The following management discussion and analysis ("MD&A") of the financial condition and results of operations of PreveCeutical Medical Inc. ("PreveCeutical" or the "Company") and its subsidiary, PreveCeutical (Australia) Pty Ltd. ("PreveCeutical (Australia))" constitutes management's review of the factors that affected the Company's financial and operating performance for the year ended December 31, 2019. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – *Continuous Disclosure Obligations*. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results for the period presented, are not necessarily indicative of the results that may be expected for any future period.

This MD&A should be read in conjunction with the audited consolidated financial statements, including the notes thereto, of the Company for the years ended December 31, 2019, and 2018.

The accompanying audited consolidated financial statements and related notes are presented in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements, together with the following MD&A, are intended to provide investors with a reasonable basis for assessing the financial performance of the Company as well as potential future performance.

Results are reported in Canadian dollars unless otherwise noted.

For the purposes of preparing this MD&A, management, in conjunction with the Company's board of directors (the "Board of Directors"), considers the materiality of information. Information is considered material if:

(i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of PreveCeutical's common shares;

(ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or

(iii) it would significantly alter the total mix of information available to investors. Management, in conjunction with the Board of Directors, evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Management is responsible for the preparation and integrity of the consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the consolidated financial statements and this MD&A, is complete and reliable.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian and U.S. securities laws. All statements, other than statements of historical fact, included herein, including, without limitation, statements regarding the Company's and PreveCeutical (Australia)'s, as applicable, future cash requirements, general business and economic conditions, the details of the Company's research programs, the proposed research and development services to be provided by UniQuest (as defined below), the anticipated business plans of the Company regarding the foregoing, the ability of the Company to bring its products to market, including a synthesized, Nature Identical™, version of CELLB9, the timing of future business activities and the prospects of their success for the Company, and the Company's ability and success in executing its proposed business plans, are forward-looking statements. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Often, but not always, forward-looking information can be identified by words such as "will", "pro forma", "plans", "aims", "expects", "may", "should", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates",

FORWARD-LOOKING STATEMENTS (Continued)

“believes”, “potential” or variations of such words including negative variations thereof, and by discussions of strategy or intentions. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company’s actual results or achievements to be materially different from any future results or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, the ability of the Company to obtain sufficient financing to fund its business activities and plans, the inability of the Company, UniQuest, Asterion (as defined below) or PreveCeutical (Australia) to, among other things, complete the Company’s research programs as planned, the inability of the Company to generate revenue through its products, including through the sale of the Licensed Sleep-Aid Products (as defined herein), the inability of the Company or PreveCeutical (Australia) to obtain any required governmental, regulatory or stock exchange approvals (including Canadian Securities Exchange (the “CSE”) approval), permits, consents or authorizations required to carry out any planned future activities, commercialise any therapeutics from the Company’s research programs, pursue business partnerships or complete its research programs as planned, risks related to joint venture operations and risks related to the integration of acquisitions, as well as those factors discussed under the heading “Risks and Uncertainties”. Other factors such as general economic, market or business conditions or changes in laws, regulations and policies affecting he biotechnology, medicinal cannabis or pharmaceutical industry, may also adversely affect the future results or performance of the Company.

The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance and that actual results are likely to differ, and may differ materially and adversely, from those expressed or implied by forward-looking statements contained in this MD&A. Forward-looking statements are made based on management’s beliefs, estimates and opinions on the date the statements are made and such beliefs, estimates and opinions may prove incorrect. For the reasons set out above, investors are cautioned against attributing undue certainty or placing undue reliance on to forward-looking statements.

DATE

This MD&A reflects information available as at April 27, 2020.

CORPORATE STRUCTURE

Name, Address and Incorporation

PreveCeutical Medical Inc., formerly Carrara Exploration Corp., was incorporated under the *Business Corporations Act* (British Columbia) on December 15, 2014.

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

The Company has a wholly-owned private Australian subsidiary, PreveCeutical (Australia) Pty Ltd (“PreveCeutical (Australia)”), incorporated in Queensland, Australia, on March 12, 2018.

Security Listings

PreveCeutical’s securities are listed on the CSE under the symbol “PREV”.

The Company also has its common shares listed for trading on the Frankfurt Stock Exchange under the symbol "18H" and on the OTCQB venture marketplace under the symbol "PRVCF".

CORPORATE STRUCTURE (Continued)

Changes in Directors and Officers

On February 13, 2019, the Company appointed Dr. Makarand Jawadekar as the Company's President, replacing Mr. Stephen Van Deventer. Dr. Jawadekar will continue to be the Company's Chief Science Officer and director. Mr. Van Deventer continues to be the Chair and Chief Executive Officer of the Company.

On May 31, 2019, Mr. Greg Reid resigned from his position as director of the Company.

On June 20, 2019, the Company appointed Mr. Keith Anderson and Mr. Mark Lotz as the Company's independent directors.

On September 1, 2019, Mr. Matt Coltura resigned from his position as director of the Company.

Share Structure

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 Company's common shares began trading on an ex-distribution basis on May 23, 2018. Each shareholder of record as of the close of business on the record date, May 24, 2018, received four additional common shares for each share held on the record date.

All of the Company's common shares and other securities and exercise prices included in the consolidated financial statements for the years ended December 31, 2019 and 2018, and this MD&A are reported on a post-Stock Split basis.

DESCRIPTION OF BUSINESS

PreveCeutical is a health sciences company that develops innovative options for preventive and curative therapies utilizing organic and nature identical products. The Company intends to secure the market share through a business to business strategy with the aim to build an extensive library of intellectual properties and enter into joint venture, development and licensing agreements with leaders in the pharmaceutical and cannabis industries.

During the year ended December 31, 2018, PreveCeutical had one product for sale, the CELLB9® Immune System Booster. The CellB9 inventory on hand was impaired during the year ended December 31, 2018, due to expiration of the product. PreveCeutical has temporarily discontinued its sale of CELLB9 due to supply issues and its intention is to create a synthesized, Nature Identical™, version of the CELLB9 product as part of its stabilization of Blue Scorpion Venom (the "BSV") research program, which is discussed further below.

As a result, the Company did incurred minimal costs in relation to the marketing of CELLB9 during the year ended December 31, 2019, and the Company does not expect to incur any such costs until the Nature Identical™ version of the CELLB9 product is brought to market.

The Company expects to have revenue when it brings additional products to market. The Company is working with its research team and its Chief Science Officer on the development and commercialization of certain products that are currently being researched by the Company. The Company is also actively looking at other products that it can bring to market.

DESCRIPTION OF BUSINESS (Continued)

The Company signed a licensing agreement (the "Licensing Agreement") on August 14, 2018, with Asterion Cannabis Inc. ("Asterion"). Under the Licensing Agreement, Asterion has granted the Company a non-exclusive worldwide license to use, manufacture, distribute and sell three natural health products, "Blissful Sleep" (NPN 80065538), "Blissful Sleep Ex" (NPN 80070168), and "Skullcap Serenity" (NPN 80067446) (collectively, the "Licensed Sleep-Aid Products").

The Licensing Agreement gives the Company a right to use Asterion's intellectual property to make or have made, use, distribute, sell, offer to sell and promote the Licensed Sleep Aid Products for an initial term of five years, renewable for five consecutive one-year terms. Pursuant to the Licensing Agreement, PreveCeutical will pay to Asterion a royalty equal to 20% of the gross sales from the Licensed Sleep Aid Products sold by PreveCeutical.

Medicinal Cannabis Division

The Company launched its medical cannabis division in July 2018. This division is responsible for bringing medicinal cannabis-based products to market and overseeing the Company's cannabinoid ("CBD") Program for the soluble gel ("Sol-gel") delivery of CBDs (the "CBD Program").

On September 26, 2018, the Company entered into a development and joint venture agreement (the "D&JVA") with Asterion to form a joint venture (the "Joint Venture") whereby PreveCeutical will assist Asterion in the development of a range of medicinal cannabis-based products through various research and development ("R&D") programs. Pursuant to the D&JVA,

(i) Asterion will be responsible for all costs related to the R&D programs adopted by the Joint Venture;

(ii) the intellectual property ("IP") and products developed by the Joint Venture during the term of the D&JVA will be owned 80% by Asterion and 20% by PreveCeutical; and

(iii) PreveCeutical will receive 20% of the net revenues generated from the IP and sale of products developed by the Joint Venture under the D&JVA.

There were no transactions in relation to the D&JVA during the year ended December 31, 2019.

On July 8, 2019, the Company and Asterion entered into an option to purchase agreement (the "Option Agreement"), whereby the Company granted to Asterion the right and option (the "Option") to purchase up to 51% of the Company's right, title and interest in and to certain intellectual property rights relating to the Company's sol-gel nasal IP.

To exercise the Option, Asterion will be required to make a series of cash payments to the Company in the aggregate amount of $2,652,000 as follows:

Payment Date	**Payment Amount (CAD)**	**Earned Interest (%)**
Effective Date	$325,000 (paid)	6.25%
July 22, 2019[(1)]	$325,000 (paid)	12.50% *(additional 6.25%)*
August 22, 2019[(1)]	$325,000	18.75% *(additional 6.25%)*
September 22, 2019[(1)]	$390,000	26.25% *(additional 7.50%)*
October 22, 2019	$390,000	33.75% *(additional 7.50%)*
November 22, 2019	$390,000	41.25% *(additional 7.50%)*
December 22, 2019	$507,000	51.00% *(additional 9.75%)*
TOTAL:	**$2,652,000**	**51%**

DESCRIPTION OF BUSINESS (Continued)

Medicinal Cannabis Division (Continued)

Note:
(1) As at December 31, 2019, the Company has received $653,145 under the Option Agreement. The Company has waived its right to deliver a termination notice to Asterion in respect of the termination of the Option Agreement as a result of such late payments until June 15, 2020.

By making all of the above cash payments to the Company, Asterion will be deemed to have exercised the Option in full; provided that prior to the exercise of the Option in full, Asterion will be deemed for all purposes to have acquired the various interests in and to the Sol-Gel IP, upon making the corresponding payment amounts to the Company as set forth in the above table. Upon the earlier of ten days after the date of the exercise by Asterion of the Option in full and December 22, 2019, the Company and Asterion will be deemed to have entered into a joint venture for the continued development and commercialization of the Sol-Gel IP.

Prior to the earlier of ten days after the date of the exercise of the option in full by Asterion and December 22, 2019, the Company has the right to buy-back all of the earned interest earned by Asterion to the date of the buy back for an amount equal to 150% of the aggregate amount of all cash payments made by Asterion. The Company has to provide a written notice to Asterion of the buy-back intention.

Agreements with Asterion are 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.

RESEARCH AND DEVELOPMENT

The Company currently has a number of ongoing R&D projects through which it plans to bring an array of innovative therapies to market. Four of the Company's R&D projects outlined below are currently being conducted by its research partner, the University of Queensland ("UQ") and UniQuest Pty Limited ("UniQuest"). The Company has also entered into a joint venture project with Sports1 Marketing Inc. to develop a new sports drink that aims to assist sports players in recovering from concussions.

The R&D projects that are conducted in Australia are managed by PreveCeutical (Australia) providing the Company with better access to expertise and partnerships for its drug development programs. Australia has specialized hospitals with preeminent clinical trial capabilities as well as the diverse patient populations needed for the range of products that PreveCeutical is currently developing.

Stabilisation of Blue Scorpion Venom ("BSV")

The Company undertook the research of stabilisation of BSV program which was conducted by its research partners the University of Queensland ("UQ") and UniQuest Pty Limited ("UniQuest"). This program was successfully completed in October 2019 and the final report received by the Company is being evaluated. Under this program, four lead peptides were evaluated in a two compartment cell-based invasion model. These peptides exhibited a slowing of invasion in all cell lines tested. These peptides also showed modest suppression of a cancer cell biomarker responsible for driving metastasis, as well as drug and immune system resistance in brain cancer. time frame two lead peptides had already internalised into the cell demonstrating their rapid uptake, and so surface binding could not be captured. The Company is working with its patent attorneys on protecting the peptides by creating patents for these. The next steps for the Company will be to go the through subsequent stages of drug development/validation and (pre)clinical evaluation for the lead peptides identified.

In addition to the completed BSV program, the Company has the following R&D programs being conducted in Australia:

RESEARCH AND DEVELOPMENT (Continued)

Sol-gels for Nasal Delivery of Cannabinoids

PreveCeutical has partnered with UQ and UniQuest for the development and evaluation of translatable formulations for systemic/central nervous system ("CNS") delivery. The focus of the CBD Program is to develop a cannabinoid-based nose-to-brain delivery system intended to provide relief for a range of ailments including pain, inflammation, seizures and neurological disorders. Engineered Sol-gels present an ideal platform for achieving this aim as they are in-solution upon administration, and rapidly gelate when warming as a result of contact with mucosal tissue. The Company believes that the Sol-gels will pave the way for safer and more reliable drug delivery for agents such as CBDs that are rapidly metabolized or that would benefit from direct nose-to-brain CNS delivery.

The cannabis-derived materials and ingredient information for testing are being supplied by Aurora Cannabis Inc., a licensed producer of medical cannabis under Health Canada's Access to Cannabis for Medical Purposes Regulations, in accordance with an R&D supply agreement dated September 19, 2017 (the "R&D Supply Agreement").

The CBD Program commenced in the third quarter of 2017 and is progressing well. As at December 31, 2019, this program was 68% completed, with the following highlights:

- Completion of chemical fingerprinting via HPLC of plant-derived cannabinoids.
- Completion of trial of devices with differing nozzle designs using an in-house developed inhalation model is complete.
- An optimal spray profile for nose-to-brain delivery has been achieved with a custom device, when administered in a human adult nasal cast.
- Ethics approval to access human nasal mucosal tissue for the toxicity evaluation and tissue disposition studies has been obtained and the studies are in progress.
- Acute nasal toxicity evaluation has been completed, with the cannabinoid-infused sol-gel displaying negligible toxicity when applied to human nasal mucosal tissue as confirmed by a clinical biomarker detection assay, and complemented by histopathological evaluation of tissue.

Smart siRNA for the Treatment of Diabetes and Obesity

The program that is researching the development of Smart-siRNAs for the treatment of diabetes and obesity is being researched (the "D&O Program") commenced at UQ in July 2019. This program encompasses three distinct phases spanning over three years.

In the D&O Program, through rational design and systematic evaluation, select targeted bio-responsive gene carrier-and-release systems are anticipated to deliver Smart-siRNA's to target cells. With effective gene-silencing optimized, the program aims to target the single gene implicated in both type 2 diabetes and obesity. The program expects to demonstrate that this strategy is safe and effective in appropriate preclinical (mice) models of type 2 diabetes and obesity, paving the way for broader pre-clinical safety and efficacy evaluations.

The Program focuses on the library design of bio-responsive gene carrier-and-release ("BGCR") systems, where almost 200 carrier system constructs have now been rationally designed, taking into account a range of head group chemistries and charge as well as a panel of ligands that promote self-assembly and targeting.

Screening of a panel of first-generation siRNA sequences against PTP-1B in mouse-derived cells has commenced, with promising levels of silencing recorded for the novel sequences. A series of in-house cell models of diabetes and obesity in which the novel siRNAs are being screened successfully developed and optimized.

RESEARCH AND DEVELOPMENT (Continued)

Smart siRNA for the Treatment of Diabetes and Obesity (Continued)

A table of novel nucleic acid compositions consisting of more than 150 gene sequences against human PTP1B that contrast from those that are already reported and protected by intellectual property rights has been created.

All the cell-based studies are now in progress in mouse-derived and this program has now progressed towards re-designing the constructs to be applicable to PTP-1B gene silencing in mice

The select lead siRNA candidates are being re-designing into Smart-siRNA constructs using proprietary chemistry. The designed, synthesized and purified these Smart-siRNA have been re-evaluated in vitro, and were shown to maintain their gene silencing ability, while now being amenable to withstanding the stability challenges expected when trialled in vivo.

As at December 31, 2019, theD&O Program was 45% complete.

Disulfide Linker Technology in Engineering Analgesic Peptides

This R&D program, which commenced in July 2018, is being conducted to extend the application of the disulfide linker technology in engineering pain relieving peptides for moderate to severe pain and inflammatory conditions (the “Linker Program”). The Linker Program involves peptide library synthesis, pharmacological evaluation, alongside pharmacokinetic assessment and efficacy determinations in appropriate animal models of pain and inflammation. As at December 31, 2019, this program was 58% complete.

High throughput screening of 50-peptide library across the main opioid receptor sub-types is complete.

Some peptides have been identified as showing exceptional selectivity for the target receptor sub-type of interest, with encouraging potency also recorded. These lead candidates are being further scrutinized *in silico* to facilitate their refined design and the aim of further enhancing potency and biostability.

Ethics approvals detailing the complete study plan for the screening of lead peptide candidates in animals (rat models of pain/inflammation) were drafted, reviewed in-house and final submissions made to UQ’s animal ethics committee, and this has subsequently been approved by UQ.

The vast majority of peptide candidates have now been ranked with select, lead peptides being nominated for preclinical evaluation. The first lead candidate has progressed through an in vivo ‘dose finding’ study, with the optimal dose confirmed, the activity of each lead peptide in preclinical studies will be determined.

Management has not yet determined whether these programs have a value that is economically recoverable, and management continues to evaluate the same to assess whether additional efforts and funds should be allocated to such projects.

OVERALL PERFORMANCE

During the year ended December 31, 2019, the Company continued to work on business development and financing including:

- Considering new partnerships with respect to its Sol-gel drug delivery system.

OVERALL PERFORMANCE (Continued)

- Signing the Option Agreement with Asterion, granting Asterion to purchase up to 51% of the Company's right, title, and interest in and to certain intellectual property rights relating to the Sol-gel drug delivery system (the "Sol-gel IP").
- Planning the manufacturing and production of the Licenced Sleep Aid Products under the Licensing Agreement with Asterion.
- Successfully closing a $0.05 non-brokered private placement of units (each a "Unit") for gross proceeds of $305,000 on February 11, 2019, (the "February 2019 Private Placement"). Each Unit was comprised of one common share in the capital of the Company and one common share purchase warrant, with each warrant entitling the holder to acquire one additional common share in the capital of the Company at a price of $0.08 per share for a period of 24 months from the closing of the February 2019 Private Placement.
- Entering into a loan agreement with the Company's Chief Executive Officer ("CEO") in the principal amount of $300,000.
- Receiving advances in the aggregate amount of $68,650 by way of callable debt from the Company's CEO, Chief Financial Officer ("CFO"), a related employee, and the Company's former President. As of December 31, 2019, $16,150 of the total amount is outstanding.
- Collaborating with UQ and UniQuest in the filing with the Australian Patent Office of two new patent applications for cyclic peptides and their use in pain management.
- Appointing two new members to the Company's board of directors.
- Appointing a Corporate Governance and Nominating Committee of the Board and adopting a Corporate Governance and Nominating Committee Charter.
- Preparing for the research and development tax incentive application and report for the Australian Taxation Office.

As products and therapies are developed through the Company's R&D programs, the Company anticipates that it will either enter into strategic partnerships to manufacture and market such products or it will license the intellectual property to other companies.

For the year ended December 31, 2019, the Company continued to focus on business development, identifying strategic business partners and its research programs. These programs continue to be funded by equity and debt.

As the Company does not have a revenue income stream at this time, the cost of operations and meeting of commitments are currently being financed by funding from equity and debt. To ensure that the Company has funding to continue its operation, management has taken a number of steps that are outlined under the Liquidity and Capital Resources section.

At December 31, 2019, the Company had a cash balance of $28,480, and working capital deficiency of $1,546,563 compared to a cash balance of $64,329 and working capital of $194,510 at December 31, 2018.

For the year ended December 31, 2019, the Company's funding included equity funding with the closing of the February 2019 Private Placement and debt funding. The callable debt and the short term and long-term convertible debts are with related parties of the Company.

OVERALL PERFORMANCE (Continued)

Selected Financial Information

As at December 31	**2019**	**2018**	**2017**
Cash	$28,480	$64,329	$104,478
Total assets	$857,638	$1,902,076	$2,599,660
Non-current liabilities	$3,509,608	$3,043,888	$2,639,509
Total liabilities	$5,344,418	$4,187,247	$2,944,000
Working capital (deficiency)	$(1,546,563)	$194,510	$1,066,337
Deficit	$23,684,562	$21,632,660	$10,482,108
Shareholders' deficiency	$4,486,780	$2,285,171	$344,340

Selected Operating Information

For the year ended December 31	**2019**	**2018**	**2017**
Revenues	$3,031	$15,452	$22,234
Net loss and comprehensive loss	$3,477,593	$11,884,156	$7,231,885
Net loss per share	$0.009	$0.037	$0.032

FINANCIAL RESULTS OF OPERATION

During the year ended December 31, 2019, the Company continued its focus on developing its product line and identifying, reviewing and commissioning additional products for manufacturing, marketing,R&D, and securing additional funding for its operations. The Company successfully closed the February 2019 Private Placement on February 11, 2019, giving the Company added liquidity.

The Company's deficit at December 31, 2019 of $23,684,588, includes the costs of the reverse takeover and listing costs of $2,585,202 incurred in the year ended December 31, 2017, and loss on modification of convertible debt in the amount of $1,404,677 recorded during the year ended December 31, 2018.

The Company had a net loss and comprehensive loss of $3,477,593 for the year ended December 31, 2019, compared to $11,884,156 for the year ended December 31, 2018. Revenue for the year ended December 31, 2019, was $3,031 compared to $15,452 for the year ended December 31, 2018.

Operating expenses including cost of sales were $3,510,370 for the year ended December 31, 2019, compared to $6,995,670 for the year ended December 31, 2018, as detailed below.

Other expenses, other losses, income tax recovery, and foreign exchange gain on translating foreign operations for the year ended December 31, 2019, was $732,581 compared to $4,948,354 for the year ended December 31, 2018.

Other income, relating to option payments, was $653,145 for the year ended December 31, 2019. Other revenue in the year ended December 31, 2018 was $4,094.

The decrease in other expenses of $4,215,773 for the year ended December 31, 2019, compared to the year ended December 31, 2018 was due to:

FINANCIAL RESULTS OF OPERATION (Continued)

- Impairment of marketing and promotion prepaids in the amount of $2,775,000 was recorded during the year ended December 31, 2018. There were no impairments recorded during the year ended December 31, 2019.
- For the year ended December 31, 2018, the Company had recorded a loss in the amount of $1,582,658 for the modification of the convertible debts. This loss related to the reduction in conversion price for the convertible debts from $0.10 per share to $0.06 per share, a reduction of $0.04 per share. There was no debt modification loss recorded for the year ended December 31, 2019.

This was offset by:

- Foreign exchange loss on translating foreign operations was higher by $112,272 for the year ended December 31, 2019 ($153,894) compared to the year ended December 31, 2018 ($41,622) due to the changes in the value of the Canadian dollar compared to the Australian dollar.
- Interest expense being higher by $23,663 for the year ended December 31, 2019 ($232,900), compared to the year ended December 31, 2018 ($209,237), due to an increase in debt and recording of $20,854 for interest for lease liability. Interest accrued on the outstanding callable and convertible debt was $212,046 for the year ended December 31, 2019.

  The convertible debts and the loan from the CEO bears an interest rate of 5%. As at December 31, 2019, the balance for interest bearing callable debt, including accrued interest, was $308,950. The balance for the short-term convertible debt was $767,647 ($607,978 at December 31,2018), including accrued interest which was not paid during the period and accretion of interest The long-term convertible debt balance at December 31, 2019, was $3,296,995, an increase of $253,107 from December 31, 2018 ($3,043,888 at December 31, 2018). The increase was due to additional funding from the Lenders required for the operations of the Company, accrual of interest not paid out and accretion of interest. This debt is classified as long-term debt as the Lenders have signed a waiver by which there will be no demand on the funds until July 31, 2021.
- Accretion expenses of $345,787 for the year ended December 31, 2019 was $5,950 higher than for the year ended December 31, 2018 ($339,837), due to the increase in the convertible debt.

Income tax recovery recorded for the year ended December 31, 2019 was $7,875, which was $32,473 lower than for the year ended December 31, 2018 ($40,348). The income tax recovery relates to the changes in the convertible debt during the period.

For the year ended December 31, 2019, the Company received revenue of $3,031 from online sales of CELLB9, with a gross profit of $2,252. CELLB9 inventory was impaired during the year ended December 31, 2018. For the year ended December 31, 2018, the revenue from online sales was $15,452, with a gross profit of $10,729.

Expenses for the year ended December 31, 2019, amounted to $3,509,591, which was $3,481,356 lower than the year ended December 31, 2018 ($6,990,947). For the year ended December 31, 2019, the Company continued to work on efficiencies and cost reduction strategies which accounted for lower expense as outlined below:

- The R&D costs of $1,667,847 for the year ended December 31, 2019, was $696,618 lower than for the year ended December 31, 2018 ($2,364,465). These costs are for the four R&D projects previously mentioned, amortization of the R&D Supply Agreement and fees paid for R&D related consulting. This was partly due to the stabilisation of BSV program was completed in October 2019.

FINANCIAL RESULTS OF OPERATION (Continued)

- Share-based compensation for the year ended December 31, 2019, was $433,443 compared to $1,105,178 for the year ended December 31, 2018, a decrease of $671,735. This expense was lower as few stock options and performance warrants were granted or vested during the year ended December 31, 2019.
- Business development and investor relations expenses for the year ended December 31, 2019, was $614,650 lower than for the year ended December 31, 2018 ($293,405 for the year ended December 31, 2019, compared to $908,055 for the year ended December 31, 2018). The decrease relates to the Company's cost reduction strategies.
- Salary, wages and consulting costs were $447,603 lower during the year ended December 31, 2019, compared to the year ended December 31, 2018 ($343,313 for the year ended December 31, 2019 compared to $790,916 for the year ended December 31, 2018). The decrease relates to reduction in consulting services , in staff hours and decrease in employee salaries for the year ended December 31, 2019, as part of the cost reduction strategies.
- Marketing and promotion expenses for the year ended December 31, 2019, was $4,808 compared to $383,719 for the year ended December 31, 2018. The decrease of $378,911 relates to the reduction in marketing initiatives as the Company is currently not promoting its product, CELLB9, and reduced consulting services expenses for marketing and promotions.
- Travel, meals and vehicle expenses for the year ended December 31, 2019, was $16,412 compared to $368,540 for the year ended December 31, 2018, a decrease of $352,128. The travel costs for the year ended December 31, 2018, was higher as the Company was working on establishing its subsidiary in Australia.
- With the adoption of IFRS 16 Leases, and change in accounting policy, payments to the landlord for the lease payments were not recorded as rental expense for the year ended December 31, 2019, thus reducing the rent expenses for the year ended December 31, 2019. Please refer to the "Changes in Accounting Policy" section below. Additionally, there was a rent reimbursement for the year ended December 31, 2019. This lowered the rent by $238,092 compared to the rent expense for the year ended December 31, 2018, (recovery of $65,329 for the year ended December 31, 2019 compared to expense of $172,763 for the year ended December 31, 2019). The Company receives rent reimbursements from Asterion with whom the Company has been sharing the office space since November 2018.
- Professional fees for the year ended December 31, 2019, were $536,348 compared to $664,559 for the year ended December 31, 2018. The decrease of $128,211 was mostly due to a decrease in legal costs. For the year ended December 31, 2018, the Company incurred additional legal costs in relation to preparing and review of the various contracts the Company has entered into and for preparation of documents in relation to a TSX Venture Exchange listing application.
- For the year ended December 31, 2018, the company recorded an expense of $53,043 for the impairment of its inventory was which was due to the expiration of the CELLB9 product. There was no inventory impairment for the year ended December 31, 2019.

These decreases were offset by and increase of $138,169 in the amortization expense for the year ended December 31, 2019. Amortization expense for the year ended December 31, 2019 was $174,458 compared to $36,289 for the year ended December 31, 2018. The increase relates to the change in accounting principles with the adoption of IFRS 16, Leases, whereby the lease is capitalized as a right-of-use asset and amortized over the lease period. Amortization of $146,564 was recorded during the year ended December 31, 2019 in relation to the capitalization of the lease as right-of use asset.

FINANCIAL RESULTS OF OPERATION (Continued)

The balance of the remaining expenses for the year ended December 31, 2019, was $104,886 compared to $143,420 for the year ended December 31, 2018, a decrease of $38,534. The decrease is mostly due to a reduction in insurance and general expenses.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial information prepared in accordance with IFRS for each of the last eight quarters ended December 31, 2019.

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Revenue	$0	$0	$0	$3,031	$809	$1,017	$11,231	$2,395
Net income (loss)	$76,408	($610,772)	($1,713,827)	($1,177,893)	($5,686,304)	($2,614,692)	($2,165,884)	($1,417,250)
Comprehensive loss for the period	$40,268	$576,772	$1,681,977	$1,178,576	$5,732,671	$2,574,065	$2,160,170	$1,417,250
Basic and diluted loss per share	$0.000	$0.001	$0.004	$0.003	$0.015	$0.007	$0.009	$0.006
Cash	$28,480	$6,602	$37,545	$64,893	$64,329	$855,497	$2,859,606	$204,038
Working capital/(deficiency)	($1,546,563)	($1,864,724)	($1,476,636)	($207,445)	$194,510	$2,873,475	$4,857,332	$262,418
Total assets	$857,638	$1,364,533	$1,752,329	$2,230,577	$1,902,077	$4,569,178	$7,531,015	$2,428,429
Total liabilities	$5,344,418	$6,312,840	$6,130,929	$5,285,990	$4,187,247	$3,603,699	$4,239,019	$3,841,755
Deficit	$23,684,588	$23,499,746	$24,198,644	$22,664,080	$21,632,660	$16,648,069	$14,035,792	$11,899,358
Shareholders' equity (deficiency)	($4,486,780)	($4,948,307)	($4,378,600)	($3,055,413)	$(2,285,171)	$965,479	3,391,996	($1,413,326)

The quarterly operating results continue to meet management's expectations. The Company continues to depend on funding for its operations, including the R&D programs, from equity and debt financing.

Q4 2018 had a higher loss than other quarters due to the impairment of prepaid agreements ($2,775,000) and loss on modification of convertible debt ($1,582,658).

The comprehensive loss of $40,268 in Q4 2019 was lower that in Q4 2018 ($5,732,671). The Q4 2018 comprehensive loss was mostly related to the impairment of the prepaid agreements and loss on modification of convertible debt.

LIQUIDITY AND CAPITAL RESOURCES

The Company's revenue at the beginning of the year ended December 31, 2019 was from the sale of CELLB9. Until the Company starts to market additional products, it continues to depend on equity and debt for funding.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

The Company received $653,145 during the year ended December 31, 2019 for the Option Agreement with Asterion. The Company will be receiving further funds under this agreement during the year 2020.

As at December 31, 2019, the Company had a working capital deficiency of $1,546,563 and cash of $28,480 compared to working capital of $194,510 and a cash balance of $64,329 as at December 31, 2018.

As at December 31, 2019, the Company has two lease commitments. The Company entered into a lease with Golden Properties Ltd. for the leasing of office space starting May 1, 2017. The initial lease period is five years with an option to renew for five more years. On July 1, 2017, the Company entered into a lease agreement with Xerox Canada Ltd. for the leasing of equipment for a period of five years.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

The annual commitment is as follows:

	Rent	Equipment	Total
2020	164,184	4,520	168,704
2021	164,184	4,520	168,704
2022	54,728	2,260	56,988
TOTAL	**$ 383,096**	**$ 11,300**	**$ 394,396**

Management continues to take steps to ensure that the Company has funds to pay for its obligations and continue its operation. These include:

1. Securing investment in the Company by way of private placements including the February 2019 Private Placement described under the Overall Performance above.

2. Issuing warrants as part of the Company's non-brokered private placements. Exercise of any such warrants will provide more funding for the Company. The exercise of such warrants is dependent primarily on the market price and overall market liquidity of the Company's securities at or near the expiry date of such warrants (over which the Company has no control), and therefore there can be no guarantee that any existing warrants will be exercised.

3. Entering into convertible credit facility agreements with the founders of the Company, Kimberly Van Deventer (former President and Director of the Company) and Stephen Van Deventer (CEO and Director of the Company) (collectively, the "Lenders") as follows:

   December 9, 2016

   This agreement was originally for the principal amount of up to one million dollars. This was amended on March 31, 2017, increasing the principal amount to two million dollars. Under the terms of the agreement and waiver in respect of same, the amount of outstanding principal and accrued interest thereon under the credit facility is convertible, after October 28, 2017, into common shares in the capital of the Company at the price of $0.10 per share (amended to $0.06 per share on April 20, 2018). As December 31, 2019, the Company has drawn $1,949,248 under the agreement, which bears simple interest at 5% per annum. The Lenders have signed a waiver by which there will be no demand on the funds until July 31, 2021.

   May 9, 2017

   On May 9, 2017, the Company entered into an additional convertible credit facility agreement with the Lenders in the principal amount of one million dollars to be used towards the operations of the Company. Under the terms of the agreement and waiver in respect of same, 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 in the capital of the Company and one common share purchase warrant entitling the holder to purchase one common share in the capital of the Company at the price of $0.20 per share for a period of twenty-four months after the issuance of the units, subject to acceleration. Funds borrowed under this agreement bear simple interest at 5% per annum and are convertible at a price of $0.10 per unit (amended to $0.06 per unit on April 20, 2018). As at December 31, 2019, the Company has drawn $975,500 under this credit facility. The amount can be further increased if required, at the election of the Company. The Lenders have signed a waiver by which there will be no demand on the funds until July 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES (Continued)

January 26, 2018

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 May 9, 2017 facility above. Thereby, the terms of the facility entered into on May 9, 2017, apply to the January 26, 2018, agreement. 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 (amended to $0.06 per unit on April 20, 2018). As at December 31, 2019, the Company has drawn the full amount of $500,000 under this agreement.

March 28, 2018

On March 28, 2018, the Company entered into a credit facility agreement (as amended) with its former President, Ms. Kimberly Van Deventer, for $700,000. Under the terms of this credit facility, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible into common shares of the Company at the option of Ms. Van Deventer at $0.10 per share (amended to $0.06 per unit on April 20, 2018). On March 28, 2019, the maturity date of this credit facility agreement was extended to the earlier of (i) March 29, 2020, and (ii) the date upon which a declaration is made pursuant to the terms of the agreement. The maturity date may be further extended by Ms. Van Deventer, providing written notice to the Company. As at December 31, 2019, the Company has drawn $695,000 under this agreement.

4. Entering into a loan agreement with the Company's CEO and Chairman, Mr. Stephen Van Deventer, whereby Mr. Van Deventer loaned the Company a principal sum of $300,000. In consideration for this loan, the Company has granted 5,000,000 transferable common share purchase warrants to Mr. Van Deventer, each warrant entitling Mr. Van Deventer to purchase one common share in the capital of the Company at an exercise price equal to $0.06 per share for a period of one year from the date of grant. As at September 30, 2019, the Company has drawn the full amount of $300,000 under this agreement.

5. Receiving advances in the aggregate amount of $16,150 by way of callable debt from the Company's CEO, CFO, a related employee, a related company, and the past President.

6. The Company is continuing to look into other funding, including grants in Australia for R&D.

RELATED PARTY TRANSACTIONS

1. Management

During the year ended December 31, 2019, compensation to management and directors included:

- Consulting fees in the amount of $79,531 for Dr. Makarand Jawadekar, PreveCeutical's President, Chief Science Officer and Director.
- Salary and benefits to Shabira Rajan, PreveCeutical's Chief Financial Officer and Controller in the amount of $63,447.
- Salary and benefits to Stephen Van Deventer, PreveCeutical's Chairman and Chief Executive Officer in the amount of $113,749.

2. Cornerstone Global Partnership Inc. ("CGP")

CGP is a corporation owned by the Company's Chief Executive Officer and Chairman, Mr. Stephen Van Deventer and the Company's former President, Ms. Kimberly Van Deventer.

RELATED PARTY TRANSACTIONS (Continued)

2. Cornerstone Global Partnership Inc. ("CGP") (Continued)

Royalties payable to CGP in the amount of $139 was accrued for the year ended December 31, 2019. As at the ended of December 3010, 2019, the Company owed CGP $425 relating to royalties.

For the year ended December 31, 2019, CGP had invoiced the Company $80,850 for services provided by Ms. Kimberly Van Deventer. As at December 31, 2019, the Company owed CGP $48,143 in relation to these services.

3. Short term loan

The Company entered into a six-month loan agreement in the amount of $300,000 with Mr. Stephen Van Deventer on May 29, 2019, with an interest of 5% per annum compounded semi-annually. For the year ended December 31, 2019, interest in the amount of $8,950 was accrued for this loan. On February 21, 2020, the maturity date was amended from November 29, 2019 to May 29, 2020.

CGP loaned the Company $3,000 on July 5, 2019. No interest was payable on this loan. This amount was outstanding at December 31, 2019.

Sydney Cole, an employee related to the Company's CEO, loaned the Company $3,000 on September 25, 2019, $2,000 on September 26, 2019 and $650 on December 12, 2019. No interest was payable on this loan. Total loan payble to Ms. Cole in the amount of $5,650 was outstanding at December 31, 2019.

On November 27, 2019, Stephen Van Deventer, Chief Executive Officer of the Company loaned $1,500 to the Company. No interest was payable on this loan. The amount outstanding at December 31, 2019 was $1,500.

On November 27, 2019, Shabira Rajan, Chief Financial Officer of the Company loaned $1,500 to the Company. No interest was payable on this loan. This amount outstanding at December 31, 2019 was $1,500.

Ms. Kimberly Van Deventer, the Company's shareholder and former President, lent the Company $3,000 on November 27, 2019. No interest was payable on this loan, and this amount was outstanding as at December 31, 2019.

4. Convertible loan (Credit Facility Agreements)

Credit facility agreements were entered into with the Lenders for funding of the Company's working capital shortfall. The initial agreement was entered into on December 9, 2016, and amended on March 31, 2017, in the principal amount of $2 million (the "December 2016 Debt").

For the year ended December 31, 2019, accrued interest under this facility, at a 5% simple interest rate per annum, amounted to $94,820 ($91,738 for the year ended December 31, 2018). This facility is categorized as long-term debt as the lenders have signed a waiver by which there will be no demand on the funds until July 31, 2021.

The Company entered into a second credit facility agreement with the Lenders in the amount of $1 million on May 9, 2017, to cover additional operational costs. For the year ended December 31, 2019, accrued interest under this credit facility, at a 5% simple interest rate per annum, amounted to $48,775 ($45,025 for the year ended December 31, 2018). This facility is categorized as long-term

RELATED PARTY TRANSACTIONS (Continued)

4. **Convertible loan** (Credit Facility Agreements) (Continued)

debt as the lenders have signed a waiver by which there will be no demand on the funds until July 31, 2021.

The Company entered into an agreement with the Lenders in the amount of $500,000 on January 26, 2018, to cover additional research, development and operational costs. For the year ended December 31, 2019, accrued interest under this credit facility, at a 5% simple interest rate per annum, amounted to $24,940 ($23,288 for the year ended December 31, 2018).

The Company entered into a credit facility agreement with the former President of the Company, Ms. Kimberly Van Deventer, in the amount of $700,000 on March 28, 2018 (as amended), to cover additional operational costs. For the year ended December 31, 2019, accrued interest under this credit facility, at a 5% simple interest rate per annum, amounted to $34,501 ($27,975 for the year ended December 31, 2018).

5. **Asterion (shared rent and general cost agreement)**

On November 1, 2018, the Company entered into a shared rent and general cost agreement with Asterion whereby Asterion would reimburse costs related to the 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. For the year ended December 31, 2019, Asterion reimbursed the Company $82,742 ($13,611 for the year ended December 31, 2018) for rent and parking and $8,917 ($2,082 for the year ended December 31, 2018) for administrative costs.

CHANGES IN ACCOUNTING POLICIES

The accounting policies applied in the preparation of the consolidated financial statements are disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2019.

IFRS 16 *Leases*

The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach. The impact of the adoption is discussed on Note 19 of the annual consolidated financial statements for the year ended December 31, 2019. The comparative figures for the 2018 reporting period have not been restated and are accounted for under IAS 17 Leases, and IFRIC 4 Determining. Whether an Arrangement Contains a Lease, as permitted under the specific transitional provisions in the standard. 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

CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 16 *Leases* (Continued)

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 as set. 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 asset” and the lease liabilities are presented in “Lease liability” on the consolidated balance sheet.

The Company currently has a lease agreement for the Company’s headquarter office space in Vancouver, British Columbia, upon transition to IFRS 16, *Lease*, the Company recognized $502,177 for a ROU and $502,177 for lease liability. On a monthly basis, the Company will record lease payments and amortization. For the year ended December 31, 2019, the Company recorded $146,564 for amortization of the ROU, payment of $163,439 against the lease liability, and interest of $20,854 for lease expense.

OUTSTANDING SHARE DATA

On January 19, 2019, 2,500,000 stock options that were granted to a consultant at an exercise price of $0.10 per one common share of the Company were forfeited.

On January 30, 2019, 3,901,889 stock options that were granted to a consultant at an exercise price of $0.135 per one common share of the Company expired.

OUTSTANDING SHARE DATA (Continued)

On February 11, 2019, the Company issued 6,100,000 Units (Consisting of one common share of the Company and one common share purchase warrant) at a price of $0.05 per Unit through a private placement. 160,000 Units and 224,000 broker warrants were issued as finders' fees in relation to this private placement.

On February 28, 2019, 500,000 stock options that were granted to a consultant at an exercise price of $0.09 per one common share of the Company expired.

On April 16, 2019, 500,000 stock options to purchase the Company's common shares were granted to a consultant at an exercise price of $0.07 per common share for a period of one year.

On May 1, 2019, 500,000 stock options that were granted to an employee at an exercise price of $0.09 per one common share of the Company were forfeited.

On May 18, 2019, 664,500 stock options that were granted to various consultants at an exercise price of $0.132 per one common share of the Company expired.

On May 29, 2019, 5,000,000 bonus warrants at an exercise price of $0.06 per one common share of the Company were issued to the Chief Executive Officer of the Company in connection with the debt financing of $300,000.

On June 30, 2019, 21,356,000 warrants issued under the June 2017 private placement at an exercise price of $0.20 per one common share of the Company expired.

On August 29, 1,500,000 stock options granted to a former director of the Company at an exercise price of $0.05 per one common share of the Company were forfeited.

On August 29, 2019, 1,100,000 stock options granted to certain consultants at an exercise price of $0.162 per common share of the Company expired.

On September 19, 2019, 12,820,515 supply options, granted to a supplier at an exercise price of $0.156 per common share of the Company, expired.

On November 5, 2019, 200,000 stock options were granted and vested to two directors of the Company at an exercise price of $0.025 for a period of two years.

As at December 31, 2019:

(i) the Company had 396,448,905 common shares issued and outstanding;
(ii) the Company had 166,635,350 common share purchase warrants outstanding;
(iii) the Company had 6,685,600 broker common share purchase warrants outstanding; and
(iv) the Company had 15,282,840 stock options and supplier agreement options outstanding.

On January 13, 2020, 500,000 stock options that were granted to an employee at an exercise price of $0.10 per one common share of the Company were forfeited.

On April 14, 2020, 500,000 stock options that were granted to an employee at an exercise price of $0.10 per one common share of the Company were forfeited.

On April 16, 2020, 500,000 stock options granted to a certain consultant at an exercise price of $0.07 per common share of the Company expired.

OUTSTANDING SHARE DATA (Continued)

As at April 27, 2020:

(v) the Company had 396,448,905 common shares issued and outstanding;
(vi) the Company had 166,635,350 common share purchase warrants outstanding;
(vii) the Company had 6,685,600 broker common share purchase warrants outstanding; and
(viii) the Company had 13,782,840 stock options and supplier agreement options outstanding.

As at December 31, 2018:

(i) the Company had 390,188,905 common shares issued and outstanding;
(ii) the Company had 170,205,750 common share purchase warrants outstanding;
(iii) the Company had 6,301,600 broker common share purchase warrants outstanding; and
(iv) the Company had 38,069,744 stock options and supplier agreement optionsoutstanding.

FINANCIAL INSTRUMENTS

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides descriptions and measurement of the significant risks as at December 31, 2019:

Interest Rate Risk

The Company is funded by equity and debt. As the current debt is with the Company's related parties and is at a fixed simple interest rate there is no current impact on interest rate fluctuations and the Company considers interest rate risk on outstanding loans not to be significant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due, or can only do so at an excessive cost.

The Company manages its liquidity risk by maintaining adequate financing from related party facilities, 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.

As at December 31, 2019, the Company had working capital deficiency of $1,546,563 compared to the working capital at December 31, 2018, of $194,510. This included cash of $28,480 ($64,329 at December 31, 2018) available to meet short-term business requirements and current liabilities of $1,834,810 ($1,143,359 at December 31, 2018). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The callable debt and convertible debt are due on demand.

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

	1 year	2 to 3 years	Total
Short-term debt	325,100	-	325,100
Convertible debt – short-term	757,476	-	757,476
Convertible debt – long term		2,215,756	2,215,756
Convertible debt – long term		1,084,583	1,084,583
Convertible debt – long-term	-	548,288	548,288
	$ 1,082,576	$ 3,848,627	$ 4,931,203

FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk (Continued)

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	922,192	-	922,192
Convertible debt – long-term	-	1,964,895	1,964,895
Convertible debt – long-term	-	1,009,657	1,009,657
Convertible debt – long-term	-	550,068	550,068
	$ 922,192	$ 3,524,620	$ 4,446,812

Credit Risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held by large Canadian financial institutions. The Company considers its credit risk on cash and accounts receivable not significant.

Fair Values

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.

RISKS AND UNCERTAINTIES

In conducting its business, the Company faces a number of risks and uncertainties related to its operations, some of which are beyond its control. Such risks include, but are not limited to:

- The industry is capital intensive and subject to fluctuations in market sentiment, foreign exchange and interest rates.
- The only sources of future funds for further product development and marketing, which are presently available are funding from equity capital and debt. Management has been successful in accessing the equity markets during the year, but there is no assurance that such sources will be available on acceptable terms in the future.
- Any future equity financings for the purpose of raising additional capital may result in substantial dilution to the holdings of existing shareholders. The Company cannot predict the size of future sales and issuances of equity securities, convertible securities to equity securities or the effect, if any, that future sales and issuances of equity securities or convertible securities will have on the market price of the Company's common shares. Sales or issuances of a substantial number of equity securities or convertible securities, or the perception that such sales could occur, may adversely affect prevailing market prices for the Company's common shares. With any additional sale or issuance of equity securities, investors will suffer dilution of their voting power and may experience dilution in their earnings per common share, and further suffer such dilution upon the conversion of convertible securities into equity.The Company's intention is to make its potential future products available for sale globally. As such, operations are subject to political risk due to political, economic, social and other

RISKS AND UNCERTAINTIES (Continued)

uncertainties, including the risk of civil rebellion, nationalization, land ownership disputes, renegotiation or termination of existing and future contracts, permits or other agreement, changes in laws or taxation policies, currency exchange restrictions and changing political conditions.

- The Company's continued operations require licenses, permits and approvals from various parties and governmental authorities. There is no assurance that the Company will be successful in obtaining or maintaining the necessary licenses, permits and approvals to continue with its development and commercialization activities or that current licenses will remain in force as granted.
- While management believes that control over the Company's bank accounts and assets is adequate, there is an internal control weakness in respect of a lack of segregation of duties, and therefore a risk of management override of controls and procedures. It is management's opinion that these weaknesses in internal controls over financial reporting are inherently related to the small size of the Company.
- The Company intends to outsource the manufacture of its products, including the Licensed Sleep-Aid Products, to third parties. Such third-parties, in turn source raw materials in order to produce the Company's products. The availability of raw materials, as well as variations in the price of raw materials, may, therefore, increase the Company's operating costs. The subsequent effect on the Company's operating profit margins depends on, among other things, the Company's ability to increase the prices of its finished products in the context of a competitive market. Fluctuations in raw material prices may, therefore, increase or decrease the Company's operating profit margins. Price increases may also result in downward pressure on sales volume. Furthermore, the Company's third-party manufacturer(s) will be competing with other producers and manufacturers to secure raw materials, and such producers or manufacturers may, because of a variety of factors, including but not limited to their relationships with suppliers, size, and competitive position within the industry, be able to secure raw materials before the Company's manufacturer(s) could secure such material, or may push the prices of raw materials higher because of such producers' or other manufacturers' demand for raw materials that the Company also requires. Potential delays in the Company's or any of its third-party manufacturers' ability to secure raw materials could undermine the Company's commitments to produce and deliver its products to distributors, which could undermine market share, revenue, and subsequently, profitability.
- In both domestic and foreign markets, the formulation, manufacturing, packaging, labelling, distribution, advertising, importation, exportation, licensing, sale and storage of the Company's products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and other similar constraints. Such laws, regulations and other constraints may exist at the federal, provincial/state or local levels in Canada, Australia, the United States and at all levels of government in foreign jurisdictions. There can be no assurance that the Company or any of its distributors are in compliance with all of these regulations. The failure of the Company or its distributors to comply with these regulations or new regulations could disrupt future sales of theCompany's products (either existing or in development) could lead to the imposition of significant penalties or claims and could negatively impact the Company's business. The adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance
- costs or discontinuation of product sales and may negatively impact the marketing of the Company's products, resulting in significant loss of sales revenues.
- The Company has no significant history of earnings and, due to the nature of the Company's business, there can be no assurance that the Company will be profitable. The continued operation of the Company and the ability of the Company to execute its current and future business plans will be dependent upon its ability to generate operating revenues and to procure additional financing. There can be no assurance that any such revenues can be generated or that other financing can be obtained. If the Company is unable to generate such revenues or obtain such additional financing, any investment in the Company may be lost. In such an event, the probability of resale of the securities

RISKS AND UNCERTAINTIES (Continued)

purchased would be diminished. While the Company may generate additional working capital through further equity offerings, there is no assurance that any such funds will be available on terms acceptable to the Company, or at all. If available, future equity financing may result in substantial dilution to current shareholders. At present, it is impossible to determine what amounts of additional funds, if any, may be required.

- The markets for nutrient and health-related products are characterized by evolving regulatory and industry standards, changes in consumer tastes, needs, habits, and frequent new product introductions and enhancements within the industry. The introduction of products embodying new technologies or substances and the emergence of new industry standards and service offerings could render the Company's existing products and products currently under development obsolete or undermine the Company's ability to compete with such other products successfully. The Company's success will largely depend upon its ability to evolve its products and services to sufficiently keep pace with technological and regulatory developments (domestically and in foreign jurisdictions) and respond to the needs of its existing and prospective customers. Failure to anticipate or respond adequately to technological developments or future customer or regulatory requirements, or any significant delays in product development or introduction, could damage the Company's competitive position in the market place and affect current and/or future commercialization plans. There can be no assurance that the Company will be successful in developing and marketing new products or product enhancements or service offerings on a timely basis.
- The development of new products and strategies is a costly, complex and time-consuming process, and the investment in R&D, technology product development and marketing often involves a prolonged time until a return is achieved on such an investment. The Company has made, and will continue to make, significant investments in R&D, technology and related product opportunities. Investments in new products are inherently speculative and risky. While the Company will continue to dedicate a significant amount of resources to its development efforts in order to maintain a competitive position in the market, significant revenue from such investments may not be achieved for a prolonged period of time, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and services may not be as lucrative as the margins the Company has anticipated.
- The Company may become party to litigation from time to time in the ordinary course of business, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation may redirect significant Company resources. Litigation may also create a negative perception of the Company's brand. The Company is a respondent to the BCSC Matter and the Company filed, among others, the 2018 Civil Claim in the Supreme Court of British Columbia against certain of the non-issuer respondents to the BCSC Matter. On July 11, 2019, the Company was named as a defendant in a lawsuit commenced in the Supreme Court of British Columbia (Tietz and Loewen v. Bridgemark Financial Corp. et al.) (the "Class Action Claim"). The Class Action Claim was brought under the British Columbia Class Proceedings Act and alleges certain misrepresentations in connection with various

private placements conducted by the defendants. The plaintiffs are seeking an unspecified amount of damages for claims arising from alleged misrepresentations regarding, in respect of the Company, the Company's disclosure of its June 2018 private placement. The Company intends to vigorously defend the Class Action Claim and has already taken legal action against certain of the other defendants named in the Class Action Claim. The timeline and potential outcome of each of the BCSC Matter, the 2018 Civil Claim and the Class Action Claim remain uncertain and could potentially negatively impact the business of the Company.

RISKS AND UNCERTAINTIES (Continued)

Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, then actual results may vary materially from those described in any forward-looking statements.

SUBSEQUENT EVENTS

The Company's Director of Investor Relations and Communications resigned from her position on January 15, 2020.

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.The impact of Covid-19 pandemic on the investment market has impacted the Company's ability to raise capital. As a result, the Company has temporarily laid-off two of its employees on March 15, 2020 until market conditions improve making it feasible for the issuer to re-expand its workforce. No further lay-offs are anticipated.

The Company applied for the loan in the amount of $40,000 under Canadian (CEBA) which was received on April 15, 2020. These funds will be utilized for the Company's operations.

Other

Additional information regarding the Company is available on the Company's website at www.preveceutical.com. Additional information relating to the Company, including other continuous disclosure documents required by the securities regulators, is filed on System for Electronic Document Analysis and Retrieval (SEDAR) and can be accessed electronically at www.sedar.com.

The effective date of this report is April 27, 2020.