

THC BIOMED INTL LTD.
Consolidated Financial Statements
For the Years Ended July 31, 2018 and 2017
(Expressed in Canadian Dollars)

THC BIOMED INTL LTD.**Consolidated Financial Statements**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of THC BioMed Intl Ltd.

We have audited the accompanying consolidated financial statements of THC BioMed Intl Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2018 and 2017 and the consolidated statements of comprehensive loss, statements of changes in equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of THC BioMed Intl Ltd. and its subsidiaries as at July 31, 2018 and 2017 and their performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainties that may cast significant doubt about the ability of THC BioMed Intl Ltd. and its subsidiaries to continue as a going concern.

Wolrige Mahon Collins Barrow LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
November 28, 2018
Vancouver, BC

THC BIOMED INTL LTD.**Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)**

As at	July 31 2018	July 31 2017
Assets		
Current		
Cash	\$ 2,007,333	\$ 22,852
Amounts receivable	4,754	17,505
Goods and services tax receivable	48,978	13,827
Advances to related parties (note 15)	-	70,748
Biological assets (note 4)	855,954	362,218
Inventory (note 5)	315,863	180,716
Prepaid expenses and deposits	486,743	59,523
	3,719,625	727,389
Non-current		
Prepaid financing fee (note 10)	4,458,153	4,866,965
Property and equipment (note 6)	6,302,145	1,368,938
	10,760,298	6,235,903
	\$ 14,479,923	\$ 6,963,292
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 612,428	\$ 732,751
Promissory note payable (notes 8 and 15)	-	135,000
Current portion of mortgages payable (note 9)	38,015	26,016
Promissory note payable (note 10)	99,004	99,004
Warrant liability (note 10)	-	2,416,464
Advances from related parties (note 15)	884,605	1,199,512
	1,634,052	4,608,747
Non-current		
Mortgages payable (note 9)	631,417	375,250
	2,265,469	4,983,997
Shareholders' Equity		
Share capital (note 11)	20,120,026	5,420,535
Share subscription received in advance	-	839,974
Reserves	8,993,601	159,051
Accumulated deficit	(16,899,173)	(4,440,265)
	12,214,454	1,979,295
	\$ 14,479,923	\$ 6,963,292

Nature and continuance of operations (note 1)**Commitments** (note 19)**Subsequent events** (note 21)

These consolidated financial statements were authorized for issue by the Board of Directors on November 28, 2018. They are signed on the Company's behalf by:

"John Miller"

Director

"Hee Jung Chun"

Director

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

THC BIOMED INTL LTD.**Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)**

	For the year ended	
	July 31 2018	July 31 2017
Revenue (note 13)	\$ 925,339	\$ 59,876
Inventory expensed to cost of sales	(403,715)	(442,833)
Other cost of sales	(535,317)	(94,015)
Gross profit (loss) before fair value adjustments	(13,693)	(476,972)
Realized fair value changes in biological assets included in inventory sold	(54,319)	(49,595)
Unrealized gain on changes in fair value of biological assets	535,234	440,732
Net change in fair value (note 4)	480,915	391,137
Gross margin	467,222	(85,835)
Expenses		
General and administration (notes 14 and 15)	1,670,302	1,152,546
Depreciation and amortization (note 6)	198,413	89,978
Sales and marketing	26,107	46,372
Share-based compensation (notes 12 and 15)	1,141,558	134,788
	3,036,380	1,423,684
Other income (expense) items		
Distribution agreement expensed (note 7)	-	(101,433)
Foreign exchange gain (loss)	(7,631)	22,333
Impairment of patents and trademarks (note 7)	-	(1,270,708)
Interest income	20	170
Other	4,082	153
Revaluation of agent warrants (note 10)	(7,659,221)	2,225,501
Reversal of amounts payable	-	28,636
Settlement with Jacob Securities (note 11)	(2,227,000)	-
	(9,889,750)	904,652
Net and comprehensive loss for the year	\$ (12,458,908)	\$ (604,867)
Basic and diluted loss per share	\$ (0.11)	\$ (0.01)
Weighted average number of shares outstanding	112,317,311	102,150,050

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

THC BIOMED INTL LTD.

**Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)**

	Number of Shares	Share Capital	Share Subscription Received in Advance	Share-Based Payment Reserve	Agent Warrants Reserve	Deficit	Total Equity
Balance, July 31, 2017	103,232,631	\$ 5,420,535	\$ 839,974	\$ 159,051	\$ -	\$ (4,440,265)	\$ 1,979,295
Shares issued for cash	10,141,656	8,471,524	(839,974)	-	-	-	7,631,550
Share issue costs	-	(473,451)	-	-	-	-	(473,451)
Stock options exercised	1,604,000	451,100	-	-	-	-	451,100
Fair value of stock options exercised	-	268,462	-	(268,462)	-	-	-
Warrants exercised	362,903	140,625	-	-	-	-	140,625
Agent warrants exercised	1,250,000	1,500,000	-	-	-	-	1,500,000
Reallocation from warrant liability on exercise of agent warrants (note 10)	-	2,114,231	-	-	-	-	2,114,231
Reallocation of agent warrants from financing fee liability (note 10)	-	-	-	-	7,961,454	-	7,961,454
Settlement with Jacob Securities	1,700,000	2,227,000	-	-	-	-	2,227,000
Share-based compensation	-	-	-	1,141,558	-	-	1,141,558
Loss for the year	-	-	-	-	-	(12,458,908)	(12,458,908)
Balance, July 31, 2018	118,291,190	\$ 20,120,026	\$ -	\$ 1,032,147	\$ 7,961,454	\$(16,899,173)	\$ 12,214,454
Balance, July 31, 2016	96,199,544	\$ 3,865,413	\$ 250,000	\$ 70,652	\$ -	\$ (3,835,398)	\$ 350,667
Shares issued for cash	1,000,000	250,000	(250,000)	-	-	-	-
Stock options exercised	916,000	104,100	-	-	-	-	104,100
Fair value of stock options exercised	-	46,389	-	(46,389)	-	-	-
Warrants exercised	4,983,915	1,096,037	-	-	-	-	1,096,037
Shares issued for debt	133,172	58,596	-	-	-	-	58,596
Share subscription received in advance	-	-	839,974	-	-	-	839,974
Share -based compensation	-	-	-	134,788	-	-	134,788
Loss for the year	-	-	-	-	-	(604,867)	(604,867)
Balance, July 31, 2017	103,232,631	\$ 5,420,535	\$ 839,974	\$ 159,051	\$ -	\$ (4,440,265)	\$ 1,979,295

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

THC BIOMED INTL LTD.**Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)**

	For the year ended	
	July 31 2018	July 31 2017
Cash provided by (used for)		
Operating activities		
Net loss for the year	\$(12,458,908)	\$ (604,867)
Items not affecting cash		
Accrued liabilities	107,592	117,089
Depreciation and amortization	198,413	89,978
Distribution agreement expensed	-	101,433
Fair value changes in biological assets included in inventory sold	54,319	49,595
Impairment of patents and trademarks	-	1,270,708
Revaluation of agent warrants	7,659,221	(2,225,501)
Reversal of amounts payable	-	(28,636)
Share-based compensation	1,141,558	134,788
Settlement with Jacob Securities	2,227,000	-
Unrealized gain on changes of fair value of biological assets	(535,234)	(440,732)
	(1,606,039)	(1,536,145)
Net change in non-cash working capital	(825,503)	155,505
	(2,431,542)	(1,380,640)
Financing activities		
Advances from (repaid to) related parties	(314,907)	985,794
Issuance of shares for cash, net of share issuance costs	9,658,636	1,200,137
Share subscription received in advance	-	839,974
Promissory notes repaid	(135,000)	(125,996)
Net mortgage proceeds received (repaid)	268,166	(27,204)
	9,476,895	2,872,705
Investing activities		
Acquisition of property and equipment	(5,131,620)	(312,471)
Acquisition of intellectual property	-	(1,270,708)
Advances repaid by related parties	70,748	4,865
	(5,060,872)	(1,578,314)
Net increase (decrease) in cash	1,984,481	(86,249)
Cash, beginning of year	22,852	109,101
Cash, end of year	\$ 2,007,333	\$ 22,852
Supplemental cash flow information (note 18)		

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

THC BIOMED INTL LTD.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the Years Ended July 31, 2018 and 2017

1. NATURE AND CONTINUANCE OF OPERATIONS

THC BioMed Intl Ltd. ("THC" or the "Company") is a publicly traded company with its head office at 1340 St. Paul Street, Kelowna, British Columbia, Canada, V1Y 2E1.

The Company's shares trade on the Canadian Securities Exchange ("CSE") under the symbol THC, on the Over the Counter ("OTC") market under the symbol THCBF, and on the Frankfurt Stock Exchange under the symbol TFHC. The Company has also received approval from the Depository Trust Company ("DTC") making THC's shares DTC eligible for U.S. investors in order for the shares to trade electronically through U.S. brokerage accounts.

These consolidated financial statements include the accounts of THC BioMed Intl Ltd. and its five wholly owned subsidiaries: THC BioMed Ltd. (at the close of business on July 31, 2017, THC BioMed Ltd. and THC Meds Inc. were amalgamated and the name THC BioMed Ltd. was retained), Clone Shipper Ltd., THC2GO Dispensaries Ltd., THC Laboratories Ltd., and THC BioMed Lesotho Ltd. The Company's principal business is the production and sale of cannabis through THC BioMed Ltd. which is a Licensed Producer as regulated by the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR") in Canada.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to commence profitable operations in the future. To date the Company is considered to be in the development stage. These factors create material uncertainties that may cast significant doubt about the Company being able to continue as a going concern. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Further discussion of liquidity risk has been disclosed in Note 20c.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as explained in the accounting policies. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

c) Presentation and functional currency

The presentation and functional currency of the Company and its subsidiaries is the Canadian Dollar.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

2. BASIS OF PREPARATION (continued)**d) Foreign currency transactions**

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Foreign exchange differences are recognized in profit (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

e) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its five wholly-owned Canadian subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls where it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

f) Critical accounting judgments and estimates

The preparation of the consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

In the preparation of these consolidated financial statements, management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the consolidated financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimates and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

(a) Impairment of non-financial assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the asset and a suitable discount rate in order to calculate present value. The assessment of any impairment of assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

2. BASIS OF PREPARATION (continued)**f) Critical accounting judgments and estimates (continued)****(b) Share-based compensation**

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's profit or loss.

(c) Purchase price allocation

The allocation of the purchase price and subsequent costs between land and building on the acquisition of properties requires judgment. The allocations are determined using the property tax assessments when the properties are acquired.

(d) Biological assets and inventory

In calculating the fair value less costs to sell of biological assets and the cost of inventory, management makes a number of estimates related to inputs and variables, including the stage of growth of the marijuana up to the point of harvest, harvesting costs, selling costs, sales price, wastage, and expected yields from the marijuana plant.

(e) Estimated useful lives, and depreciation and amortization of property and equipment

Depreciation and amortization of property, plant, and equipment are dependent upon estimates of useful lives which are determined through the exercise of judgment.

(f) Income taxes

The measurement of deferred income tax assets requires management to make judgments 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 authorities, which occurs subsequent to the issuance of the audited annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES**a) Cash**

Cash in the statement of financial position is comprised of cash at banks and on hand which are readily convertible into a known amount of cash. The Company does not invest in any asset-backed deposits or investments. The Company has no material banking arrangements for overdrafts or borrowings.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**b) Biological assets and agricultural produce**

The Company recognizes a biological asset or agricultural produce when, and only when: (a) it controls the asset as a result of past events; (b) it is probable that future economic benefits associated with the asset will flow to the Company; and (c) the fair value or cost of the asset can be measured reliably.

The Company's biological assets include cannabis plants (including mother plants, clones for sale and clones for growth), seeds, resin, and harvested marijuana flowers prior to completion of the drying, grading and testing processes.

The Company capitalizes all direct and certain indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. Direct costs include growing materials. Indirect costs capitalized include overhead expenditures incurred during the growing process and indirect labour for individuals involved in the growing and quality control process. The Company allocates overhead expenditures based on the percentage of square footage used for production purposes. General and administrative expenses for corporate offices are not included in any biological assets or inventories. The Company does not capitalize depreciation of its growing facilities.

Biological assets are measured at the end of each reporting period at their fair value less costs to sell, unless the Company is unable to reliably measure the fair value thereof. At the point of harvest, the biological assets are transferred to inventory at the fair value less costs to sell. Fair value at the time of harvest becomes the basis for cost of finished goods inventories.

Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in profit or loss at the time they are determined.

c) Inventory

The Company's inventory consists of supplies and packaging materials, packaged dried marijuana, and bulk dried marijuana which are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell. Supplies and packaging are initially valued at cost.

Any gains or write downs of inventories to net realizable value are included in profit or loss at the time they are determined.

d) Property and equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**d) Property and equipment (continued)**

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use and, in the year of acquisition, only one-half of normal rates are used:

Automobile equipment	30%
Buildings	4%
Computer equipment	55%
Equipment	20%
Furniture and fixtures	20%
Software	100%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

e) Impairment

At each financial reporting date, the carrying amounts of the Company's long lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell, and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**f) Financial instruments (continued)**

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

f) Financial instruments

Financial assets and financial liabilities are recognized in the statements of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

i) Financial assets

The Company classifies its financial assets into categories, at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss. The Company has not classified any financial assets as fair value through profit and loss.

(b) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The effective interest rate method is a method for calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The Company has classified cash, amounts receivable, advances to related parties, and deposits as loans and receivables.

(c) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**f) Financial instruments (continued)****i) Financial assets (continued)****(c) Held-to-maturity investments (continued)**

If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss. The Company has not classified any financial assets as held-to-maturity investments.

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income or loss ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in profit or loss. The Company has not classified any assets as available-for-sale assets.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss. Where warrants issued do not result in a fixed number of shares being issued for a fixed value of consideration, the warrants are treated as derivative liabilities and accounted for at fair value through profit or loss. The Company had previously classified the warrant liability as a fair value through profit and loss liability.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**f) Financial instruments (continued)****ii) Financial liabilities (continued)****(b) Other financial liabilities**

The Company has classified accounts payable and accrued liabilities, promissory notes payable, mortgages payable, and advances from related parties as other financial liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

g) Share capital**i) Common shares**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

ii) Equity units

Proceeds received on the issuance of units comprised of common shares and warrants are allocated on the residual value method where proceeds are allocated to the common shares up to their fair value as determined by the current quoted trading price on the issue date, and the balance, if any, to the reserve for the warrants.

iii) Non-monetary consideration

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

h) Share-based compensation

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (a direct employee) or provides services similar to those performed by a direct employee (a consultant). The fair value is measured at grant date and recognized over the period during which the options vest.

The fair value of the options granted to employees is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**h) Share-based compensation (continued)**

The fair value of share options granted to non-employees is recognized as an expense in profit or loss unless they are related to the issuance of shares and is recorded at the fair value of the services received. The amount related to the issuance of shares is recorded as a reduction of share capital.

When the value of services received in exchange for the share-based compensation cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

All share-based compensation is reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

i) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from the equity reserve to accumulated deficit.

j) Loss per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

k) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

l) Revenue recognition

Revenue arises from the sale of goods and the rendering of services. It is measured at the fair value of consideration received or receivable, excluding sales taxes, and reduced by any rebates and trade discounts allowed.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**l) Revenue recognition (continued)**

Revenue generated from providing consulting services is recognized as revenue in the period in which the service is performed. Where payment is received in advance of providing the service, the amount received is recognized as deferred revenue.

Sales revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The transfer of risks and rewards occurs when the product is shipped to the customer.

m) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end, adjusted for amendments to the tax payable with regards to previous years.

Deferred tax is provided using the liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**n) Contingencies**

The Company recognizes loss contingency provisions for probable losses when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a loss contingency provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the mid-point of the range is used. As information becomes known, a loss contingency provision is recorded when a reasonable estimate can be made. The estimates are reviewed at each reporting date and the estimates are changed when expectations are revised. An outcome that deviates from the Company's estimate may result in an additional expense or release in a future accounting period.

o) New accounting standards and interpretations not yet adopted

The following accounting pronouncements have been released but have not yet been adopted by the Company:

IFRS 9 *Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 *Financial Instruments* (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. This standard will be adopted for the year beginning August 1, 2018. Management has determined the change in standard will have little impact on the Company's consolidated financial statements.

IFRS 15 *Revenue Recognition*

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15). The new standard provides a comprehensive five-step revenue recognition model for all contracts with customers and requires management to exercise significant judgment and make estimates that affect revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. This standard will be adopted for the year beginning August 1, 2018. Management has determined the change in standard will have little impact on the Company's consolidated financial statements.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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For the Years Ended July 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**o) New accounting standards and interpretations not yet adopted (continued)****IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16) which specifies how a lease will be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged for its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. Management is continuing to assess the impact of this new standard on its consolidated financial statements.

4. BIOLOGICAL ASSETS

At July 31, 2016, the Company only had a license to produce and not a license to sell product from Health Canada; accordingly, all biological assets were valued at \$Nil.

The continuity of biological assets for the years ended July 31, 2017 and 2018 is as follows:

Carrying amount, July 31, 2016	\$ -
Capitalized costs	28,767
Transferred to inventory upon harvest	(57,686)
Change in fair value	391,137
Carrying amount, July 31, 2017	362,218
Capitalized costs	893,339
Sales	(193,619)
Cultivated assets destroyed	(525,906)
Transferred to inventory upon harvest	(160,993)
Change in fair value	480,915
Carrying amount, July 31, 2018	\$ 855,954

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

4. BIOLOGICAL ASSETS (continued)

The carrying amount of biological assets is comprised of:

	July 31 2018	July 31 2017
Mother plants	\$ 177,750	\$ 171,000
Flower plants	261,048	55,440
Clones for growth	144,547	110,880
Clones for sale	27,620	15,520
Cannabis resin	196,685	-
Dried marijuana - bulk	38,952	-
Seeds	9,352	9,378
Carrying amount	\$ 855,954	\$ 362,218

Biological assets are presented at their fair value less costs to sell up the point of harvest. Because there is no active commodity market for what is included in biological assets, the valuation of these biological assets is determined using valuation techniques where the inputs are based upon unobservable market data. The biological assets are classified as level 3 under the fair value hierarchy.

The valuation of biological assets is determined using a market approach where fair value at the point of harvest is estimated based on expected selling prices less the costs to sell at harvest. For biological assets that remain in process, the fair value at point of harvest is adjusted based on the stage of growth. Stage of growth is determined by reference to the remaining estimated time until the biological asset is transferred to the next stage of processing or expected destruction.

Mother plants have an average life of 3 to 4 months before they are destroyed. Clones for sale have approximately 2 weeks before they outgrow the Clone Shipper container and must be destroyed. Clones clipped from mother plants for growth into a flowering plant have a 6 week growth phase.

The significant unobservable inputs and their range of values are as follows:

Unobservable input	Amount	Sensitivity
Yield per plant – expected number of grams of finished cannabis inventory which is expected to be obtained from each harvested flowering plant. Based on historical results.	70 grams per plant	A slight change in the yield per plant would result in a significant change in fair value.
Yield per plant – expected number of clones which is expected to be obtained from mother plant. Based on historical results.	90 clones per plant	A slight change in the yield per plant would result in a significant change in fair value.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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For the Years Ended July 31, 2018 and 2017

4. BIOLOGICAL ASSETS (continued)

Unobservable input	Amount	Sensitivity
Selling price of dried cannabis and clones for sale	\$4.20 (average selling price of dried cannabis) \$20 (selling price of clones for sale)	A slight change in the estimated selling prices would result in a significant change in fair value.

A sensitivity analysis of the impact of changes to the above significant unobservable inputs used to calculate the fair value of biological assets for the year ended July 31, 2018 is as follows:

	20% Decrease	10% Decrease	FV	10% Increase	20% Increase
Fair value of biological assets	\$ 684,763	\$ 770,359	\$ 855,954	\$ 941,549	\$ 1,027,145

5. INVENTORY

At July 31, 2016, the Company only had a license to produce and not a license to sell product from Health Canada; accordingly, all inventory was valued at \$Nil.

The continuity of inventory for the years ended July 31, 2017 and 2018 is as follows:

Carrying amount, July 31, 2016	\$ -
Capitalized costs	123,030
Transferred to inventory upon harvest	57,686
Carrying amount, July 31, 2017	180,716
Capitalized costs	105,244
Sales	(113,863)
Inventory destroyed and other	(17,227)
Transferred from biological assets upon harvest	160,993
Carrying amount, July 31, 2018	\$ 315,863

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

5. INVENTORY (continued)

The carrying amount of inventory is comprised of:

	July 31 2018	July 31 2017
Dried marijuana - bulk	\$ 2,195	\$ 84,461
Dried marijuana - 10 gram jars	247,926	50,778
Supplies and packaging	65,742	45,477
Carrying amount	\$ 315,863	\$ 180,716

The Company holds the following quantities of biological assets and inventory:

	July 31 2018	July 31 2017
Biological assets		
Cannabis resin (grams)	2,752	-
Clones for growth	885	264
Clones for sale	1,381	776
Flower plants	894	132
Marijuana - curing (grams)	9,274	-
Mother plants	158	95
Seeds	1,312	1,315
Inventory:		
Dried marijuana - 10 gram jars	5,903	1,209
Dried marijuana - bulk (grams)	523	26,432

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

6. PROPERTY AND EQUIPMENT

	July 31 2016	Additions	July 31 2017	Additions	July 31 2018
Cost					
Automobile equipment	\$ -	\$ 6,741	\$ 6,741	\$ 9,630	\$ 16,371
Buildings	685,353	71,331	756,684	1,918,059	2,674,743
Computer equipment	36,129	18,003	54,132	11,813	65,945
Equipment	50,342	148,528	198,870	349,012	547,882
Furniture and fixtures	11,425	25,121	36,546	1,342	37,888
Land	422,613	-	422,613	1,931,126	2,353,739
Leasehold improvements	-	-	-	879,304	879,304
Software	1,093	42,747	43,840	31,334	75,174
	\$ 1,206,955	\$ 312,471	\$ 1,519,426	\$ 5,131,620	\$ 6,651,046
Accumulated Depreciation					
Automobile equipment	\$ -	\$ 1,011	\$ 1,011	\$ 3,164	\$ 4,175
Buildings	25,326	27,828	53,154	33,488	86,642
Computer equipment	22,735	12,319	35,054	13,741	48,795
Equipment	8,342	23,253	31,595	68,358	99,953
Furniture and fixtures	3,014	4,194	7,208	6,001	13,209
Leasehold improvements	-	-	-	36,620	36,620
Software	1,093	21,373	22,466	37,041	59,507
	\$ 60,510	\$ 89,978	\$ 150,488	\$ 198,413	\$ 348,901
Carrying Amounts	\$ 1,146,445		\$ 1,368,938		\$ 6,302,145

Buildings not yet in use and leasehold improvements on facilities that are not yet in use were not depreciated during the year. Carrying value of buildings and leasehold improvements not yet in use were \$1,650,677 and \$513,103, respectively (2017 - \$Nil and \$Nil, respectively).

7. ASSET ACQUISITION

The Company acquired 100% of certain assets of Clone Shipper LLC, a US based company specializing in packaging products used to transport live plants during the year ended July 31, 2017. The purchase price of \$1,376,290 (US\$1,000,000) was allocated as follows:

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

7. ASSET ACQUISITION (continued)

Equipment	\$ 91,719
Inventory	26,386
Patents (pending)	880,729
Trademarks (pending)	377,456
	<hr/>
	\$ 1,376,290

During the year ended July 31, 2017, the Company incurred \$12,523 in legal costs allocated to the patents and trademarks. The patents are still pending and the Clone Shipper trademark was registered on October 31, 2017. There have been nominal sales to date. Impairment of the patents and trademarks in the amount of \$1,270,708 was recorded during the year ended July 31, 2017.

Prior to completing this acquisition, the Company had signed a Distribution Agreement with Clone Shipper LLC and paid \$101,433 (US\$75,000). The Company expensed the amount after closing of the acquisition.

8. PROMISSORY NOTE PAYABLE

The Company issued a promissory note in the principal amount of up to \$150,000 on December 31, 2014 to BUA Capital Management Ltd., a private company controlled by a former director, Jason Walsh. The note was without interest and was due on December 31, 2016. The note was repaid during the year ended July 31, 2018.

9. MORTGAGES PAYABLE

The Company has a mortgage payable on its first property acquired in the principal amount of \$210,560. The mortgage was initially with interest at 5.50% per annum with monthly payments of \$2,760 due on the 21st day of each month and due on September 21, 2015. The mortgage was extended to mature on August 21, 2018 with interest at 10% per annum starting on September 22, 2015. The mortgage has been extended again to August 21, 2021 on the same terms. At July 31, 2018, the balance payable is \$156,261 (July 31, 2017 - \$172,875) with accrued interest of \$428 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on its second property acquired in the principal amount of \$250,000. The mortgage was initially with interest at 10% per annum with monthly payments of \$2,656 due on the 2nd day of each month and due on October 2, 2017. The mortgage has been extended to mature on October 2, 2020 on the same terms. At July 31, 2018, the balance payable is \$ 218,942 (July 31, 2017 - \$228,391) with accrued interest of \$1,740 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a subsequent property acquired in the principal amount of \$300,000 with interest at 10% per annum with monthly payments of \$3,187 due on the 1st day of each month and due on November 1, 2022. At July 31, 2018, the balance payable is \$ 294,229 (July 31, 2017 - \$Nil) with accrued interest of \$2,421 included in accounts payable and accrued liabilities.

THC BIOMED INTL LTD.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the Years Ended July 31, 2018 and 2017

10. CAPITAL COMMITMENTS

GEM Global Yield Fund LLC SCS

On March 13, 2017, the Company entered into a Capital Commitment Agreement with GEM Global Yield Fund LLC SCS ("GEM") for a \$10 million capital commitment from GEM to invest into THC. Proceeds raised from the investment was for working capital and general corporate purposes, and in particular, to close the acquisition of the Clone Shipper assets (note 7).

THC has the right to draw down under the Capital Commitment Agreement for a term of two years. Common shares will be issued to GEM at a price per share equal to the greater of: (1) the floor price set by THC; and (2) a 10% discount to the market price of the common shares based on the immediately preceding 15-day volume weighted average price for the acceptance period. Each draw down is subject to certain market out rights of GEM (as defined in the agreement) and approval of the CSE. GEM will hold freely trading common shares of the Company through a share lending facility provided by the current Chief Executive Officer and Chief Financial Officer.

The Company entered into a promissory note to pay GEM a commission fee of \$225,000 upon the earliest of: (1) the closing of a private placement (in an amount equal to 15% of the proceeds of placements until the full amount of the fee is paid); (2) 18 months from the date of the Capital Commitment Agreement; or (3) a change of control of THC. This fee will be payable by THC at the 18-month date even if THC makes no demands on the capital commitment. If GEM fails to invest pursuant to the terms of the Capital Commitment Agreement, the fee will not be payable by THC. THC may elect to pay the commitment fee in cash or stock, subject to CSE approval.

The promissory note was reduced by \$125,996 on June 26, 2017, when subscriptions received in advance were received, net of this amount, from GEM. The remaining balance of this promissory note as at July 31, 2018 is \$99,004 (July 31, 2017 - \$99,004).

As part of the transaction, THC agreed to issue 6,635,000 common share purchase warrants ("agent warrants") to GEM, subject to the terms and conditions of the Capital Commitment Agreement. The agent warrants have an exercise price equal to the greater of: (1) \$1.20; and (2) the market price of the common shares on the date of the issuance of the agent warrants. The agent warrants will have an exercise period of 5 years. The agent warrants' exercise price is subject to repricing to 105% of the market price in the event that THC's market price is less than 90% of the exercise price on the first anniversary of the date of the Capital Commitment Agreement. The repricing must be done in accordance with the rules of the CSE.

As at July 31, 2017, the agent warrants were recorded as a derivative liability as the value was based on inputs that were subject to change. The agent warrants were not on a fixed for fixed basis as the number of warrants were fixed, but the exercise price was variable, as noted above. During the year ended July 31, 2018, the exercise price became fixed at \$1.20 per warrant and the fair value as at the date of the reclassification was transferred to agents warrant reserve.

At March 13, 2017, the \$225,000 commission fee and the initial fair value of 6,635,000 agent warrants were recorded as prepaid financing fees of \$4,866,965. The agent warrants had an initial fair value, calculated using the Black-Scholes option pricing model, of \$4,641,965 or \$0.70 per agent warrant, assuming an expected life of 5 years, a risk-free interest rate of 1.31%, an expected dividend rate of 0.00%, stock price of \$0.76 and an expected annual volatility coefficient of 165%. Volatility was determined using historical stock prices.

THC BIOMED INTL LTD.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the Years Ended July 31, 2018 and 2017

10. CAPITAL COMMITMENTS (continued)

GEM Global Yield Fund LLC SCS (continued)

At March 13, 2017, the initial fair value of the agent warrants of \$4,641,965 (as above) was recorded as the warrant liability. At July 31, 2017, the agent warrants were revalued and had a fair value, calculated using the Black-Scholes option pricing model, of \$2,416,464 or \$0.36 per agent warrant, assuming an expected life of 4.6 years, a risk-free interest rate of 1.55%, an expected dividend rate of 0.00%, stock price of \$0.39 and an expected annual volatility coefficient of 191%. Volatility was determined using historical stock prices. The revaluation of the agent warrants at July 31, 2017 produced a gain of \$2,225,501.

On January 31, 2018, 1,000,000 agent warrants were exercised at \$1.20 which reduced the warrant liability by \$1,743,583.

On March 13, 2018, 250,000 agent warrants were exercised at \$1.20 which reduced the warrant liability by \$370,648.

At March 13, 2018, the exercise price of the warrants became fixed at \$1.20 per warrant and the balance of the agent warrants were revalued. The agent warrants had a fair value calculated using the Black-Scholes option pricing model of \$7,961,454 or \$1.48 per agent warrant, assuming an expected life of 4 years, a risk-free interest rate of 2.08%, an expected dividend rate of 0.00%, stock price of \$1.60, and an expected annual volatility coefficient of 169%. Volatility was determined using historical stock prices. The revaluation of the agent warrants during the year produced a loss of \$7,659,221.

The prepaid financing fee will be reduced on a pro-rated basis as the drawdowns occur and will be recorded in share capital as a share issuance cost. Any remaining balance at the end of the term will be expensed in profit or loss as a financing fee.

At July 31, 2018, there is \$9,160,026 available for further subscriptions.

Alumina Partners (Ontario) Ltd.

On July 21, 2017, the Company announced a capital commitment from Alumina Partners (Ontario) Ltd. ("Alumina") for up to \$12,000,000 on a private placement basis completed in tranches over a twenty-four month period. Each tranche to be a subscription of common shares and warrants referred to as a unit ("Unit").

Following the initial subscription, the Company may request that Alumina subscribe for subsequent tranches a minimum of five trading days following the issuance of the previous tranche.

The purchase price for each Unit in each tranche will be priced at a discount of 15% to 25% to the market price of the common shares traded on the Canadian Securities Exchange ("Exchange"), or such lesser discount as dictated by Section 2.1 of Policy 6 of the Exchange. The market price of the common shares for each tranche will be defined as the price per common share formally protected and reserved by the Company's filing of a Price Reservation Notice with the Exchange using the applicable Form 9. Alumina is not required to close a tranche if the closing price of the common shares on the Exchange determined as of the close of trading on the trading day prior to the closing date is below the market price on the corresponding Form 9.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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10. CAPITAL COMMITMENTS (continued)**Alumina Partners (Ontario) Ltd.** (continued)

At the closing of each tranche, the Company shall issue Alumina an amount of common share purchase warrants equal to the number of common shares subscribed by Alumina in connection with that tranche. Each warrant will permit Alumina to acquire one common share for three years from the date of closing the tranche, subject to a four month hold period from the date the warrants are issued. The exercise price of each warrant for each tranche is set at a 25% premium to the market price for the corresponding tranche.

At July 31, 2018, there have been 15 tranches for a total issuance of 8,711,656 Units (see note 11a) for gross proceeds of \$7,631,554 (July 31, 2017 - \$Nil) leaving a balance of \$4,368,446 available for further subscriptions.

11. SHARE CAPITAL**a) Common shares****Authorized:**

Unlimited number of common shares without par value

Issued:

	Issued Number	Amount
Balance, July 31, 2016	96,199,544	\$ 3,865,413
Shares issued for cash	1,000,000	250,000
Stock options exercised	916,000	104,100
Fair value of stock options exercised	-	46,389
Warrants exercised	4,983,915	1,096,037
Shares issued for debt	133,172	58,596
Balance, July 31, 2017	103,232,631	5,420,535
Shares issued for cash	10,141,656	8,471,524
Share issue costs	-	(473,451)
Stock options exercised	1,604,000	451,100
Fair value of stock options exercised	-	268,462
Warrants exercised	362,903	140,625
Agent warrants exercised	1,250,000	1,500,000
Reallocation from warrant liability on exercise of agent warrants	-	2,114,231
Settlement with Jacob Securities	1,700,000	2,227,000
Balance, July 31, 2018	118,291,190	\$ 20,120,026

On September 12, 2016, 1,000,000 common shares were issued at \$0.25 per share for gross proceeds of \$250,000 which was received during the prior year.

THC BIOMED INTL LTD.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

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11. SHARE CAPITAL (continued)

a) Common shares (continued)

On September 25, 2016, 4,459,001 warrants expired at \$0.60.

On December 10, 2016, 7,650,000 warrants expired at \$0.25

On June 22, 2017, the Company issued 133,172 common shares at \$0.44 per share to settle \$58,596 in debt. The market price on the date of the agreement was \$0.44.

During the year ended July 31, 2017: 666,000 options were exercised at \$0.10 for gross proceeds of \$66,600; 250,000 options were exercised at \$0.15 for gross proceeds of \$37,500; 4,209,583 warrants were exercised at \$0.15 for gross proceeds of \$631,437; and 774,332 warrants were exercised at \$0.60 for gross proceeds of \$464,600. The weighted average market price during the year when options and warrants were exercised was \$0.60.

On October 12, 2017, the Company issued 1,430,000 shares at \$0.587 per Unit to GEM Global Yield Fund LLC SCS ("GEM") pursuant to the capital commitment agreement dated March 13, 2017 (note 10) for gross proceeds of \$839,974. In accordance with the agreement dated March 13, 2017, 6,635,000 agent warrants were also issued, exercisable at \$1.20 per share until March 13, 2022. The Company recorded share issue costs of \$408,812 in connection with this financing. The amount was deducted from the prepaid financing fee (note 10).

On April 23, 2018, 1,700,000 common shares were issued with a fair value of \$2,227,000 pursuant to a settlement agreement with Jacob Securities Inc.

During the year ended July 31, 2018, the Company closed 15 tranches with Alumina Partners (Ontario) Ltd. The Company issued a total of 8,711,656 Units at a weighted average price of \$0.8760 for total gross proceeds of \$7,631,550. Each Unit consists of one common share and one common share purchase warrant. Warrants issued have a weighted average exercise price of \$1.3648 for a period of 36 months from the date of issue. Warrants were valued at \$Nil using the residual value method. The Company paid \$64,639 of share issue costs in connection with these financings.

During the year ended July 31, 2018: 584,000 options were exercised at \$0.10 for gross proceeds of \$58,400; 1,020,000 options were exercised at \$0.385 for gross proceeds of \$392,700; 362,903 warrants were exercised at \$0.3875 for gross proceeds of \$140,625; and 1,250,000 agent warrants were exercised at \$1.20 for gross proceeds of \$1,500,000. The weighted average market price during the year when options and warrants were exercised was \$1.38.

b) Escrow shares

Currently 690 common shares (July 31, 2017 – 690) are held in escrow.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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11. SHARE CAPITAL (continued)**c) Warrants outstanding (continued)**

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2016	17,092,916	\$ 0.3300
Warrants exercised	(4,983,915)	0.2200
Warrants expired	(12,109,001)	0.3800
Balance, July 31, 2017	-	-
Warrants issued	8,711,656	1.3648
Warrants exercised	(362,903)	0.3875
Balance, July 31, 2018	8,348,753	\$ 1.4073

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
August 9, 2020	2.02	120,967	\$ 0.3875
October 2, 2020	2.18	403,226	0.9600
October 5, 2020	2.18	359,196	1.0875
October 12, 2020	2.20	355,115	1.1000
October 20, 2020	2.22	333,333	0.9400
October 23, 2020	2.23	333,333	0.9400
October 31, 2020	2.25	362,318	0.8625
November 8, 2020	2.27	513,698	0.9125
November 14, 2020	2.29	666,666	0.9375
November 23, 2020	2.32	1,488,095	1.0500
January 15, 2021	2.46	314,070	2.4900
January 24, 2021	2.48	631,313	2.4800
February 8, 2021	2.53	1,002,673	2.0800
March 2, 2021	2.59	932,835	1.6800
March 15, 2021	2.62	531,915	1.7630
		8,348,753	\$ 1.4073

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
(Expressed in Canadian Dollars)**

For the Years Ended July 31, 2018 and 2017

11. SHARE CAPITAL (continued)**d) Agent warrants outstanding**

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2017	-	\$ -
Warrants issued	6,635,000	1.20
Warrants exercised	(1,250,000)	1.20
Balance, July 31, 2018	5,385,000	\$ 1.20

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
March 13, 2022	3.62	5,385,000	\$ 1.20

12. SHARE-BASED COMPENSATION

The Company is authorized to grant options to directors, officers, employees, and consultants to acquire common shares under the 2015 Stock Option Incentive Plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the issued common shares of the Company from time to time. Options granted under the Plan may have a maximum term of ten (10) years. The exercise price of options granted under the Plan will not be less than the fair market value price of the shares on the date of grant of the options (defined as the last closing market price of the Company's shares on the last day shares are traded prior to the grant date). Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors. Stock options granted under the Plan are to be settled with the issuance of equity instruments.

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12. SHARE-BASED COMPENSATION (continued)

The following summarizes the stock options outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2016	1,500,000	\$ 0.110
Options granted	4,415,000	0.385
Options exercised	(916,000)	0.110
Balance, July 31, 2017	4,999,000	0.352
Options granted	1,000,000	1.100
Options exercised	(1,604,000)	(0.281)
Options cancelled	(56,250)	0.385
Balance, July 31, 2018	4,338,750	\$ 0.550

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Vested	Number of Options Outstanding	Exercise Price
July 25, 2017	July 25, 2019	0.98	3,338,750	3,338,750	\$ 0.385
June 4, 2018	June 4, 2020	1.84	100,000	1,000,000	\$ 1.100
			3,438,750	4,338,750	\$ 0.550

On July 25, 2017, the Company granted 4,415,000 stock options to directors, employees, and a consultant of the Company to acquire 4,415,000 common shares of the Company with an expiry date of July 25, 2019. The options vest over 12 months with 10% at the date of grant; 15% three months from the date of grant; 25% six months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant. The options have a total fair value, calculated using the Black-Scholes option pricing model, of \$1,057,001 or \$0.24 per option, assuming an expected life of 2 years, a risk-free interest rate of 1.32%, an expected dividend rate of 0.00%, stock price of \$0.375 and an expected annual volatility coefficient of 129%. Volatility was determined using historical stock prices. The fair value expensed at July 31, 2018 is \$908,992 (July 31, 2017 - \$134,788).

On June 4, 2018, the Company granted 1,000,000 stock options to employees to acquire 1,000,000 common shares of the Company with an expiry date of June 4, 2020 at \$1.10 per share. The options vest over 12 months with 10% at the date of grant; 15% three months from the date of grant; 25% six months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant. The options have a total fair value, calculated using the Black-Scholes option pricing model, of \$642,371 or \$0.64 per option, assuming an expected life of 2 years, a risk-free interest rate of 1.93%, an expected dividend rate of 0.00%, stock price of \$1.10 and an expected annual volatility coefficient of 113%. Volatility was determined using historical stock prices. The fair value expensed at July 31, 2018 is \$232,566 (July 31, 2017 - \$Nil).

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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12. SHARE-BASED COMPENSATION (continued)

During the year ended July 31, 2018, 56,250 stock options were cancelled that were exercisable at \$0.385 per share. The options had not vested.

13. REVENUE

The total revenue earned for the year ended July 31, 2018 includes sales revenue of \$782,482 (July 31, 2017 - \$59,876) and consulting fees of \$142,857 (July 31, 2017 - \$Nil).

14. GENERAL AND ADMINISTRATIVE EXPENSES

Following is a breakdown of general and administrative expenses:

	July 31 2018	July 31 2017
Administration fees	\$ -	\$ 16,400
Automobile expenses	9,271	17,970
Bank charges and interest	158,728	57,499
Consulting fees	84,118	135,051
Director fees	35,972	19,392
Equipment lease	-	10,131
Insurance	28,564	11,640
Investor relations	94,998	106,420
Leasehold improvements	-	9,199
Legal and accounting	530,048	400,656
Office and sundry	62,176	26,802
Payroll	233,247	162,212
Property tax	20,111	11,519
Rent	129,775	58,019
Repairs and maintenance	9,437	21,518
Strata fees	11,152	9,290
Telephone	22,180	15,228
Transfer agent and filing fees	78,178	36,408
Travel	147,461	17,311
Utilities	14,886	9,881
	\$ 1,670,302	\$ 1,152,546

15. RELATED PARTY TRANSACTIONS

The Company has identified certain directors and senior officers as key management personnel. The following table lists the compensation costs paid to key management personnel and companies owned by key management personnel for the year ended July 31, 2018 and 2017:

THC BIOMED INTL LTD.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the Years Ended July 31, 2018 and 2017

15. RELATED PARTY TRANSACTIONS (continued)

	Consulting	Director Fees	Office and Administration	Rent	Salaries and Benefits	Share-Based Compensation	July 31, 2018 Total
Ashish Dave	\$ -	\$ 7,000	\$ -	\$ -	\$ 4,525	\$ 104,441	\$ 115,966
Chief Executive Officer	-	7,000	-	39,867	60,000	104,441	211,308
Chief Financial Officer	-	7,000	-	57,116	60,000	104,441	228,557
Close family member	-	-	-	-	50,500	52,220	102,720
George Smitherman	-	7,000	-	-	-	104,441	111,441
	\$ -	\$ 28,000	\$ -	\$ 96,983	\$ 175,025	\$ 469,984	\$ 769,992

	Consulting	Director Fees	Office and Administration	Rent	Salaries and Benefits	Share-Based Compensation	July 31, 2017 Total
Ashish Dave	\$ -	\$ 1,000	\$ -	\$ -	\$ -	\$ 15,265	\$ 16,265
BUA Capital Management Ltd.	20,000	-	-	-	-	-	20,000
BUA Group Holdings Ltd.	-	-	16,400	-	-	-	16,400
Chief Executive Officer	-	6,000	-	31,200	60,400	15,265	112,865
Chief Financial Officer	-	6,000	-	1,761	60,400	15,265	83,426
Close family member	-	-	-	-	37,495	7,632	45,127
George Smitherman	-	6,000	-	-	-	15,265	21,265
	\$ 20,000	\$ 19,000	\$ 16,400	\$ 32,961	\$ 158,295	\$ 68,692	\$ 315,348

Ashish Dave receives a director fee of \$500 per month with an additional \$1,000 paid in December totaling \$7,000 (July 31, 2017 - \$1,000) for the year ended July 31, 2018. On July 25, 2017, Dr. Dave was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706 of which \$104,441 (July 31, 2017 - \$15,265) vested during the year.

BUA Capital Management Ltd. provided consulting services to the Company until November 30, 2016. It is a private company controlled by a former director, Jason Walsh. At July 31, 2018, the Company owed \$Nil (July 31, 2017 - \$135,000) to BUA Capital Management Ltd. included in the promissory note payable.

BUA Group Holdings Ltd. provided administration services to the Company until November 30, 2016. It is a private company controlled by a former director, Jason Walsh.

The President and Chief Executive Officer ("CEO") of the Company, a director, and co-founder of the THC Companies, receives a salary from the THC Companies of \$5,000 per month and receives a director fee of \$500 per month with an additional \$1,000 paid in December totaling \$7,000 (July 31, 2017 - \$6,000) for the year ended July 31, 2018. On July 25, 2017, the CEO was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706 of which \$104,441 (July 31, 2017 - \$15,265) vested during the year. The CEO also purchased product from the Company with sales totaling \$6,275 (July 31, 2017 - \$1,215).

THC BIOMED INTL LTD.

Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)

For the Years Ended July 31, 2018 and 2017

15. RELATED PARTY TRANSACTIONS (continued)

The Chief Financial Officer (“CFO”), a director of the Company, and co-founder of the THC Companies, receives a salary from the THC Companies of \$5,000 per month and receives a director fee of \$500 per month with an additional \$1,000 paid in December totaling \$7,000 (July 31, 2017 - \$6,000) for the year ended July 31, 2018. On July 25, 2017, the CFO was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706 of which \$104,441 (July 31, 2017 - \$15,265) vested during the year. At July 31, 2018, the Company owed the CFO \$884,605 (July 31, 2017 - \$1,199,512).

The Company initially signed a month-to-month lease for premises from the CEO and CFO. The lease began on August 1, 2016 with monthly payments of \$2,600 plus Goods and Services Tax along with 75% of all operating costs. Effective June 17, 2018, the lease was amended to a fixed term expiring August 31, 2019 with the right to renew the lease under the same terms for four three-year terms for \$3,467 per month plus Goods and Services Tax along with 100% of all operating costs. A security deposit of \$3,467 was also paid.

The Company signed a month-to-month lease for premises from the CFO. The lease began on July 10, 2017 with monthly payments of \$2,600 plus Goods and Services Tax along with all operating costs. Effective June 17, 2018, the lease was amended to a fixed term expiring August 31, 2019, 2019 with the right to renew the lease under the same terms for four three-year terms for \$2,600 per month plus Goods and Services Tax along with 100% of all operating costs. A security deposit of \$2,600 was also paid.

The Company initially signed a month-to-month lease for premises from the CEO and CFO. The lease began on October 2, 2017 with monthly payments of \$2,600 plus Goods and Services Tax along with all operating costs. Effective June 17, 2018, the lease was amended to a fixed term expiring September 30, 2019 with the right to renew the lease under the same terms for four three-year terms for \$2,600 per month plus Goods and Services Tax along with 100% of all operating costs. A security deposit of \$2,600 was also paid.

The Company initially signed a month-to-month lease for premises from the CEO and CFO. The lease began on December 1, 2017 with monthly payments of \$2,600 plus Goods and Services Tax along with all operating costs. Effective June 17, 2018, the lease was amended to a fixed term expiring August 31, 2019 with the right to renew the lease under the same terms for four three-year terms for \$2,600 per month plus Goods and Services Tax along with 100% of all operating costs. A security deposit of \$2,600 was also paid.

A close family member of the CEO works full-time in the office in Kelowna. This close family member is paid an hourly wage of \$25 with an additional \$500 paid in December. On July 25, 2017, this close family member was granted 250,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$59,853 of which \$52,220 (July 31, 2017 - \$7,632) vested during the year. This close family member also purchased product from the Company with sales totaling \$1,458 (July 31, 2017 - \$Nil).

George Smitherman receives a director fee of \$500 per month with an additional \$1,000 paid in December totaling \$7,000 (July 31, 2017 - \$6,000) for the year ended July 31, 2018. On July 25, 2017, Mr. Smitherman was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706 of which \$104,441 (July 31, 2017 - \$15,265) vested during the year.

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15. RELATED PARTY TRANSACTIONS (continued)

International Ranger Corp. is a public company with common former directors. At July 31, 2018, the Company was owed \$Nil (July 31, 2017 - \$1,881) from International Ranger Corp. included in advances to related parties.

Thelon Diamond Company Limited is a public company with a common former director, Jason Walsh. At July 31, 2018, the Company owed \$Nil (July 31, 2017 - \$1,000) Thelon Diamond Company Limited included in advances from related parties.

At July 31, 2018, the Company owed \$Nil (July 31, 2017 - \$10,352) to Global Li-ion Graphite Corp. (formerly Thelon Diamonds Ltd.), a private company controlled by a former director of the Company, Jason Walsh, included in advances from related parties.

At July 31, 2018, the Company was owed \$Nil (July 31, 2017 - \$5,850) from 1177129 Alberta Ltd., a private company controlled by a former director of the Company, Jason Walsh, included in advances to related parties.

At July 31, 2018, the Company was owed \$Nil (July 31, 2017 - \$66) from 782618 B.C. Ltd., a private company controlled by a former director of the Company, Jason Walsh, included in advances to related parties.

At July 31, 2018, the Company was owed \$Nil (July 31, 2017 - \$613) from United Zeolite Ltd., a private company with common former directors, included in advances to related parties.

At July 31, 2018, the Company was owed \$Nil (July 31, 2017 - \$62,338) from Zadar Ventures Ltd., a public company with a common former director, Jason Walsh, included in advances to related parties.

Amounts due to or from related parties are unsecured, do not bear interest, and are classified as a current asset or liability due to their nature and expected time of repayment.

16. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	July 31 2018	July 31 2017
Income (loss) before income taxes	\$ (12,458,908)	\$ (604,867)
Statutory Canadian corporate tax rate	27.00%	26.00%
Income tax recovery at statutory rates	\$ (3,363,905)	\$ (157,265)
Non-deductible items for tax purposes, change in estimate, and other	681,905	260,193
Tax benefits not recognized	2,682,000	(102,928)
	\$ -	\$ -

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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For the Years Ended July 31, 2018 and 2017

16. INCOME TAXES (continued)

The significant components of the Company's deferred income tax assets are as follows:

	July 31 2018	July 31 2017
Deferred income tax assets		
Biological assets and inventory	\$ (208,000)	\$ (76,000)
Equipment	(9,000)	7,000
Intellectual property	343,000	330,000
Prepaid financing fee	(1,143,000)	(1,207,000)
Share issuance costs	113,000	79,000
Warrant liability	2,720,000	628,000
Allowable capital losses available for future years	10,000	10,000
Non-capital losses available for future years	1,486,000	859,000
	3,312,000	630,000
Tax benefits not recognized	(3,312,000)	(630,000)
	\$ -	\$ -

At July 31, 2018, the Company has non-capital tax losses of approximately \$5,504,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

Expiry Date	Amount
2033	\$ 78,000
2034	191,000
2035	897,000
2036	478,000
2037	1,843,000
2038	2,017,000
	\$ 5,504,000

Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts.

17. SEGMENTED INFORMATION

The Company operates in a single reportable segment being the scientific research and development, and cultivation and sale of cannabis in Canada.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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18. SUPPLEMENTAL CASH FLOW INFORMATION

	July 31 2018	July 31 2017
Fair value of agent warrants to be issued (note 10)	\$ 7,961,454	\$ 4,641,965
Fair value of stock options exercised	\$ 268,462	\$ 46,389
Fair value of warrants exercised	\$ 2,114,231	\$ -
Income taxes paid	\$ -	\$ -
Interest paid	\$ 137,751	\$ 50,771
Interest received	\$ 21	\$ 170
Prepaid share issuance costs recognized	\$ 408,812	\$ -

19. OPERATING LEASE COMMITMENTS

Future minimum lease payments due in the next two years are as follows:

Year Ended	Amount
2019	\$ 159,247
2020	15,871
	\$ 175,118

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**a) Fair value of financial instruments**

The carrying values of cash, amounts receivable, advances to/from related parties, deposits, accounts payable and accrued liabilities, and promissory note payable approximate their carrying values due to the immediate or short-term nature of these instruments. The carrying value of the mortgages payable approximate their fair value as the current interest rates are in line with market interest rates.

b) Fair value hierarchy

IFRS 13, Fair Value Measurement, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**b) Fair value hierarchy (continued)**

The warrant liability was classified as a level 2 instrument.

The biological assets are categorized as Level 3. The significant unobservable inputs used to fair value biological assets include estimating the stage of growth of the marijuana up to the point of harvest, harvesting costs, selling costs, sales prices, wastage, and expected yields from the marijuana plants.

c) Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash, and amounts receivable. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. For amounts receivable, the Company limits its exposure to credit risk by dealing with what management believes to be financially sound counter parties.

The Company's financial assets are not subject to material credit risk as it does not anticipate significant loss for non-performance.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, or the proposed transaction. The Company manages liquidity risk by maintaining adequate cash balances when possible.

The Company's expected source of cash flow in the upcoming year will be through sales and debt or equity financing. Cash on hand at July 31, 2018 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational and expansion needs. The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

The Company has entered into a Capital Commitment Agreement with GEM Global Yield Fund LLC SCS for up to \$10,000,000 and Alumina Partners (Ontario) Ltd. for up to \$12,000,000 of which subscriptions totaling \$9,160,026 (July 31, 2017 - \$10,000,000) and \$4,368,446 (July 31, 2017 - \$12,000,000) are available at July 31, 2018.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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For the Years Ended July 31, 2018 and 2017

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**c) Financial risk management (continued)****iii) Market risk (continued)****(a) Interest rate risk**

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to fair value interest rate risk.

Current financial assets and financial liabilities are generally not exposed to significant cash flow interest rate risk because of their short-term nature, fixed interest rates, and maturity. The Company is not exposed to cash flow interest rate risk on the promissory note payable nor the advances to/from related parties as they are without interest. The Company is not exposed to cash flow interest rate risk on the mortgages payable due to the fixed interest rates.

The Company may be exposed to fair value interest rate risk if the prevailing market rates increase or decrease compared to the interest rates associated with its financial assets and liabilities. Management does not believe this risk is significant.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in a foreign currency.

At July 31, 2018, the Company is exposed to foreign currency risk with respect to its US and Lesotho Loti ("LSL") denominated bank accounts and an amount held in trust in Australia.

At July 31, 2018, financial instruments were converted at a rate of \$1 US dollar to \$1.3017 Canadian; 10.0676 LSL to \$1 Canadian; and \$0.9674 Australian to \$1 Canadian.

At July 31, 2018, the cash in USD bank accounts total \$22,699 (July 31, 2017 - \$2,775) or CDN\$29,547 (July 31, 2017 - \$3,464). The cash in Lesotho bank accounts total LSL624,956 or CDN\$62,076 (July 31, 2017 - \$Nil). The cash held in trust in Australia totals AUD\$75,000 or CDN\$72,555 (July 31, 2017 - \$Nil).

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**c) Financial risk management (continued)****iii) Market risk (continued)****(c) Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

(d) Price risk

Price risk is the risk that the fair value of investments will decline below the cost of the underlying investments. The Company is not exposed to price risk as it has no investments held for sale.

21. SUBSEQUENT EVENTS

On August 13, 2018, 125,000 stock options were exercised at \$0.385 per share for gross proceeds of \$48,125. The market price on the date of exercise was \$0.89.

On September 7, 2018, 37,500 stock options were exercised at \$0.385 per share for gross proceeds of \$14,438. The market price on the date of exercise was \$0.95.

On September 25, 2018, the Company closed another tranche from Alumina Partners (Ontario) Ltd. with the issuance of 1,344,086 units ("Unit") at a price of \$0.744 per Unit for gross proceeds of \$1,000,000. Each Unit consists of one common share and one common share purchase warrant exercisable at \$1.1625 per share for a period of 36 months. The warrants were valued at \$Nil using the residual value method.

On September 25, 2018, the Company granted 5,550,000 stock options to employees to acquire 5,550,000 common shares of the Company with an expiry date of September 25, 2020 at \$0.89 per share. The options vest over 12 months with 10% at the date of grant; 15% three months from the date of grant; 25% six months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant. Options terminate immediately upon cessation of services by the optionee to the Company. The options have a total fair value, calculated using the Black-Scholes option pricing model, of \$2,677,343 or \$0.48 per option, assuming an expected life of 2 years, a risk-free interest rate of 2.20%, an expected dividend rate of 0.00%, stock price of \$0.89 and an expected annual volatility coefficient of 103%. Volatility was determined using historical stock prices.

THC BIOMED INTL LTD.**Notes to the Consolidated Financial Statements
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21. SUBSEQUENT EVENTS (continued)

On October 2, 2018, the Company closed another tranche from Alumina Partners (Ontario) Ltd. with the issuance of 1,428,572 units ("Unit") at a price of \$0.70 per Unit for gross proceeds of \$1,000,000. Each Unit consists of one common share and one common share purchase warrant exercisable at \$1.0875 per share for a period of 36 months. The warrants were valued at \$Nil using the residual value method.

On October 12, 2018, the Company closed the acquisition of an additional strata lot in the industrial complex in Kelowna for its production facilities. The purchase price was \$390,000 plus fees and taxes for a total of \$410,699. The Company closed the transaction with cash and did not require a mortgage.