

THC BIOMED INTL LTD.

(formerly Thelon Capital Ltd.)

Management's Discussion and Analysis

For the Nine Months Ended April 30, 2016

(Expressed in Canadian Dollars)

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INTRODUCTION

This Management Discussion and Analysis (“MD&A”) of the operating results and financial condition of THC BioMed Intl Ltd. (formerly Thelon Capital Ltd.) (the “Company” or “Thelon”) for the nine months ended April 30, 2016 should be read in conjunction with the unaudited condensed interim consolidated financial statements for the nine months ended April 30, 2016 and the audited consolidated financial statements for the year ended July 31, 2015 which are prepared in accordance with International Financial Reporting Standards (“IFRS”).

The consolidated financial statements include the accounts of the Company and its two subsidiaries, THC BioMed Ltd. and THC Meds Inc. (the “THC Companies”), on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when 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.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company’s Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board of Director’s Audit Committee meets with management quarterly to review the financial statements and the MD&A and to discuss other financial, operating, and internal control matters. The reader is encouraged to review the Company’s statutory filings on www.sedar.com.

This MD&A is prepared as at January 19, 2017. All dollar figures stated herein are expressed in Canadian dollars unless otherwise noted.

Readers should use the information contained in this report in conjunction with all other disclosure documents including those filed on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

This MD&A contains certain statements that constitute forward-looking statements (within the meaning of the Canadian securities legislation and the U.S. Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including, but not limited to, statements preceded by, followed by or that include words such as “may”, “will”, “would”, “could”, “should”, “believes”, “estimates”, “projects”, “potential”, “expects”, “plans”, “intends”, “anticipates”, “targeted”, “continues”, “forecasts”, “designed”, “goal”, or the negative of those words or other similar or comparable words. Forward-looking statements may relate to future financial conditions, results of operations, plans, objectives, performance or business developments. These statements speak only as of the date they are made and are based on information currently available and on the Company’s then current expectations and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the availability of financing opportunities, risks associated with economic conditions, dependence on management and conflicts of interest;

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- market competition and agricultural advances of competitive products;
- the timing and availability of the Company's products, its ability to expand production space, and acceptance of its products by the market;
- the progress and the successful and timely receipt of a license from Health Canada;
- the progress and success of the Company's research and development program; and
- the ability to successfully market, sell, and distribute the products, and to expand the Company's customer base.

Actual results or events could differ materially from the plans, intentions, and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties, and other factors such as those described above and in "Risks and Uncertainties" below. The Company has no policy for updating forward looking information beyond the procedures required under applicable securities laws.

DESCRIPTION OF THE BUSINESS

THC BioMed Intl Ltd. (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 the consolidated financial statements and MD&A 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 C.THC.

The THC Companies have applications with Health Canada for a producer's license under Canada's Marihuana for Medical Purposes Regulations ("MMPR"). On February 21, 2016, THC BioMed Ltd. received its license to grow medical marijuana. 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. THC Meds Inc. intends to distribute medical marijuana to the general public once a distribution license is received.

On May 13, 2014, the Company announced that it entered into a Production and Branding Agreement with Trans-Medica Ltd. to provide consulting services and utilize Trans-Medica Ltd.'s proprietary Vertical Grow System for total consideration of \$700,000 to the Company.

On March 22, 2016, the Company announced it had entered into a joint venture agreement with Supra Research and Development Inc. ("Supra") to create Supra THC Services Inc. ("Supra THC"), a Health Canada licensed cannabis testing lab. Under the terms of the agreement, the Company will purchase 49% of the Supra THC for 2,500,000 common shares of which 2,000,000 common shares will be placed in escrow of which 1,900,000 common shares will be placed under a 36-month stock restriction agreement and released following

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the issuance date in accordance with the standard release schedule provide in NI 46-201. THC will purchase an additional 31% for \$600,000 on or before January 31, 2017. Pursuant to the agreement, the Company has a standard right of refusal to purchase the remaining 20% of Supra THC for 12 months following the purchase of the 31%. Prior to closing, Supra will have completed all necessary documentation to transfer to Supra THC certain intellectual property and specific equipment. Supra is also obliged to use all commercially reasonable efforts to develop a viable, commercially competitive extraction method for cannabis for Supra THC's use within nine months of entry into the Agreement. When this occurs, the Company will issue an additional 600,000 shares to Supra pursuant to the agreement.

The Company aims to become a leader in the industry by producing a product of high quality and reliable quantity. Now that a MMPR license has been received by Health Canada, the Company intends to raise additional funds to initiate its marketing plan and begin growing commercial medical marihuana. At that point the Company expects to be selling its medical marihuana product and earning revenues by concentrating on:

1. Target market: the Company intends to sell its products and services, including medical marihuana, to other MMPR Licensed Producers, patients, and physicians;
2. Marketing and branding: the Company will develop recognition of its brand and quality through a high quality web presence and participation in industry events. The Company has developed the website www.thcbiomed.com. The Company intends to comply with all advertising prohibitions and marketing restrictions of the Food and Drug Act, the Narcotic Control Regulations, and the MMPR;
3. Personnel: the Company intends to engage new professionals as required for its board of directors, sales and marketing to fulfill the Company's current business objectives, and to prepare the Company for changes and developing opportunities in the industry; and
4. Monitoring and development of growing plan: the Company intends to continuously monitor and attempt to maximize the quantity and quality of its medical marihuana product. The Company further intends to continue to develop technologies, products, and services that will assist the Company and other MMPR Licensed Producers to grow the best product possible, in sufficient quantity, and for reasonable costs.

During the medium-term (2016-2018), the Company intends to pursue its second MMPR license, build its second growing facility, and begin to produce and sell medical marihuana from that second growing facility. The Company will consider expanding its initial growing facility during this period and assess the potential benefits of increasing capacity and production.

The Company's corporate office and principal place of business is at Suite 1100 – 888 Dunsmuir Street, Vancouver, British Columbia, Canada, V6C 3K4.

REVERSE TAKE-OVER OF THELON CAPITAL LTD.

On January 14, 2015, the Company entered into a Share Exchange Agreement between the Company, THC BioMed Ltd. and THC Meds Inc. and the shareholders of the THC Companies which results in a Reverse Take-Over transaction for accounting purposes. Pursuant to the agreement, 44,612,736 common shares of the Company were issued on January 14, 2015 and on January 22, 2015, 12,363,510 common shares of the Company were issued. There are an additional 26,833,751 shares that may be issued to the former shareholders of the THC Companies: 16,600,000 common shares of the Company are to be released in the event a license pursuant to Canada's *Marihuana for Medical Purposes Regulations* ("MMPR") is received by one of the two subsidiaries; and 10,233,751 common shares of the Company to be released pending the removal of certain potential liabilities of the THC Companies.

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As a result of the RTO transaction, the THC Companies' shareholders control the Company and Thelon's name was changed to THC BioMed Intl Ltd. Since the mining exploration business of Thelon had been suspended, Thelon did not meet the definition of a business and the transaction was accounted for as the purchase of Thelon's net assets by the THC Companies. The net asset purchase price was determined as an equity settled share-based payment under *IFRS 2, Share-Based Payment*, at the fair value of the equity instruments of the Company retained by the shareholders of Thelon, based on the market value of the Company's common shares on the date the Company's stock last traded.

The transaction costs relating to the RTO plus the aggregate of the fair value of the consideration paid and the net liabilities acquired has been recognized as listing expenses in the consolidated statement of loss and comprehensive loss. There are no costs pertaining to the former mineral operations of Thelon after the date of the RTO and there are no prior operating revenues or costs of Thelon included in the consolidated financial statements.

The breakdown of listing expenses in the consolidated statement of loss and comprehensive loss is as follows:

Purchase price of equity acquired		
18,698,374 common shares of Thelon Capital Ltd. at \$0.045 per share	\$	841,427
Total of share-based payments		841,427
Cash acquired		(267,398)
Other working capital deficit acquired		488,786
Listing expenses	\$	1,062,815

SUMMARY OF QUARTERLY RESULTS

Quarter Ended	Revenue	Net Income (Loss)	Income (Loss) Per Share
Q3/2016 April 30, 2016	\$ -	\$ (256,376)	(\$0.01)
Q2/2016 January 31, 2016	\$ 250,000	\$ 63,090	\$0.00
Q1/2016 October 31, 2015	\$ -	\$ (296,753)	\$0.00
Q4/2015 July 31, 2015	\$ -	\$ (1,193,440)	(\$0.03)
Q3/2015 April 30, 2015	\$ -	\$ (409,685)	(\$0.01)
Q2/2015 January 31, 2015	\$ -	\$ (1,279,843)	(\$0.04)
Q1/2015 October 31, 2014	\$ -	\$ (179,077)	\$0.00
Q4/2014 July 31, 2014	\$ -	\$ (100,604)	\$0.00

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RESULTS OF OPERATIONS

Nine Months Ended April 30, 2016

The Company's net loss for the nine months ended April 30, 2016 was \$490,039 compared to a net loss of \$1,899,633 for the nine months ended April 30, 2015. The large discrepancy in the comparative period includes listing expense of \$1,062,815 as a result of the RTO with no such amount in the current period.

During the nine months ended April 30, 2016: the Company earned \$250,000 (April 30, 2015 - \$Nil) in consulting fees under the agreement with Trans-Medica Ltd.

The administrative expenses increased overall to \$867,069 (April 30, 2015 - \$826,332) as a result of increased business activity subsequent to the RTO and a full nine months reflecting the inclusion of the accounts of Thelon: advertising and promotion increased to \$37,517 (April 30, 2015 - \$31,816) with increased business activity; automobile expenses decreased to \$17,734 (April 30, 2015 - \$20,414) as the President's expenses for his vehicle are no longer charged to the Company; bank charges and interest increased to \$35,600 (April 30, 2015 - \$18,447) as there were three promissory notes of Thelon at 25% interest which were extinguished during the current period; consulting fees increased to \$152,000 (April 30, 2015 - \$113,856) for services incurred from executives of Thelon; investor relation expenses increased to \$12,882 (April 30, 2015 - \$3,002) with increased news dissemination during the current period; laboratory and warehouse expenses decreased to \$33,661 (April 30, 2015 - \$42,106) with reduced activity in the lab while awaiting the license from Health Canada and growing activities to begin; legal and accounting fees decreased to \$146,708 (April 30, 2015 - \$282,729) with increased business activity and the debt settlements with Jacob Securities Inc. and Cervus Business Management Inc., and the agreement for Supra THC Services Ltd.; licenses, dues, and subscriptions decreased to \$Nil (April 30, 2015 - \$1,438) with no such expenses in the current period; office and administration fees increased to \$48,978 (April 30, 2015 - \$46,160); salaries and benefits increased to \$248,448 (April 30, 2015 - \$209,077); share-based compensation increased to \$69,217 (April 30, 2015 - \$Nil) with no stock options granted in the comparative period; telephone costs increased to \$7,701 (April 30, 2015 - \$3,858) with increased business activity; transfer agent and filing fees decreased to \$15,587 (April 30, 2015 - \$22,454); and travel increased slightly to \$29,398 (April 30, 2015 - \$29,219).

During the nine months ended April 30, 2016: debt settlements were finalized with a number of creditors that reported a forgiveness of debt of \$125,303 (April 30, 2015 - \$Nil); the Company sold its investment in Zadar Ventures Ltd. for net proceeds of \$4,725 with an initial cost of \$81,900 which was subsequently written down to \$3,150, producing a gain on sale of \$1,575 (April 30, 2015 - \$Nil); and there was interest income earned of \$152 (April 30, 2015 - \$84).

Three Months Ended April 30, 2016

The Company's net loss for the three months ended April 30, 2016 was \$256,376 compared to a net loss of \$409,685 for the three months ended April 30, 2015.

The administrative expenses decreased overall to \$256,398 (April 30, 2015 - \$406,604): advertising and promotion decreased to \$10,519 (April 30, 2015 - \$25,603); automobile expenses increased to \$7,010 (April 30, 2015 - \$6,476); bank charges and interest decreased to \$1,939 (April 30, 2015 - \$11,839) as there were three promissory notes of Thelon at 25% interest which were extinguished in December, 2015; consulting fees decreased to \$30,000 (April 30, 2015 - \$40,831); investor relation expenses increased to \$3,099 (April 30, 2015 - \$Nil) with increased news dissemination during the current period; laboratory and warehouse expenses increased to \$15,018 (April 30, 2015 - \$8,526) with reduced activity in the lab while awaiting the license from Health Canada and growing activities to begin; legal and accounting fees decreased to \$47,006 (April 30, 2015 - \$207,671); office and administration fees decreased slightly to \$17,438 (April 30, 2015 - \$17,497); salaries and

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benefits increased to \$94,546 (April 30, 2015 - \$58,991); share-based compensation increased to \$6,965 (April 30, 2015 - \$Nil) with no stock options granted in the comparative period; telephone costs decreased to \$1,160 (April 30, 2015 - \$1,501); transfer agent and filing fees decreased to \$2,790 (April 30, 2015 - \$16,682); and travel increased to \$14,069 (April 30, 2015 - \$10,316).

LIQUIDITY

The Company does not have positive cash flow from operations; accordingly, it must rely on equity financing to fund operations. The Company's access to financing when the financing is not transaction specific is always uncertain. There can be no assurance of continued access to any equity funding.

During the nine months ended April 30, 2016, the Company finalized debt settlements with a number of creditors by way of a forgiveness of debt in the amount of \$125,303 (April 30, 2015 - \$Nil) and/or shares for debt in the amount of \$706,516 (April 30, 2015 - \$Nil) for a total reduction of debt of \$831,819 (April 30, 2015 - \$Nil).

The Company's cash on hand at April 30, 2016 increased to \$82,037 (July 31, 2015 - \$51,710).

The Company had a working capital deficiency of \$403,148 (July 31, 2015 - \$1,820,991) at April 30, 2016.

The Company's current asset balance of \$252,987 (July 31, 2015 - \$233,039) is comprised of cash of \$82,037 (July 31, 2015 - \$51,710), amounts receivable of \$13,840 (July 31, 2015 - \$50), goods and services tax receivable from the Canada Revenue Agency of \$16,755 (July 31, 2015 - \$44,467), investments held for sale of \$Nil (July 31, 2015 - \$3,150), advances to related parties of \$88,103 (July 31, 2015 - \$100,604), and prepaid expenses and deposits of \$52,752 (July 31, 2015 - \$33,058).

The Company's current liabilities total \$656,135 (July 31, 2015 - \$2,054,030) is made up of accounts payable and accrued liabilities of \$402,204 (July 31, 2015 - \$1,456,072); deferred revenues of \$Nil (July 31, 2015 - \$250,000); the current portion of the mortgages payable of \$23,087 (July 31, 2015 - \$22,878); promissory note payable of \$135,000 (July 31, 2015 - \$198,915); and advances from related parties of \$95,844 (July 31, 2015 - \$126,165).

The Company's long term liabilities total of \$406,657 (July 31, 2015 - \$728,101) consists of promissory notes payable of \$Nil (July 31, 2015 - \$301,095) and mortgages payable of \$406,657 (July 31, 2015 - \$427,006).

As of the date of this MD&A, the Company has insufficient working capital to meet its ongoing financial obligations for the coming year. There can be no assurance that future financings will be available to the Company or, if it is, that it will be available on terms acceptable to the Company and will be sufficient to fund cash needs. If the Company is unable to obtain the financing necessary to support its operations, it may be unable to continue as a going concern. The Company currently has no commitments for any credit facilities such as revolving credit agreements or lines of credit that could provide additional working capital, and substantial doubt exists regarding the Company's ability to continue as a going concern.

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.

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The Company signed a 36 month lease for a Toyota Matrix. A vehicle is to be available to the Quality Assurance person at all times to conduct their duties and in case of an emergency, as stipulated in the MMPR. The lease began on September 3, 2013 with monthly payments of \$430.

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.

PROPOSED TRANSACTIONS

There are no proposed assets or business acquisitions or dispositions, other than those in the ordinary course of business as disclosed herein, before the board of directors for consideration.

OFF-BALANCE SHEET ARRANGEMENTS

None

TRANSACTIONS WITH RELATED PARTIES

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 nine months ended April 30, 2016 and 2015:

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	Accounting	Consulting	Office and Administration	Salaries and Benefits	April 30, 2016 Total
BUA Capital Management Ltd. \$	-	\$ 67,500	\$ -	\$ -	\$ 67,500
BUA Group Holdings Ltd.	-	-	36,900	-	36,900
GRW Inc.	-	12,000	-	-	12,000
Hee Jung Chun	-	-	-	46,800	46,800
John Miller	-	-	-	150,300	150,300
PubliCo Services Ltd.	-	12,500	-	-	12,500
T. St. Denis, Inc.	61,400	-	-	-	61,400
	\$ 61,400	\$ 92,000	\$ 36,900	\$ 197,100	\$ 387,400

	Accounting	Consulting	Office and Administration	Salaries and Benefits	April 30, 2015 Total
BUA Capital Management Ltd. \$	-	\$ 26,855	\$ -	\$ -	\$ 26,855
BUA Group Holdings Ltd.	-	-	14,681	-	14,681
GRW Inc.	-	10,742	-	-	10,742
Hee Jung Chun	-	-	-	49,390	49,390
John Miller	-	-	-	49,390	49,390
	\$ -	\$ 37,597	\$ 14,681	\$ 98,780	\$ 151,058

BUA Capital Management Ltd. provides consulting services to the Company and 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 April 30, 2016, the Company owed \$66,617 (July 31, 2015 - \$4,933) to BUA Capital Management Ltd. which is included in advances from related parties, and \$135,000 (July 31, 2015 - \$150,000) which is included in promissory note payable.

BUA Group Holdings Ltd. provides administration services to the Company and is a private company controlled by a director, Jason Walsh. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$Nil) to BUA Group Holdings Ltd.

Jason Walsh is a director and Chairman of the Company. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$25,000) to Mr. Walsh for unpaid director fees which were written off as part of debt settlement. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$24,849) to Mr. Walsh.

Geoff Watson is the former Chief Financial Officer and a former director of the Company. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$26,000) to Mr. Watson for unpaid director fees which were written off as part of debt settlement.

GRW Inc. provided consulting services to the Company and is a private company controlled by the former Chief Financial Officer, Geoff Watson. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$12,037) to GRW Inc. which was previously included in advances from related parties. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$30,543) which was previously included in long term promissory notes payable as the Company issued 254,529 common shares to GRW Inc. pursuant to a debt settlement in December, 2015.

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Hee Jung Chun is a director of the Company and co-founder of the THC Companies. Ms. Chun receives a salary from the THC Companies. At April 30, 2016, the Company owed \$8,520 (July 31, 2015 - \$Nil) to Ms. Chun which is included in advances from related parties, and \$20,800 (July 31, 2015 - \$31,200) which is included in accounts payable and accrued liabilities.

John Miller is the President of the Company, a director, and co-founder of the THC Companies. Mr. Miller receives a salary from the THC Companies and from Thelon. At April 30, 2016, the Company owed \$20,800 (July 31, 2015 - \$31,200) to Mr. Miller which is included in accounts payable and accrued liabilities. Of the salary from Thelon, at April 30, 2016, \$19,500 (July 31, 2015 - \$35,000) is owed which is included in accounts payable and accrued liabilities. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$63,403) to Mr. Miller which is included in long term promissory notes payable as the Company paid the amount in full in December 2015. On October 26, 2015, Mr. Miller was issued 208,333 Units (note 9a) at \$0.06 for \$12,500 of debt. At April 30, 2016, the Company owed \$5,855 (July 31, 2015 - \$Nil) to Mr. Miller which is included in advances from related parties.

PubliCo Services Ltd. provides compliance services to the Company and is a private company owned by the Corporate Secretary, Dianne Szigety.

T. St. Denis, Inc. is a private accounting firm owned by the 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. At April 30, 2016, the Company owed \$32,648 (July 31, 2015 - \$55,165) to T. St. Denis, Inc. which is included in accounts payable and accrued liabilities. At April 30, 2016, \$21,250 (July 31, 2015 - \$20,500) is also included in accounts payable and accrued liabilities relating to the accounting accrual for the current period.

Hardcastle Capital Partners Corp. provided consulting services to the Company and is a private company controlled by the former President and Chief Executive Officer, Scott Walters. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$6,500) to Hardcastle Capital Partners Corp. which was previously included in advances from related parties as the Company paid \$3,250 pursuant to a debt settlement in December, 2015.

International Ranger Corp. is a public company with common directors. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$19,840) to International Ranger Corp. which was previously included in long term promissory notes payable as the Company paid \$7,839 and issued 65,328 shares (see note 9a) pursuant to a debt settlement in December, 2015. At April 30, 2016, the Company is owed \$1,839 (July 31, 2015 - \$Nil) from International Ranger Corp. which is included in advances to related parties.

Scout Exploration Inc. is a public company with common directors. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$3,955) to Scout Exploration Inc. which was previously included in advances from related parties which was paid in December, 2015.

Thelon Diamond Company Limited is a public company with common directors controlled by Jason Walsh. At April 30, 2016, the Company owed \$Nil (July 31, 2015 - \$72,350) to Thelon Diamond Company Limited which was previously included in promissory notes payable and paid in December, 2015, and \$1,000 (July 31, 2015 - \$22,892) which is included in advances from related parties.

At April 30, 2016, the Company owed \$10,352 (July 31, 2015 - \$Nil) 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.

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At April 30, 2016, the Company owed \$3,500 (July 31, 2015 - \$Nil) to Firdaus Capital Corp., a private company controlled by a director of the Company, Jason Walsh. The amount is included in advances from related parties.

At April 30, 2016, the Company was owed \$5,850 (July 31, 2015 - \$10,453) 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 April 30, 2016, the Company was owed \$66 (July 31, 2015 - \$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 April 30, 2016, the Company was owed \$613 (July 31, 2015 - \$613) from United Zeolite Ltd., a private company with common directors. The amount is included in advances to related parties.

At April 30, 2016, the Company was owed \$79,734 (July 31, 2015 - \$89,472) 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; accordingly the fair value cannot be practicably determined.

CONFLICTS OF INTEREST

The Company's directors and officers may serve as directors or officers, or may be associated with other reporting companies, or have significant shareholdings in other public companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the Business Corporations Act (BC) ("Corporations Act") dealing with conflict of interest. These provisions state that where a director has such a conflict, that director must, at a meeting of the Company's directors, disclose his or her interest and refrain from voting on the matter unless otherwise permitted by the Corporations Act. In accordance with the laws of the Province of British Columbia, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The carrying values of cash, amounts receivable, investments held for sale, advances due to/from related parties, accounts payable and accrued liabilities, mortgages payables, and promissory notes payable approximate their carrying values due to the immediate or short-term nature of these instruments.

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:

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- 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).

The investment held for sale has been valued using a Level 1 valuation technique.

Financial risk management

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

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 due from related parties. 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.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, property exploration and development, or the proposed transactions. 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 April 30, 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.

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.

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.

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 promissory notes and mortgages bear interest at fixed rates.

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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 April 30, 2016, the Company is exposed to foreign currency risk with respect to its US denominated bank accounts. At April 30, 2016, financial instruments were converted at a rate of \$1.00 Canadian to US\$1.2549.

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

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.

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 exposed to price risk regarding its investments held for sale. The Company manages this price risk by monitoring the investment on a regular basis.

OTHER RISKS AND UNCERTAINTIES

The Company is in the development stage with respect to its medical marijuana business.

In conducting its business, the Company is subject to a number of risks and uncertainties that could have a material adverse effect on the Company's business prospects or financial condition that could result in a delay or indefinite postponement in the development of the Company's business. The following risk factors should be carefully considered in evaluating the Company. The risks presented below may not be all of the risks that the Company may face. It is believed that these are the factors that could cause actual results to be different from expected and historical results. The market in which the Company currently competes is very competitive and changes rapidly. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements.

Profitability of operations

The Company does not have profitable operations at this time and it should be anticipated that it will operate at a loss until such time as revenue is achieved or if a profit is in fact ever achieved. Investors also cannot expect to receive any dividends on their investment in the foreseeable future.

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Going concern

The Company's 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 obtain the necessary financing to meet its on-going commitments and further its medical marijuana business.

Reliance on license

The Company's ability to grow, store, and sell medical marijuana in Canada is dependent on the license under the MMPR from Health Canada. Failure to comply with the requirements of the license or any failure to maintain this license would have a material adverse impact on the business, financial condition, and operating results of the Company.

Regulatory risks

The activities of the Company are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Change in laws, regulations, and guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage, and disposal of medical marijuana but also including laws and regulations relating to health and safety, the conduct of operations, and the protection of the environment. While to the knowledge of management, the Company is currently in compliance with all such laws, changes to such laws, regulations, and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Limited operating history

The Company has yet to generate revenue from the sale of products. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and likelihood of success must be considered in light of the early stage of operations.

Reliance on management

The success of the Company is dependent upon the ability, expertise, judgment, discretion, and good faith of its management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results, or financial condition.

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Factors which may prevent realization of growth targets

The Company is currently in the early development stage. The Company's growth strategy contemplates outfitting the facility with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- plant design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that the Company may not have product or sufficient product available for shipment to meet the anticipated demand or to meet future demand when it arises.

The Company has a history of net losses, may incur significant net losses in the future, and may not achieve or maintain profitability

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Additional financing

The building and operation of the Company's facilities and business are capital intensive. In order to execute the anticipated growth strategy, the Company will require some additional equity and/or debt financing to support on-going operations, to undertake capital expenditures, and/or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

Competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition, and results of operations of the Company.

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Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. If the number of users of medical marijuana in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales, and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales, and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition, and results of operations of the Company.

Risks inherent in an agricultural business

The Company's business involves the growing of medical marijuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business such as insects, plant diseases, and similar agricultural risks. Although the Company will grow its products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to rising energy costs

The Company's medical marijuana growing operations will consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Transportation disruptions

Due to the perishable and premium nature of the Company's products, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Unfavourable publicity or consumer perception

The Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the medical marijuana produced. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention, and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention, or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, the efficacy, and quality of medical marijuana in general, or the Company's products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse

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effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Reliance on key inputs

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to

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do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Dependence on suppliers and skilled labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

Difficulty to forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations, and financial condition of the Company.

Operating risk and insurance coverage

The Company has insurance to protect its assets, operations, and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations, and financial condition could be materially adversely affected.

Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train, and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Conflicts of interest

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

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Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect its ability to continue operating and the market price for the Company's common shares and could use significant Company resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations, and financial condition of the Company.

Dividends

The Company has no earnings or dividend record, and does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

SIGNIFICANT ACCOUNTING POLICIES

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.

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:

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. Investments held for sale are classified as a fair value through profit and loss financial asset.

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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, amounts receivable, advances to related parties, and deposits as loans and receivables.

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.

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.

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.

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:

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 the statements of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

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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, promissory notes payable, mortgages payable, and advances from related parties as other financial liabilities.

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.

Biological assets and inventory

The Company's biological assets and inventory will include: biological assets which are marijuana plants that are being cultivated to be harvested for their flowers, which are subsequently dried to produce the finished product and include the harvest-in-process and its mother plants; agricultural produce which are harvested marijuana flowers prior to completion of the drying, grading, and testing processes; and finished product which are purchased materials and packaged marijuana.

The value of biological assets is measured on initial recognition and 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 as prescribed by IAS 41 (paragraph 30) as amended.

The value of agricultural produce is measured on initial recognition as its fair value less costs to sell at the point of harvest. The value of finished goods is measured at the lower of cost or net realizable value, wherein the cost of the dried marijuana contained therein includes the value of the agricultural produce at the date of its conversion.

Any write down of inventories to net realizable value if below cost are recorded in the statement of loss and comprehensive loss at the time they are determined.

Property and equipment

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

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 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 property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

IAS 41, as amended, requires that bearer plants be recognized as property and equipment. A bearer plant is a living plant used in the production or supply of agricultural produce and is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce except for incidental scrap

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sales. Mother plants which are used for cuttings to initiate the marijuana growing process have a useful life of approximately nine months; accordingly, mother plants are not considered bearer plants. Mother plants are recognized as biological assets.

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:

Buildings	4%
Computer equipment	55%
Warehouse and office equipment	20%
Furniture and fixtures	20%
Software	100%

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.

Share capital

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.

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 of the announcement date, and the balance, if any, to the reserve for the warrants.

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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.

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 to employees 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.

The fair value of share options granted to non-employees is recognized as an expense in the statement of comprehensive loss and is recorded at the fair value of the services received, unless they are related to the issuance of shares. 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.

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.

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.

Loss per share

The Company presents basic and diluted loss per share data for its common shares, 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.

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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.

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.

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.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. 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 received by the customer.

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.

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.

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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.

Segment reporting

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

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 is the key estimate and assumption uncertainty that has a significant risk of resulting in a material adjustment within the next financial year:

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 nine months ended April 30, 2016, impairments of non-financial assets were \$Nil (April 30, 2015 – \$Nil).

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 statements of comprehensive loss. For the nine months ended April 30, 2016, the Company recognized share-based compensation expense of \$69,217 (April 30, 2015 - \$Nil).

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:

Acquisition of THC BioMed Ltd. and THC Meds Inc.

The determination that the acquisition of the THC Companies constituted a Reverse Take-Over transaction and the subsequent valuation of the listing expense required judgment. IFRS was used as the guideline for this determination and subsequent valuation.

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.

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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.

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.

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.

CORRECTION OF MISSTATEMENT

For the nine months ended April 30, 2016, the Company incorrectly recorded the receipt of \$200,000 as part of consulting fee revenue in the amount of \$250,000 rather than a share subscription received in advance. The applicable Goods and Services Tax was also recorded on the \$250,000. The consolidated financial statements have been restated as detailed in the following tables:

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Consolidated Statements of Financial Position

	Three months ended April 30, 2016		
	Previously Reported	Correction of Error	Restated
Amounts receivable	\$ 75,840	\$ (62,500)	\$ 13,340
Goods and services tax receivable	4,255	12,500	16,755
Share subscription received in advance	-	200,000	200,000
Accumulated deficit	(3,540,082)	(250,000)	(3,790,082)
Total equity	387,589	(50,000)	337,589

Consolidated Statements of Comprehensive Loss

	Three months ended April 30, 2016			Nine months ended April 30, 2016		
	Previously Reported	Correction of Error	Restated	Previously Reported	Correction of Error	Restated
Consulting fee revenue	\$ 250,000	\$ (250,000)	\$ -	\$ 500,000	\$ (250,000)	\$ 250,000
Net and comprehensive loss for the period	(6,376)	(250,000)	(256,376)	(240,039)	(250,000)	(490,039)
Loss per share	0.00	(0.01)	(0.01)	0.00	(0.01)	(0.01)

Consolidated Statements of Changes in Equity

	Three months ended April 30, 2016		
	Previously Reported	Correction of Error	Restated
Share subscription received in advance	\$ -	\$ 200,000	\$ 200,000
Loss for the period	(240,039)	(250,000)	(490,039)

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Consolidated Statements of Cash Flows

	Three months ended April 30, 2016			Nine months ended April 30, 2016		
	Previously Reported	Correction of Error	Restated	Previously Reported	Correction of Error	Restated
Net loss for the period	\$ (6,376)	\$ (250,000)	\$ (256,376)	\$ (240,039)	\$ (250,000)	\$ (490,039)
Net change in non-cash working capital	(9,740)	50,000	40,260	(572,260)	50,000	(522,260)
Net change in operating activities	55,183	(200,000)	(144,817)	(634,919)	(200,000)	(834,919)
Share subscription received in advance	-	200,000	200,000	-	200,000	200,000
Net change in financing activities	37,462	200,000	237,462	774,239	200,000	974,239

CAPITAL RESOURCES

Common shares

	Issued Number	Amount
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 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
Balance, January 16, 2017	103,099,459	\$ 5,361,939

Pursuant to the Share Exchange Agreement, a Restriction Agreement was signed by certain shareholders holding 52,717,728 common shares collectively. The Restriction Agreement includes the following vesting provisions:

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Release Date	Proportion of Shares Released
On the date the Company's securities are listed on a Canadian exchange (the "Listing Date")	1/10 of the stock
6 months after the Listing Date	1/6 of the remainder of the stock
12 months after the Listing Date	1/5 of the remainder of the stock
18 months after the Listing Date	1/4 of the remainder of the stock
24 months after the Listing Date	1/3 of the remainder of the stock
30 months after the Listing Date	1/2 of the remainder of the stock
36 months after the Listing Date	The remainder of the stock

Escrow Shares

Currently 690 shares (July 31, 2015 – 690) are held in escrow.

Warrants

	Number of Warrants	Weighted Average Exercise Price
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)	0.15
Warrants expired	(12,109,001)	0.38
Balance, January 16, 2017	-	\$ -

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Stock Options

	Number of Options	Weighted Average Exercise Price
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	(916,000)	\$ 0.11
Balance, January 16, 2017	584,000	\$ 0.10

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Exercisable	Number of Options Outstanding	Exercise Price
October 5, 2015	October 5, 2017	0.76	584,000	584,000	\$ 0.10

ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at www.sedar.com.