

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

The following management's 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 three and six months ended June 30, 2020. 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 condensed consolidated interim financial statements, including the notes thereto, of the Company for the three and six months ended June 30, 2020 and 2019 and the audited consolidated financial statements for the year ended December 31, 2019.

The accompanying 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 International Financial Reporting Standards ("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, 2019.

These condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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

FORWARD-LOOKING STATEMENTS (Continued)

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", "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 the biotechnology, medicinal cannabis or pharmaceutical industry, may also adversely affect the future results or performance of the Company.

The Company is not making any express or implied claims that its product has the ability to eliminate, cure or contain the COVID-19 (or SARS-2 Coronavirus) at this time.

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 August 28, 2020.

CORPORATE STRUCTURE

Name, Address and Incorporation

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

The Company's head office is located at 588 Broughton Street, Suite 2601, Vancouver, British Columbia, V6G 3E3, Canada and its registered and records office is located at 595 Howe Street, 10th Floor, Vancouver, British Columbia V6C 2T5, Canada.

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

CORPORATE STRUCTURE (Continued)

Security Listings

PreveCeutical's securities are listed on the CSE under the symbol "PREV".

In addition to being listed on the CSE, the Company 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".

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 therapeutical industries.

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 the 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.

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.

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.

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 six months ended June 30, 2020, and the six months ended June 30, 2019.

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

DESCRIPTION OF BUSINESS (Continued)

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%

Note:

- (1) As at June 30, 2020, the Company has received \$713,025 under the Option Agreement. \$59,880 was received during the six months ended June 30, 2020. 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 December 31, 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 related party transactions as a director and executive officer of the Company is a control person of Asterion.

COVID-19 IMPACT

On March 11, 2020, the World Health Organization ("WHO") declared COVID-19 viral disease a pandemic. As of May 2020, the virus has spread to 188 countries with travel bans and restrictions implemented in many countries combined with social distancing measures to slow COVID-19 spread and flatten the epidemiological curve.

This pandemic has disrupted the worldwide economy and the global financial markets, affecting several businesses, including in Canada. The uncertainty of its duration has significantly affected the ability to raise capital. As the Issuer is currently dependent on equity and debt financing, this uncertainty and financial market disruption may impact the Issuer's ability to raise funds.

The global outbreak of COVID-19 continues to evolve rapidly. The extent to which COVID-19 may impact the Company's business and operations will depend on future developments, including the duration of the

COVID-19 IMPACT (Continued)

outbreak, travel restrictions and social distancing in Canada and other countries, the effectiveness of actions taken in Canada, the United States and other countries to contain and treat the disease.

The Company is closely monitoring the impact on its operations and related emerging risks and is taking steps to address the impact and risks. This includes reducing its burn rate by staff layoff and deferring paying salaries to the remaining staff and terminating the office lease. The Company is also looking at innovative therapies to address COVID-19, including possible viral prevention using CBD Sol-gel. It is looking into funding from various government agencies to fund this possible initiative.

The Company has received a loan from CIBC under the Canada Emergency Business Account (CEBA) program for its operations (described under Overall Performance).

Risks related to COVID-19 are more fully set out under “Risk and Uncertainties”.

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 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.

The isolation restrictions imposed by the current COVID-19 pandemic have had some impacted on the progress of the research.

Following are the Company’s current research and development projects:

Stabilization of Blue Scorpion Venom

The Company undertook the research of the stabilization of the BSV program which was conducted by its research partners at the University of Queensland (“UQ”) and UniQuest Pty Limited (“UniQuest”). This program was 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. Two lead peptides had already internalized 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 through subsequent stages of drug development/validation and (pre)clinical evaluation for the lead peptides identified.

Sol-gels for Nasal Delivery of Cannabinoids

PreveCeutical had 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 was 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

RESEARCH AND DEVELOPMENT (Continued)

Sol-gels for Nasal Delivery of Cannabinoids (Continued)

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 CBD Program commenced in the third quarter of 2017 and is progressing well. This program was completed in June 2020, with the following highlights:

- Completion of chemical fingerprinting via HPLC of plant-derived cannabinoids.
- Completion of the trial of devices with differing nozzle designs using an in-house developed inhalation model.
- An optimal spray profile for nose-to-brain delivery has been achieved.
- 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.

The Company is working with its patent attorneys on protecting the cannabinoid-infused sol-gel formulation.

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 preclinical 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.

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. They 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 trialed in vivo.

As at June 30, 2020, the D&O Program was 49.4% complete.

RESEARCH AND DEVELOPMENT (Continued)

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 June 30, 2020, 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 an economically recoverable value, and management continues to evaluate the same to assess whether additional efforts and funds should be allocated to such projects.

OVERALL PERFORMANCE

During the three and six months ended June 30, 2020, the Company continued to work on research and development, business development and financing including:

- Collaborating with UQ and UniQuest in the filing with the Australian Patent Office of two new patent applications for cyclic peptide and their use in pain management.
- Retaining patent lawyers and working with them on drafting patents for the cannabinoid sol-gel formulation and dynorphin IPs.
- Communicating with investors to raise equity funding for the Company.
- Filing a joint Patent Cooperation Treaty (PCT) application with UQ, Australia, to protect certain cyclic peptides and their use in pain management.
- Monitoring the impact of COVID-19 on operations and addressing the issues and risks.
- Completing the Australian R&D application for the tax credit.
- Extending the cannabinoid sol-gel program to address the COVID-19 pandemic focusing on the expedited development of a cannabinoid sol-gel, at GMP standards, to potentially reduce the possibility of coronavirus infections.
- Assigning and converting debt to common shares of the Company and settling a supplier’s debt by issuing the Company’s common shares.
- Submitting a proposal to Strategic Innovation Fund for funding support for its cannabinoid sol-gel COVID-19 program.
- Receiving the final report on the completion of its cannabinoid sol-gel delivery program.

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

OVERALL PERFORMANCE (Continued)

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 three and six months ended June 30, 2020, the Company continued to focus on business development 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 June 30, 2020, the Company had bank indebtedness of \$423,204, and a working capital deficiency of \$1,923,241 compared to a cash balance of \$28,480 and a working capital deficiency of \$1,546,563 at December 31, 2019. For the six months ended June 30, 2020, the Company's funding included short term debt and receipt of payment for the and long term convertible debts and funding under the Option Agreement.

The bank indebtedness relates to the amount drawn on a short term bank overdraft facility to pay UniQuest for the R&D programs. This loan was fully paid, and the facility was cancelled on August 13, 2020.

On April 14, 2020, the Company received a loan of \$40,000 through its bank CIBC under the Canada Emergency Business Account (CEBA) program. This is an interest-free loan up to December 31, 2022. A quarter of the loan (\$10,000) is eligible for complete forgiveness if \$30,000 is fully repaid on or before December 31, 2022. If the loan cannot be repaid by December 31, 2022, it can be converted into a 3-year term loan charging an interest rate of 5%. The loan is for the Company's operations.

Selected Financial Information

	As at June 30, 2020	As at December 31, 2019
Cash/(bank indebtedness)	\$(423,204)	\$28,480
Total assets	\$333,940	\$857,638
Non-current liabilities	\$1,720,305	\$3,509,608
Total liabilities	\$3,848,653	\$5,344,418
Working capital deficiency	\$1,923,241	\$1,546,563
Deficit	\$25,947,917	\$23,684,562
Shareholders' deficiency	\$3,514,713	\$4,486,780

Selected Operating Information

	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Revenues	\$ -	\$ -	\$ -	\$ 3,031
Net loss	\$2,088,079	\$1,713,827	\$2,608,901	\$2,891,717
Net loss and comprehensive loss	\$2,318,871	\$1,681,977	\$2,706,176	\$2,860,550
Net loss per share	\$0.005	\$0.004	\$0.006	\$0.007

FINANCIAL RESULTS OF OPERATION

During the three and six months ended June 30, 2020, the Company continued its focus on developing its product line and identifying, reviewing and commissioning additional products for manufacturing, marketing and R&D and on securing additional funding for its operations. The Company also worked on strategies to address the impact of the COVID-19 pandemic.

The Company's deficit at June 30, 2020, of \$25,947,917, 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 and debt settlement in the amount of \$1,223,809 recorded during the three and six months ended June 30, 2020, and \$1,582,658 recorded during the year ended December 31, 2018.

The Company had a net loss and comprehensive loss of \$2,318,871 and \$2,706,176 for the three and six months ended June 30, 2020, compared to \$1,681,977 and \$2,860,550 for the three and six months ended June 30, 2019. The Company did not record any revenue for the year three and six months ended June 30, 2020. Revenue for three and six months ended June 30, 2019, was \$3,031.

Operating expenses were \$740,183 and \$1,019,937 for the three and six months ended June 30, 2020, compared to \$1,367,861 and \$2,427,577 for the three and six months ended June 30, 2019.

Other expenses, which included interest, accretion, debt issue, asset disposal, income tax recovery, loss on modification of convertible debt and foreign exchange gain, offset by option payment were \$1,347,896 and \$1,588,964 for the three and six months ended June 30, 2020, compared to \$355,063 and 486,801 for the three and six months ended June 30, 2019. For the three and six months ended June 30, 2020, there was a loss of \$1,223,809 recorded because of debt conversion debt and debt settlement.

Foreign exchange loss on translating foreign operations was \$230,792 and \$97,275 for the three and six months ended June 30, 2020. There was a foreign exchange gain of \$31,850 and \$31,167 for the three and six months ended June 30, 2019.

The increase of \$922,833 and \$1,102,163 in other expenses for the three and six months ended June 30, 2020, compared to the three and six months ended June 30, 2019, was mainly due to:

- Loss of \$1,223,809 for debt modification (\$1,206,522 on conversion of debt and \$17,287 on debt settlement). This was due to the convertible price of share per agreement was higher (\$0.06 per share) that the price the shares were converted at (\$0.023 per share).
- Accretion recorded was \$160,575 and \$176,899 higher for the three and six months ended June 30, 2020, compared to the three and six months ended June 30, 2019.
- Loss of \$59,627 recorded for the disposal of assets offset by contract termination gain of \$7,622 due to termination of the lease.
- There was no income tax recovery recorded for the six and three months ended June 30, 2020, compared to \$9,097 and \$19,630 for the three and six months ended June 30, 2019.

This was offset by:

- There was a debt issuance cost of \$155,000 was recorded in the three and six months ended June 30, 2019. There were no debt issuance expenses for the three and six months ended June 30, 2020.
 - Foreign exchange gain was higher by \$260,673 and \$132,913 for the three and six months ended June 30, 2020. The Canadian dollar was weaker compared to the Australian dollar at June 30, 2020, compared to June 30, 2019. There was an exchange loss for the three and six months ended June 30, 2019.
 - Receipt of option payments in the amounts of \$17,030 and \$59,880 were recorded for the three and six months ended June 30, 2020.
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PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL RESULTS OF OPERATION (Continued)

- Interest expense being lower by \$10,853 and \$2,757 for the three and six months ended June 30, 2020, compared to the three and six months ended June 30, 2019. The decrease was due to converting the long-term convertible debt during the three and six months ended June 30, 2020. The convertible debts and the loan from the CEO bears an interest rate of 5%. As at June 30, 2020, the callable debt balance (principal and interest) was \$334,752, short-term convertible debt balance was \$747,041, and long-term convertible debt balance was \$1,680,305. As at June 30, 2019, the callable debt balance (principal and interest) was \$346,856, short-term convertible debt balance was \$739,957, and long-term convertible debt balance was \$3,762,304.

The long-term convertible debt is classified as long term as the Lenders have signed a waiver by which there will be no demand on the funds until July 31, 2020.

Financing costs for the three and six months ended June 30, 2020, consisted of:

- Accrued interest in the amount of \$55,191 and \$99,283 for the three and six months ended June 30, 2020 for callable and short and long term convertible debt. Accrued interest for the three and six months ended June 30, 2019, was \$58,883 and \$110,611.
- Interest of \$277 and \$719 on outstanding credit card balance for the three and six months ended June 30, 2020.
- Interest of \$714 on the temporary bank line of credit.

As the Company continued to work on efficiencies and cost reduction, expenses for the three and six months ended June 30, 2020, amounted to \$740,183 and \$1,019,937 which was \$627,662 and \$1,406,861 lower than the three and six months ended June 30, 2019 (\$1,367,845 and \$2,426,798). This decrease is related to the following:

- For the three and six months ended June 30, 2020, there was a decrease of \$460,665 and \$1,009,567 in R&D costs (\$347,233 and \$494,689 for the three and six months ended June 30, 2020, compared to \$807,898 and \$1,504,256 for the three and six months ended June 30, 2019). These costs are for the three R&D projects previously mentioned, amortization of the R&D Supply Agreement and fees paid for R&D related consulting. The costs are lower as there were no costs for the BSV program, the Cannabinoid sol-gel program completed, and the amortization of the R&D Supply Agreement was completed during three and six months ended June 30, 2020.
 - Professional fees for the three and six months ended June 30, 2020, were \$82,101 and \$137,291 compared to \$293,570 and \$374,618 for the three and six months ended June 30, 2019, an increase of \$141,937 and \$144,951 respectively. The decrease related to the reduction of legal services during the three and six months ended June 30, 2020. For the three and six months ended June 30, 2019, there was an increase in legal costs in connection with (i) a Temporary Order and Notice of Hearing (the "Order") issued by the Executive Director of the British Columbia Securities Commission to which the Company was a respondent and an ongoing investigation and pending action in relation to same (the "BCSC Matter"), and (ii) the filing by the Company of a notice of civil claim in the Supreme Court of British Columbia against certain non-issuer respondents named in the Order (the "2018 Civil Claim").
 - Business development and investor relations expenses for the three and six months ended June 30, 2020, were \$74,273 and \$172,650 lower than the same periods in 2019 (\$27,385 and \$47,370 for the three and six months ended June 30, 2020, compared to \$101,658 and \$220,020 for the three and six months ended June 30, 2019). The decrease relates to the Company's cost reduction strategies.
 - Salary, wages and consulting fees of \$55,111 and \$84,594 for the three and six months ended June 30, 2020, were \$29,483 and \$127,522 lower than for the three and six months ended June 30, 2019 (\$84,594 and \$197,023 respectively). The decrease related to reducing the services of consultants, including services for marketing and publicity, and reduction in salaries during the three and six months ended June 30, 2020. This was related to the Company's cost reduction strategies and further efforts to address the uncertainties and capital raising impacts due to COVID-19.
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PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL RESULTS OF OPERATION (Continued)

- Amortization expense for the three and six months ended June 30, 2020, were \$28,45 and \$71,031 compared to \$43,280 and \$86,577 for three and six months ended June 30, 2019, a decrease of \$14,335 and \$27,385. The decrease mostly related to the reduction in the amortization recorded in the three months ended June 30, 2020, due to termination of the office lease.
- Other expenses including marketing, rent, travel and transfer agent and filing fees, and office expenses were \$9,814 and \$10,055 for the three and six months ended June 30, 2020, compared to \$19,360 and \$26,085 for the three and six months ended June 30, 2019.

These decreases were offset by the following increases:

- The share-based compensation of \$189,594 and \$190,000 for the three and six months ended June 30, 2020, compared to \$17,485 and \$18,219 for the three and six months ended June 30, 2019. The increase relates to stock options issued to certain directors, officers and employee.

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 June 30, 2019.

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$3,031	\$809	\$1,017
Net loss	\$2,088,079	\$520,822	\$76,408	\$610,772	\$1,713,827	\$1,177,893	\$5,686,304	\$2,614,692
Comprehensive loss for the period	\$2,318,871	\$387,305	\$40,268	\$576,772	\$1,681,977	\$1,178,576	\$5,732,671	\$2,574,065
Basic and diluted loss per share	\$0.005	\$0.001	\$0.000	\$0.001	\$0.004	\$0.003	\$0.015	\$0.007
Cash/(bank indebtedness)	(\$423,204)	\$30,451	\$28,480	\$6,602	\$37,545	\$64,893	\$64,329	\$855,497
Working capital/(deficiency)	(\$1,923,241)	(\$1,753,577)	(\$1,546,563)	(\$1,864,724)	(\$1,476,636)	(\$207,445)	\$194,510	\$2,873,475
Total assets	\$333,940	\$663,037	\$857,638	\$1,364,533	\$1,752,329	\$2,230,577	\$1,902,077	\$4,569,178
Total liabilities	\$3,848,653	\$5,464,005	\$5,344,418	\$6,312,840	\$6,130,929	\$5,285,990	\$4,187,247	\$3,603,699
Deficit	\$25,947,917	\$24,166,271	\$23,684,588	\$23,499,746	\$24,198,644	\$22,664,080	\$21,632,660	\$16,648,069
Shareholders' equity (deficiency)	(\$3,514,713)	(\$4,800,968)	(\$4,486,780)	(\$4,948,307)	(\$4,378,600)	(\$3,055,413)	(\$2,285,171)	\$965,479

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.

For the three months ended June 30, 2020, the Company had drawn on a temporary credit facility provided by the ANZ Bank, Australia. This overdraft was repaid on August 14, 2020.

The net loss of \$5,732,671 in Q4 2018 was higher than net losses in other quarters due to the impairment of prepaid agreements (\$2,775,000) and loss on modification of convertible debt (\$1,582,658). Loss on modification of convertible debt and debt settlement in the amount of \$1,223,809 was recorded in Q2 2020, making the comprehensive loss higher. The higher net loss in Q3 2018 of \$2,574,065 compared to other quarters was mostly due to higher R&D expenditures costs and higher business development, investor relations, marketing and promotions costs.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to depend on equity and debt for funding until it starts bringing products from its R&D programs. The Company received \$59,880 for the Option Agreement during the six months ended June 30, 2020.

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

LIQUIDITY AND CAPITAL RESOURCES (Continued)

As at June 30, 2020, the Company had a working capital deficiency of \$1,923,241 and bank indebtedness of \$423,204. As at December 31, 2019, there was a working capital deficiency of \$1,546,563 and cash a balance of \$28,480.

During the three and six month period ended June 30, 2020, the Company had two lease commitments. A lease with Golden Properties Ltd. for the leasing of office space starting May 1, 2017, and a lease agreement with Xerox Canada Ltd. for the leasing of equipment for a period of five years entered on July 1, 2017. As at June 30, 2020, the Company did not have any commitments as both of these leases were terminated. The office space was terminated as there were some layoffs and other staff were working remotely due to the COVID-19 pandemic.

The Company anticipates that it will continue to incur more costs, including R&D and patent filing costs, than revenue into next year. The Company is in the development stage and is primarily focused on developing marketable products.

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

1. Securing investment in the Company by way of private placements.
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). On May 20, 2020, the Company entered into two assignment and assumption agreements whereby certain arm's length assignees (the "Assignees") acquired all of Stephen Van Deventer and Kimberly Van Deventer's right, title, interests and obligations in and under a convertible credit facility agreement dated effective December 9, 2016, as amended, as to the aggregate principal amount of \$1,728,811 and the accrued interest thereon in the aggregate amount of \$271,189 (the "Assigned Amounts"). The Assignees elected to convert the Assigned Amounts into an aggregate of 86,956,522 Shares at a price of \$0.023 per Share.

December 9, 2016 (Continued)

As June 30, 2020, the Company has drawn \$220,438 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

LIQUIDITY AND CAPITAL RESOURCES (Continued)

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 June 30, 2020, 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.

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 June 30, 2020, 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, 2020, the maturity date of this credit facility agreement was extended to the earlier of (i) March 29, 2021, 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 June 30, 2020, 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 to 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 June 30, 2019, the Company has drawn the full amount of \$300,000 under this agreement.
5. Receiving advances in the aggregate amount of \$45,500 by way of callable debt from the Company's CEO, CFO, and the past President.
6. Securing a temporary line of credit facility with the Australian bank.
7. Applying for a loan through CIBC under the Canada Emergency Business Account (CEBA) program.
8. The Company is continuing to look into other funding including grants in Australia for R&D.

RELATED PARTY TRANSACTIONS

1. Management

During the three and six months ended June 30, 2020, compensation to management and directors included:

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

RELATED PARTY TRANSACTIONS (Continued)

- Consulting fees in the amount of \$41,084 invoiced Dr. Makarand Jawadekar, PreveCeutical's President, Chief Science Officer and Director. This amount was not paid as at June 30, 2020.
- Salary and benefits paid to Stephen Van Deventer, PreveCeutical's Chairman and Chief Executive Officer in the amount of \$4,721. Salary payable in the amount of \$37,500 was accrued for the three and six months ended June 30, 2020.
- Salary and benefits paid to Shabira Rajan, PreveCeutical's Chief Financial Officer and Controller in the amount of \$2,556. Salary payable in the amount of \$7,200 was accrued for the three and six months ended June 30, 2020.

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.

For the six months ended June 30, 2020, CGP had invoiced the Company \$35,700 for services provided by Ms. Kimberly Van Deventer. As at June 30, 2020, the Company owed CGP \$79,586 in relation to these services.

3. Short term loans

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 six months ended June 30, 2020, interest in the amount of \$7,702 was accrued for this loan. On February 21, 2020, the maturity date was amended from November 29, 2019, to May 29, 2020.

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 was outstanding at June 30, 2020. This loan was repaid on July 30, 2020.

Stephen Van Deventer, Chief Executive Officer of the Company loaned the Company \$1,500 on November 27, 2019, and another \$1,500 on March 27, 2020. No interest was payable on this loan. The amount outstanding at June 30, 2020, was \$4,500.

CGP loaned the Company \$3,000 on July 5, 2019. No interest was payable on this loan. This amount was outstanding at June 30, 2020.

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, \$650 on December 12, 2019, and \$450 on February 4, 2020. No interest was payable on this loan. The total loan payable to Ms. Cole in the amount of \$6,100 was outstanding at June 30, 2020. This loan was repaid on July 30, 2020.

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 June 30, 2020.

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, 2018, in the principal amount of \$2 million (the "December 2016 Debt"). \$1,728,811 of the outstanding principal was converted to the Company's common shares at \$0.023 per share.

For the three and six months ended June 30, 2020, accrued interest under this facility, at a 5% simple interest rate per annum, amounted to \$13,169 and \$37,468 (\$24,492 and \$45,688 for the three months

RELATED PARTY TRANSACTIONS (Continued)

ended June 30, 2019). 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 three and six months ended June 30, 2020, accrued interest under this credit facility, at a 5% simple interest rate per annum, amounted to \$12,160 and \$24,321 (\$12,160 and \$24,187 for the three and six months ended June 30, 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 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 for the three and six months ended June 30, 2020, accrued interest under this credit facility, at a 5% simple interest rate per annum, amounted to \$6,233 and \$12,466 (\$6,233 and \$12,397 for the three months and six months ended June 30, 2019).

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 three and six months ended June 30, 2020, accrued interest under this credit facility, at a 5% simple interest rate per annum, amounted to \$8,663 and \$17,327 (\$8,664 and \$16,983 and for the three and six months ended June 30, 2019).

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 the executive officer of the Company is a control person of Asterion. For the three and six months ended June 30, 2020, Asterion reimbursed the Company \$14,671 and \$35,629 for rent and \$2,738 and \$5,788 for administrative costs. For the three and six months ended June 30, 2019, Asterion reimbursed the Company \$21,735 and \$43,513 for rent and parking and \$1,889 and \$3,063 for administrative costs.

OUTSTANDING SHARE DATA

On January 13, 2020, 500,000 options that were issued to an employee at an exercise price of \$0.10 per common share of the Company were forfeited as the employee had resigned.

On April 14, 2020, 500,000 options that were issued to an employee at an exercise price of \$0.10 per common share of the Company were forfeited as the employee had resigned.

On April 20, 2020, 500,000 options that were issued to a consultant at an exercise price of \$0.07 per common share of the Company expired.

On May 20, 2020, the Company issued 8,643,731 common shares at a price of \$0.023 per share to settle an outstanding debt of \$198,806.

On May 20, 2020, the Company issued 86,956,522 common shares at a price of \$0.23 per share for the conversion of debt that was assigned to two assignees.

On May 28, 2020, 5,000,000 bonus warrants, issued in connection with the issue of debt, at an exercise price of \$0.06 per common share, expired.

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

OUTSTANDING SHARE DATA (Continued)

On June 29, 2020, the Company issued 5,000,000 stock options at an exercise price of \$0.05 per common share of the Company to certain directors, officers, and employee.

On June 29, 2020, 127,849,750 warrants and 6,301,600 broker warrants, issued with the June 2019 Private Placement, at an exercise price of \$0.10 expired.

As at June 30, 2020:

- (i) the Company had 492,049,158 common shares issued and outstanding;
- (ii) the Company had 6,100,000 common share purchase warrants outstanding;
- (iii) the Company had 21,000,000 performance warrants to purchase the Company's common shares outstanding;
- (iv) the Company had 384,000 broker common share purchase warrants outstanding; and
- (v) the Company had 18,782,840 stock options outstanding.

On July 23, 2020, 100,000 stock options were exercised to purchase common shares of the Company at an exercise price of \$0.05.

On August 10, 2020, 1,250,000 stock options issued to an employee at an exercise price of \$0.05 per common share of the Company expired.

On August 10, 2020, the expiration date of 7,749,500 options issued to certain Officers, employee, and consultant of the Company, at an exercise price of \$0.05, was extended by a further two years.

As at August 28, 2020:

- (i) the Company had 492,149,158 common shares issued and outstanding;
- (ii) the Company had 6,100,000 common share purchase warrants outstanding;
- (iii) the Company had 21,000,000 performance warrants to purchase the Company's common shares outstanding;
- (iv) the Company had 384,000 broker common share purchase warrants outstanding; and
- (v) the Company had 17,432,840 stock options outstanding.

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 June 30, 2020:

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.

PREVECEUTICAL MEDICAL INC.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

FINANCIAL INSTRUMENTS (Continued)

Liquidity Risk (Continued)

As at June 30, 2020, the Company had a working capital deficiency of \$1,923,241 compared to the working capital deficiency at December 31, 2019, of \$1,546,563. The current liabilities as at June 30, 2020 were \$2,128,348 (\$1,834,810 at December 31, 2019). The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The short-term convertible debt is due on demand.

The amounts listed below are the undiscounted contractual maturities for financial liabilities held by the Company as at June 30, 2020:

	1 year	2 to 3 years	Total
Accounts payable and accrued liabilities	\$ 623,351	\$ -	\$ 623,351
Bank overdraft	423,204	-	423,204
Callable debt	334,752	-	334,752
Convertible debt – short-term	747,041	-	747,041
Long-term loan	-	40,000	40,000
Convertible debt – long-term	-	1,680,305	1,680,305
	\$ 2,128,348	\$ 1,720,305	\$ 3,848,653

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
Accounts payable and accrued liabilities	\$ 595,084	\$ -	\$ 595,084
Lease liability	146,979	212,613	359,592
Callable debt	325,100	-	325,100
Convertible debt – short-term	767,647	-	767,647
Convertible debt – long-term	-	3,296,995	3,296,995
	\$ 1,834,810	\$ 3,509,608	\$ 5,344,418

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, bank indebtedness, 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. Capital market conditions and other factors beyond the Issuer's control,

RISKS AND UNCERTAINTIES (Continued)

including the current COVID-19 pandemic, may also play important roles in the ability to raise capital. The Company can offer no assurance that it will be able to successfully obtain additional financing, or that future financing occurs on terms satisfactory to the Company's management and/or shareholders. If funds are unavailable in the future, or unavailable in the amounts that the Company feels the business requires, or unavailable on acceptable terms, the Company may be required to cease operating or to modify its business plans in a manner that undermines its ability to achieve its business objectives.

- 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 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. Although, it is not possible to reliably estimate the length and severity of these developments and their impact on the financial results and condition of the Issuer and its operating subsidiaries in future periods.
- 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

RISKS AND UNCERTAINTIES (Continued)

distributors to comply with these regulations or new regulations could disrupt future sales of the Company'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 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

RISKS AND UNCERTAINTIES (Continued)

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.

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

On July 23, 2020, 100,000 stock options were exercised to purchase common shares of the Company at an exercise price of \$0.05.

On August 10, 2020, 1,250,000 stock options issued to an employee at an exercise price of \$0.05 per common share of the Company expired.

On August 10, 2020, the expiration date of 7,749,500 options issued to certain officers, employee, and consultant of the Company, at an exercise price of \$0.05, was extended by a further two years.

The Company received cash rebate in the amount of A\$1,227,902 on August 13, 2020, in relation to the Australian Federal Government's Research and Development ("R&D") Incentive Program. This refund relates to the Company's subsidiary's tax filing for the financial year ended December 31, 2019.

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 August 28, 2020.