

PreveCeutical Medical Inc.

Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

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 International Financial Reporting Standards ("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.
Condensed Consolidated Interim Statements of Financial Position
Unaudited - Expressed in Canadian Dollars

As at	March 31, 2019	December 31, 2018
ASSETS		
Current		
Cash	\$ 64,893	\$ 64,329
Accounts receivable	73,870	78,177
Prepaid and deposits (Note 4)	1,258,252	1,195,363
	1,397,015	1,337,869
Deposits (Note 4)	224,094	413,584
Property, equipment and furniture (Note 5)	117,395	123,652
Right-of-use asset (Note 17)	465,847	-
Intangible capital assets (Note 6)	26,226	26,971
Total Assets	\$ 2,230,577	\$ 1,902,076
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	\$ 800,530	\$ 535,381
Lease liability - short term (Note 17)	146,978	-
Convertible debt - short term (Notes 7 and 12)	656,952	607,978
	1,604,460	1,143,359
Lease liability - long term (Note 17)	318,869	-
Convertible debt - long term (Notes 8 and 12)	3,362,661	3,043,888
	5,285,990	4,187,247
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 9)	13,187,449	12,903,473
Equity portion of convertible debt (Notes 7 and 8)	2,046,374	2,030,360
Share-based compensation reserve	4,095,786	4,235,701
Reserves	279,767	177,981
Accumulated other comprehensive income	(709)	(26)
Deficit	(22,664,080)	(21,632,660)
Total shareholders' deficiency	(3,055,413)	(2,285,171)
Total liabilities and shareholders' deficiency	\$ 2,230,577	\$ 1,902,076

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" signed Director

"Greg Reid" signed Director

PreveCeutical Medical Inc.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

Unaudited - Expressed in Canadian Dollars

Three months ended	March 31, 2019	March 31, 2018
REVENUE AND MARGIN		
Product sales	\$ 3,031	\$ 2,395
Cost of sales	763	1,255
Gross profit	2,268	1,140
EXPENSES		
Amortization (Notes 5, 6 and 17)	43,297	8,097
Business development and investor relations	118,363	154,142
Consulting fees (Notes 9 and 12)	2,988	79,420
Insurance	-	12,860
Marketing and promotion	2,868	58,979
Meetings and conventions	-	1,302
Office and general	3,837	9,063
Professional fees	81,048	85,163
Rent, utilities, repair and maintenance	(15,588)	46,266
Research and development (Note 4)	696,358	381,208
Salaries and wages (Note 12)	109,441	198,800
Share-based compensation (Notes 10 and 11)	734	143,941
Transfer agent and filing fees	10,281	7,745
Travel and meals	3,014	146,107
Vehicle expenses	2,315	7,980
Total expenses	1,058,956	1,341,073
LOSS FROM OPERATIONS	(1,056,688)	(1,339,933)
Foreign exchange loss	(11,421)	(871)
Accretion expense (Notes 7 and 8)	(68,374)	(72,934)
Interest expense (Notes 7 and 8)	(51,943)	(45,935)
Loss before income tax recovery	(1,188,426)	(1,459,673)
Income tax recovery	10,533	42,423
Net Loss	(1,177,893)	(1,417,250)
Foreign exchange loss on translating foreign operations	(683)	-
Comprehensive loss	\$ (1,178,576)	\$ (1,417,250)
Basic and Diluted Loss per common share	\$ (0.003)	\$ (0.006)
Weighted average number of outstanding shares	393,805,794	245,562,960

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

PreveCeutical Medical Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency

Unaudited - Expressed in Canadian Dollars

	Number of shares	Share Capital Amount \$	Equity Component of convertible loan \$	Share-based Compensation Reserve \$	Reserves \$	Accumulated Other Comprehensive Income \$	Deficit \$	Total \$
Balance at December 31, 2017	245,522,515	5,995,039	418,688	3,724,041	-	-	(10,482,108)	(344,340)
Shares issued for service	280,015	26,583	-	-	-	-	-	26,583
Convertible loan equity	-	-	170,163	-	-	-	-	170,163
Recognition of deferred tax liability	-	-	(42,423)	-	-	-	-	(42,423)
Share-based compensation	-	-	-	143,941	-	-	-	143,941
Net loss and comprehensive loss for the period	-	-	-	-	-	-	(1,417,250)	(1,417,250)
Balance at March 31, 2018	245,802,530	6,021,622	546,428	3,867,982	-	-	(11,899,358)	(1,463,326)
Balance at December 31, 2018	390,188,905	12,903,473	2,030,360	4,235,701	177,981	(26)	(21,632,660)	(2,285,171)
Issue of shares	6,100,000	305,000	-	-	-	-	-	305,000
Shares issued for finders' fees	160,000	8,000	-	-	-	-	-	8,000
Convertible loan equity	-	-	26,547	-	-	-	-	26,547
Share issue costs	-	(29,024)	-	5,824	-	-	-	(23,200)
Share-based compensation	-	-	-	734	-	-	-	734
Debt modification	-	-	-	-	101,786	-	-	101,786
Recognition of deferred tax liability	-	-	(10,533)	-	-	-	-	(10,533)
Fair value of expired options	-	-	-	(146,473)	-	-	146,473	-
Net loss and comprehensive loss for the period	-	-	-	-	-	(683)	(1,177,893)	(1,178,576)
Balance as at March 31, 2019	396,448,905	13,187,449	2,046,374	4,095,786	279,767	(709)	(22,664,080)	(3,055,413)

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

PreveCeutical Medical Inc.
Condensed Consolidated Interim Statements of Cash Flows
Unaudited - Expressed in Canadian Dollars

Three months ended March 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (1,177,893)	\$ (1,417,250)
Adjustments to net loss:		-
Amortization - right-of-use assets	6,967	8,097
Amortization - capital assets	36,330	
Share-based compensation	734	143,941
Accretion expenses	68,374	72,934
Accrued interest	47,706	45,935
Income tax recovery	(10,533)	(42,423)
Shares issued for service	-	26,584
	(1,028,315)	(1,162,182)
Change in cash on working capital items:		
Accounts receivable and GST receivable	4,307	(10,290)
Inventory	-	1,308
Prepaid expenses and deposits	126,601	275,479
Accounts payable and accrued liabilities	265,149	(3,344)
Government remittances payable	-	(17,608)
Net cash used in operating activities	(632,258)	(916,637)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and furniture	-	(3,803)
Net cash used in investing activities	-	(3,803)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares net of share issue costs	289,800	-
Shares issued upon warrants exercise	-	50,000
Lease liability payments	(36,330)	-
Proceeds from convertible debt	380,000	970,000
Net cash provided by financing activities	633,470	1,020,000
Effect of change in foreign currency	(648)	
Change in cash, during the period	564	99,560
Cash, beginning of the period	64,329	104,478
Cash, end of the period	\$ 64,893	\$ 204,038

Supplemental Cash Flow Information (Note 13)

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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

PreveCeutical Medical Inc. (the "Company") was incorporated on December 15, 2014, under the laws of British Columbia. 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 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.

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

The condensed consolidated interim financial statements have been prepared on a going concern basis 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 March 31, 2019, 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 and funding from certain officers and shareholders to meet its commitments and fund its ongoing operations.

As at March 31, 2019 and December 31, 2018, the Company reported the following:

	Three Months Ended March 31, 2019	Year Ended December 31, 2018
Net loss for the period	\$ 1,178,576	\$ 11,884,130
Working capital available/(deficiency)	\$ (207,445)	\$ 194,510
Deficit	\$ 22,664,080	\$ 21,632,660

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, 2018.

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on May 29, 2019.

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* with no restatement of comparative periods, as permitted by the transition provisions of this standard (Note 3).

As a result of application of IFRS 16, the Company changed its accounting policies for lease, by recognizing an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments (Note 17).

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.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

2. BASIS OF PREPARATION (Continued)

Basis of Measurement (Continued)

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.

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.

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, 2018, except for the adoption of IFRS 16, *Leases*, as described below.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

Critical Accounting Estimates and Judgments (Continued)

Critical Accounting Estimates (Continued)

- **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.

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 March 31, 2019.

- **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.

Adoption of Accounting Standards

On January 1, 2019, the Company adopted the following accounting pronouncements retrospectively with no restatement of comparative periods:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

Adoption of Accounting Standards (Continued)

IFRS 16 Leases

The Company adopted IFRS 16 *Leases* ("IFRS 16") effective January 1, 2019. The following is the new accounting policy for leases under IFRS 16.

At inception, the Company assesses whether a contract contains an embedded lease. A contract contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company, as lessee, is required to recognize a right-of-use asset ("ROU asset"), representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

The Company may elect to not apply IFRS 16 to leases with a term of less than 12 months or to low value assets, which is made on an asset by asset basis.

The Company recognizes a ROU asset and a lease liability at the commencement of the lease. The ROU asset is initially measured based on the present value of lease payments, plus initial direct cost, less any incentives received. It is subsequently measured at cost less accumulated depreciation, impairment losses and adjusted for certain remeasurements of the lease liability. The ROU asset is depreciated from the commencement date over the shorter of the lease term or the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator of impairment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. The incremental borrowing rate is the rate which the operation would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Variable lease payments that do not depend on an index or a rate not included in the initial measurement of the ROU asset and lease liability are recognized as an expense in the consolidated statement of comprehensive loss in the period in which they are incurred.

The ROU assets are presented within "Right-of-use assets" and the lease liabilities are presented in "Lease liability" on the condensed consolidated interim balance sheet.

4. PREPAID AND DEPOSITS

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

	March 31, 2019	December 31, 2018
Current		
Advance to UniQuest for projects	\$ 659,413	\$ 508,209
R&D supply prepaid – short-term	537,256	560,614
Other prepaid and deposits	61,583	126,540
	<u>1,258,252</u>	<u>1,195,363</u>
Non-current		
Advance to UniQuest for equipment	196,732	269,426
R&D supply prepaid – long-term	-	116,795
Office deposit	27,362	27,363
	<u>224,094</u>	<u>413,584</u>
Total prepaid and deposits	<u>\$ 1,482,346</u>	<u>\$ 1,608,947</u>

The advance to UniQuest Pty Limited (“UniQuest”) relates to prepayments made to UniQuest for the three research and development contracts entered into in the year 2017. Payments made to UniQuest have been recorded as a prepayment and amounts for work completed is expensed to research and development (“R&D”). For the three months ended March 31, 2019, the Company recorded \$626,325 (three months ended March 31, 2018 - \$84,311) invoiced by UniQuest Pty Limited (“UniQuest”), as prepayments and amounts for work completed is expensed to research and development (“R&D”).

The short-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 three months ended March 31, 2019, \$140,154 (three months ended March 31, 2018 - \$23,359) was expensed and recorded as an R&D expense.

5. PROPERTY, EQUIPMENT AND FURNITURE

	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
COST	\$	\$	\$	\$	\$
Balance, December 31, 2017	48,376	1,683	36,221	82,943	169,223
Additions	7,669	-	-	-	7,669
Balance, December 31, 2018	56,045	1,683	36,221	82,943	176,892
Additions/(exchange adjustment)	(54)	-	-	-	(54)
Balance, March 31, 2019	55,991	1,683	36,221	82,943	176,838
ACCUMULATED AMORTIZATION					
Balance, December 31, 2017	10,878	874	3,887	4,147	19,786
Amortization	18,369	324	6,467	8,294	33,454
Balance, December 31, 2018	29,247	1,198	10,354	12,441	53,240
Amortization	2,788	48	1,293	2,074	6,203
Balance, March 31, 2019	32,035	1,246	11,647	14,515	59,443
Net book value, December 31, 2018	26,798	485	25,867	70,502	123,652
Net book value, March 31, 2019	23,956	437	24,574	68,428	117,395

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

6. INTANGIBLE ASSETS

	Trademarks	Total
COST	\$	\$
Balance, December 31, 2017	26,894	26,894
Additions	2,912	2,912
Balance, December 31, 2018	29,806	29,806
Additions	-	-
Balance at December 31, 2018	29,806	29,806
ACCUMULATED AMORTIZATION		
Balance, December 31, 2017	-	-
Additions	2,835	2,835
Balance, December 31, 2018	2,835	2,835
Additions	745	745
Balance at March 31, 2019	3,580	3,580
Net book value, December 31, 2018	26,971	26,971
Net book value, March 31, 2019	26,226	26,226

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

7. SHORT-TERM CONVERTIBLE DEBT

On March 28, 2018, the Company entered into an unsecured credit facility agreement with its shareholder and former President and 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 March 31, 2019, \$695,000 was drawn on the facility, bearing 5% simple interest with repayment due by March 28, 2020. Interest of \$36,293 was accrued as at that date.

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. The due debt for this debt was extended to March 28, 2019 to March 29, 2020 and \$101,786 was recorded as a gain on modification for the extension of this loan.

Reconciliation of the convertible debt is as follows:

Balance, December 31, 2017	\$	-
Cash items		
Issuance of convertible debt (Tranche 1)	590,000	
Repayment of convertible debt (Tranche 1)	(325,000)	
Issuance of convertible debt (Tranche 2)	300,000	
Non-cash items		
Repayment of convertible debt (Tranche 1)	28,661	
Equity portion of convertible debt (Tranche 1)	(54,272)	
Equity portion of convertible debt (Tranche 2)	(7,501)	
Interest expense	27,975	
Accreted interest	48,115	
Balance at December 31, 2018	\$	607,978

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

7. SHORT-TERM CONVERTIBLE DEBT (Continued)

Cash items		
Issuance of convertible debt		130,000
Non-cash items		
Equity portion of convertible debt	(2,345)	
Interest expense	8,319	
Accreted interest	14,786	
Gain on modification	(101,786)	
Balance at March 31, 2019	\$	656,952

8. LONG-TERM DEBT

Convertible debts – long term

The Company has entered into two revolving line of credit facility agreements with its Chief Executive Officer and its former President (collectively the “Lenders”), whom are shareholders of the Company. Both are unsecured, 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. On April 20, 2018, the conversion price was amended from \$0.10 to \$0.06 per share and \$845,130 was recorded as a loss on modification to profit or loss with a corresponding adjustment to shareholders’ deficiency. On June 5, 2018, \$280,752 of the principal amount and \$19,248 of the interest amount was converted to equity at the conversion price of \$0.06 per common share, for a total of 5,000,000 shares. As at March 31, 2019, the Company has drawn \$1,894,248 (December 31, 2018 - \$1,719,248) under the facility agreement and has accrued interest of \$192,884 (December 31, 2019 - \$171,688).

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. On April 20, 2018, the conversion price was amended from \$0.10 per unit to \$0.06 per unit and \$372,234 was recorded as a loss on modification to profit or loss with a corresponding adjustment to shareholders’ deficiency. As at March 31, 2019, the Company has drawn \$975,500 (December 31, 2018 - \$900,500) under the facility agreement and has accrued interest \$72,334 (December 31, 2018 - \$60,308).

On January 26, 2018, the Company entered into an agreement with the Lenders for \$500,000 in the form of an unsecured convertible promissory note bearing simple interest at 5% per annum. This promissory note was added to the second facility above. Thereby, the terms of the facility entered into on May 9, 2017 apply to the January 26, 2018 agreement. On April 20, 2018, the conversion price was amended from \$0.10 per unit to \$0.06 per unit and \$202,603 (2017 - \$nil) was recorded as a loss on modification to profit or loss with a corresponding adjustment to shareholders’ deficiency. As at March 31, 2019, the Company has accrued interest of \$29,452 (December 31, 2018 - \$23,288) on this promissory note.

On April 20, 2019, the Lenders signed a wavier to waive the right to demand the funds for all above loans until after July 31, 2020.

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.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

8. LONG TERM DEBT (Continued)

Convertible debts – long term (Continued)

Balance, December 31, 2017	\$	2,639,509
Cash items		
Issuance of convertible debt		500,000
Non-cash items		
Debt conversion		(300,000)
Equity portion of convertible debt		(87,662)
Interest expense		178,300
Accreted interest		291,722
Gain on modification		(177,981)
Balance at December 31, 2018	\$	3,043,888
Cash items		
Issuance of convertible debt		250,000
Non-cash items		
Equity portion of convertible debt		(24,202)
Interest expense		39,387
Accreted interest		53,588
Balance at March 31, 2019	\$	3,362,661

9. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common Class “A” voting shares without par value. There were 396,448,905 common shares of the Company issued and outstanding as at March 31, 2019.

Escrow shares

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

Securities held in escrow were as follows:

- 90,786,800 Common shares
- 6,100,000 stock options
- 1,080,000 warrants
- \$2,295,000 principal amount convertible debentures

There was no change in the number of securities held in escrow as at March 31, 2019 from December 31, 2018.

The terms of the securities held in escrow are as follows:

- 1/4 of escrow securities to be released on the Company’s listing date;
- 1/3 of escrow securities to be released 6 months after the listing date;
- 1/2 of escrow securities to be released 12 months after the listing date;
- Remaining escrow securities to be released 18 months after the listing date.

Issuance

During the three months ended March 31, 2019, the Company issued:

- On February 11, 2019, the Company issued 6,100,000 units (“Unit(s)”) for a total gross value of \$305,000 through a non-brokered private placement offering. Each Unit comprises of one common share and one common share

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

9. SHARE CAPITAL (Continued)

Issuance (Continued)

purchase warrant entitling the holder to acquire one additional common share at a price of \$0.08 per warrant for a period of two years from the issuance date, subject to acceleration.

- In connection with the above private placement, the Company issued 160,000 units as finders fees, fair valued at \$8,000 (\$0.05 per unit). The Company also issued 224,000 broker warrants, fair valued at \$5,824 (Note 11) and \$15,200 in cash as finders' fees for this private placement.

During the three months ended March 31, 2018, the Company had issued 280,018 common shares for service fair valued at \$26,584.

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 Vested	Weighted Average Exercise Price
Balance at December 31, 2017	36,667,855	\$ 0.10
Granted	14,401,889	\$ 0.10
Expired	(13,000,000)	\$ 0.08
Balance at December 31, 2018	38,069,744	\$ 0.11
Expired	(6,901,889)	\$ 0.11
Balance at March 31, 2019	31,167,855	\$ 0.11

As at March 31, 2019, 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 1, 2019	500,000	\$ 0.09	0.08
May 18, 2019	664,500	\$ 0.13	0.13
August 29, 2019	1,100,000	\$ 0.16	0.41
September 19, 2019	12,820,515	\$ 0.16	0.47
August 10, 2020	9,249,500	\$ 0.05	1.36
August 31, 2020	1,250,000	\$ 0.05	1.42
October 20, 2020	2,000,000	\$ 0.13	1.56
June 30, 2021	2,250,000	\$ 0.10	2.25
September 7, 2021	1,333,340	\$ 0.06	2.44
Total	31,167,855	\$ 0.11	1.04

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

10. STOCK OPTIONS (Continued)

As at March 31, 2018, 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
February 29, 2019	500,000	\$ 0.09	0.92
May 18, 2019	664,500	\$ 0.13	1.13
August 29, 2019	1,100,000	\$ 0.16	1.41
September 19, 2019	12,820,515	\$ 0.16	1.47
January 26, 2020	2,500,000	\$ 0.10	1.82
August 10, 2020	11,749,500	\$ 0.05	2.36
August 31, 2020	1,250,000	\$ 0.05	2.42
June 30, 2021	2,250,000	\$ 0.10	3.25
September 7, 2021	1,333,340	\$ 0.06	3.44
March 12, 2022	500,000	\$ 0.09	3.95
Total	34,667,855	\$ 0.10	2.00

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 condensed consolidated interim statements of operations and comprehensive loss.
-

The Company used the Black-Scholes option pricing model to determine the fair value of 125,000 options vested during the three months ended March 31, 2019 with a weighted average fair value of \$0.09 cents.

During the three months ended March 31, 2018, 3,500,000 options were granted with a weighted average fair value of \$0.10. The following weighted average assumptions were used with vesting from date of grant for two years:

	March 31, 2019	March 31, 2018
Risk-free interest rate	1.81%	1.77%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	123.92%	118.27%
Expected option life in years	0.16	2.33
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. For the three months ended March 31, 2019, the Company recorded \$734 (\$143,941 for the three months ended March 31, 2018) in relation to the vesting of the stock options.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

11. WARRANTS

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at December 31, 2017	42,639,615	\$ 0.15
Issued - private placement	128,999,750	\$ 0.10
Issued - issued for services	1,800,000	\$ 0.10
Issued - broker option warrants	6,301,600	\$ 0.10
Private placement warrants exercised	(2,950,000)	\$ 0.10
Broker option warrants expired	(283,615)	\$ 0.06
Balance at December 31, 2018	176,507,350	\$ 0.11
Issued - private placement	6,100,000	\$ 0.08
Issued - broker option warrants	384,000	\$ 0.08
Balance at March 31, 2019	182,991,350	\$ 0.11

As at March 31, 2019, 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	0.25
June 29, 2020	134,151,350	134,151,350	\$ 0.10	1.25
February 11, 2021	6,484,000	6,484,000	\$ 0.08	1.87
July 12, 2022	21,000,000	7,000,000	\$ 0.10	3.28
Total	182,991,350	168,991,350	\$ 0.11	1.23

* The expiry date for these warrants issued was extended by a year to June 30, 2019.

For the February 2019 Private Placement, a total of 384,000 broker warrants were issued as finders' fees. 160,000 of these warrants were part of the units issued and 224,000 were broker warrants. For the 224,000 broker warrants, with an exercise price of \$0.08 for a term of two years, the Company recorded an estimated issuance cost of \$5,824. The estimate was based on Black-Scholes option pricing model with an expected life of 2 years, volatility of 120.45%, risk-free rate of 1.79%, and a dividend yield of 0%.

As at March 31, 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, 2018	21,356,000	21,356,000	\$ 0.20	0.50
December 21, 2018	283,615	268,615	\$ 0.06	0.97
July 12, 2022	21,000,000	7,000,000	\$ 0.10	4.53
Total	42,639,615	28,624,615	\$ 0.15	2.49

On July 12, 2017, 21,000,000 performance warrants were issued at an exercise price of \$0.10 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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

11. WARRANTS (Continued)

- 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.

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
Makarand Jawadekar	President, Director, Chief Scientific Officer	Management Services
Shabira Rajan	CFO and Controller	Management Services
Harendra Parekh	Chief Research Officer	Management Services
Kimberly Van Deventer (resigned April 9, 2018)	Former Director	Management Services
Maher Khaled (resigned October 20, 2018)	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*.

Three months ended March 31,	2019	2018
Salaries and wages	\$ 57,955	\$ 120,000
Management consulting	40,468	84,671
	\$ 98,423	\$ 204,671

Shared rent and general cost agreement

On November 1, 2018, the Company entered into a shared rent and general cost agreement with Asterion Cannabis Inc. ("Asterion"), whereby Asterion would reimburse costs related to sharing of the office space which is leased by the Company. Asterion is considered to be a related party as a director and executive officer of the Company is a control person of Asterion.

Related Party Transactions

Other related transactions for the three months ended March 31, 2019 and 2018 included wages, benefits, royalty, interest and reimbursement for shared rent and general cost from a related company.

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions for the three months ended March 31, 2019 and 2018 are as follows.

Three months ended March 31,	2019	2018
Wages and benefits to employees related to certain officer and past officer	\$ 23,203	\$ 31,726
Interest payable accrued on loan payable to company controlled by key management personnel	-	2,975
Royalty payable to company controlled by key management personnel	139	74
Accrued loan interest payable to certain officers and past officer	47,706	45,008
Shared rent and general cost received from a related company (Asterion)	(22,952)	-
Stock options and warrants issued to certain officers and directors	-	97,865
	\$ 48,096	\$ 177,648

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

12. RELATED PARTIES (Continued)

Related Party Payable

As at March 31, 2019, \$51,449 (March 31, 2018 - \$66,345) is payable to related parties for services incurred and reimbursement of expenses and recorded in accounts payable and accrued liabilities. All balances are unsecured, non-interest bearing, have no fixed repayment terms and are due on demand.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2019	March 31, 2018
Interest expense	\$ 47,706	\$ 45,935
Taxes paid	\$ -	\$ -
Previously granted options included in prepaid and deposits	\$ 537,256	\$ 1,097,087
Shares issued for services	\$ -	\$ 26,583
Shares issued for Finder's fees	\$ 8,000	\$ -
Broker warrants for private placements	\$ 5,824	\$ -

14. 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 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.

As at March 31, 2019, the shareholders' deficiency was \$3,055,413 (December 31, 2018 - \$2,285,171). The Company did not change its approach to capital management during the three months ended March 31, 2019. 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, 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 and Australian 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 convertible debts (Notes 8 and 9) currently provides for interest at 5% per annum.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

15. FINANCIAL INSTRUMENTS (Continued)

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 March 31, 2019, the Company had working capital deficiency of \$207,445 compared to working capital at December 31, 2018, of \$194,510. This included cash of \$64,893 (December 31, 2018 - \$64,329) available to meet short-term business requirements and current liabilities of \$1,604,460 (December 31, 2018 - \$1,143,359). 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.

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at March 31, 2019:

	1 year		2 to 3 years		Total
Convertible debt – short-term (Note 8)	\$	731,293	\$	-	\$ 731,293
Convertible debt – long-term (Note 9)		-		2,087,133	2,087,133
Convertible debt – long-term (Note 9)		-		1,047,834	1,047,834
Convertible debt – long-term (Note 9)		-		529,452	529,452
	\$	731,293	\$	3,664,419	\$ 4,395,712

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at December 31, 2018:

	1 year		2 to 3 years		Total
Convertible debt – short-term (Note 8)	\$	922,192	\$	-	\$ 922,192
Convertible debt – long-term (Note 9)		-		1,964,895	1,964,895
Convertible debt – long-term (Note 9)		-		1,009,657	1,009,657
Convertible debt – long-term (Note 9)		-		550,068	550,068
	\$	922,192	\$	3,524,620	\$ 4,446,812

Other Market Risk

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.

The Company is exposed to currency risk with its foreign subsidiary which is funded from time to time in the subsidiary's currency. The Company is also exposed to currency risk with its other foreign business transactions.

The Company does not invest in derivatives to mitigate these risks.

As at March 31, 2019 and December 31, 2018, the Company's net exposure to foreign currency risk on its financial instruments is as follows:

	March 31, 2019		December 31, 2018	
	US Dollars	Australian Dollars	US Dollars	Australian Dollars
Cash	\$ 299	\$ 11,369	\$ 4,981	\$ 9,850
Accounts payable and accrued liabilities	(17,466)	(648,742)	(26,792)	(165,377)
	\$ (17,167)	\$ (637,373)	\$ (21,811)	\$ (155,527)

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

15. FINANCIAL INSTRUMENTS (Continued)

Other Market Risk (Continue)

Based on the above, assuming all other variables remain constant, a 10% (2018 - 10%) weakening or strengthening of the Canadian dollar against the US dollar and Australian would result in an increase/decrease of approximately \$5,950 (December 31, 2018 - \$1,627) in net income (loss).

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:

Three months ended March 31,	2019		2018	
Product Sales				
Canada	\$	1,381	\$	1,942
United States		1,650		453
Other		-		-
Total	\$	3,031	\$	2,395

As at March 31, 2019 and December 31, 2018, the Company's long-term assets were located in Canada and Australia as follows:

	March 31, 2019			December 31, 2018		
	Canada	Australia	Total	Canada	Australia	Total
Computer equipment	\$ 21,570	\$ 2,385	\$ 23,955	\$ 23,998	\$ 2,800	\$ 26,798
Computer software	437	-	437	485	-	485
Office equipment	24,574	-	24,574	25,867	-	25,867
Leasehold improvements	68,428	-	68,428	70,502	-	70,502
Right-of-use asset	465,847	-	465,847	-	-	-
Total	\$ 580,856	\$ 2,385	\$ 583,241	\$ 120,852	\$ 2,800	\$ 123,652

17. RIGHT-OF-USE ASSET AND LEASE LIABILITY

The Company has a lease agreement for the headquarter office space in Vancouver, British Columbia. Upon transition to IFRS 16, the Company recognized \$502,177 for a ROU asset and \$502,177 for a lease liability.

The continuity of the ROU asset and lease liability for the three months ended March 31, 2019 is as follows:

Right-of-use asset	
Value of right-of-use asset as at January 1, 2019	\$ 502,177
Amortization	(36,330)
Value of right-of-use asset as at March 31, 2019	\$ 465,847
Lease liability	
Lease liability recognized as of January 1, 2019	\$ 502,177
Lease payments	(40,567)
Lease interest	4,237
Lease liability recognized as of March 31, 2019	\$ 465,847
Current portion	\$ 146,978
Long-term portion	318,869
	\$ 465,847

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2019 and 2018

Unaudited - Expressed in Canadian Dollars

18. 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. For the three months ended March 31, 2019, the Company incurred \$40,834 (March 31, 2018 - \$40,567) in rent expense.

Payments committed for the next four years are as follows:

Year	Amount
2019	\$ 126,368
2020	168,704
2021	168,704
2022	56,988
	<u>\$ 520,764</u>

19. EVENTS AFTER THE REPORTING DATE

Subsequent to the quarter ended March 31, 2019:

- On April 16, 2019, the Company granted 500,000 stock options under the Company's stock option plan, to purchase common shares without par value in the Company's capital at an exercise price of \$0.07 per common share to a consultant for services to be received.
- The following stock options issued under the Company's stock option plan have expired since March 31, 2019:
 - 500,000 stock options issued to an employee on March 12, 2018, expired on May 1, 2019
 - 664,500 stock options issued to a consultant on May 18, 2017, expired on May 18, 2019
- On May 29, 2019, the Company entered into a loan agreement with the Company's Chief Executive Officer and Chairman, Mr. Stephen Van Deventer, whereby Mr. Van Deventer will loan the Company \$300,000 at an interest rate of 5% per annum, compounded semi-annually and payable at maturity. Per this agreement, Mr. Van Deventer, at his option, has the right to convert all or portion of the outstanding principal amount to fully-paid, non-assessable common shares in the capital of the Company at a deemed conversion price of \$0.06 per conversion share. In consideration for this loan, the Company will grant 5,000,000 transferable common share purchase warrants, at an exercise price of \$0.06 per share for a period of one year from date of grant.