

PreveCeutical Medical Inc.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

NOTICE TO READER

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

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

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

PreveCeutical Medical Inc.
Condensed Consolidated Interim Statements of Financial Position
Unaudited - Expressed in Canadian Dollars

As at	September 30, 2020	December 31, 2019
ASSETS		
Current		
Cash	\$ 206,131	\$ 28,480
Accounts receivable	95,523	95,574
Prepaid and deposits (Note 4)	141,463	164,193
	443,117	288,247
Deposits (Note 4)	42,114	89,795
Property, equipment and furniture (Note 5)	10,891	98,729
Right-of-use asset (Note 6)	-	355,613
Intangible assets (Note 7)	44,773	25,254
Total assets	\$ 540,895	\$ 857,638
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 16)	\$ 573,956	595,084
Lease liability - short term (Note 6)	-	146,979
Callable debt (Note 9 and 16)	331,126	325,100
Convertible debt - short term (Notes 10 and 16)	773,543	767,647
	1,678,625	1,834,810
Lease liability - long term (Note 6)	-	212,613
Long term debt (Note 11)	40,000	-
Convertible debt - long term (Notes 12 and 16)	1,801,998	3,296,995
Total liabilities	3,520,623	5,344,418
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 13)	17,378,894	13,176,958
Equity portion of convertible debt (Notes 10 and 12)	1,284,156	2,051,650
Share-based compensation reserve	2,719,885	3,147,970
Reserves	866,313	719,923
Accumulated other comprehensive income	(18,577)	101,281
Deficit	(25,210,399)	(23,684,562)
Total shareholders' deficiency	(2,979,728)	(4,486,780)
Total liabilities and shareholders' deficiency	\$ 540,895	\$ 857,638

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

Approved on behalf of the Board of Directors

"Stephen Van Deventer" Signed _____ Director

"Keith Anderson" Signed _____ Director

PreveCeutical Medical Inc.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss

Unaudited - Expressed in Canadian Dollars

	Three months ended		Nine months ended	
	September 30		September 30	
	2020	2019	2020	2019
	\$	\$	\$	\$
REVENUE AND MARGIN				
Product sales	-	-	-	3,031
Cost of sales	-	-	-	779
Gross profit	-	-	-	2,252
EXPENSES				
Amortization (Notes 5, 6 and 7)	1,807	42,963	72,838	129,540
Business development and investor relations	33,620	45,650	80,990	265,670
Consulting and contract fees (Note 16)	-	-	3,000	4,968
Insurance	350	-	2,503	922
Marketing and promotion	502	764	1,794	4,330
Office and general	4,711	7,742	11,622	18,708
Professional fees	50,642	58,647	187,933	433,266
Rent, utilities, repair and maintenance	612	(16,941)	(25,066)	(48,904)
Research and development (Notes 4 and 16)	(568,519)	634,119	(73,830)	2,138,375
Salaries and wages (Note 16)	29,116	87,123	95,617	279,178
Share-based compensation (Notes 14 and 15)	14,300	7,066	204,300	25,285
Transfer agent and filing fees	11,089	32,404	36,401	62,542
Travel and meals	777	1,781	842	10,161
Vehicle expenses	170	1,389	170	5,466
Total expenses	(420,823)	902,707	599,114	3,329,507
LOSS FROM OPERATIONS				
Foreign exchange (loss)/gain	47,518	(34,847)	126,392	(88,885)
Accretion expense (Notes 10 and 12)	(48,710)	104,999	(392,545)	(271,935)
Interest expense (Notes 6, 8, 9, 10, 11, 12 and 17)	(40,322)	(61,219)	(148,392)	(172,045)
Option payments (Note 20)	90,300	493,000	150,180	493,000
Debt issuance cost (Note 9)	-	-	-	(155,000)
Gain on termination of contract (Note 6)	-	-	7,622	-
Loss on asset disposal (Note 5)	(18,930)	-	(78,557)	-
Loss on debt settlement and modification (Notes 12 and 13)	-	-	(1,223,808)	-
Income (loss) before income tax recovery	450,679	(610,772)	(2,158,222)	(3,522,120)
Income tax recovery	-	-	-	19,630
Net Loss	450,679	(610,772)	(2,158,222)	(3,502,490)
Foreign exchange gain (loss) on translating foreign operations	(22,583)	34,000	(119,858)	65,166
Comprehensive loss	428,096	(576,772)	(2,278,080)	(3,437,324)
Basic and Diluted Loss per common share	0.001	(0.001)	(0.005)	(0.009)
Weighted average number of outstanding shares	492,125,245	396,448,905	443,227,860	395,577,550

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

PreveCeutical Medical Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency

Unaudited - Expressed in Canadian Dollars

	Number of shares	Share Capital Amount \$	Equity Component of convertible loan \$	Share-based Compensation Reserve \$	Reserves \$	Accumulated Other Comprehensive Income \$	Deficit \$	Total \$
Balance at December 31, 2018	390,188,905	12,903,473	2,030,360	4,235,701	177,981	(26)	(21,632,660)	(2,285,171)
Shares issued	6,100,000	305,000	-	-	-	-	-	305,000
Convertible loan equity	-	-	69,337	-	-	-	-	69,337
Share issue costs	160,000	(31,515)	-	-	-	-	-	(31,515)
Debt modification	-	-	-	-	264,886	-	-	264,886
Recognition of deferred tax liability	-	-	(19,630)	-	-	-	-	(19,630)
Share-based compensation	-	-	-	186,110	-	-	-	186,110
Fair value of expired and forfeited options	-	-	-	(1,635,404)	-	-	1,635,404	-
Net loss and comprehensive loss for the period	-	-	-	-	-	65,166	(3,502,490)	(3,437,324)
Balance at September 30, 2019	396,448,905	13,176,958	2,080,067	2,786,407	442,867	65,140	(23,499,746)	(4,948,307)
Balance at December 31, 2019	396,448,905	13,176,958	2,051,650	3,147,970	719,923	101,281	(23,684,562)	(4,486,780)
Shares issued	100,000	2,500	-	-	-	-	-	2,500
Share issue costs	-	(7,083)	-	-	-	-	-	(7,083)
Convertible loan equity	-	-	16,411	-	-	-	-	16,411
Debt conversion	86,956,522	3,990,426	(1,990,426)	-	-	-	-	2,000,000
Loss on debt conversion	-	-	1,206,521	-	-	-	-	1,206,521
Debt modification	-	-	-	-	146,390	-	-	146,390
Debt settlement	8,643,731	216,093	-	-	-	-	-	216,093
Share-based compensation	-	-	-	204,300	-	-	-	204,300
Fair value of expired options	-	-	-	(632,385)	-	-	632,385	-
Net loss and comprehensive loss for the period	-	-	-	-	-	(119,858)	(2,158,222)	(2,278,080)
Balance as at September 30, 2020	492,149,158	17,378,894	1,284,156	2,719,885	866,313	(18,577)	(25,210,399)	(2,979,728)

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

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

Nine months ended September 30,	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (2,158,222)	\$ (3,502,490)
Adjustments to net loss:		
Amortization - capital assets	11,597	19,721
Amortization - right-of-use assets	61,241	109,819
Share-based compensation	204,300	25,285
Accretion expenses	392,545	271,935
Accrued interest	134,831	156,312
Debt issuance cost	-	155,000
Deferred income tax recovery	-	(19,630)
Gain on termination of contract	(7,622)	-
Loss on disposal of assets	78,557	-
Loss on debt settlement	17,287	-
Loss on modification of convertible debt	1,206,521	-
	(58,965)	(2,784,048)
Change in cash on working capital items:		
Accounts receivable	51	(4,788)
Prepaid expenses and deposits	70,411	857,759
Accounts payable and accrued liabilities	177,678	840,487
Net cash used in operating activities	189,175	(1,090,590)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, equipment and furniture	-	-
Acquisition of intangible assets	(21,881)	(676)
Net cash used in investing activities	(21,881)	(676)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares net of share issue costs	2,500	273,485
Warrants issued for finders' fees	-	5,824
Lease liability payments	(61,045)	(106,595)
Proceeds from callable debt and loans	34,350	360,500
Proceeds from convertible debt	158,000	435,000
Net cash provided by financing activities	133,805	968,214
Effect of change in foreign currency	(123,448)	65,325
Change in cash, during the period	177,651	(57,727)
Cash, beginning of the period	28,480	64,329
Cash, end of the period	\$ 206,131	\$ 6,602

Supplemental Cash Flow Information (Note 17)

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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

PreveCeutical Medical Inc. (the "Company") was incorporated on December 15, 2014, under the laws of British Columbia. The Company's principal business activity is the development of innovative options for preventive and curative therapies utilizing organic and nature identical products.

The Company is located at 588 Broughton Street, Suite 2601, Vancouver, British Columbia, V6T 3E3, Canada and its registered office is at 595 Howe Street, 10th Floor, Vancouver, British Columbia V6C 2T5, Canada.

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

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

Several conditions exist that may cast significant doubt about the ability of the Company to continue as a going concern. The Company does not have significant revenue to date and has incurred operating losses since inception. As at September 30, 2020, the Company had a deficit that is being funded by debt and issuance of equity. Management anticipates that the Company will meet its obligations and maintain its operations to support its payments to creditors and realize profits from future business activities. The Company is dependent on its ability to raise further capital through equity financing and funding from certain officers and shareholders to meet its commitments and fund its ongoing operations. One of the unprecedented challenges arising from the COVID-19 pandemic is the impact this has had on the investment market and the Company's ability to raise capital.

As at September 30, 2020 and December 31, 2019, the Company reported the following:

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Net loss for the period	\$ 2,158,222	\$ 3,578,900
Working capital deficiency	\$ 1,235,508	\$ 1,546,563
Deficit	\$ 25,210,399	\$ 23,684,562

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with IFRS, as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019.

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue on November 27, 2020.

Basis of Measurement

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

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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

2. BASIS OF PREPARATION (Continued)

Principles of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, PreveCeutical (Australia). Subsidiaries are consolidated from the date of acquisition being the date that the Company obtains control. A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investees. All intercompany transactions and balances have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES

In preparing these condensed consolidated interim financial statements, the significant accounting policies and the significant judgments made by management in applying the Company's significant accounting policies and key sources of estimation uncertainty were the same as those that applied to the Company's audited consolidated financial statements for the year ended December 31, 2019.

Critical Accounting Estimates and Judgments

The preparation of these condensed consolidated interim financial statements requires management to make estimates and judgments and to form assumptions that affect the reported amounts and other disclosures in these condensed consolidated interim financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of these assumptions form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

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

Critical Accounting Estimates

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

- **Income tax**

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

- **Share-based compensation**

The fair value of stock options granted, and compensatory warrants are measured using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the option, expected volatility, expected life of the options, expected dividends and the risk-free rate. The expected life of the options is based on historical experience and general option holder behaviour. Dividends were not taken into consideration as the Company does not expect to pay dividends. Management also makes an estimate of the number of options that will forfeit, and the rate is adjusted to reflect the actual number of options that actually vest.

- **Accounts receivable**

The accounts receivable balance is recorded at the estimated recoverable amount, which involves the estimate of uncollectible accounts.

Critical Accounting Judgments

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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical Accounting Estimates and Judgments (Continued)

Critical Accounting Judgements (Continued)

- **Research and development expenditures**

Costs to develop products that will be sold are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 *Intangible Assets* are met. Those criteria require that the product is technically, and economically feasible, which management assessed based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any product development costs as at September 30, 2020.

- **Going concern assumption**

The assessment of whether the going concern assumption is appropriate requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

- **The determination of the Company and its subsidiary's functional currency**

The functional currency of the Company and its subsidiary is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions which determined the primary economic environment.

- **Modification versus extinguishment of financial liability**

Judgement is required in applying IFRS 9 *Financial Instruments* to determine whether the amended terms of the loan agreements are a substantial modification of an existing financial liability and whether it should be accounted for as an extinguishment of the original financial liability.

4. PREPAID AND DEPOSITS

	September 30, 2020	December 31, 2019
Current		
Advance to UniQuest for projects	\$ 126,509	\$ -
R&D supply prepaid – short-term	-	116,795
Other prepaid and deposits	14,954	47,398
	<u>141,463</u>	<u>164,193</u>
Non-current		
Advance to UniQuest for equipment	42,114	62,432
Office deposit	-	27,363
	<u>42,114</u>	<u>89,795</u>
Total prepaid and deposits	<u>\$ 183,577</u>	<u>\$ 253,988</u>

The advance to UniQuest Pty Limited ("UniQuest") relates to prepayments made to UniQuest for the two research and development contracts entered into in the year 2017, and one research and development contract entered into in 2020. Payments made to UniQuest have been recorded as a prepayment and amounts for work completed is expensed to research and development ("R&D").

The short-term R&D supply deposit for the year ended December 31, 2019, related to the R&D supply agreement the Company entered into, effective September 18, 2017, with a licensed producer of medical cannabis ("Supplier"). In exchange for 12,820,515 options, the Supplier supplied samples of cannabis-derived products and ingredient information for use by the Company in its R&D program. Each option was exercisable to one common share of the Company at \$0.156 per share for a period of 24 months from the grant date. The options expired on September 19, 2019. The R&D supply deposit is amortized from March 26, 2018, when the first shipment was received, to the end of the agreement, March 20, 2020. For the nine months ended September 30, 2020, the final amount of \$116,795 (\$280,307 for the nine months ended September 30, 2019) was expensed and recorded as an R&D expense.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

5. PROPERTY, EQUIPMENT AND FURNITURE

	Computer Equipment	Computer Software	Office Equipment	Leasehold Improvements	Total
COST	\$	\$	\$	\$	\$
Balance, December 31, 2018 and 2019	56,045	1,683	36,221	82,943	176,892
Exchange adjustment	(69)	-	-	-	(69)
Disposals	(3,797)	(1,683)	(36,221)	(82,943)	(124,644)
Balance, September 30, 2020	52,179	-	-	-	52,179
ACCUMULATED AMORTIZATION					
Balance, December 31, 2018	29,247	1,198	10,354	12,441	53,240
Additions	11,140	193	5,173	8,417	24,923
Balance, December 31, 2019	40,387	1,391	15,527	20,858	78,163
Additions	3,706	56	2,017	3,456	9,235
Disposals	(2,805)	(1,447)	(17,544)	(24,314)	(46,110)
Balance, September 30, 2020	41,288	-	-	-	41,288
Net book value, December 31, 2019	15,658	292	20,694	62,085	98,729
Net book value, September 30, 2020	10,891	-	-	-	10,891

The disposal of leasehold equipment relates to the leasehold improvements that were made to the office lease which was terminated on May 30, 2020. The Company disposed the laptop that was located in Australia on June 30, 2020.

6. RIGHT-OF-USE ASSET AND LEASE LIABILITY

The Company had a lease agreement for the headquarter office space in Vancouver, British Columbia. Upon transition to IFRS 16 *Leases*, effective January 1, 2019, the Company recognized \$502,177 for the ROU asset and \$502,177 for a lease liability. This lease was terminated on May 30, 2020. The Company recognized a gain on the lease termination of \$7,622.

The continuity of the ROU asset and lease liability for the nine months ended September 30, 2020, is as follows:

Right-of-use asset

Value of right-of-use asset as at January 1, 2019	\$	502,177
Amortization		(146,564)
Value of right-of-use asset as at December 31, 2019		355,613
Amortization		(61,241)
Lease termination – value of asset		(502,177)
Lease termination – accumulated amortization		207,805
Value of right-of-use asset as at September 30, 2020	\$	-

Lease liability

Lease liability recognized as of January 1, 2019	\$	502,177
Lease payments		(163,439)
Lease interest		20,854
Lease liability recognized as of December 31, 2019		359,592
Lease payments		(68,398)
Lease interest		7,353
Lease termination		(298,547)
Lease liability recognized as of September 30, 2020	\$	-

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

7. INTANGIBLE ASSETS

	Trademarks	Patents	Total
COST	\$	\$	\$
Balance, December 31, 2018	29,806	-	29,806
Additions	1,330	-	1,330
Balance, December 31, 2019	31,136	-	31,136
Additions	698	21,183	21,881
Balance at September 30, 2020	31,834	21,183	53,017
ACCUMULATED AMORTIZATION			
Balance, December 31, 2018	2,835	-	2,835
Additions	3,047	-	3,047
Balance, December 31, 2019	5,882	-	5,882
Additions	2,362	-	2,362
Balance at September 30, 2020	8,244	-	8,244
Net book value, December 31, 2019	25,254	-	25,254
Net book value, September 30, 2020	23,590	21,183	44,773

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

Patent costs include legal costs and filing fees for the filing of patents. As at September 30, 2020, the patents were not in use and were not amortized.

8. BANK INDEBTEDNESS

On May 19, 2020 the PreveCeutical (Australia) entered into an overdraft facility ("Facility") with Australia and New Zealand Banking Group Limited ("ANZ") by which the PreveCeutical (Australia) has temporary access to borrow up to AUD425,000 (\$405,663) with a termination date of August 19, 2020. The amount on this facility was increased to AUD475,000 (\$453,388) on June 22, 2020. Loan application fee of AUD475 (\$435) was paid. Interest on the outstanding amount on the Facility was at a rate of 2.40% per annum payable on a monthly basis in addition to a line fee of 2.40% per annum payable quarterly and on termination of the Facility.

Total interest, loan application fee, and overdraft fee, totalling \$5,177 (AUD5,654), and the amount drawn on this Facility was paid in full on August 19, 2020.

9. SHORT-TERM DEBT

On May 29, 2019, the Company entered into a short-term loan agreement with its Chief Executive Officer for \$300,000 with a maturity date of November 29, 2019. The loan is unsecured, at an interest rate of 5% per annum, compounded semi-annually and payable on the maturity date. Under the terms of the agreement, the Company granted 5,000,000 transferable bonus common purchase warrants entitling the holder to purchase one common share in the capital of the Company at an exercise price of \$0.06 per share for a period of one year from the grant date. The warrants were not exercised and expired on May 28, 2020.

The Company has drawn \$300,000 on this loan and has accrued \$20,626 of interest as at September 30, 2020 (interest accrued at December 31, 2019 was \$8,950). The fair value of liability was allocated entirely to the liability component. On February 21, 2020, the maturity date was amended from November 29, 2019 to May 29, 2020.

The Company recorded an estimated debt issuance cost of \$155,000 in May 2019 for the 5,000,000 bonus warrants based on Black-Scholes option pricing model with an expected life of one-year, annualized volatility of 142.35%, risk-free rate of 1.40%, and a dividend yield of 0%. These warrants were vested when granted.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

9. SHORT-TERM DEBT (Continued)

During the nine months ended September 30, 2020, advances, which are unsecured, payable on demand, and bearing no interest, were made to the Company by way of short-term loan as follows (total outstanding on September 30, 2020 was \$10,500 (\$16,150 as at December 31, 2019):

- On March 27, 2020, the Company's Chief Executive Officer lent the Company \$1,500. The total amount outstanding at September 30, 2020 was \$4,500 (\$3,000 outstanding at December 31, 2019).
- An employee related to the Company's Chief Executive Officer lent the Company \$450 on February 4, 2020 and \$300 on July 6, 2020. The total loan amount of \$6,400 was repaid to the employee on July 30, 2020. There was no loan outstanding as at September 30, 2020 (\$5,650 outstanding at December 31, 2019).
- The Company's shareholder and former President had a \$3,000 loan outstanding as at September 30, 2020. This amount was loaned to the Company during the year ended December 31, 2019.
- The Company's Chief Financial Officer's loan of \$1,500 was repaid on July 30, 2020. There was no loan outstanding as at September 30, 2020. This amount was loaned to the Company during the year ended December 31, 2019. Amount outstanding at December 31, 2019 was \$1,500.
- A company owned by Company's Chief Executive Officer had a \$3,000 loan outstanding as at September 30, 2020 and at December 31, 2019. This amount was loaned to the Company during the year ended December 31, 2019.

Reconciliation of the short-term debt is as follows:

Balance, December 31, 2018	\$	-
Cash items		
Advance		368,650
Repayments		(52,500)
Non-cash items		
Interest expense		8,950
Balance at December 31, 2019	\$	325,100
Advance		2,250
Repayments		(7,900)
Non-cash items		
Interest expense		11,676
Balance at September 30, 2020	\$	331,126

10. SHORT-TERM CONVERTIBLE DEBT

On March 28, 2018, the Company entered into an unsecured credit facility agreement with its shareholder and former President for \$700,000. Under the terms of the agreement, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible into common shares of the Company at the lender's request at \$0.10 per share. The original maturity date on the facility was March 28, 2019.

On April 20, 2018, the conversion price was amended from \$0.10 to \$0.06 per share and \$162,691 was recorded as a loss on the modification to profit or loss with a corresponding adjustment to shareholders' deficiency. On March 28, 2020, the maturity date for the debt was extended from March 28, 2020 to March 29, 2021, and a gain on modification of \$72,712 was recorded in reserve.

As at September 30, 2020 and December 31, 2019, \$695,000 was drawn on the facility, bearing 5% simple interest. As at September 30, 2020, interest of \$88,561 (December 31, 2019 - \$62,476) was accrued.

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

Reconciliation of the convertible debt is as follows:

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

10. SHORT-TERM CONVERTIBLE DEBT (Continued)

Balance, December 31, 2018	\$	607,978
Cash items		
Issuance of convertible debt		130,000
Non-cash items		
Equity portion of convertible debt		(2,345)
Interest expense		34,501
Accreted interest		65,179
Debt modification		(67,666)
Balance at December 31, 2019	\$	767,647
Non-cash items		
Interest expense		26,086
Accreted interest		52,522
Debt modification		(72,712)
Balance at September 30, 2019	\$	773,543

11. LONG-TERM DEBT

On April 14, 2020, the Company received a loan of \$40,000 through its bank Canadian Imperial Bank of Commerce (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.

No repayments were made, and no interest was accrued during the nine months ended September 30, 2020.

12. LONG-TERM CONVERTIBLE DEBT

The Company has entered into two revolving line of credit facility agreements with its Chief Executive Officer and its former President (collectively the "Lenders"), whom are shareholders of the Company. Both are unsecured, bear simple interest of 5% per annum and are convertible into common shares in the capital of the Company.

Long-term Convertible Debt 1

The first credit facility agreement was entered into on December 9, 2016 in the principal amount of \$1,000,000. The agreement was amended March 31, 2017, wherein the principal amount was increased by \$1,000,000 to a total of \$2,000,000. Under the terms of the agreement and waiver (the "Waiver") dated September 30, 2017, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible, after October 28, 2017, into common shares of the Company at the price of \$0.10 per share. On April 20, 2018, the conversion price was amended from \$0.10 to \$0.06 per share and \$845,130 was recorded as a loss on modification to profit or loss with a corresponding adjustment to shareholders' deficiency.

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

On May 20, 2020, the Company entered into two assignment and assumption agreements whereby certain arm's length assignees (the "Assignees") acquired all of the right, title, interests and obligations in and under this convertible credit facility agreement for a principal amount of \$1,728,811 and the accrued interest of \$271,189. Included in the assignment and assumptions agreement, the conversion price was amended from \$0.06 to \$0.023 per share and \$1,206,521 was recorded as a loss on modification to profit or loss with a corresponding adjustment to shareholders' deficiency. During the nine months ended September 30, 2020, the assigned debt and accrued interest (aggregate balance of \$2,000,000) was converted to for a total of 86,956,522 shares.

The Lenders advanced the Company \$25,000 on July 16, 2020, \$73,000 on July 21, 2020, \$37,000 on July 30, 2020, and \$23,000 on August 18, 2020, under this facility. As at September 30, 2020 the Company has drawn \$378,438 (\$1,949,248 at December 31, 2019) under the facility agreement and at September 30, 2020 has accrued interest of \$37,005 (December 31, 2019 - \$266,508).

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

12. LONG-TERM CONVERTIBLE DEBT (Continued)

Long-term Convertible Debt 2

The second facility was entered into on May 9, 2017, for a maximum of \$1,000,000. Under the terms of the agreement and the waiver, the amount of any outstanding principal and accrued interest thereon under the credit facility is convertible after October 28, 2017, into units, each consisting of one common share of the Company and one common share purchase warrant at a price of \$0.10 per unit. Each common share purchase warrant entitles the holder to purchase one common share of the Company at the price of \$0.20 for a period of 24 months after the issuance of the units, subject to acceleration. On April 20, 2018, the conversion price was amended from \$0.10 per unit to \$0.06 per unit and \$372,234 was recorded as a loss on the modification to profit or loss with a corresponding adjustment to shareholders' deficiency.

As at September 30, 2020, and December 31, 2019, the Company has drawn \$975,500 under the facility agreement and as at September 30, 2020 has accrued interest \$145,697 (December 31, 2019 - \$109,083).

On January 26, 2018, the Company entered into an agreement with the Lenders for \$500,000 in the form of an unsecured convertible promissory note bearing simple interest at 5% per annum. This promissory note was added to the second facility. Thereby, the terms of the facility entered into on May 9, 2017 apply to the January 26, 2018 agreement. On April 20, 2018, the conversion price was amended from \$0.10 per unit to \$0.06 per unit and \$202,603 was recorded as a loss on the modification to profit or loss with a corresponding adjustment to shareholders' deficiency.

As at September 30, 2020, and December 31, 2019, the Company had drawn the full \$500,000 and at September 30, 2020 had accrued interest of \$67,055 (December 31, 2019 - \$48,288) on this promissory note.

On September 1, 2020, the Lenders signed a wavier to waive the right to demand the funds for all of the above loans until after January 31, 2022. \$73,678 was recorded as debt modification cost for this waiver extension.

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

Reconciliation of the long-term convertible debt is as follows:

Balance, December 31, 2018	\$	3,043,888
Cash items		
Issuance of convertible debt		305,000
Non-cash items		
Equity portion of convertible debt		(26,820)
Interest expense		168,595
Accreted interest		280,608
Debt modification		(474,276)
Balance at December 31, 2019	\$	3,296,995
Cash items		
Issuance of convertible debt		158,000
Non-cash items		
Equity portion of convertible debt		(16,410)
Interest expense		97,068
Accreted interest		340,023
Debt modification		(73,678)
Debt conversion – principal		(1,728,811)
Debt conversion – interest		(271,189)
Balance at September 30, 2020	\$	1,801,998

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

13. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common Class "A" voting shares without par value. As at September 30, 2020, there were 492,049,158 common shares of the Company issued and outstanding.

Escrow shares

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

The final release from the escrow agreement was conducted on July 14, 2020. The escrow is now complete, and there were no securities held in escrow as at September 30, 2020.

Securities held in escrow as at December 31, 2019 were as follows:

- 44,543,400 common shares
- 4,175,000 stock options
- 540,000 warrants
- \$2,550,000 principal amount convertible debentures

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

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

Issuance

Share issuance during the nine months ended September 30, 2020 consisted of:

- On May 20, 2020, 8,643,731 common shares were issued at a price of \$0.025 to settle a supplier's outstanding payment of \$198,806. A loss on the settlement of debt of \$17,287 was recorded.
- On May 20, 2020, 86,956,522 common shares were issued at a conversion price of \$0.023 in relation to debt conversion in the amount of \$2,000,000 (principal amount of \$1,728,811 and interest amount of \$271,189). (Note 12).
- Legal costs of \$7,083 relating to the debt settlement and conversion was recorded.
- On July 23, 2020, the Company issued 100,000 common shares for exercise of 100,000 options at an exercise price of \$0.025 for total proceeds of \$2,500.

14. STOCK OPTIONS

Stock Option Plan

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

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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

14. STOCK OPTIONS (Continued)

The changes in stock options outstanding are as follows:

	Number of Stock Options Vested	Weighted Average Exercise Price
Balance at December 31, 2018	38,069,744	\$ 0.110
Granted	700,000	\$ 0.060
Expired and forfeited	(23,486,904)	\$ 0.140
Balance at December 31, 2019	15,282,840	\$ 0.070
Granted	7,000,000	\$ 0.050
Exercised	(100,000)	\$ 0.025
Expired and forfeited	(4,750,000)	\$ 0.090
Balance at September 30, 2020	17,432,840	\$ 0.053

As at September 30, 2020, the Company had the following stock options outstanding and exercisable:

Date of Expiry	Number Outstanding	Weighted Average Outstanding Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
June 30, 2021	1,250,000	\$ 0.100	1,250,000	\$ 0.100	0.75
September 7, 2021	1,333,340	\$ 0.060	1,333,340	\$ 0.060	0.94
November 4, 2021	100,000	\$ 0.025	100,000	\$ 0.025	1.10
June 29, 2022	5,000,000	\$ 0.050	5,000,000	\$ 0.050	1.75
August 11, 2022	6,499,500	\$ 0.050	6,499,500	\$ 0.050	1.86
September 1, 2022	1,250,000	\$ 0.050	1,250,000	\$ 0.050	1.92
September 22, 2022	2,000,000	\$ 0.040	500,000	\$ 0.040	1.98
Total	17,432,840	\$ 0.053	15,932,840	\$ 0.054	1.69

As at September 30, 2019, the Company had the following stock options outstanding and exercisable:

Date of Expiry	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
April 15, 2020	500,000	\$ 0.07	250,000	\$ 0.07	0.54
August 10, 2020	7,749,500	\$ 0.05	7,749,500	\$ 0.05	0.86
August 31, 2020	1,250,000	\$ 0.05	1,250,000	\$ 0.05	0.92
October 20, 2020	2,000,000	\$ 0.13	2,000,000	\$ 0.13	1.06
June 30, 2021	2,250,000	\$ 0.10	2,250,000	\$ 0.10	1.75
September 7, 2021	1,333,340	\$ 0.06	1,333,340	\$ 0.06	1.94
Total	15,082,840	\$ 0.07	14,832,840	\$ 0.07	1.11

When the Company issues stock options, it records a share-based compensation in the year or period in which the options are granted and/or vested. The expense is estimated using the following assumptions:

- The risk-free interest rate is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the expected life of the stock options.
- The Company used historical data to estimate option exercise, forfeiture and employee termination within the valuation model.
- The Company has not paid and does not anticipate paying dividends on its common shares. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period.
- Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the share-based compensation recorded in the accompanying condensed consolidated interim statements of operations and comprehensive loss.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

14. STOCK OPTIONS (Continued)

The Company used the Black-Scholes option pricing model to determine the fair value of 5,125,000 options vested during the nine months ended September 30, 2020 with a weighted average fair value of \$0.04. 250,000 options vested during the nine months ended September 30, 2019 with a weighted average fair value of \$0.07.

The following weighted average assumptions were used:

	September 30, 2020	September 30, 2019
Risk-free interest rate	0.24%	1.71%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	161.62%	198.95%
Expected option life in years	2.00	0.58
Forfeiture rate	0.00%	0.00%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these input assumptions can materially affect the fair value estimate. For the nine months ended September 30, 2020, the Company recorded \$204,300 (\$25,285 for the nine months ended September 30, 2019) in relation to the vesting of the stock options.

15. WARRANTS

The changes in warrants outstanding are as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at December 31, 2018	176,507,350	\$ 0.11
Issued - private placement	6,100,000	\$ 0.08
Issued - broker option	384,000	\$ 0.08
Issued – debt arrangement	5,000,000	\$ 0.06
Expired – private placement	(21,356,000)	\$ 0.20
Balance at December 31, 2019	166,635,350	\$ 0.10
Expired - private placement	(134,151,350)	\$ 0.10
Expired – debt arrangement	(5,000,000)	\$ 0.06
Balance September 30, 2020	27,484,000	\$ 0.10

As at September 30, 2020, the Company had the following warrants outstanding and exercisable:

Date of Expiry	Number Outstanding	Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
February 11, 2021	6,484,000	6,484,000	\$ 0.08	0.37
July 12, 2022	21,000,000	7,000,000	\$ 0.10	1.78
Total	27,484,000	13,484,000	\$ 0.09	1.45

As at September 30, 2019, the Company had the following warrants outstanding and exercisable:

Date of Expiry	Number Outstanding	Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life in Years
April 15, 2020	5,000,000	5,000,000	\$ 0.06	0.79
June 29, 2020	134,151,350	134,151,350	\$ 0.10	1.00
February 11, 2021	6,484,000	6,484,000	\$ 0.08	1.62
July 12, 2022	21,000,000	7,000,000	\$ 0.10	3.04
Total	166,635,350	152,635,350	\$ 0.10	1.11

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

15. WARRANTS (Continued)

On July 12, 2017, 21,000,000 performance warrants were issued at an exercise price of \$0.10 per warrant with the expiry date of July 12, 2022 to certain consultants, officer and other persons. The performance warrants will vest as follows:

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

16. RELATED PARTIES

Key Management Compensation

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

Name	Position	Nature of transaction
Stephen Van Deventer	CEO and Chairman	Management Services
Makarand Jawadekar	President, Director, Chief Scientific Officer	Management Services
Shabira Rajan	CFO and Controller	Management Services
Harendra Parekh	Chief Research Officer	Management Services
Kimberly Van Deventer	Director, PreveCeutical (Australia)	Management Services
Keith Anderson	Director	Director Fees
Mark Lotz	Director	Director Fees
James Henderson	Director, PreveCeutical (Australia)	Director Fees

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

Nine months ended September 30,	2020	2019
Salaries and wages	\$ 77,777	\$ 150,952
Management consulting	114,491	59,807
Directors fees	916	15,000
	\$ 193,184	\$ 225,759

Option Agreement

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.

Shared rent and general cost agreement

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

Related Party Transactions

Other related transactions for the nine months ended September 30, 2020 and 2019 included wages, benefits, royalty, interest and reimbursement for shared rent and general cost from a related company.

Except as disclosed elsewhere in the condensed consolidated interim financial statements, related party transactions for the nine months ended September 30, 2020 and 2019 are as follows:

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

16. RELATED PARTIES (Continued)

Related Party Transactions (Continued)

Nine months ended September 30,	2020	2019
Wages, benefits and consulting fees to employees and consultants related to certain officers	\$ 7,267	\$ 108,054
Royalty payable to company controlled by key management personnel	-	139
Accrued loan interest payable to certain officers and past officer	134,830	156,311
Shared rent and general cost received from a related company (Asterion)	(46,674)	(69,221)
Payment under Option Agreement (see Note 19)	(150,180)	(493,000)
Stock options and warrants issued to certain officers and directors	152,000	155,000
	\$ 97,243	\$ (142,717)

Related Party Payable

As at September 30, 2020, \$357,379 (\$79,422 as at September 30, 2019) was payable to related parties for wages, services and reimbursement of expenses. All balances are unsecured, non-interest bearing, have no fixed repayment terms and are due on demand. These amounts do not include the advances made by certain officers (Note 9).

17. SUPPLEMENTAL CASH FLOW INFORMATION

	September 30, 2020	September 30, 2019
	\$	\$
Interest expense – debt accrued	134,831	172,045
Interest expense - lease	7,353	-
Interest – paid to vendors and bank	6,208	-
Taxes paid	-	-
Previously granted options included in prepaid and deposits	-	256,948
Shares issued for Finder's fees	-	8,000

18. MANAGEMENT OF CAPITAL

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

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

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

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

As at September 30, 2020, the shareholders' deficiency was \$2,979,728 (December 31, 2019 - \$4,486,780). The Company did not change its approach to capital management during the nine months ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

19. FINANCIAL INSTRUMENTS

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

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

19. FINANCIAL INSTRUMENTS (Continued)

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

Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's convertible debts (Notes 10 and 12) currently provide for interest at 5% per annum. There was no interest on the short-term advances made by the Company's officers and employees. Interest rate on the short-term loan of \$300,000 was at 5% per annum compounded semi-annually.

Liquidity Risk

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

As at September 30, 2020, the Company had a working capital deficiency of \$1,235,508 compared to a working capital deficiency at December 31, 2019, of \$1,546,563. This included cash balance of \$206,131 (cash balance of \$28,480 as at December 31, 2019) and current liabilities of \$1,678,625 (December 31, 2019 - \$1,834,810). The Company will require additional financing in the future to meet its obligations. The Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

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

	1 year	2 to 3 years	Total
Short-term debt (Note 9)	\$ 331,126	-	\$ 331,126
Convertible debt – short-term (Note 10)	783,561	-	783,561
Long-term debt (Note 11)	-	40,000	40,000
Convertible debt – long-term (Note 12)	-	415,443	415,443
Convertible debt – long-term (Note 12)	-	1,121,197	1,121,197
Convertible debt – long-term (Note 12)	-	567,055	567,055
	\$ 1,114,687	\$ 2,143,695	\$ 3,258,382

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 (Note 8)	\$ 325,100	-	\$ 325,100
Convertible debt – short-term (Note 9)	757,476	-	757,476
Convertible debt – long-term (Note 10)	-	2,215,756	2,215,756
Convertible debt – long-term (Note 10)	-	1,084,583	1,084,583
Convertible debt – long-term (Note 10)	-	548,288	548,288
	\$ 1,082,576	\$ 3,848,627	\$ 4,931,203

Other Market Risk

Other market risks that the Company is exposed to include currency risk. Currency risk is the risk of loss due to the fluctuation of foreign exchange rates and the effects of these fluctuations on foreign currency denominated monetary assets and liabilities.

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

19. FINANCIAL INSTRUMENTS (Continued)

Other Market Risk (Continued)

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

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

As at September 30, 2020 and December 31, 2019, the Company's net exposure to foreign currency risk on its financial instruments is as follows:

	September 30, 2020		December 31, 2019	
	US Dollars	Australian Dollars	US Dollars	Australian Dollars
Cash	\$ 22	\$ 213,054	\$ 6	\$ 32,148
Accounts receivable	-	11,097	-	46,946
Accounts payable and accrued liabilities	(45,080)	(382,318)	(48,026)	(38,607)
	\$ (45,058)	\$ (158,167)	\$ (48,020)	\$ 40,487

Based on the above, assuming all other variables remain constant, a 10% (2019 - 10%) weakening or strengthening of the Canadian dollar against the US dollar and Australian would result in an increase/decrease of approximately \$2,225 (December 31, 2019 - \$6,194) in net income (loss).

20. OPTION PAYMENTS

On July 8, 2019, the Company and Asterion entered into an option to purchase agreement (the "Option Agreement"), whereby the Company has 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 delivery system for the nose-to-brain delivery of therapeutic formulations, including cannabis and cannabinoids.

Per the Option Agreement, Asterion will make a series of payments totaling \$2,652,000. Asterion will acquire the Option upon making all the payments.

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.

For the three and nine months ended September 30, 2020, the Company received \$90,300 and \$150,180 (total received to September 30, 2020 is \$803,325) under the Option Agreement. This amount has been recorded as an option payment under other income.

Asterion is considered to be a related party as a director and executive officers of the Company is a control person of Asterion.

21. SEGMENTED INFORMATION

The Company has one reportable segment being the licensing, branding and marketing nutraceutical and wellness products. There was no revenue during the nine months ended September 30, 2020. Selected segmented financial information is as follows:

Nine months ended September 30,	2020		2019	
Product Sales				
Canada	\$	-	\$	1,381
United States		-		1,650
Total	\$	-	\$	3,031

PreveCeutical Medical Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

Unaudited - Expressed in Canadian Dollars

21. SEGMENTED INFORMATION (Continued)

As at September 30, 2020 the Company's long-term assets were located in Canada and at December 31, 2019, the Company's long-term assets were located in Canada and Australia as follows:

	September 30, 2020			December 31, 2019		
	Canada	Australia	Total	Canada	Australia	Total
Computer equipment	\$ 10,891	\$ -	\$ 10,891	\$ 14,341	\$ 1,196	\$ 15,537
Computer software	-	-	-	292	-	292
Office equipment	-	-	-	20,693	-	20,693
Leasehold improvements	-	-	-	62,207	-	62,207
Right-of-use asset	-	-	-	355,613	-	355,613
Total	\$ 10,891	\$ -	\$ 10,891	\$ 453,146	\$ 1,196	\$ 454,342

22. COMMITMENTS

The Company did not have any commitments as at September 30, 2020.

The Company had entered into a lease agreement for office premises commencing May 1, 2017 with an initial five-year term and a five-year equipment lease commencing July 1, 2017. For the nine months ended September 30, 2020, the Company incurred \$71,260 (\$81,649 for the nine months ended September 30, 2019) in rent expense. This was offset by \$35,630 (\$40,825 for the nine months ended September 30, 2019) for rent reimbursed by Asterion.

This office lease was terminated on May 30, 2020 and the equipment lease was terminated on June 23, 2020.

23. COVID-19

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 are 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.

24. EVENTS AFTER THE REPORTING DATE

There were no events to report.