

**THC BIOMED INTL LTD.**

**Condensed Interim Consolidated Financial Statements**

**For the Three Months Ended October 31, 2016**

**(Expressed in Canadian Dollars)**

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

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### **Notice to Readers**

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

The accompanying unaudited condensed interim consolidated financial statements of THC BioMed Intl Ltd. for the three months ended October 31, 2016 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or a review of these condensed interim consolidated financial statements.

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

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<b>As at</b>	<b>October 31 2016</b>	<b>(Audited) July 31 2016</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 727,647	\$ 109,101
Amounts receivable (note 4)	107,265	137,051
Goods and services tax receivable	17,395	6,607
Advances to related parties (note 11)	68,242	75,613
Biological assets and inventory (note 5)	1,418,268	-
Prepaid expenses and deposits	181,386	126,156
	<b>2,520,203</b>	<b>454,528</b>
<b>Non-current</b>		
Property and equipment (note 6)	1,187,108	1,146,445
	<b>\$ 3,707,311</b>	<b>\$ 1,600,973</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 404,363	\$ 473,118
Current portion of mortgages payable (note 8)	252,094	23,802
Promissory note payable (note 7 and 11)	135,000	135,000
Advances from related parties (note 11)	294,662	213,718
	<b>1,086,119</b>	<b>845,638</b>
<b>Non-current</b>		
Mortgages payable (note 8)	170,282	404,668
	<b>1,256,401</b>	<b>1,250,306</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (note 9)	5,303,056	3,865,413
Reserves	41,546	70,652
Accumulated deficit	(2,893,692)	(3,585,398)
	<b>2,450,910</b>	<b>350,667</b>
	<b>\$ 3,707,311</b>	<b>\$ 1,600,973</b>

**Nature and continuance of operations** (note 1)

**Contingency** (note 12)

**Subsequent events** (note 17)

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 30, 2016. They are signed on the Company's behalf by:

*"John Miller"*

Director

*"Jason Walsh"*

Director

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

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

	<b>For the three months ended</b>	
	<b>October 31</b>	<b>October 31</b>
	<b>2016</b>	<b>2015</b>
Sales	\$ -	\$ -
Gain on changes in fair value of biological assets (note 5)	<b>1,224,581</b>	-
Gross margin	<b>1,224,581</b>	-
Expenses		
General and administration (note 11)	<b>505,061</b>	238,770
Depreciation (note 6)	<b>12,498</b>	3,400
Sales and marketing	<b>15,354</b>	-
Share-based compensation (note 10)	-	54,664
	<b>532,913</b>	296,834
Other (income) expense items		
Foreign exchange loss	<b>2</b>	1
Interest income	<b>(40)</b>	(82)
	<b>(38)</b>	(81)
<b>Net and comprehensive gain (loss) for the period</b>	<b>\$ 691,706</b>	<b>\$ (296,753)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>\$ 0</b>	<b>\$ (0)</b>
<b>Weighted average number of shares outstanding</b>	<b>99,426,329</b>	<b>75,903,402</b>

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

## THC BIOMED INTL LTD.

### Condensed Interim Consolidated Statements of Changes in Equity (Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscription Receivable	Share-Based Payment Reserve	Deficit	Total Equity
Balance, July 31, 2016	96,199,544	\$ 3,865,413	\$ -	\$ 70,652	\$ (3,585,398)	\$ 350,667
Shares issued for services	1,000,000	250,000	-	-	-	250,000
Stock options exercised	500,000	62,500	-	-	-	62,500
Fair value of stock options exercised	-	29,106	-	(29,106)	-	-
Warrants exercised	4,983,915	1,096,037	-	-	-	1,096,037
Income for the period	-	-	-	-	691,706	691,706
<b>Balance, October 31, 2016</b>	<b>102,683,459</b>	<b>\$ 5,303,056</b>	<b>\$ -</b>	<b>\$ 41,546</b>	<b>\$ (2,893,692)</b>	<b>\$ 2,450,910</b>
Balance, July 31, 2015	75,674,620	\$ 1,734,048	\$ -	\$ 59,754	\$ (3,308,506)	\$ (1,514,704)
Shares issued for cash	3,175,000	190,500	(18,000)	-	-	172,500
Share issuance costs	90,000	(2,900)	-	-	-	(2,900)
Shares issued for debt	944,583	56,675	-	-	-	56,675
Share-based compensation	-	-	-	54,664	-	54,664
Loss for the period	-	-	-	-	(296,753)	(296,753)
Balance, October 31, 2016	79,884,203	\$ 1,978,323	\$ (18,000)	\$ 114,418	\$ (3,605,259)	\$ (1,530,518)

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

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

	<b>For the three months ended</b>	
	<b>October 31</b>	<b>October 31</b>
	<b>2016</b>	<b>2015</b>
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net income (loss) for the period	\$ 691,706	\$ (296,753)
Add items not affecting cash		
Accrued interest expense	-	3,969
Accrued interest revenue	(40)	(49)
Accrued liabilities	20,800	80,700
Depreciation	12,498	3,400
Foreign exchange loss	2	1
Gain on biological assets and inventory	(1,224,581)	-
Share-based compensation	-	54,664
Shares issued for services	250,000	-
Shares issued for finance costs	-	14,175
	(249,615)	(139,893)
Net change in non-cash working capital	(319,434)	26,866
	(569,049)	(113,027)
<b>Financing activities</b>		
Advances from related parties	80,944	46,624
Issuance of shares for cash, net of share issuance costs	1,158,537	169,600
Mortgage proceeds repaid	(6,094)	(9,464)
Promissory notes issued (repaid)	-	(100,646)
	1,233,387	106,114
<b>Investing activities</b>		
Acquisition of property and equipment	(53,161)	(30,704)
Advances to (repaid by) related parties	7,371	(6,920)
	(45,790)	(37,624)
<b>Effect of foreign exchange translation on cash</b>	<b>(2)</b>	<b>(1)</b>
<b>Net increase (decrease) in cash</b>	<b>618,546</b>	<b>(44,538)</b>
<b>Cash, beginning of period</b>	<b>109,101</b>	<b>51,710</b>
<b>Cash, end of period</b>	<b>\$ 727,647</b>	<b>\$ 7,172</b>
Supplemental cash flow information (note 14)		

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

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## THC BIOMED INTL LTD.

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

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For the Three Months Ended October 31, 2016

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#### 1. NATURE AND CONTINUANCE OF OPERATIONS

THC BioMed Intl Ltd. (“THC” or the “Company”), formerly Thelon Capital Ltd. (“Thelon”), was formed by a reverse take-over (“RTO”) on January 14, 2015, by the shareholders of THC BioMed Ltd. and THC Meds Inc. (collectively the “THC Companies”).

THC BioMed Intl Ltd. is a public company incorporated under the Company Act of British Columbia on February 2, 1982. The Company traded on the TSX Venture Exchange from February 4, 2010 until December 22, 2014 when the Company requested the Company’s common shares be delisted. The Company also consolidated its share capital on a six old for one new basis on December 23, 2014. All references to share and per share amounts in these consolidated financial statements have been adjusted to reflect the share consolidation on a retrospective basis. On April 29, 2015, the Company was relisted and began trading on the Canadian Securities Exchange (“CSE”) under the symbol THC.

On February 18, 2016, THC BioMed Ltd., a wholly-owned subsidiary of the Company, received its license to grow medical marijuana and on May 23, 2016, to produce cannabis oil and cannabis resin. THC BioMed Ltd. 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.

On October 17, 2016, the Company announced that Health Canada has amended its license to allow the Company to sell its product to other licensed producers.

On September 26, 2016, the Company announced that it has signed a Letter of Intent to purchase 100% of Clone Shipper LLC, a US based company specializing in the packaging products used to transport live plants, for US\$1,000,000. On October 27, 2016, the Company signed a Distribution Agreement with Clone Shipper LLC. Under this agreement, the Company has the distribution rights for all Clone Shipper products in Canada. The Distribution Agreement is for a period of two years for which the Company paid US\$75,000.

The Company’s corporate office and principal place of business is at Unit 27 – 2550 Acland Road, Kelowna, British Columbia, Canada, V1X 7L4.

These condensed interim 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 uncertainty that cast significant doubt about the Company being able to continue as a going concern. These condensed interim 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 16c.



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## THC BIOMED INTL LTD.

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

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For the Three Months Ended October 31, 2016

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#### 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS34") as issued by the International Accounting Standards Board ("IASB") using accounting policies consistent with International Financial Reporting Standards ("IFRS"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed.

The preparation of the condensed interim consolidated financial statements using accounting policies consistent with IFRS requires management to make certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited condensed interim financial statements have been set out in note3 of the annual audited consolidated financial statements for the year ended July 31, 2016.

These unaudited condensed interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended July 31, 2016, and should be read in conjunction with those statements.

#### 3. 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. 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, 2018, 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.

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

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**For the Three Months Ended October 31, 2016**

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**4. AMOUNTS RECEIVABLE**

	<b>October 31 2016</b>	July 31 2016
Bacchus Law Corporation (funds held in trust)	<b>\$ 81,250</b>	\$ -
Bank of Montreal	<b>82</b>	42
Government of Canada (Scientific Research & Experimental Development Claim)	-	111,169
Other	<b>93</b>	-
Supra Research and Development Inc.	<b>840</b>	840
Trans-Medica Ltd.	<b>25,000</b>	25,000
	<b>\$ 107,265</b>	\$ 137,051

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**5. BIOLOGICAL ASSETS AND INVENTORY**

	Mother Plants	Harvest in Progress	Inventory of Seeds	Inventory of Dried Marijuana	Total
Carrying amount, July 31, 2015	\$ -	\$ -	\$ -	\$ -	-
Cost of biological assets	19,254	71,948	9,377	-	100,579
Loss on changes in fair value of biological assets	(19,254)	(71,948)	(9,377)	-	(100,579)
Carrying amount, July 31, 2016	-	-	-	-	-
Cost of biological assets	22,190	93,944	-	77,553	193,687
Gain (loss) on changes in fair value of biological assets	(22,190)	(93,944)	1,315,000	25,715	1,224,581
<b>Carrying amount, October 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,315,000</b>	<b>\$ 103,268</b>	<b>\$ 1,418,268</b>

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**6. PROPERTY AND EQUIPMENT**

The Company acquired the first 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 along with the mortgage interest until May 1, 2016 when growing commenced.

The Company acquired the second property to expand their warehouse facilities on October 2, 2014 for cash and mortgage payable totaling \$341,604, of which \$199,326 was attributed to the land and \$142,278 to the building. All costs of modifications to the property to meet all specifications required by Health Canada have been capitalized along with the mortgage interest until May 1, 2016 when growing commenced.

Depreciation began May 1, 2016 when the buildings were considered "in use" with the planting of the first crop of medical marijuana.

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

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**For the Three Months Ended October 31, 2016**

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**6. PROPERTY AND EQUIPMENT (continued)**

	July 31 2015	Additions	July 31 2016	Additions	October 31 2016
<b>Cost</b>					
Land	\$ 406,607	\$ 16,006	\$ 422,613	\$ -	\$ 422,613
Buildings	580,939	104,414	685,353	-	685,353
Automobile	-	-	-	6,741	6,741
Office computer equipment	1,326	2,235	3,561	2,805	6,366
Office furniture and equipment	7,388	4,037	11,425	8,315	19,740
Software	1,093	-	1,093	-	1,093
Warehouse and lab computer equipment	28,359	4,209	32,568	-	32,568
Warehouse and lab equipment	22,291	28,051	50,342	35,300	85,642
	\$ 1,048,003	\$ 158,952	\$ 1,206,955	\$ 53,161	\$ 1,260,116
	July 31 2015	Depreciation	July 31 2016	Depreciation	October 31 2016
<b>Accumulated Depreciation</b>					
Buildings	\$ -	\$ 25,326	\$ 25,326	\$ 6,600	\$ 31,926
Automobile	-	-	-	253	253
Office computer equipment	1,131	722	1,853	428	2,281
Office furniture and equipment	1,415	1,599	3,014	628	3,642
Software	1,093	-	1,093	-	1,093
Warehouse and lab computer equipment	9,174	11,708	20,882	1,608	22,490
Warehouse and lab equipment	1,349	6,993	8,342	2,981	11,323
	\$ 14,162	\$ 46,348	\$ 60,510	\$ 12,498	\$ 73,008
<b>Carrying Amounts</b>	\$ 1,033,841		\$ 1,146,445		\$ 1,187,108

**7. PROMISSORY NOTE PAYABLE**

Thelon 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 director, Jason Walsh. The note is without interest and due on December 31, 2016. At October 31, 2016, \$135,000 (July 31, 2016 - \$135,000) is owed against the note.

**8. MORTGAGES PAYABLE**

The Company has a mortgage payable on its first property in the principal amount of \$210,560 with interest at 5.50% per annum with monthly payments of \$2,760 due on the 21st day of each month. The mortgage originally matured on September 21, 2015. On March 31, 2015, the mortgage was modified to mature on August 21, 2018 with interest at 10% per annum starting on September 22, 2015. At October 31, 2016, the balance payable is \$185,578 (July 31, 2016 - \$189,645) including accrued interest.

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

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**For the Three Months Ended October 31, 2016**

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**8. MORTGAGES PAYABLE (continued)**

The Company has a mortgage payable on its second property in the principal amount of \$250,000 with interest at 10% per annum with monthly payments of \$2,656 due on the 2nd day of each month. The first payment was on November 2, 2014 and the mortgage matures on October 2, 2017. At October 31, 2016, the balance payable is \$236,799 (July 31, 2016 - \$238,825) including accrued interest.

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

Unlimited number of common shares without par value

**Issued:**

	<b>Issued Number</b>		<b>Amount</b>
Balance, July 31, 2015	75,674,620	\$	1,734,048
Shares issued for cash	10,675,000		1,090,500
Shares issued for debt	8,359,924		906,516
Shares issued for finder fees	240,000		(38,900)
Stock options exercised	1,250,000		125,000
Fair value of stock options exercised	-		48,249
Balance, July 31, 2016	96,199,544	\$	3,865,413
Shares issued for services	1,000,000		250,000
Stock options exercised	500,000		62,500
Fair value of stock options exercised	-		29,106
Warrants exercised	4,983,915		1,096,037
<b>Balance, October 31, 2016</b>	<b>102,683,459</b>	<b>\$</b>	<b>5,303,056</b>

On October 26, 2015, the Company closed a non-brokered private placement of 4,119,583 units ("Unit") at a price of \$0.06 per Unit for gross proceeds of \$190,500 and settlement of \$56,675 of short term debt. Each Unit consists of one common share and one common share purchase warrant exercisable at \$0.15 per share until October 26, 2016. Warrants were valued at \$Nil using the residual value method. A finder's fee of \$2,900 was paid in cash along with 90,000 Units on the same terms for the private placement, for total a finder's fee of \$8,300.

On November 6, 2015, the Company issued 4,660,000 common shares pursuant to a settlement agreement with Jacob Securities Inc. The shares were issued at a fair value of \$0.12 per share and will be released pursuant to a stock restriction agreement over the course of 36 months. The value of the shares of \$559,200 was recorded as consulting fees in fiscal 2015 and previously included in accounts payable and accrued liabilities.

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

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**For the Three Months Ended October 31, 2016**

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**9. SHARE CAPITAL (continued)****a) Common shares (continued)**

On December 9, 2015, 250,000 stock options were exercised at \$0.10 per share for gross proceeds of \$25,000. The market price on the date of exercise was \$0.10.

On December 10, 2015, the Company closed a non-brokered private placement of 7,500,000 units ("Unit") at a price of \$0.12 per Unit for gross proceeds of \$900,000. Each Unit consists of one common share and one common share purchase warrant exercisable at \$0.25 per share until December 10, 2016. The warrants will have an acceleration clause such that, if after the required hold period, the shares in the Company trade above \$0.30 for 10 consecutive trading days, the Company will notify the warrant holders that they have 30 days to exercise the warrants from the date that such notice is given. Warrants were valued at \$Nil using the residual value method. A finder's fee of \$36,000 was paid in cash along with 150,000 Units on the same terms for the private placement, for a total finder's fee of \$54,000.

On December 10, 2015, the Company issued 755,341 common shares at \$0.12 per share to settle \$90,641 in debt. The market price on the date of exercise was \$0.13.

On February 4, 2016, the Company issued 2,000,000 common shares pursuant to a settlement agreement with Cervus Business Management Inc. The shares were issued at a fair value of \$0.10 per share and will be released pursuant to a stock restriction agreement over the course of 36 months. The value of the shares of \$200,000 was recorded as consulting fees in fiscal 2015 and previously included in accounts payable and accrued liabilities.

On March 24, 2016, 500,000 stock options were exercised at \$0.10 per share for gross proceeds of \$50,000. The market price on the date of exercise was \$0.13.

On May 24, 2016, 500,000 stock options were exercised at \$0.10 per share for gross proceeds of \$50,000.

On September 12, 2016, 1,000,000 common shares were issued for services at \$0.25 per share for a gross amount of \$250,000.

On September 22, 2016, 250,000 stock options were exercised at \$0.10 per share for gross proceeds of \$25,000 and 250,000 stock options were exercised at \$0.15 per share for gross proceeds of \$37,500.

Subsequent to July 31, 2016, 774,332 warrants were exercised at \$0.60 for gross proceeds of \$464,599 and 4,459,001 warrants expired at \$0.60.

Subsequent to July 31, 2016, 4,209,583 warrants were exercised at \$0.15 for gross proceeds of \$631,437.

**b) Escrow shares**

Currently 690 common shares (July 31, 2016 – 690) are held in escrow.

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

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**For the Three Months Ended October 31, 2016**

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**9. SHARE CAPITAL (continued)****c) Warrants outstanding**

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, July 31, 2015	5,233,333	\$ 0.30/\$0.60
Warrants issued	11,859,583	0.21
Balance, July 31, 2016	17,092,916	\$ 0.33
Warrants exercised	(4,983,915)	0.22
Warrants expired	(4,459,001)	0.60
<b>Balance, October 31, 2016</b>	<b>7,650,000</b>	<b>\$ 0.25</b>

  

<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
	0.11	7,650,000	\$ 0.25

On September 25, 2013, Thelon closed a non-brokered private placement of 8,416,666 units at \$0.03 per unit for gross proceeds of \$252,500. Each unit consisted of one common share and one warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until September 25, 2016, at \$0.30 per share until February 25, 2015 and at \$0.60 during the remaining period. On March 19, 2015, the warrants which were exercisable at \$0.30 per share until February 25, 2015 were extended to be exercisable at \$0.30 per share until September 25, 2015 and then at \$0.60 per share until September 25, 2016.

**10. SHARE-BASED COMPENSATION**

The Company is authorized to grant options to directors, officers, and employees to acquire common shares. The Company's previous stock option plan was cancelled and the Company has adopted 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.

The following summarizes the stock options outstanding:

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

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**For the Three Months Ended October 31, 2016**

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**10. SHARE-BASED COMPENSATION (continued)**

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance, July 31, 2015	4,083,334	\$ 0.30
Options granted	1,000,000	0.10
Options cancelled/expired	(2,333,334)	0.44
Options exercised	(1,250,000)	0.10
Balance, July 31, 2016	1,500,000	\$ 0.11
Options exercised	(500,000)	\$ 0.13
<b>Balance, October 31, 2016</b>	<b>1,000,000</b>	<b>\$ 0.10</b>

<b>Date of Grant</b>	<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Options Exercisable</b>	<b>Number of Options Outstanding</b>	<b>Exercise Price</b>
October 5, 2015	October 5, 2017	0.93	1,000,000	1,000,000	\$ 0.10

On July 10, 2015, Thelon granted 1,000,000 stock options to a consultant of the Company to acquire 1,000,000 common shares of the Company with an expiry date of July 10, 2017. 500,000 stock options have an exercise price of \$0.10 per share and 500,000 stock options have an exercise price of \$0.15 per share. The options vest over the course of one year with 25% vesting on the date of grant and 25% every four months following the date of grant. The options have a fair value, calculated using the Black-Scholes option pricing model, of \$20,699 or \$0.02 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.50%, an expected dividend rate of 0.00%, stock price of \$0.04 and an expected annual volatility coefficient of 147%. Volatility was determined using historical stock prices.

On July 22, 2015, Thelon granted 500,000 stock options to a consultant of the Company to acquire 500,000 common shares of the Company with an expiry date of July 22, 2017. 250,000 stock options have an exercise price of \$0.10 per share and 250,000 stock options have an exercise price of \$0.15 per share. The options vest over the course of one year with 25% vesting on the date of grant and 25% every four months following the date of grant. The options have a fair value, calculated using the Black-Scholes option pricing model, of \$29,107 or \$0.06 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.43%, an expected dividend rate of 0.00%, stock price of \$0.09 and an expected annual volatility coefficient of 158%. Volatility was determined using historical stock prices.

On July 28, 2015, Thelon granted 1,000,000 stock options to consultants of the Company to acquire 1,000,000 common shares of the Company with an expiry date of July 28, 2017. The options have a fair value, calculated using the Black-Scholes option pricing model, of \$44,018 or \$0.04 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.44%, an expected dividend rate of 0.00%, and an expected annual volatility coefficient of 158%. Volatility was determined using historical stock prices.

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

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**For the Three Months Ended October 31, 2016**

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**10. SHARE-BASED COMPENSATION (continued)**

On October 5, 2015, Thelon granted 1,000,000 stock options to employees of the Company to acquire 1,000,000 common shares of the Company with an expiry date of October 5, 2017. The options have a fair value, calculated using the Black-Scholes option pricing model, of \$41,546 or \$0.04 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.51%, an expected dividend rate of 0.00%, stock price of \$0.06 and an expected annual volatility coefficient of 165%. Volatility was determined using historical stock prices.

**11. 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 three months ended October 31, 2016 and 2015:

	Accounting	Consulting	Director Fees	Office and Administration	Salaries and Benefits	October 31, 2016 Total
BUA Capital Management Ltd. \$	-	\$ 15,000	\$ -	\$ -	\$ -	\$ 15,000
BUA Group Holdings Ltd.	-	-	-	12,300	-	12,300
George Smitherman	-	-	1,500	-	-	1,500
Hee Jung Chun	-	-	1,500	-	15,600	17,100
John Miller	-	-	1,500	-	15,600	17,100
	\$ -	\$ 15,000	\$ 4,500	\$ 12,300	\$ 31,200	\$ 63,000

	Consulting	Office and Administration	Salaries and Benefits	October 31, 2015 Total
BUA Capital Management Ltd. \$	-	\$ 22,500	\$ -	\$ 22,500
BUA Group Holdings Ltd.	-	-	12,300	12,300
GRW Inc.	-	9,000	-	9,000
Hee Jung Chun	-	-	15,600	15,600
John Miller	-	-	50,100	50,100
T. St. Denis, Inc.	15,000	-	-	15,000
	\$ 15,000	\$ 31,500	\$ -	\$ 124,500

BUA Capital Management Ltd. provided consulting services to the Company. It is a private company controlled by a director, Jason Walsh. On October 26, 2015, BUA Capital Management Ltd. was issued 250,000 Units (note 9a) at \$0.06 for \$15,000 in debt. At October 31, 2016, the Company owed \$86,198 (July 31, 2016 - \$70,448) to BUA Capital Management Ltd. which is included in advances from related parties, and \$135,000 (July 31, 2016 - \$150,000) which is included in the promissory note payable.

BUA Group Holdings Ltd. provided administration services to the Company. It is a private company controlled by a director, Jason Walsh. At October 31, 2016, the Company owed \$19,584 (July 31, 2016 - \$6,679) to BUA Group Holdings Ltd.



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## THC BIOMED INTL LTD.

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

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#### For the Three Months Ended October 31, 2016

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#### 11. RELATED PARTY TRANSACTIONS (continued)

GRW Inc. provided consulting services to the Company until November 30, 2015. It is a private company controlled by the former Chief Financial Officer, Geoff Watson.

Hee Jung Chun is the Chief Financial Officer, a director of the Company, and co-founder of the THC Companies. Ms. Chun receives a salary from the THC Companies of \$5,200 per month. At October 31, 2016, \$46,800 (July 31, 2016 - \$36,400) in accrued salaries to Ms. Chun is included in accounts payable and accrued liabilities. At October 31, 2016, the Company also owed Ms. Chun \$177,518 (July 31, 2016 - \$125,239), which is included in advances from related parties.

John Miller is the President and Chief Executive Officer of the Company, a director, and co-founder of the THC Companies. Mr. Miller receives a salary from the THC Companies of \$5,200 per month. At October 31, 2016, \$46,800 (July 31, 2016 - \$36,400) in accrued salaries to Mr. Miller is included in accounts payable and accrued liabilities.

T. St. Denis, Inc. is a private accounting firm owned by the former Chief Financial Officer, Tracey A. St. Denis. T. St. Denis, Inc. provides accounting services to the Company. On October 26, 2015, T. St. Denis, Inc. was issued 250,000 Units (note 9a) at \$0.06 for \$15,000 of debt.

International Ranger Corp. is a public company with common directors. At October 31, 2016, the Company is owed \$1,881 (July 31, 2016 - \$1,881) from International Ranger Corp. which is included in advances to related parties.

Thelon Diamond Company Limited is a public company with a common director, Jason Walsh. At October 31, 2016, the Company owes Thelon Diamond Company Limited \$1,000 (July 31, 2016 - \$1,000) which is included in advances from related parties.

At October 31, 2016, the Company owed \$10,352 (July 31, 2016 - \$10,352) to Thelon Diamonds Ltd., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances from related parties.

At October 31, 2016, the Company was owed \$5,850 (July 31, 2016 - \$5,850) from 1177129 Alberta Ltd., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances to related parties.

At October 31, 2016, the Company was owed \$66 (July 31, 2016 - \$66) from 782618 B.C. Ltd., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances to related parties.

At October 31, 2016, the Company was owed \$613 (July 31, 2016 - \$613) from United Zeolite Ltd., a private company with common directors. The amount is included in advances to related parties.

At October 31, 2016, the Company was owed \$59,832 (July 31, 2016 - \$67,203) from Zadar Ventures Ltd., a public company with common directors. The amount is 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.

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

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**For the Three Months Ended October 31, 2016**

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**12. CONTINGENCY**

During the year ended July 31, 2016, a Notice of Civil Claim was received by the Company from Jacob Securities Inc. (the "Complainant") claiming that the Company is in breach of a settlement agreement dated September 10, 2015 (the "Settlement Agreement"). The Complainant alleges it is owed delivery of certain original share certificates from the Company and possible damages. The Complainant alleges that pursuant to the Settlement Agreement, it was entitled to 4,660,000 common shares of the Company plus an additional 1,600,000 shares on the occurrence of certain events. The Complainant acknowledges it received from the Company and sold 1,165,000 shares but alleges at a later date that 3,495,000 of the remaining shares in its possession were represented by copies and not original share certificates. The Company intends to vigorously defend itself from this lawsuit as it believes it has meritorious defences to this action. Although it is not possible to predict the outcome of the pending litigation, the Company believes that the action will not have a material adverse effect upon the results of operations, cash flow, or financial condition of the Company.

**13. SEGMENTED INFORMATION**

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

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	<b>October 31 2016</b>	October 31 2015
Services settled with share issuance	\$ 250,000	\$ -
Fair value of stock options exercised	\$ 29,106	\$ -
Income taxes paid	\$ -	\$ -
Interest paid	\$ 16,894	\$ 13,139
Interest received	\$ -	\$ 16

**15. OPERATING LEASE COMMITMENTS**

The Company signed a 36 month lease for high performance liquid chromatography equipment for the laboratory. The lease began on October 31, 2013 with monthly payments of \$2,651.

The Company signed a 36 month lease for a Toyota Venza. A vehicle is to be available to the Responsible Person in Charge at all times in case of an emergency, as stipulated in the MMPR. The lease began on October 1, 2014 with monthly payments of \$757.

The Company signed a 36 month lease to expand its facility in Kelowna, BC by renting an adjacent unit to the current property. The lease began on September 1, 2016 with monthly payments of \$2,104. The lease includes an option for a further two terms of 36 months each.

**For the Three Months Ended October 31, 2016**

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

The carrying values of cash, amounts receivable, advances due to/from related parties, accounts payable and accrued liabilities, promissory note payable, and mortgage payable approximate their carrying values due to the immediate or short-term nature of these instruments.

**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).

**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, amounts receivable, and advances to related parties. 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 counterparties. 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.

The Company's expected source of cash flow in the upcoming year will be through debt or equity financing. Cash on hand at October 31, 2016 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.

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**THC BIOMED INTL LTD.****Notes to the Condensed Interim Consolidated Financial Statements  
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**For the Three Months Ended October 31, 2016**

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**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)****c) Financial risk management (continued)****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 risk.

Current financial assets and financial liabilities are generally not exposed to significant interest rate risk because of their short-term nature, fixed interest rates, and maturity. The Company is not exposed to interest rate risk on the promissory note payable as it is without interest.

The Company is exposed to interest rate risk when the mortgages payable mature if there is not significant cash available at that time and a mortgage renewal is required.

**(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 October 31, 2016, the Company is exposed to foreign currency risk with respect to its US denominated bank accounts. At October 31, 2016, financial instruments were converted at a rate of \$1.00 US to Canadian \$1.3403. At October 31, 2016, the cash in US denominated bank accounts was minimal.

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

**(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.

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**THC BIOMED INTL LTD.****Notes to the Condensed Interim Consolidated Financial Statements  
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**For the Three Months Ended October 31, 2016**

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**16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)****c) Financial risk management (continued)****iii) Market risk (continued)****(c) Capital risk management (continued)**

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.

**17. SUBSEQUENT EVENTS**

On November 22, 2016, 250,000 stock options were exercised at \$0.10 for gross proceeds of \$25,000.

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

On December 19, 2016, Health Canada amended THC BioMed Ltd.'s license to allow the sale of "starting materials" or marijuana plants immediately to legally authorized patients under the Access to Cannabis for Medical Purposes Regulations ("ACMPR").

On December 19, 2016, the Joint Venture Agreement previously announced on March 22, 2016 with Supra Research and Development Inc. was terminated.

On December 20, 2016, 166,000 stock options were exercised at \$0.10 for gross proceeds of \$16,600.