# THC BIOMED INTL LTD.

**Condensed Interim Consolidated Financial Statements**

**For the Nine Months Ended April 30, 2018**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

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**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 nine months ended April 30, 2018 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.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on June 26, 2018. They are signed on the Company's behalf by:

| | |
|---|---|
| *"John Miller"* | *"Hee Jung Chun"* |
| Director | Director |

## THC BIOMED INTL LTD.

**Condensed Interim Consolidated Statements of Financial Position**
**(Unaudited)**
**(Expressed in Canadian Dollars)**

| As at | (Unaudited) April 30 2018 | (Audited) July 31 2017 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | $ **4,524,903** | $ 22,852 |
| Amounts receivable (note 4) | **4,784** | 17,505 |
| Goods and services tax receivable | **21,079** | 13,827 |
| Advances to related parties (note 14) | **-** | 70,748 |
| Biological assets (note 5) | **1,097,149** | 362,218 |
| Inventory (note 5) | **101,712** | 180,716 |
| Prepaid expenses and deposits | **242,742** | 59,523 |
| | **5,992,369** | 727,389 |
| **Non-current** | | |
| Prepaid financing fee (note 9) | **4,458,153** | 4,866,965 |
| Property and equipment (note 6) | **4,357,570** | 1,368,938 |
| | **8,815,723** | 6,235,903 |
| | $ **14,808,092** | $ 6,963,292 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ **392,989** | $ 732,751 |
| Promissory note payable (notes 7 and 14) | **-** | 135,000 |
| Current portion of mortgages payable (note 8) | **37,084** | 26,016 |
| Promissory note payable (note 9) | **99,004** | 99,004 |
| Warrant liability (note 9) | **-** | 2,416,464 |
| Advances from related party (note 14) | **632,937** | 1,199,512 |
| | **1,162,014** | 4,608,747 |
| **Non-current** | | |
| Mortgages payable (note 8) | **641,326** | 375,250 |
| | **1,803,340** | 4,983,997 |
| **Shareholders' Equity** | | |
| Share capital (note 10) | **20,202,315** | 5,420,535 |
| Share subscription received in advance | **-** | 839,974 |
| Reserves | **6,493,319** | 159,051 |
| Accumulated deficit | **(13,690,882)** | (4,440,265) |
| | **13,004,752** | 1,979,295 |
| | $ **14,808,092** | $ 6,963,292 |

**Nature and continuance of operations** (note 1)
**Commitments** (note 17)
**Subsequent events** (note 19)

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

## THC BIOMED INTL LTD.

### Condensed Interim Consolidated Statements of Comprehensive Income
### (Unaudited)
### (Expressed in Canadian Dollars)

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | **April 30** | April 30 | **April 30** | April 30 |
| | **2018** | 2017 | **2018** | 2017 |
| Revenue (note 12) | **$ 179,771** | $ 35,644 | **$ 761,456** | $ 38,839 |
| Inventory expensed to cost of sales | **(139,406)** | (43,026) | **(318,745)** | (57,720) |
| Other cost of sales | **(190,869)** | (194,175) | **(414,282)** | (354,408) |
| Fair value changes on sales of inventory (note 5) | **10,177** | (127,926) | **(243,699)** | (153,362) |
| Gain on changes in fair value of biological assets (note 5) | **(720,402)** | (172,150) | **896,789** | 1,731,216 |
| Gross margin | **(860,729)** | (501,633) | **681,519** | 1,204,565 |
| Expenses | | | | |
| General and administration (notes 13 and 14) | **429,109** | 211,272 | **1,185,370** | 790,001 |
| Depreciation and amortization (note 6) | **28,266** | 25,364 | **95,549** | 68,467 |
| Sales and marketing | **10,951** | 1,893 | **23,232** | 26,901 |
| Share-based compensation (notes 11 and 14) | **137,697** | - | **852,204** | - |
| | **606,023** | 238,529 | **2,156,355** | 885,369 |
| Other income (expense) items | | | | |
| Foreign exchange loss | **(3,083)** | (3) | **(4,379)** | (6) |
| Interest income | **2** | - | **8** | 8,053 |
| Other | **396** | 87 | **610** | 87 |
| Revaluation of agent warrants (note 9) | **3,607,192** | - | **(5,545,020)** | - |
| Settlement (note 10) | **(2,227,000)** | | **(2,227,000)** | |
| | **1,377,507** | 84 | **(7,775,781)** | 8,134 |
| **Net and comprehensive income (loss) for the period** | **$ (89,245)** | $ (740,078) | **$ (9,250,617)** | $ 327,330 |
| **Basic and diluted earnings per share** | **$ (0.00)** | $ (0.01) | **$ (0.08)** | $ 0.00 |
| **Weighted average number of shares outstanding** | **115,054,608** | 103,099,459 | **109,898,578** | 101,811,078 |

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
### (Unaudited)
### (Expressed in Canadian Dollars)

| | Number of Shares | Share Capital | Share Subscription Received in Advance | Share-Based Payment Reserve | Agent Warrants Reserve | Deficit | (Unaudited) Total Equity |
|---|---|---|---|---|---|---|---|
| alance, July 31, 2017 | 103,232,631 | $ 5,420,535 | $ 839,974 | $ 159,051 | $ - | $ (4,440,265) | $ 1,979,295 |
| Shares issued for cash | 10,141,656 | 8,471,527 | (839,974) | - | - | - | 7,631,553 |
| Share issuance costs | - | (473,454) | - | - | - | - | (473,454) |
| Stock options exercised | 1,566,500 | 436,662 | - | - | - | - | 436,662 |
| Fair value of stock options exercised | - | 365,189 | - | (365,189) | - | - | - |
| Warrants exercised | 362,903 | 140,625 | - | - | - | - | 140,625 |
| Agent warrants exercised | 1,250,000 | 1,500,000 | - | - | - | - | 1,500,000 |
| Reallocation from warrant liability on exercise of agent warrants (note 9) | - | 2,114,231 | - | - | - | - | 2,114,231 |
| Reallocation of agent warrants from financing fee liability (note 9) | - | - | - | - | 5,847,253 | | 5,847,253 |
| Shares issued for debt | 1,700,000 | 2,227,000 | - | - | - | - | 2,227,000 |
| Share-based compensation | - | - | - | 852,204 | - | - | 852,204 |
| Loss for the period | - | - | - | - | - | (9,250,617) | (9,250,617) |
| **alance, April 30, 2018** | **118,253,690** | **$ 20,202,315** | **$ -** | **$ 646,066** | **$ 5,847,253** | **$(13,690,882)** | **$ 13,004,752** |
| alance, July 31, 2016 | 96,199,544 | $ 3,865,413 | $ 250,000 | $ 70,652 | $ - | $ (3,835,398) | $ 350,667 |
| Shares issued for cash | 1,000,000 | 250,000 | (250,000) | - | - | - | - |
| Stock options exercised | 916,000 | 104,100 | - | - | - | - | 104,100 |
| Fair value of stock options exercised | - | 46,389 | - | (46,389) | - | - | - |
| Warrants exercised | 4,983,915 | 1,096,037 | - | - | - | - | 1,096,037 |
| Income for the period | - | - | - | - | - | 327,330 | 327,330 |
| alance, April 30, 2017 | 103,099,459 | $ 5,361,939 | $ - | $ 24,263 | $ - | $ (3,508,068) | $ 1,878,134 |

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
### (Unaudited)
### (Expressed in Canadian Dollars)

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | **April 30** | April 30 | **April 30** | April 30 |
| | **2018** | 2017 | **2018** | 2017 |
| **Cash provided by (used for)** | | | | |
| **Operating activities** | | | | |
| Net income (loss) for the period | **$ (89,245)** | $ (740,078) | **$ (9,250,617)** | $ 327,330 |
| Items not affecting cash | | | | |
| Accrued liabilities | **(212)** | (20,661) | **25,842** | (39,505) |
| Depreciation and amortization | **28,266** | 25,364 | **95,549** | 68,467 |
| Foreign exchange (gain) loss | **3,083** | 3 | **4,379** | 6 |
| Fair value changes on sales of inventory | **-** | - | **243,699** | 153,362 |
| Gain on changes of fair value of biological assets | **710,225** | 300,076 | **(896,789)** | (1,731,216) |
| Revaluation of agent warrants | **(3,607,192)** | - | **5,545,020** | - |
| Settlement | **2,227,000** | | **2,227,000** | |
| Share-based compensation | **137,697** | - | **852,204** | - |
| | **(590,378)** | (435,296) | **(1,153,713)** | (1,221,556) |
| Net change in non-cash working capital | **(175,554)** | 186,036 | **(137,379)** | 237,485 |
| | **(765,932)** | (249,260) | **(1,291,092)** | (984,071) |
| **Financing activities** | | | | |
| Advances from (repaid to) related parties | **(100,920)** | 83,636 | **(566,575)** | (74,831) |
| Issuance of shares for cash, net of share issuance costs | **3,332,495** | - | **9,235,386** | 1,200,137 |
| Promissory note repaid | **-** | - | **(135,000)** | - |
| Net mortgage proceeds received (repaid) | **(8,943)** | (6,111) | **277,144** | (21,053) |
| | **3,222,632** | 77,525 | **8,810,955** | 1,104,253 |
| **Investing activities** | | | | |
| Acquisition of property and equipment | **(2,284,939)** | (2,251) | **(3,084,181)** | (101,402) |
| Acquisition of intangible property | **-** | - | **-** | (101,435) |
| Advances to (repaid by) related parties | **-** | - | **70,748** | 4,865 |
| | **(2,284,939)** | (2,251) | **(3,013,433)** | (197,972) |
| **Effect of foreign exchange translation on cash** | **(3,083)** | (3) | **(4,379)** | (6) |
| **Net increase in cash (decrease)** | **168,678** | (173,989) | **4,502,051** | (77,796) |
| **Cash, beginning of period** | **4,356,225** | 205,294 | **22,852** | 109,101 |
| **Cash, end of period** | **$ 4,524,903** | $ 31,305 | **$ 4,524,903** | $ 31,305 |

**Supplemental cash flow information** (note 16)

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

THC BioMed Intl Ltd. ("THC" or the "Company") is a publicly traded company with its head office at Unit 1 – 2550 Acland Road, Kelowna, British Columbia, Canada, V1X 7L4.

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

These condensed interim consolidated financial statements include the accounts of THC BioMed Intl Ltd. and its five wholly owned subsidiaries: THC BioMed Ltd. (at the close of business on July 31, 2017, THC BioMed Ltd. and THC Meds Inc. were amalgamated and the name THC BioMed Ltd. was retained), Clone Shipper Ltd., THC2GO Dispensaries Ltd., THC Laboratories Ltd., and THC BioMed Lesotho Ltd. The Company's principal business is the production and sale of medical marijuana through THC BioMed Ltd. which is licensed to produce and sell medical marijuana under the provisions of the *Access to Cannabis for Medical Purposes Regulations ("ACMPR").*

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 may 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 18 c.

## 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financing 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 note2 of the annual audited consolidated financial statements for the year ended July 31, 2017.

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, 2017, 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.

**IFRS 16 *Leases***

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

**(Expressed in Canadian Dollars)**

## 4. AMOUNTS RECEIVABLE

| | **April 30 2018** | April 30 2017 |
|---|---|---|
| Shaw Cable Systems | **$ -** | $ 64 |
| Trade Receivables | **4,784** | 17,441 |
| | **$ 4,784** | $ 17,505 |

## 5. BIOLOGICAL ASSETS AND INVENTORY

| | Inventory of Biological Assets | Inventory of Other Assets | Total |
|---|---|---|---|
| Carrying amount, July 31, 2016 | $ - | $ - | $ - |
| Cost of biological assets and inventory | 28,767 | 123,030 | 151,797 |
| Transferred to inventory upon harvest | (57,686) | 57,686 | - |
| Gain on changes in fair value | 391,137 | - | 391,137 |
| Carrying amount, July 31, 2017 | 362,218 | 180,716 | 542,934 |
| Net change in biological assets and inventory | (60,349) | (180,513) | (240,862) |
| Transferred to inventory upon harvest | (101,509) | 101,509 | - |
| Gain on changes in fair value | 896,789 | - | 896,789 |
| **Carrying amount, April 30, 2018** | **$ 1,097,149** | **$ 101,712** | **$ 1,198,861** |

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

Biological assets are 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. Agricultural produce is measured on initial recognition at its fair value less costs to sell at the point of harvest. Finished goods are measured at the lower of cost or net realizable value, wherein the cost of the dried marijuana contained therein includes the carrying value of the agricultural produce at the date of its conversion. Fair value at the time of harvest then becomes the basis for cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in profit or loss at the time they are determined.

**(Expressed in Canadian Dollars)**

**5. BIOLOGICAL ASSETS AND INVENTORY** (continued)

The Company's biological assets include marijuana plants used for cuttings to initiate the marijuana growing process which have a useful life of approximately one year, and 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. Its agricultural produce consists of harvested marijuana flowers prior to completion of the drying, grading, and testing processes.

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

Inventory is finished goods which are measured at the lower of cost or net realizable value. The cost of finished goods inventory comprises raw materials, direct labour, other direct costs, and related production overhead expenditures.

The Company allocates overhead expenditures based on the percentage of square footage used for production purposes. General and administrative expenses for corporate offices are not included in any inventories.

The Company has had no work in process as at July 31, 2017 or at April 30, 2018.

A sensitivity analysis of significant unobservable inputs used to calculate the fair value of biological assets for the nine months ended April 30, 2018 is as follows:

| | 20% Decrease | 10% Decrease | FV | 10% Increase | 20% Increase |
|---|---|---|---|---|---|
| Fair value of biological assets | $ 877,719 | $ 987,434 | $ 1,097,149 | $ 1,206,864 | $ 1,316,579 |

**(Expressed in Canadian Dollars)**

## 6. PROPERTY AND EQUIPMENT

| | July 31 2016 | Additions | July 31 2017 | Additions | **April 30 2018** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Automobile equipment | $ - | $ 6,741 | $ 6,741 | $ 9,630 | **$ 16,371** |
| Buildings | 685,353 | 71,331 | 756,684 | 1,319,609 | **2,076,293** |
| Computer equipment | 36,129 | 18,003 | 54,132 | 8,695 | **62,827** |
| Equipment | 50,342 | 148,528 | 198,870 | 187,154 | **386,024** |
| Furniture and fixtures | 11,425 | 25,121 | 36,546 | - | **36,546** |
| Land | 422,613 | - | 422,613 | 1,360,360 | **1,782,973** |
| Leasehold improvements | - | - | - | 172,080 | **172,080** |
| Software | 1,093 | 42,747 | 43,840 | 26,652 | **70,492** |
| | $ 1,206,955 | $ 312,471 | $ 1,519,426 | $ 3,084,180 | **$ 4,603,606** |

| | July 31 2016 | Depreciation | July 31 2017 | Depreciation | **April 30 2018** |
|---|---|---|---|---|---|
| **Accumulated Depreciation** | | | | | |
| Automobile equipment | $ - | $ 1,011 | $ 1,011 | $ 2,372 | **$ 3,383** |
| Buildings | 25,326 | 27,828 | 53,154 | 27,079 | **80,233** |
| Computer equipment | 22,735 | 12,319 | 35,054 | 9,663 | **44,717** |
| Equipment | 8,342 | 23,253 | 31,595 | 39,127 | **70,722** |
| Furniture and fixtures | 3,014 | 4,194 | 7,208 | 4,401 | **11,609** |
| Leasehold improvements | - | - | - | 12,906 | **12,906** |
| Software | 1,093 | 21,373 | 22,466 | - | **22,466** |
| | $ 60,510 | $ 89,978 | $ 150,488 | $ 95,548 | **$ 246,036** |
| **Carrying Amounts** | $ 1,146,445 | | $ 1,368,938 | | **$ 4,357,570** |

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 $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.

## 6. PROPERTY AND EQUIPMENT (continued)

The Company acquired additional property to expand their warehouse facilities on November 1, 2017 for $514,957, of which $291,610 was attributed to the land and $223,347 to the building. All costs of modifications to the property to meet all specifications required by Health Canada have been capitalized.

The Company acquired a commercial building in downtown Kelowna for $1,990,178 of which $1,068,750 was attributed to the land and $921,428 to the building. The building was purchased with cash and will not require a mortgage. The building consists of two stories and has 8,000 square feet of space. The building is zoned for industrial use and the City of Kelowna permits cannabis production on industrial-zoned land. The Company intends to use the street level space for retail with the Company's corporate offices on the second floor. Renovations commenced subsequent to April 30, 2018. Depreciation will begin when the property is in use.

## 7. PROMISSORY NOTE PAYABLE

The Company issued a promissory note in the principal amount of up to $150,000 on December 31, 2014 to BUA Capital Management Ltd., a private company controlled by a former director, Jason Walsh. The note is without interest and was due on December 31, 2016. The note was paid in full on December 11, 2017.

## 8. MORTGAGES PAYABLE

The Company has a mortgage payable on its first property in the principal amount of $210,560 with interest at 10% per annum with monthly payments of $2,760 due on the 21st day of each month. The mortgage originally matured on August 21, 2018 and has been extended to mature on August 21, 2021 on the same terms. At April 30, 2018 the balance payable is $160,583 (July 31, 2017 - $172,875) with accrued interest of $440 (July 31, 2017 - $474) included in accounts payable and accrued liabilities.

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 mortgage initially matured on October 2, 2017 and has been extended to October 2, 2020 on the same terms. At April 30, 2018, the balance payable is $221,410 (July 31, 2017 - $228,391) with accrued interest of $1,759 (July 31, 2017 - $1,815) included in accounts payable and accrued liabilities.

The Company has a mortgage payable on its third property in the principal amount of $300,000 with interest at 10% per annum with monthly payments of $3,187 due on the 1st day of each month. The mortgage matures on November 1, 2022. At April 30, 2018, the balance payable is $296,418 (July 31, 2017 - $Nil) with accrued interest of $2,355 (July 31, 2017 - $Nil)) included in accounts payable and accrued liabilities.

## 9. CAPITAL COMMITMENTS

### GEM Global Yield Fund LLC SCS

The Company entered into a Capital Commitment Agreement GEM to invest with GEM Global Yield Fund LLC SCS ("GEM") for a $10 million capital commitment from into THC. Proceeds raised from the investment will be used for working capital and general corporate purposes, and in particular, to close the acquisition of the Clone Shipper assets.

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

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

The promissory note was reduced by $125,996 on June 26, 2017, when subscriptions received in advance were received, net of this amount, from GEM.

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

The agent warrants are recorded as a derivative liability as the value is based on inputs that are subject to change. The agent warrants are not on a fixed for fixed basis as the number of warrants is fixed but the exercise price is variable, as noted above.

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

At March 13, 2017, the initial fair value of the agent warrants of $4,641,965 (as above) was recorded as the warrant liability.

**9. CAPITAL COMMITMENTS** (continued)

**GEM Global Yield Fund LLC SCS** (continued)

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

At October 31, 2017, the agent warrants were revalued and have a fair value calculated using the Black-Scholes option pricing model, of $4,603,261 or $0.69 per agent warrant, assuming an expected life of 4.4 years, a risk-free interest rate of 1.55%, an expected dividend rate of 0.00%, stock price of $0.76, and an expected annual volatility coefficient of 172%. Volatility was determined using historical stock prices. The revaluation of the agent warrants at October 31, 2017 produced a loss of $2,186,797.

At January 31, 2018, the agent warrants were revalued and have a fair value calculated using the Black-Scholes option pricing model, of $11,568,676 or $1.74 per agent warrant, assuming an expected life of 4.1 years, a risk-free interest rate of 2.08%, an expected dividend rate of 0.00%, stock price of $1.87, and an expected annual volatility coefficient of 168%. Volatility was determined using historical stock prices. The revaluation of the agent warrants at January 31, 2018 produced a loss of $6,965,415.

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

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

At March 13, 2018, the balance of the agent warrants were revalued and have a fair value calculated using the Black-Scholes option pricing model, of $7,961,484 or $1.48 per agent warrant, assuming an expected life of 4 years, a risk-free interest rate of 2.08%, an expected dividend rate of 0.00%, stock price of $1.60, and an expected annual volatility coefficient of 169%. Volatility was determined using historical stock prices. The revaluation of the agent warrants at March 13, 2018 produced a gain of $3,607,192.

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

On March 13, 2018, the Company revalued the agent warrant exercise price in accordance with the agreement. The exercise price of the remainder of the agent warrants is now $1.20 per share and the financing fee liability has been reallocated to equity.

## 9. CAPITAL COMMITMENTS (continued)

**Alumina Partners (Ontario) Ltd.**

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

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

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

At April 30, 2018, there have been 15 tranches for a total issuance of 8,711.656 Units (see Note 10a) for gross proceeds of $7,696,195 (July 31, 2017 - $Nil).

## 10. SHARE CAPITAL

### a) Common shares

**Authorized:**

Unlimited number of common shares without par value

(Expressed in Canadian Dollars)

## 10. SHARE CAPITAL (continued)

### a) Common shares (continued)

| | Issued Number | | Amount |
|---|---|---|---|
| Balance, July 31, 2016 | 96,199,544 | $ | 3,865,413 |
| Shares issued for cash | 1,000,000 | | 250,000 |
| Stock options exercised | 916,000 | | 104,100 |
| Fair value of stock options exercised | - | | 46,389 |
| Warrants exercised | 4,983,915 | | 1,096,037 |
| Shares issued for debt | 133,172 | | 58,596 |
| Balance, July 31, 2017 | 103,232,631 | | 5,420,535 |
| Shares issued for cash | 10,141,656 | | 8,471,527 |
| Share issuance cost | - | | (473,454) |
| Stock options exercised | 1,566,500 | | 436,662 |
| Fair value of stock options exercised | - | | 365,189 |
| Warrants exercised | 362,903 | | 140,625 |
| Agent warrants exercised | 1,250,000 | | 1,500,000 |
| Reallocation from warrant liability on exercise of agent warrants | - | | 2,114,231 |
| Shares issued for debt | 1,700,000 | | 2,227,000 |
| **Balance, April 30, 2018** | **118,253,690** | **$** | **20,202,315** |

On August 17, 2016, 50,000 warrants were exercised at $0.15 for gross proceeds of $7,500. The market price on the date of exercise was $0.27.

On August 24, 2016, 581,000 warrants were exercised at $0.15 for gross proceeds of $87,150. The market price on the date of exercise was $0.27.

On September 1, 2016, 1,124,416 warrants were exercised at $0.15 for gross proceeds of $168,662. The market price on the date of exercise was $0.36.

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

On September 12, 2016, 400,000 warrants were exercised at $0.15 for gross proceeds of $60,000. The market price on the date of exercise was $0.34.

On September 14, 2016, 600,000 warrants were exercised at $0.15 for gross proceeds of $90,000. The market price on the date of exercise was $0.39.

On September 15, 2016, 125,000 warrants were exercised at $0.15 for gross proceeds of $18,750. The market price on the date of exercise was $0.38.

**10. SHARE CAPITAL** (continued)

**a) Common shares** (continued)

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. The market price on the date of exercise was $0.62.

On September 22, 2016, 175,000 warrants were exercised at $0.15 for gross proceeds of $26,250. The market price on the date of exercise was $0.62.

On September 23, 2016, 774,332 warrants were exercised at $0.60 for gross proceeds of $464,600 and 4,459,001 warrants expired at $0.60. The market price on the date of exercise was $0.60.

On October 5, 2016, 1,154,167 warrants were exercised at $0.15 for gross proceeds of $173,125. The market price on the date of exercise was $1.05.

On November 22, 2016, 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 $1.11.

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

On December 14, 2016, 166,000 stock options were exercised at $0.10 per share for gross proceeds of $16,600. The market price on the date of exercise was $1.02.

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

On August 9, 2017, the first draw down from Alumina Partners (Ontario) Ltd. occurred with the issuance of 483,870 units ("Unit") at a price of $0.31 per Unit for gross proceeds of $150,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.3875 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On September 5, 2017, 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 $0.51.

On September 8, 2017, 84,000 stock options were exercised at $0.10 per share for gross proceeds of $8,400. The market price on the date of exercise was $0.48.

On October 2, 2017, the Company closed the second tranche from Alumina Partners (Ontario) Ltd. with issuance of 403,226 units ("Unit") at a price of $0.62 per Unit for gross proceeds of $250,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.96 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On October 4, 2017, 7,500 stock options were exercised at $0.385 per share for gross proceeds of $2,888. The market price on the date of exercise was $0.99.

## 10. SHARE CAPITAL (continued)

### b) Common shares (continued)

On October 5, 2017, the Company closed the third tranche from Alumina Partners (Ontario) Ltd. with issuance of 359,196 units ("Unit") at a price of $0.696 per Unit for gross proceeds of $250,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $1.0875 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On October 12, 2017, the Company closed the fourth tranche from Alumina Partners (Ontario) Ltd. with issuance of 355,115 units ("Unit") at a price of $0.704 per Unit for gross proceeds of $250,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $1.10 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On October 12, 2017, the Company issued 1,430,000 shares at $0.587 per Unit to GEM Global Yield Fund LLC SCS ("GEM") pursuant to the capital commitment agreement dated March 13, 2017 (note 10). In accordance with the agreement dated March 13, 2017, 6,635,000 agent warrants were also issued, exercisable at $1.20 per share until March 13, 2022.

On October 12, 2017, 50,000 stock options were exercised at $0.385 per share for gross proceeds of $19,250. The market price on the date of exercise was $0.89.

On October 17, 2017, 50,000 stock options were exercised at $0.385 per share for gross proceeds of $19,250. The market price on the date of exercise was $0.84.

On October 20, 2017, the Company closed the fifth tranche from Alumina Partners (Ontario) Ltd. with issuance of 333,333 units ("Unit") at a price of $0.60 per Unit for gross proceeds of $200,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.94 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On October 23, 2017, the Company closed the sixth tranche from Alumina Partners (Ontario) Ltd. with issuance of 333,333 units ("Unit") at a price of $0.60 per Unit for gross proceeds of $200,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.94 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On October 27, 2017, 75,000 stock options were exercised at $0.385 per share for gross proceeds of $28,875. The market price on the date of exercise was $0.72.

On October 31, 2017, the Company closed the seventh tranche from Alumina Partners (Ontario) Ltd. with issuance of 362,318 units ("Unit") at a price of $0.552 per Unit for gross proceeds of $200,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.8625 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

**10. SHARE CAPITAL** (continued)

**a) Common shares** (continued)

On November 8, 2017, the Company closed the eighth tranche from Alumina Partners (Ontario) Ltd. with issuance of 513,698 units (“Unit”) at a price of $0.584 per Unit for gross proceeds of $300,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.9125 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On November 14, 2017, the Company closed the ninth tranche from Alumina Partners (Ontario) Ltd. with issuance of 666,666 units (“Unit”) at a price of $0.60 per Unit for gross proceeds of $400,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $0.9375 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On November 14, 2017, 18,750 stock options were exercised at $0.385 per share for gross proceeds of $7,219. The market price on the date of exercise was $0.515.

On November 15, 2017, 75,000 stock options were exercised at $0.385 per share for gross proceeds of $28,875. The market price on the date of exercise was $0.87.

On November 23, 2017, the Company closed the tenth tranche from Alumina Partners (Ontario) Ltd. with issuance of 1,488,095 units (“Unit”) at a price of $0.672 per Unit for gross proceeds of $1,000,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $1.05 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On December 12, 2017, 362,903 warrants were exercised at $0.3875 for gross proceeds of $140,625. The market price on the date of exercise was $0.81.

On January 4, 2018, 18,750 stock options were exercised at $0.385 per share for gross proceeds of $7,219. The market price on the date of exercise was $2.73.

On January 5, 2018, 125,000 stock options were exercised at $0.385 per share for gross proceeds of $48,125. The market price on the date of exercise was $2.55.

On January 11, 2018, 18,750 stock options were exercised at $0.385 per share for gross proceeds of $7,219. The market price on the date of exercise was $2.06.

On January 12, 2018, 125,000 stock options were exercised at $0.385 per share for gross proceeds of $48,125. The market price on the date of exercise was $1.88.

On January 15, 2018, the Company closed the eleventh tranche from Alumina Partners (Ontario) Ltd. with issuance of 1,314,070 units (“Unit”) at a price of $1.592 per Unit for gross proceeds of $500,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $2.49 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

**10. SHARE CAPITAL** (continued)

**a) Common shares** (continued)

On January 24, 2018, the Company closed the twelfth tranche from Alumina Partners (Ontario) Ltd. with issuance of 631,313 units ("Unit") at a price of $1.584 per Unit for gross proceeds of $1,000,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $2.48 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On January 25, 2018, 20,000 stock options were exercised at $0.385 per share for gross proceeds of $7,700. The market price on the date of exercise was $2.01.

On January 29, 2018, 125,000 stock options were exercised at $0.385 per share for gross proceeds of $48,125. The market price on the date of exercise was $2.01.

On January 31, 2018, 1,000,000 agent warrants were exercised at $1.20 for gross proceeds of $1,200,000. The market price on the date of exercise was $1.87.

On February 6, 2018, 30,000 stock options were exercised at $0.385 per share for gross proceeds of $11,550. The market price on the date of exercise was $1.66.

On February 8, 2018, the Company closed the thirteenth tranche from Alumina Partners (Ontario) Ltd. with issuance of 1,002,673 units ("Unit") at a price of $1.328 per Unit for gross proceeds of $1,331,551. Each Unit consists of one common share and one common share purchase warrant exercisable at $2.08 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On February 16, 2018, 15,000 stock options were exercised at $0.385 per share for gross proceeds of $5,775. The market price on the date of exercise was $1.43.

On March 2, 2018, the Company closed the fourteenth tranche from Alumina Partners (Ontario) Ltd. with issuance of 932,835 units ("Unit") at a price of $1,072 per Unit for gross proceeds of $1,000,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $1.68 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

On March 7, 2018, 100,000 stock options were exercised at $0.385 per share for gross proceeds of $38,500. The market price on the date of exercise was $1.41.

On March 13, 2018, 250,000 agent warrants were exercised at $1.20 for gross proceeds of $300,000. The market price on the date of exercise was $1.60.

On March 15, 2018, the Company closed the fifteenth tranche from Alumina Partners (Ontario) Ltd. with issuance of 531,915 units ("Unit") at a price of $1.128 per Unit for gross proceeds of $600,000. Each Unit consists of one common share and one common share purchase warrant exercisable at $1.763 per share for a period of 36 months. The warrants were valued at $Nil using the residual value method.

(Expressed in Canadian Dollars)

## 10. SHARE CAPITAL (continued)

### a) Common shares (continued)

On March 16, 2018, 18,750 stock options were exercised at $0.385 per share for gross proceeds of $7,219. The market price on the date of exercise was $1.73.

On April 10, 2018, 7,500 stock options were exercised at $0.385 per share for gross proceeds of $2,888. The market price on the date of exercise was $1.33..

On April 18, 2018, 125,000 stock options were exercised at $0.385 per share for gross proceeds of $48,125. The market price on the date of exercise was $1.35.

On April 23, 2018, 1,700,000 common shares were issued for debt pursuant to the settlement agreement with Jacob Securities Inc.

On April 25, 2018, 7,500 stock options were exercised at $0.385 per share for gross proceeds of $2,888. The market price on the date of exercise was $1.25.

### b) Escrow shares

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

### c) Warrants outstanding

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, July 31, 2016 | 17,092,916 | $ | 0.3300 |
| Warrants exercised | (4,983,915) | | 0.2200 |
| Warrants expired | (12,109,001) | | 0.3800 |
| Balance, July 31, 2017 | - | | - |
| Warrants issued | 8,711,656 | | 1.3648 |
| Warrants exercised | (362,903) | | 0.3875 |
| **Balance, April 30, 2018** | **8,348,753** | **$** | **1.4073** |

**(Expressed in Canadian Dollars)**

## 10. SHARE CAPITAL (continued)

### c) Warrants outstanding (continued)

| Expiry Date | Remaining Life (Years) | Number of Warrants | | Exercise Price |
|---|---|---|---|---|
| August 9, 2020 | 2.28 | 120,967 | $ | 0.3875 |
| October 2, 2020 | 2.43 | 403,226 | | 0.9600 |
| October 5, 2020 | 2.44 | 359,196 | | 1.0875 |
| October 12, 2020 | 2.46 | 355,115 | | 1.1000 |
| October 20, 2020 | 2.48 | 333,333 | | 0.9400 |
| October 23, 2020 | 2.49 | 333,333 | | 0.9400 |
| October 31, 2020 | 2.51 | 362,318 | | 0.8625 |
| November 8, 2020 | 2.53 | 513,698 | | 0.9125 |
| November 14, 2020 | 2.55 | 666,666 | | 0.9375 |
| November 23, 2020 | 2.57 | 1,488,095 | | 1.0500 |
| January 15, 2021 | 2.72 | 314,070 | | 2.4900 |
| January 24, 2021 | 2.74 | 631,313 | | 2.4800 |
| February 8, 2021 | 2.78 | 1,002,673 | | 2.0800 |
| March 2, 2021 | 2.84 | 932,835 | | 1.6800 |
| March 15, 2021 | 2.87 | 531,915 | | 1.7630 |
| | | 8,348,753 | $ | 1.4073 |

### c) Agent warrants outstanding

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| Balance, July 31, 2017 | - | $ | - |
| Warrants issued | 6,635,000 | | 1.20 |
| Warrants exercised | (1,250,000) | | 1.20 |
| **Balance, April 30, 2018** | **5,385,000** | **$** | **1.20** |

(Expressed in Canadian Dollars)

## 10. SHARE CAPITAL (continued)

### c) Agent warrants outstanding (outstanding)

| Expiry Date | Remaining Life (Years) | Number of Warrants | Exercise Price |
|---|---|---|---|
| March 13, 2022 | 3.87 | 5,385,000 | $ 1.20 |

## 11. SHARE-BASED COMPENSATION

The Company is authorized to grant options to directors, officers, employees, and consultants 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:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, July 31, 2016 | 1,500,000 | $ 0.110 |
| Options granted | 4,415,000 | 0.385 |
| Options exercised | (916,000) | 0.110 |
| Balance, July 31, 2017 | 4,999,000 | 0.352 |
| Options exercised | (1,566,500) | (0.279) |
| Options cancelled | (37,500) | 0.385 |
| **Balance, April 30, 2018** | **3,395,000** | **$ 0.385** |

| Date of Grant | Expiry Date | Remaining Life (Years) | Number of Options Vested | Number of Options Outstanding | Exercise Price |
|---|---|---|---|---|---|
| July 25, 2017 | July 25, 2019 | 1.24 | 2,272,500 | 3,395,000 | $ 0.385 |

## 11. SHARE-BASED COMPENSATION (continued)

On July 25, 2017, the Company granted 4,415,000 stock options to directors, employees, and a consultant of the Company to acquire 4,415,000 common shares of the Company with an expiry date of July 25, 2019. The options vest over 12 months with 10% at the date of grant; 15% six months from the date of grant; 25% six months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant. The options have a total fair value, calculated using the Black-Scholes option pricing model, of $1,057,001 or $0.24 per option, assuming an expected life of 2 years, a risk-free interest rate of 1.32%, an expected dividend rate of 0.00%, stock price of $0.375 and an expected annual volatility coefficient of 129%. Volatility was determined using historical stock prices. The fair value expensed at April 30, 2018 is $852,204 (April 30, 2017 - $Nil).

## 12. REVENUE

The total revenue earned for the nine months ended April 30, 2018 includes sales revenue of $618,599 and consulting fees of $142,857.

(Expressed in Canadian Dollars)

## 13. GENERAL AND ADMINISTRATIVE EXPENSES

Following is a breakdown of general and administrative expenses:

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | **(Unaudited) April 30 2018** | (Unaudited) April 30 2017 | **(Unaudited) April 30 2018** | (Unaudited) April 30 2017 |
| Administration fees | **$ -** | $ - | **$ -** | $ 16,400 |
| Automobile expenses | **3,688** | 4,860 | **8,014** | 13,870 |
| Bank charges and interest | **60,936** | 9,361 | **106,793** | 33,003 |
| Consulting fees | **58,493** | 5,000 | **75,104** | 177,517 |
| Director fees | **8,646** | 4,531 | **29,368** | 13,717 |
| Equipment lease | **-** | - | **-** | 10,130 |
| Insurance | **8,476** | 2,952 | **22,159** | 3,941 |
| Investor relations | **43,976** | 19,878 | **89,362** | 27,972 |
| Legal and accounting | **119,088** | 76,586 | **321,612** | 222,121 |
| Office | **17,039** | 6,239 | **39,318** | 17,256 |
| Payroll | **68,481** | 46,060 | **175,442** | 144,491 |
| Property tax | **(8)** | 1,213 | **3,072** | 3,637 |
| Rent | **25,932** | 6,831 | **77,944** | 18,223 |
| Repairs and maintenance | **(56,954)** | 10,032 | **9,437** | 19,850 |
| Strata fees | **4,230** | 1,332 | **11,320** | 3,994 |
| Telephone | **6,595** | 4,493 | **16,521** | 11,102 |
| Transfer agent and filing fees | **4,401** | 4,301 | **77,595** | 32,209 |
| Travel | **50,692** | 5,476 | **108,321** | 14,090 |
| Utiliities | **5,398** | 2,127 | **10,545** | 6,477 |
| Warehouse supplies | **-** | - | **3,443** | - |
| | **$ 429,109** | $ 211,272 | **$ 1,185,370** | $ 790,000 |

## 14. 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 period ended April 30, 2018 and 2017:

(Expressed in Canadian Dollars)

## 14. RELATED PARTY TRANSACTIONS (continued)

| | Consulting | Director Fees | Office and Administration | Rent | Salaries and Benefits | Share-Based Compensation | April 30, 2018 Total |
|---|---|---|---|---|---|---|---|
| Ashish Dave | $ - | $ 5,000 | $ - | $ - | $ - | $ 97,390 | $ 102,390 |
| Chief Executive Officer | - | 5,000 | - | 21,233 | 91,800 | 97,390 | 215,423 |
| Chief Financial Officer | - | 5,000 | - | 44,633 | 91,800 | 97,390 | 238,823 |
| Close family member | - | - | - | - | 36,980 | 48,695 | 85,675 |
| George Smitherman | - | 5,000 | - | - | - | 97,390 | 102,390 |
| | **$ -** | **$ 20,000** | **$ -** | **$65,866** | **$ 220,580** | **$ 438,255** | **$ 744,701** |

| | Consulting | Director Fees | Office and Administration | Rent | Salaries and Benefits | Share-Based Compensation | April 30, 2017 Total |
|---|---|---|---|---|---|---|---|
| BUA Capital Management Ltd. | $ 20,000 | $ - | $ - | $ - | $ - | $ - | $ 20,000 |
| BUA Group Holdings Ltd. | - | - | 16,400 | - | - | - | 16,400 |
| Chief Executive Officer | - | 4,500 | - | - | 35,000 | - | 39,500 |
| Chief Financial Officer | - | 4,500 | - | - | 35,000 | - | 39,500 |
| George Smitherman | - | 4,500 | - | - | - | - | 4,500 |
| | $ 20,000 | $ 13,500 | $ 16,400 | $ - | $ 70,000 | $ - | $ 119,900 |

Ashish Dave receives a director fee of $500 per month with an additional $500 in December, 2017. Dr. Dave was granted 500,000 stock options that vest over 12 months with an exercise price of $0.385, a total fair value of $119,706, and a fair value of vested options at April 30, 2018 of $112.655.

BUA Capital Management Ltd. provided consulting services to the Company until November 30, 2016. It is a private company controlled by a former director, Jason Walsh. A promissory note owed to BUA Capital Management Ltd. for $135,000 (July 31, 2017 - $135,000) was paid on December 11, 2017.

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

The President and Chief Executive Officer ("CEO") of the Company, a director, and co-founder of THC BioMed Ltd. ("THC") receives a salary from THC of $5,000 per month. An amount of $46,800 (July 31, 2017 - $46,800) in accrued salaries was paid by THC during the nine months ended April 30, 2018. The CEO receives a director fee from the Company of $500 per month with an additional $500 in December, 2017. The CEO was granted 500,000 stock options that vest over 12 months with an exercise price of $0.385, a total fair value of $119,706, and a fair value of vested options at April 30, 2018 of $112,655.

**14. RELATED PARTY TRANSACTIONS** (continued)

The Chief Financial Officer ("CFO"), a director of the Company, and co-founder of THC BioMed Ltd. ("THC") receives a salary from THC of $5,000 per month. An amount of $46,800 (July 31, 2017 - $46,800) in accrued salaries was paid by THC during the nine months ended April 30, 2018. The CFO receives a director fee from the Company of $500 per month with an additional $500 in December, 2017. The CFO was granted 500,000 stock options that vest over 12 months with an exercise price of $0.385, a total fair value of $119,706, and a fair value of vested options at April 30, 2018 of $112,655. At April 30, 2018, the CFO was owed $632,937 (July 31, 2017 - $1,199,512).

The Company signed a month-to-month lease for premises from the CEO and CFO. The lease began on August 1, 2016 with monthly payments of $2,600 plus Goods and Services Tax along with 75% of all operating costs. On October 1, 2017, the lease was amended to include 100% of the premises with monthly payments of $3,467 plus Goods and Services Tax along with 100% of the operating costs.

The Company signed a month-to-month lease for premises from the CFO. The lease began on July 10, 2017 with monthly payments of $2,600 plus Goods and Services Tax along with all operating costs.

The Company signed a month-to-month lease for premises from the CFO. The lease began on December 1, 2017 with monthly payments of $2,600 plus Goods and Services Tax along with all operating costs.

A close family member of the CEO works full-time in the office in Kelowna. This close family member is paid an hourly wage of $22. This family member was granted 250,000 stock options that vest over 12 months with an exercise price of $0.385 with a total fair value of $59,853 and a fair value of vested options at April 30, 2018 of $56,328.

George Smitherman receives a director fee of $500 per month an additional $500 in December, 2017. Mr. Smitherman was granted 500,000 stock options that vest over 12 months with an exercise price of $0.385, a total fair value of $119,706, and a fair value of vested options at April 30, 2018 of $112,655.

International Ranger Corp. is a public company with common former directors. On December 11, 2017, an amount owed to the Company of $1,881 (July 31, 2017 - $1,881) was received.

Thelon Diamond Company Limited is a public company with a common former director, Jason Walsh. On December 11, 2017 an amount owed by the Company of $1,000 (July 31, 2017 - $1,000) was paid.

Global Li-ion Graphite Corp. (formerly Thelon Diamonds Ltd.) is a private company controlled by a former director of the Company, Jason Walsh. On December 11, 2017, an amount owed by the Company of $10,352 (July 31, 2017 - $10,352) was paid.

1177129 Alberta Ltd. is a private company controlled by a former director of the Company, Jason Walsh. On December 11, 2017, an amount owed to the Company of $5,850 (July 31, 2017 - $5,850) was received.

**(Expressed in Canadian Dollars)**

## 14. RELATED PARTY TRANSACTIONS (continued)

782618 B.C. Ltd. is a private company controlled by a former director of the Company, Jason Walsh. On December 11, 2017, an amount owed to the Company of $66 (July 31, 2017 - $66) was received.

United Zeolite Ltd. is a private company with common former directors. On December 11, 2017, an amount owed to the Company of $613 (July 31, 2017 - $613) was received.

Zadar Ventures Ltd. is a public company with a common former director, Jason Walsh. On December 11, 2017, an amount owed to the Company of $62,338 (July 31, 2017 - $67,203) was received.

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.

## 15. SEGMENTED INFORMATION

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

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

| | | **April 30 2018** | | April 30 2017 |
|---|---|---|---|---|
| Fair value of stock options exercised | **$** | **365,189** | $ | 46,389 |
| Income taxes paid | **$** | **-** | $ | - |
| Interest paid | **$** | **90,797** | $ | 37,699 |
| Interest received | **$** | **8** | $ | 8,053 |

## 17. OPERATING LEASE COMMITMENTS

The Company signed a 36 month lease for premises with an option for a further two terms of three years each. The lease began on September 1, 2016 with monthly payments of $2,004 plus Goods and Services Tax.

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

**(Expressed in Canadian Dollars)**

## 17. OPERATING LEASE COMMITMENTS (continued)

| Year Ended | Amount |
|---|---|
| 2018 | $ **6,012** |
| 2019 | **24,048** |
| 2020 | **2,004** |
| | $ **32,064** |

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### a) Fair value of financial instruments

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

### b) Fair value hierarchy

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

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

The warrant liability has been classified as a level 2 instrument.

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

### c) Financial risk management

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

**18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

**c) Financial risk management** (continued)

**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 counter parties.

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

**ii) Liquidity risk**

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

The Company's expected source of cash flow in the upcoming year will be through debt or equity financing. Cash on hand at April 30, 2018 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.

The Company has entered into a Capital Commitment Agreement with GEM Global Yield Fund LLC SCS ("GEM") for a $10,000,000 capital commitment along with a capital commitment from Alumina Partners (Ontario) Ltd. for up to $12,000,000. At April 30, 2018, the remaining amounts that can be drawn down under these commitments are $9,160,026 and $4,303,805 respectively.

**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 fair value interest rate risk.

**18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

**c) Financial risk management** (continued)

**iii) Market risk** (continued)

**(a) Interest rate risk**

Current financial assets and financial liabilities are generally not exposed to significant cash flow interest rate risk because of their short-term nature, fixed interest rates, and maturity. The Company is not exposed to cash flow interest rate risk on the mortgages payable due to the fixed interest rates.

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

**(b) Foreign currency risk**

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

At April 30, 2018, the Company is exposed to foreign currency risk with respect to its US denominated bank accounts. At April 30, 2018, financial instruments were converted at a rate of $1.00 US to Canadian $1.2836. At April 30, 2018, 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.

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.

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### c) Financial risk management (continued)

#### iii) Market risk (continued)

##### (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.

## 19. SUBSEQUENT EVENTS

On May 4, 2018, 18,750 stock options were exercised at $0.385 per share for gross proceeds of $7,219. The market price on the date of exercise was $1.25.

On May 18, 2018, 7,500 stock options were exercised at $0.385 per share for gross proceeds of $2,888. The market price on the date of exercise was $1.27.

On June 4, 2018, 11,250 stock options were exercised at $0.385 per share for gross proceeds of $4,331. The market price on the date of exercise was $1.10.

On June 4, 2018, the Company granted 1,000,000 stock options to employees to acquire 1,000,000 common shares of the Company with an expiry date of June 4, 2020 at $1.10 per share. The options vest over 12 months with 10% at the date of grant; 15% three months from the date of grant; 25% six months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant.

On June 6, 2018, 18,750 stock options were cancelled that were exercisable at $0.385 per share.

On June 12, 2018, the Company acquired two additional units to expand their warehouse facilities for $666,805. Both units were purchased with cash and will not require a mortgage.