THC BIOMED LTD.

Financial Statements

For the Year Ended July 31, 2014

(Expressed in Canadian Dollars)

THC BIOMED LTD.

Financial Statements

For the Year Ended July 31, 2014 **Page**

WOLRIGE MAHON
CHARTERED ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of THC BioMed Ltd.

We have audited the accompanying financial statements of THC BioMed Ltd. which comprise the statement of financial position as at July 31, 2014 and the statement of comprehensive loss, statement of changes in equity, and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of THC BioMed Ltd. as at July 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of THC BioMed Ltd. to continue as a going concern.

Wolrige Mahon LLP

Chartered Accountants
Vancouver, British Columbia
March 20, 2015

THC BIOMED LTD.

Statements of Financial Position
(Expressed in Canadian Dollars)

As at	(Audited) July 31 2014	(Unaudited) July 31 2013
Assets		
Current		
Cash	**$ -**	$ 18
Goods and services tax receivable	**17,471**	10,124
Advances to related party (note 8)	**1,241**	-
Prepaid expenses and deposits	**6,010**	2,798
	24,722	12,940
Non-current		
Property and equipment (note 4)	**449,700**	391,132
	$ 474,422	$ 404,072
Liabilities		
Current		
Cheques written in excess of bank balance	**$ 13,186**	$ -
Accounts payable and accrued liabilities	**33,729**	11,710
Current portion of mortgage payable (note 5)	**21,327**	20,337
Advances from related parties (note 8)	**137,109**	181,626
	205,351	213,673
Non-current		
Promissory note payable (note 6)	**173,227**	-
Mortgage payable (note 5)	**202,947**	221,506
	376,174	221,506
	581,525	435,179
Shareholders' Equity (Deficiency)		
Share capital - Class A (note 7)	**108**	1
Share capital - Class B (note 7)	**137,998**	-
Accumulated deficit	**(245,209)**	(31,108)
	(107,103)	(31,107)
	$ 474,422	$ 404,072

Nature and continuance of operations (note 1)
Subsequent events (note 11)

These financial statements were authorized for issue by the Board of Directors on March 20, 2015. They are signed on the Company's behalf by:

____________________ Director ____________________ Director

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

THC BIOMED LTD.

Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	(Audited)	(Unaudited)
	For the year ended	
	July 31 2014	July 31 2013
Administrative expenses		
Advertising and promotion	**$ 3,914**	$ 3,040
Automobile expenses	**19,782**	9,889
Bank charges and interest	**6,536**	1,153
Consulting	**4,434**	-
Depreciation	**1,356**	573
Laboratory expenses	**43,861**	-
Legal and accounting	**32,963**	4,248
Licenses, dues, and subscriptions	**3,620**	1,644
Office and administration	**22,318**	6,253
Salaries and benefits (note 8)	**66,797**	-
Telephone	**1,574**	-
Travel	**332**	4,308
Loss before other items	**(207,487)**	(31,108)
Other expense item		
Foreign exchange loss	**6,614**	-
Net and comprehensive loss for the year	**$ (214,101)**	$ (31,108)
Basic and diluted loss per share	**$ (107)**	$ (311)
Weighted average number of shares outstanding	**2,005**	100

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

THC BIOMED LTD.

Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of Shares		Share Capital			(Audited)
	Class A	Class B	Class A	Class B	Deficit	Total Equity
Balance at July 31, 2013	100	-	$ 1	$ -	$ (31,108)	$ (31,107)
Shares cancelled	(100)	-	(1)	-	-	(1)
Shares issued for cash	10,800	-	108	-	-	108
Shares issued for cash	-	720	-	149,998	-	149,998
Share issuance costs	-	-	-	(12,000)	-	(12,000)
Loss for the year	-	-	-	-	(214,101)	(214,101)
Balance at July 31, 2014	**10,800**	**720**	**$ 108**	**$ 137,998**	**$ (245,209)**	**$ (107,103)**

	Number of Shares		Share Capital			(Unaudited)
	Class A	Class B	Class A	Class B	Deficit	Total Equity
Balance at August 22, 2012	-	-	$ -	$ -	$ -	$ -
Shares issued for cash	100	-	1	-	-	1
Loss for the year	-	-	-	-	(31,108)	(31,108)
Balance at July 31, 2013	100	-	$ 1	$ -	$ (31,108)	$ (31,107)

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

THC BIOMED LTD.

Statements of Cash Flows
(Expressed in Canadian Dollars)

		(Audited)		(Unaudited)
		For the year ended		
		July 31 2014		July 31 2013
Cash provided by (used for)				
Operating activities				
Net loss for the year	$	(214,101)	$	(31,108)
Add items not affecting cash				
Depreciation		1,356		573
Foreign exchange loss		6,614		-
Interest accrued		5,415		364
Salaries and benefits accrued		7,777		-
		(192,939)		(30,171)
Net change in non-cash working capital		3,683		(1,212)
		(189,256)		(31,383)
Financing activities				
Advances from (repaid to) related parties		(44,518)		181,626
Issuance of shares for cash, net of share issuance costs		138,106		1
Mortgage principal repaid		(21,619)		(16,124)
Promissory note issued		162,181		-
		234,150		165,503
Investing activities				
Advances to related party		(1,241)		-
Acquisition of property and equipment		(57,219)		(134,102)
		(58,460)		(134,102)
Effect of foreign exchange translation on cash		362		-
Net increase (decrease) in cash		(13,204)		18
Cash, beginning of year		18		-
Cash (cheques written in excess of bank balance), end of year	$	(13,186)	$	18

1. NATURE AND CONTINUANCE OF OPERATIONS

THC BioMed Ltd. (the “Company”) (formerly THC Medical Systems Ltd.) is a private company incorporated under the Business Corporations Act of the Province of British Columbia on August 22, 2012.

The Company has an application with Health Canada for a producer’s license under Canada’s Marihuana for Medical Purposes Regulations (“MMPR”). The Company intends to cultivate medical marijuana and conduct scientific research and development in order to offer products and services through two revenue streams: (a) medical marijuana sales to other MMPR licensed producers; and (b) products and services related to medical marijuana. Its sister company, THC Meds Inc., also has an application with Health Canada for a producer’s license under MMPR that intends to distribute medical marijuana to the general public.

The Company has an existing 3,000 square foot facility in Kelowna, British Columbia.

The Company’s corporate office and principal place of business is at Suite 201 – 347 Leon Avenue, Kelowna, British Columbia, Canada, V1Y 8C7.

These 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 continue its application with Health Canada for an MMPR license, and to cultivate medical marijuana and conduct scientific research and development in order to offer products and services to other MMPR licensed producers. To date the Company has not generated any revenues and is considered to be in the development stage. These factors create material uncertainty that cast significant doubt about the Company being able to continue as a going concern. These 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 10c.

2. BASIS OF PREPARATION

a) Basis of presentation

These financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

b) Foreign currencies

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

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 the statement of comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. BASIS OF PREPARATION (continued)

c) Significant accounting judgments and estimates

The preparation of the 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 financial statements also requires management to exercise judgment in the process of applying the accounting policies.

i) Critical accounting estimates

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 estimate 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. For the year ended July 31, 2014, impairments of non-financial assets were $Nil (July 31, 2013 – $Nil).

ii) Critical judgments used in applying accounting policies

In the preparation of these 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 financial statements:

(a) 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.

(b) Purchase price allocation

The allocation of the purchase price and subsequent costs between land and building required judgment. The allocation was determined using the latest property tax assessment.

3. SIGNIFICANT ACCOUNTING POLICIES

a) 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. The Company does not have any derivative financial instruments.

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 in the statement of comprehensive loss. The Company has not classified any 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 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 Company has classified cash and advances to related party 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 measured at amortized cost using the effective interest rate method.

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 the statement of comprehensive 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 the statement of comprehensive loss. The Company has not classified any assets as an available-for-sale asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

i) Financial 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 or 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 statement of financial position at fair value, with changes in fair value recognized in the statement of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

(b) Other financial liabilities

This category includes accounts payable and accrued liabilities which are recognized at amortized cost using the effective interest rate method. The Company has classified accounts payable and accrued liabilities, advances from related parties, promissory note payable, and mortgage payable as other financial liabilities.

b) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position is comprised of cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

c) Equipment

Equipment is carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Equipment (continued)

Equipment are 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:

Building	4%
Furniture and equipment	20%
Computer equipment	55%
Warehouse equipment	20%

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 the statement of comprehensive 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 plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

d) Impairment

At each financial position 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 the statement of comprehensive loss.

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 the statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) 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 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.

f) Loss per share

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

g) 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.

h) 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 as 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Income taxes (continued)

Deferred tax is provided using the statement of financial position 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.

i) Borrowing costs

Borrowing costs directly attributable to the acquisition and development of properties are added to the costs of those assets until such time as the assets are substantially completed and ready for use. All other borrowing costs are recognized in the statement of comprehensive loss in the period in which they are incurred.

j) Segment reporting

The Company operates in a single reportable segment being the scientific research and development, and cultivation of medical marijuana.

k) New accounting standards and interpretations not yet adopted

The following accounting pronouncement has been released but has 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) New accounting standards and interpretations not yet adopted (continued)

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. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's 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, 2017, with earlier adoption permitted. Management has not yet determined the potential impact the adoption of IFRS 15 will have on the Company's financial statements.

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

	Land	Buildings	Warehouse Equipment	Warehouse Computer Equipment	Office Furniture and Equipment	Office Computer Equipment	Total
Cost							
Balance at August 22, 2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions	171,388	212,449	4,455	-	2,087	1,326	391,705
Balance at July 31, 2013	171,388	212,449	4,455	-	2,087	1,326	391,705
Additions	10,189	42,577	2,157	5,001	-	-	59,924
Balance at July 31, 2014	**$ 181,577**	**$ 255,026**	**$ 6,612**	**$ 5,001**	**$ 2,087**	**$ 1,326**	**$ 451,629**
Accumulated Depreciation							
Balance at August 22, 2012	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Depreciation for the year	-	-	-	-	209	364	573
Balance at July 31, 2013	-	-	-	-	209	364	573
Depreciation for the year	-	-	-	452	375	529	1,356
Balance at July 31, 2014	**$ -**	**$ -**	**$ -**	**$ 452**	**$ 584**	**$ 893**	**$ 1,929**
Carrying Amounts							
At July 31, 2013	$ 171,388	$ 212,449	$ 4,455	$ -	$ 1,878	$ 962	$ 391,132
At July 31, 2014	**$ 181,577**	**$ 255,026**	**$ 6,612**	**$ 4,549**	**$ 1,503**	**$ 433**	**$ 449,700**

The Company acquired the property to house their warehouse and laboratory facilities in September of 2012 for $291,526, of which $162,140 was attributed to the land and $129,386 to the building. All costs of modifications to the property to meet all specifications required by Health Canada have been capitalized to date along with the mortgage interest of $7,479 for the land and $5,672 for the building.

5. MORTGAGE PAYABLE

The Company has a mortgage payable on its property in the principal amount of $255,000 with interest at 5.50% per annum compounded semi-annually, with monthly payments of $2,760 due on the 21st day of each month. The mortgage matures on September 21, 2015.

6. PROMISSORY NOTE PAYABLE

The Company issued a promissory note in the principal amount of up to US$1,000,000 on December 13, 2013 with interest at 5% per annum, unless in default and then the interest rate is 10% per annum. The note and interest are due on December 10, 2018. This note is secured by a Security Agreement which grants to the lender a security interest in all of the borrower's assets as collateral. At July 31, 2014, US$155,000 or CDN$168,795 had been advanced with accrued interest of US$4,070 or CDN$4,432 included in the amount of the promissory note payable (repaid subsequent to year end—see note 11).

(Expressed in Canadian Dollars)

7. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of Class A voting common shares without par value;
Unlimited number of Class B voting common shares without par value;
Unlimited number of Class C voting common shares without par value;
Unlimited number of Class D voting common shares without par value;
Unlimited number of Class E non- voting common shares without par value;
Unlimited number of Class F non-voting common shares without par value;
Unlimited number of Class G non- voting common shares without par value;
Unlimited number of Class H preferred shares with a par value of $100.00 each;
Unlimited number of Class I preferred shares with a par value of $0.01 each;
Unlimited number of Class J preferred shares with a par value of $0.01 each; and
Unlimited number of Class K preferred shares with a par value of $0.01 each.

7. SHARE CAPITAL (continued)

a) Common shares (continued)

Issued:

i) Class A common shares

	Number	Issued Price	Amount
Balance at August 22, 2012	-	$ -	$ -
Shares issued for cash	100	0.01	1
Balance at July 31, 2013	100	0.01	1
Shares cancelled	(100)	0.01	(1)
Shares issued for cash	10,800	0.01	108
Balance at July 31, 2014	**10,800**	**$ 0.01**	**$ 108**

On August 22, 2012, 100 common shares were issued for $0.01 per share for gross proceeds of $1. On May 30, 2014, these common shares were changed to 100 Class A common shares pursuant to a reorganization of the Company's share capital. On May 30, 2014, the 100 Class A common shares were cancelled and 10,800 Class A common shares were issued for $0.01 per share for gross proceeds of $108.

(Expressed in Canadian Dollars)

ii) Class B common shares

	Number		Issued Price		Amount
Balance at July 31, 2013	-	$	-	$	-
Shares issued for cash	720		208.33		149,998
Share issuance costs	-		-		(12,000)
Balance at July 31, 2014	**720**	**$**	**208.33**	**$**	**137,998**

On June 5, 2014, 120 Class B common shares were issued for $208.33 per share for gross proceeds of $25,000. A finder's fee of 8% was paid in the amount of $2,000.

On June 9, 2014, 360 Class B common shares were issued for $208.33 per share for gross proceeds of $74,999. A finder's fee of 8% was paid in the amount of $6,000.

On July 4, 2014, 240 Class B common shares were issued for $208.33 per share for gross proceeds of $49,999. A finder's fee of 8% was paid in the amount of $4,000.

8. 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 for the year ended July 31, 2014:

		July 31, 2014 Salaries
Hee Jung Chun	$	15,590
John Miller		15,590
	$	31,180

Hee Jung Chun is the President and a director, and John Miller is the Secretary and a director. Ms. Chun and Mr. Miller founded the Company. At July 31, 2014, the Company owed them $137,109 (July 31, 2013 - $181,626) which is reported as advances from related parties.

At July 31, 2014, the Company advanced $1,241 to THC Meds Inc., a private company with common directors, which is included in advances to related party.

These amounts are unsecured, non-interest bearing, and due on demand.

(Expressed in Canadian Dollars)

9. INCOME TAXES

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

	July 31 2014	July 31 2013
Loss before income taxes	**$ (214,101)**	$ (31,108)
Statutory Canadian corporate tax rate	**26.00%**	25.33%
Income tax recovery at statutory rates	**$ (55,666)**	$ (7,881)
Non-deductible items for tax purposes	**460**	347
Adjustments to deferred tax assets and liabilities for substantively enacted changes in tax laws and rates	**-**	(239)
Tax benefits not recognized	**55,206**	7,773
	$ -	$ -

9. INCOME TAXES (continued)

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

	July 31 2014	July 31 2013
Deferred income tax assets		
Property and equipment	**$ (20,403)**	$ (11,251)
Cumulative eligible capital	**59**	64
Share issuance costs	**624**	-
Non-capital losses available for future years	**83,494**	18,961
	63,774	7,774
Tax benefits not recognzied	**(63,774)**	(7,774)
	$ -	$ -

At July 31, 2014 the Company has non-capital tax losses of approximately $321,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

Expiry Date	Amount
2033	$ 78,000
2034	243,000
	$ 321,000

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

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of advances to related party, cash and cheques written in excess of bank balance, accounts payable and accrued liabilities, and advances from related parties approximate their carrying values due to the immediate or short-term nature of these instruments.

b) Fair value hierarchy

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Fair value hierarchy (continued)

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).

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. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The Company's financial assets are not subject to material financial risks.

ii) Liquidity risk

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

The Company's expected source of cash flow in the upcoming year will be through debt or equity financing (note 11). Cash on hand at July 31, 2014 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

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.

(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 interest rate price risk.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Financial risk management (continued)

iii) Market risk (continued)

(a) Interest rate risk (continued)

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature, fixed interest rates, and maturity. The Company is exposed to interest rate price risk as its mortgage payable and promissory note payable bear interest at fixed rates.

(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 foreign currency.

The Company is exposed to foreign currency risk with respect to its promissory note payable that is denominated in US dollars.

	July 31 2014 USD	July 31 2013 USD
Promissory note payable and accrued interest	**$ 159,070**	$ -

At July 31, 2014, financial instruments were converted at a rate of $1.00 Canadian to US$1.089. A 10% change in the exchange rate would impact net loss by approximately $16,000.

(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 and deficit. The availability of new capital will depend on many factors including receipt of the MMPR license from Health Canada, 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 or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk). The Company is not exposed to price risk as it has no investments held for sale.

11. SUBSEQUENT EVENTS

On August 4, 2014, the Company issued 240 Class B common shares at $208.33 per share for gross proceeds of $49,999. A finder's fee of 8% was paid in the amount of $4,000.

On September 4, 2014, the Company issued 240 Class B common shares at $208.33 per share for gross proceeds of $49,999. A finder's fee of 8% was paid in the amount of $4,000.

On September 29, 2014, the Company issued 1,793 Class A common shares at $200.78 per share for gross proceeds of $359,999. A finder's fee of 8% was paid in the amount of $28,800.

On October 17, 2014, the Company repaid the promissory note payable in full with a payment of US$161,434 or CDN$183,452 representing principal of US$155,000 or CDN$176,054 and interest of US$6,434 or CDN$7,398.

Through the completion of a share exchange agreement, on January 14, 2015, Thelon Capital Ltd. ("Thelon") a public company, acquired 100% of the issued and outstanding shares of THC BioMed Ltd. and a related company, THC Meds Inc. in exchange for 56,976,246 common shares of Thelon. There are an additional 26,823,751 earn out shares that may be issued by Thelon to the former shareholders of the Company and THC Meds Inc. on the accomplishment of certain milestones: 16,600,000 common shares of Thelon to be released in the event that an MMPR license is granted by Health Canada to either of THC BioMed Ltd. or THC Meds Inc.; and 10,223,751 common shares of Thelon to be released pending the removal of certain potential liabilities of THC BioMed Ltd. and THC Meds Inc. These potential liabilities involve financing fees payable upon the raising of capital for the Company while a private company (see below).

On March 6, 2015, Thelon Capital Ltd. received a demand letter from counsel for Jacob Securities Inc. demanding that a 10% equity stake in Thelon Capital Ltd. and 8% broker warrants on the gross proceeds raised in 2014 for the Company and THC Meds Inc. be delivered immediately. The letter states that the demand is based on two engagement letters that were terminated subsequent to the year-end: one between Jacob Securities Inc. and THC Meds Inc. dated April 25, 2014; and one between Jacob Securities Inc. and the Company dated May 7, 2014. THC Meds Inc. and THC BioMed Ltd. report that no consideration was provided by Jacob Securities Inc. pursuant to the engagement letters and because of this and other reasons, no payment is due to Jacob Securities Inc. No amounts have been accrued in these financial statements.