listing cost in the condensed interim consolidated statements of operations and comprehensive loss. The listing cost recorded at June 30, 2017, was \$2,385,752. This was revised at December 31, 2017, to account for the value of the private placement which impacted the consideration paid and cash acquired (\$257,585), amalgamation amendments, to account for legal and accounting costs that were not recorded at June 30, 2018.

At June 30, 2017, the following was recorded as

Consideration paid at June 30, 2017:	\$	2,350,207
Net tangible liabilities acquired:		<u>35,545</u>
Listing costs recorded at June 30, 2017:		2,385,752
Adjustments to consideration paid:		
Common shares, options and broker warrants:		2,151,332
Legal and transaction costs:		(80,983)
Adjustment to net assets:		<u>(1,870,899)</u>
Transaction cost at December 31, 2017	\$	<u><b>2,585,202</b></u>

The Company incorporated a subsidiary, PreveCeutical (Australia) Pty Ltd. ("PreveCeutical (Australia)") in Australia on March 12, 2018. The Company's research programs will be managed by PreveCeutical (Australia).

At the annual general and special meeting of shareholders of the Company held on May 14, 2018, the shareholders passed a special resolution approving the subdivision of the Company's issued and outstanding common shares on the basis of five (5) new post-subdivision common shares for every one (1) pre-subdivision common share (the "Stock Split"). The Stock Split was approved by the Board of Directors on May 15, 2018. The number of shares, warrants and options and the exercise price for the warrants and options have been adjusted to reflect the Stock Split.

# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

### 1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)

The condensed consolidated interim 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 condensed consolidated interim 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 June 30, 2018, 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 June 30, 2018 and December 31, 2017, the Company reported the following:

	Six Months ended June 30, 2018	Year Ended December 31, 2017
Net loss for the period	\$ 3,553,684	\$ 7,231,885
Working capital available	\$ 4,857,332	\$ 1,066,337
Deficit	\$ 14,035,792	\$ 10,482,108

### 2. BASIS OF PREPARATION

#### Statement of Compliance

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with IFRS, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017.

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

#### Basis of Measurement

These condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of PreveCeutical (Australia) is Australian dollars.

### 3. SIGNIFICANT ACCOUNTING POLICIES

In preparing these condensed consolidated interim financial statements, the significant accounting policies and the significant judgments made by management in applying the Company's significant accounting policies and key sources of estimation uncertainty were the same as those that applied to the Company's audited consolidated financial statements for the year ended December 31, 2017.

#### Critical Accounting Estimates and Judgments

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



# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Critical Accounting Estimates and Judgments (Continued)

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 a 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.

- **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 condensed consolidated interim financial statements.

- **Share-based compensation**

The fair value of stock options granted, and compensatory warrants are 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 behaviour. 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 condensed consolidated interim 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 the consideration to acquire the Company**

The fair value of the consideration to acquire the 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.

# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Critical Accounting Estimates and Judgments (Continued)

##### *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 is 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 an adverse effect on the entity, a change in market interest rates, evidence of technological obsolescence and future plans.

- **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 June 30, 2018.

- **Going concern assumption**

The assessment of whether the going concern assumption is appropriate requires management to consider 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.

#### Principles of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, PreveCeutical (Australia). 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.

#### Foreign Exchange

IFRS requires that the functional currency of each entity in the consolidated group be determined separately in accordance with the indicators as per International Accounting Standards ("IAS") 21 *The Effects of Changes in Foreign Exchange Rates* and should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is the Canadian dollar and the Australian subsidiary is the Australian Dollar. The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's presentation currency.

Under IFRS, the results and financial position of all the Company's entities that have a functional currency different from the presentation currency and the amounts consolidated with its Australian subsidiary are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the condensed consolidated interim statement of financial position;

# PreveCeutical Medical Inc.

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## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign Exchange (Continued)

- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the date of the transaction);
- all resulting exchange differences are recognized as a separate component of equity.

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.

#### Recent Accounting Pronouncements

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's condensed consolidated interim 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 condensed consolidated interim financial statements.

##### 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. PREPAID AND DEPOSITS

	June 30, 2018	December 31, 2017
Current		
Advance to UniQuest for R&D projects	\$ 30,606	\$ 385,907
R&D supply deposit – short-term	560,614	579,302
Prepaid consulting contracts	2,774,300	122,500
Other prepaids and deposits	25,937	42,970
	<u>\$ 3,391,457</u>	<u>\$ 1,130,679</u>

# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

### 4. PREPAID AND DEPOSITS (Continued)

Non-current

Advance to UniQuest for equipment	395,081	483,209
R&D supply deposit – long-term	397,102	541,927
Office rent deposit	27,362	27,365
	<u>\$ 819,545</u>	<u>\$ 1,052,501</u>

The advance to UniQuest Pty Limited (“UniQuest”) relates to prepayments made to UniQuest for the four R&D contracts. Payments made to UniQuest have been recorded as prepayments and amounts for work completed to the period ending June 30, 2018, are expensed to research and development (“R&D”).

The short- and long-term R&D supply deposit relates to the R&D supply agreement the Company entered into, effective September 18, 2017, with a licensed producer of medical cannabis (“Supplier”). In exchange for 12,820,515 options, the Supplier is supplying 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 \$0.156 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 - \$0.156, expected life – 2 years, volatility – 107%, risk-free rate – 1.54%, and dividend yield – 0%. The R&D supply deposit is amortized from March 26, 2018, when the first shipment was received, to the end of the agreement, March 20, 2020. For the six months ended June 30, 2018, \$163,512 was expensed and recorded as an R&D expense.

The Company entered into a number of annual consulting agreements in June 2018 for marketing, investor relations, and corporate services which were paid for in advance.

### 5. PROPERTY, EQUIPMENT AND FURNITURE

	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
<b>COST</b>	\$	\$	\$	\$	\$
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
Additions	7,716	-	-	-	7,716
<b>Balance, June 30, 2018</b>	<b>42,235</b>	<b>15,540</b>	<b>36,221</b>	<b>82,943</b>	<b>176,939</b>
<b>ACCUMULATED AMORTIZATION</b>					
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
Amortization	7,429	1,370	3,152	4,147	16,098
Balance, June 30, 2018	16,922	3,629	7,039	8,294	35,884
Net book value, December 31, 2017	25,026	13,281	32,334	78,796	149,437
<b>Net book value, June 30, 2018</b>	<b>25,313</b>	<b>11,911</b>	<b>29,182</b>	<b>74,649</b>	<b>141,055</b>

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### 6. INTANGIBLE ASSETS

	Trademarks	Total
<b>COST</b>	\$	\$
Balance, December 31, 2016	-	-
Additions	26,894	26,894
Balance, December 31, 2017	26,894	26,894
Additions	638	638
<b>Balance at June 30, 2018</b>	<b>27,532</b>	<b>27,532</b>
<b>ACCUMULATED AMORTIZATION</b>		
Balance, December 31, 2016	-	-
Amortization	-	-
Balance, December 31, 2017	-	-
Net book value, December 31, 2017	26,894	26,894
<b>Net book value, June 30, 2018</b>	<b>27,532</b>	<b>27,532</b>

Trademark costs include costs for registering and filing the Company's trademarks, which included filing in Australia and Europe. There has been no amortization recorded as at June 30, 2018.

### 7. SHORT-TERM DEBT

#### Callable Debt - License Agreement Loan

The Company had entered into a loan agreement with Cornerstone Global Partners Inc. ("CGP") on February 6, 2016, for \$105,000 to purchase the license agreement. The loan was at an interest rate of 5% per annum, was unsecured and due on demand. During the six months ended June 30, 2018, the Company repaid the callable debt and outstanding interest payable. The amount repaid was \$77,705, which consisted of \$70,000 principal and \$7,705 in accrued interest. Interest accrued for the quarter ended June 30, 2018, was \$751 (June 20, 2017 - \$738).

#### Short-term loan

On June 11, 2018, the Company's former President made a temporary advance to the Company in the amount of \$280,000 at a simple rate of 5% per annum. This advance was made as a temporary loan to be repaid on the close of the June 2018 financing. Interest of \$767 was accrued for the month of June 2018. Balance at June 30, 2018, for the loan and interest, was \$280,767.

Subsequent to June 30, 2018, and closing of the \$0.05 non-brokered private placement on June 29, 2018 (the "June 2018 Private Placement"), the principal amount of the loan, \$280,000, was repaid on July 12, 2018. Interest in the amount of \$1,227 for the months of June 2018 (\$767) and July 2018 (\$460) was paid on August 7, 2018.

On March 28, 2016, the Company had entered into a convertible debt agreement with an employee. The convertible debt was unsecured with a simple interest rate of 5% per annum payable on a quarterly basis. This debt was convertible into common shares in the capital of the Company at \$0.02 per share. Interest of \$232 (2017 - \$350) was accrued during the six months ended June 30, 2018.

The amount payable on the debt of \$15,458 (\$14,000 principal and \$1,458 accrued interest) was converted at the request of the lender on May 1, 2018, at \$0.02 per share as per the agreement and 772,875 shares were issued. Reconciliation of the convertible debt as at June 30, 2018, is as follows:

Balance, December 31, 2016	\$	11,293
Accreted interest		203
Interest expense		700
Balance at December 31, 2017		12,196
Interest expense		233
Equity portion of convertible debt		3,029
Loan conversion		(15,458)
<b>Balance at June 30, 2018</b>	<b>\$</b>	<b>-</b>

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### 7. SHORT-TERM DEBT (Continued)

#### Convertible debt – short-term (Continued)

On January 26, 2018, the Company entered into an agreement with its CEO and its former President (collectively the “Lenders”) for \$500,000 in the form of a convertible promissory note bearing simple interest at 5% per annum. The promissory note is due on demand. The principal amount and any accrued interest are convertible into common shares of the Company at the option of the Lender at \$0.10 per share. The conversion price set therein was reduced from \$0.10 to \$0.06 per share on April 20, 2018.

At June 30, 2018, the total amount of \$500,000 was drawn on this agreement and interest in the amount of \$10,685 was accrued.

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.

Reconciliation of the convertible debts is as follows:

Balance, December 31, 2017	\$	-
Issuance of convertible debt		500,000
Equity portion of convertible debt		(87,663)
Accreted interest		15,338
Interest expense		10,685
<b>Balance at June 30, 2018</b>	<b>\$</b>	<b>438,360</b>

On March 28, 2018, the Company entered into a credit facility agreement with its former 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 lender’s request at \$0.10 per share.

As at June 30, 2018, \$590,000 was drawn on the facility, bearing 5% simple interest and repayment is due by March 28, 2019. Interest of \$13,604 was accrued as at that date. The conversion price set therein was reduced from \$0.10 to \$0.06 per share on April 20, 2018.

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.

On July 26, 2018, the Company repaid \$200,000 of the principal amount drawn on this loan giving a balance of the principal at July 26, 2018, of \$390,000.

Reconciliation of the convertible debts is as follows:

Balance, December 31, 2017	\$	-
Issuance of convertible debt		590,000
Equity portion of convertible debt		(100,434)
Accreted interest		13,959
Interest expense		13,604
<b>Balance at June 30, 2018</b>	<b>\$</b>	<b>517,129</b>

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### 8. LONG-TERM DEBT

#### Convertible debts – long-term

The Company has entered into two revolving line of credit facility agreements with 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 \$0.10 per share. As at June 30, 2018, the Company has drawn \$1,719,248 under the facility agreement and has accrued interest of \$109,290. The conversion price was reduced from \$0.10 per share to \$0.06 per share on April 20, 2018.

On June 5, 2018, \$280,752 of the principal amount and \$19,248 of the interest amount (total of \$300,000) was converted to equity at the conversion price of \$0.06 per common share, for a total of 5,000,000 shares.

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 \$0.10 per unit. Each common share purchase warrant entitles the holder to purchase one common share of the Company at the price of \$0.20 for a period of 24 months after the issuance of the units, subject to acceleration. As at June 30, 2018, \$900,500 was drawn on the facility with accrued interest to June 30, 2018, of \$37,610. On April 20, 2018, the conversion price was reduced from \$0.10 per Unit to \$0.06 per Unit and the warrant exercise price was reduced to \$0.10.

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 after July 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.

Reconciliation of the convertible debts is as follows:

Balance, December 31, 2016	\$	-
Issuance of convertible debt		2,900,500
Equity portion of convertible debt		(512,657)
Accreted interest		156,434
Interest expense		95,232
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>2,639,509</b>
Debt conversion		(300,000)
Equity portion of convertible debt		69,522
Accreted interest		73,521
Interest expense		70,916
<b>Balance at June 30, 2018</b>	<b>\$</b>	<b>2,553,468</b>

### 9. SHARE CAPITAL

The issued and outstanding common share number of 387,238,905 reflects the post sub-division of the common shares in connection the 5:1 Stock Split. This Stock Split was approved at the annual general and special meeting of shareholders of the Company held on May 14, 2018, and subsequently approved by the board of directors of the Company on May 15, 2018. The number of common shares warrants and options and the exercise price for the warrants and options have been adjusted to reflect the Stock Split. The record date of the Stock Split was May 24, 2018.

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### 9. SHARE CAPITAL (Continued)

#### Authorized

The Company is authorized to issue an unlimited number of common shares without par value. There were 387,238,905 common shares of the Company issued and outstanding as at June 30, 2018.

#### 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 June 30, 2018, there were 113,908,500 common shares, 12,500,000 stock options, 1,350,000 warrants and convertible debentures in the principal amount of \$2,295,000 held in escrow.

#### Issuance

During the six months ended June 30, 2018, the Company issued:

- 2,225,365 common shares for services fair valued at \$125,595 (expensed under consulting fees);
- 5,772,875 common shares for debt conversion valued at \$315,457;
- 3,118,400 common shares were issued as finders fees in relation to the June 2018 Private Placement, fair valued at \$155,920 (\$0.05 per common share).
- 128,999,750 common shares for proceeds of \$6,419,488 and 128,999,750 warrants to purchase the Company's common shares at an exercisable price of \$0.10 per share. As part of the June 2018 Private Placement, the Company issued 1,800,000 units warrants for service at an exercisable price of \$0.10 per shares and 6,301,600, broker warrants for finders' fees at an exercisable price of \$0.10 per share. All warrants issued during the six months ended June 30, 2018, expire on June 30, 2020.

### 10. 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, 2016	18,000,000	\$ 0.05
Granted	5,847,840	\$ 0.11
Granted (Note 4)	12,820,515*	\$ 0.16
Exercised	(500)	\$ 0.05
Balance at December 31, 2017	36,667,855	\$ 0.10
Granted	8,500,000	\$ 0.09
Cancelled	(8,000,000)	\$ 0.06
<b>Balance at June 30, 2018</b>	<b>37,167,855</b>	<b>\$ 0.09</b>

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



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### 10. STOCK OPTIONS (Continued)

#### Stock Option Plan (Continued)

As at June 30, 2018, the Company had the following stock options outstanding and exercisable:

Date of Expiry	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 29, 2019	500,000	\$ 0.09	250,000	\$ 0.09	0.67
May 18, 2019	664,500	\$ 0.13	664,500	\$ 0.13	0.88
August 29, 2019	1,100,000	\$ 0.16	1,100,000	\$ 0.16	1.17
September 19, 2019	12,820,515	\$ 0.16	12,820,515	\$ 0.16	1.22
January 26, 2020	2,500,000	\$ 0.10	1,250,000	\$ 0.10	1.58
June 1, 2020	5,000,000	\$ 0.10	5,000,000	\$ 0.10	1.92
August 10, 2020	9,249,500	\$ 0.05	9,249,500	\$ 0.05	2.12
August 31, 2020	1,250,000	\$ 0.05	1,250,000	\$ 0.05	2.17
June 28, 2021	2,250,000	\$ 0.10	2,250,000	\$ 0.10	3.00
September 7, 2021	1,333,340	\$ 0.06	1,333,340	\$ 0.06	3.19
March 12, 2022	500,000	\$ 0.09	500,000	\$ 0.09	3.70
<b>Total</b>	<b>37,167,855</b>	<b>\$ 0.09</b>	<b>35,667,885</b>	<b>\$ 0.10</b>	<b>1.81</b>

As at June 30, 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
August 10, 2020	16,750,000	\$ 0.05	3.12
August 31, 2020	1,250,000	\$ 0.05	3.17
June 28, 2021	2,250,000	\$ 0.05	4.08
<b>Total</b>	<b>20,250,000</b>	<b>\$ 0.05</b>	<b>3.43</b>

When the Company issues stock options, it records a share-based compensation in the year or period in 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 8,500,000 options granted for six months ended June 30, 2018 (2,250,000 for the six months ended June 30, 2017). The following weighted average assumption were used with vesting from date of grant to two years:

	June 30, 2018	June 30, 2017
Risk-free interest rate	1.83%	1%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	118.46%	50%
Expected option life in years	2.68	2.0
Forfeiture rate	0.00%	0.00%

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### 10. STOCK OPTIONS (Continued)

#### Stock Option Plan (Continued)

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. For the six months ended June 30, 2018, the Company recorded \$404,832 in relation to the vesting of the stock options.

For the six months ended June 30, 2018, 8,000,000 options, all vested, were cancelled. For the six months ended June 30, 2017, 100,000 stock options, all vested, were cancelled.

### 11. WARRANTS

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at December 31, 2016	-	\$ -
Issued - private placement	21,356,000	\$ 0.20
Issued - performance warrants	21,000,000	\$ 0.10
Issued - broker option warrants	622,830	\$ 0.06
Broker option warrants exercised	(339,215)	\$ 0.06
Balance at December 31, 2017	42,639,615	\$ 0.15
Issued – June 2018 Private Placement	128,999,750	\$ 0.10
Issued – issued for service	1,800,000	\$ 0.10
Issued – June 2018 Private Placement broker warrants	6,301,600	\$ 0.10
Balance at June 30, 2018	179,740,965	\$ 0.11

As at June 30, 2018, 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, 2019	21,356,000	21,356,000	\$ 0.20	1.00
December 21, 2018	283,615	283,615	\$ 0.06	0.48
June 29, 2020	137,101,350	137,101,350	\$ 0.10	2.00
July 12, 2022	21,000,000	7,000,000	\$ 0.10	4.04
Total	179,740,965	165,740,965	\$ 0.11	2.17

The expiry date for the warrants issued under the private placement on June 29, 2017, was extended by a year to June 30, 2019.

137,101,350 warrants were issued at an exercise price of \$0.10 per common share on June 30, 2018, with the 2018 Private Placement that closed on June 30, 2018.

The Company recorded an estimated issuance cost of \$140,061 for 3,183,200 broker warrants were issued as finders' fees on June 30, 2018, with an exercise price of \$0.10. The estimate was based on Black-Scholes option pricing model with an expected life of 2.0 years, volatility of 118.38%, risk-free rate of 1.90%, and a dividend yield of 0%. These warrants were vested when granted.

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### 12. 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 (resigned April 9, 2018)	Former 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
Maher Khaled	CEO, PreveCeutical (Australia)	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*.

Six months ended June 30,	2018	2017
Salaries and wages	\$ 219,131	\$ 167,128
*Management consulting	211,082	141,633
	\$ 430,213	\$ 308,761

\*Consulting payment of \$184,415 for the six months ending June 30, 2018 and \$18,633 for the six months ending June 30, 2017 were for the Chief Research Officer, Chief Scientific Officer and PreveCeutical (Australia)'s CEO (for the three and six months ended 2018) which is recorded in Research and Development in the statement of operations.

Other related transactions for the six months ended June 30, 2018 and 2017 included consulting fees, interest, royalty and rent.

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions for the three months ended June 30, 2018 and 2017 are as follows:

Six months ended June 30,	2018	2017
Transactions with company owned by key management personnel		
Rent	-	10,000
Interest on loan	1,503	1,461
Royalty	277	279
	\$ 1,780	\$ 11,740
Accrued loan interest payable to certain officers and directors of the Company	\$ 91,763	\$ 23,950

As at June 30, 2018, \$35,573 (\$21,940 at June 30, 2017) is payable to related parties for services incurred and reimbursement of expenses recorded in accounts payable and accrued liabilities.

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

Six months ended June 30,	2018	2017
Interest expense	\$ 97,708	\$ 32,383
Options issued included in prepaid and deposits	957,716	-
Shares issued for services	125,595	50,000

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### 14. MANAGEMENT OF CAPITAL

The Company manages its shareholders' equity (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 adjusts 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.

With the completion of the June 2018 Private Placement, the Company's shareholders' equity as at June 30, 2018, was \$3,291,996. The Company continued with its approach to capital management during the six months ended June 30, 2018. The Company is not subject to externally imposed capital requirements.

### 15. FINANCIAL INSTRUMENTS

The Company's financial instruments classified as level 1 in the fair value hierarchy are cash, accounts receivable, 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 risks.

#### 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. The Company considers its credit risk on cash to be not significant and accounts receivable to be minimal.

#### 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 7) and convertible debts (Notes 7 and 8) currently provide 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 June 30, 2018, the Company had working capital of \$4,857,332 compared to working capital at December 31, 2017, of \$1,066,337. This included cash of \$2,859,606 (\$104,478 as at December 31, 2017) available to meet short-term business requirements and current liabilities of \$1,685,551 (\$304,491 as at December 31, 2017). The Company will require additional financing in the future to meet its obligations. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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### 15. FINANCIAL INSTRUMENTS (Continued)

#### Liquidity Risk (Continued)

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at June 30, 2018:

	1 year	2 to 3 years	Total
Accounts payable and accrued liabilities	\$ 449,294	\$ -	\$ 449,294
Short-term loans (Note 7)	280,767	-	280,767
Convertible debt – short-term (Note 7)	1,090,000	-	1,090,000
Convertible debt – long-term (Note 8)	-	2,619,748	2,619,748
	\$ 1,820,061	\$ 2,619,748	\$ 4,439,809

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 7)	76,202	-	76,202
Convertible debt – short-term (Note 7)	15,225	-	15,225
Government remittances payable	17,608	-	17,608
Convertible debt – short-term (Note 7)	-	3,185,442	3,185,442
	\$ 307,520	\$ 3,185,442	\$ 3,492,962

#### Other Market Risks

Other market risks that the Company is exposed to include currency risk. Currency risk is the risk of loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations on foreign currency denominated monetary assets and liabilities. As at June 30, 2018, the Company's currency risk on its foreign currency balances is not significant. The Company does not invest in derivatives to mitigate these risks.

### 16. 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:

Six months ended June 30,	2018	2017
Product Sales		
Canada	\$ 5,629	\$ 15,192
United States	-	6,156
Other	7,998	
<b>Total</b>	<b>\$ 13,627</b>	<b>\$ 21,348</b>

For the six months ended June 30, 2018, the Company's long-term assets were located in Canada and Australia as follows:

	Canada	Australia	Total
Computer equipment	38,321	3,912	42,234
Computer software	15,540	-	15,540
Office equipment	36,221	-	36,221
Leasehold improvements	82,943	-	82,943
	173,025	3,912	176,938
Amortization	(35,613)	(271)	(35,884)
<b>Net assets</b>	<b>137,412</b>	<b>3,641</b>	<b>141,054</b>

# PreveCeutical Medical Inc.

(Formerly Carrara Exploration Corp.)

## Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

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### 17. 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	\$ 110,436
2019	168,064
2020	168,704
2021	168,704
2022	56,988
	<u>\$ 672,896</u>

### 18. EVENTS AFTER THE REPORTING DATE

Following events have occurred subsequent to the six months ended June 30, 2018 to the reporting date.

On July 5, 2018, the Company entered into a consulting agreement with Link Media LLC, for communications and market awareness services. The total contract amount is \$229,198 in cash (USD \$175,000).

During the month of July 2018, the Company launched its medicinal cannabis division which is expected to be responsible for medicinal cannabis-based products including the nasal delivery of Sol-gel CBD.

On August 15, 2018, the Company entered into a licensing agreement with Asterion Cannabis Inc. ("Asterion") for licensing three natural sleep aid products that the Company intends to manufacture and bring to market. The licensing agreement with Asterion is considered to be a related party transaction as the Company's current and former directors and executive officers are directors and executive officers of Asterion. The Company will pay to Asterion a royalty equal to 20% of the gross sales from the products sold by PreveCeutical under the licensing agreement.