

**THC BIOMED INTL LTD.**

**Management's Discussion and Analysis**

**For the Three Months Ended October 31, 2018**

**(Expressed in Canadian Dollars)**

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**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;
- 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 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.

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#### INTRODUCTION

This Management's Discussion and Analysis ("MD&A") of the operating results and financial condition of THC BioMed Intl Ltd. (the "Company") for the three months ended October 31, 2018 should be read in conjunction with the condensed interim consolidated financial statements for the three months ended October 31, 2018 and the audited annual consolidated financial statements for the year ended July 31, 2018, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements include the accounts of THC BioMed Intl Ltd. and its five wholly owned subsidiaries: THC BioMed Ltd., Clone Shipper Ltd., THC2GO Dispensaries Ltd., THC Laboratories Ltd., and THC BioMed Lesotho Ltd.

Management is responsible for the preparation and integrity of the consolidated 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 SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is prepared as at December 20, 2018. 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](http://www.sedar.com).

#### DESCRIPTION OF THE BUSINESS

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

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

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")*. The Company also conducts research and development of the products and services related to cannabis for medical purposes. On November 8, 2018, the Company received a *Cannabis Act and Cannabis Regulations License* from Health Canada. This new license under the *Cannabis Act* allows the Company to grow, produce, and sell cannabis products on a large scale under the new regime.

THC's vision is to be on the leading edge of scientific research and the development of cannabis products and services while creating a standard of excellence.

#### HISTORY OF THE BUSINESS

On February 18, 2016, the Company received its license to grow medical marijuana.

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On May 24, 2016, the Company's license was amended to include the production of fresh marijuana, cannabis oil, and cannabis resin.

On September 26, 2016, the Company announced that it signed a Letter of Intent to purchase 100% of Clone Shipper LLC, a US based company specializing in the packaging products used to transport live plants, for US\$1,000,000. This is a strategic acquisition to allow the Company to penetrate the US and International cannabis market along with the ability to securely ship live plants with the increased legalization of medical marijuana. Clone Shipper is currently the only device that meets the legal requirements governing the transportation of controlled live plants. Clone Shipper products are currently available for sale at gardening supply outlets throughout the US and on popular sites like Amazon.com.

On October 17, 2016, the Company had its license amended again to be able to sell fresh marijuana, cannabis oil, and cannabis resin to other Licensed Producers.

As an interim step until the acquisition of Clone Shipper LLC was completed, the Company signed a Distribution Agreement with Clone Shipper LLC on October 27, 2016. The Distribution Agreement was for a period of two years and the Company paid Clone Shipper LLC US\$75,000 for the Company to have the distribution rights for all Clone Shipper products in Canada.

On December 19, 2016, Health Canada amended the Company's license to allow the sale of "starting materials" or marijuana plants immediately to legally authorized patients under the *ACMPR*.

In January 2017, the Company began sales of clones using the Clone Shipper packaging.

On March 16, 2017, the Company announced that it entered into a Capital Commitment Agreement with GEM Global Yield Fund LLC SCS ("GEM") for a \$10,000,000 capital commitment from GEM to invest into THC. Proceeds raised from the investment will be used for working capital and general corporate purposes, and in particular, to close the Clone Shipper asset acquisition transaction.

On May 8, 2017, the acquisition of Clone Shipper assets was completed and \$500,000 of the GEM facility was used to complete the transaction.

On June 22, 2017, the Company announced that they received an order to export dried marijuana to Germany. THC has initiated the process to meet the regulatory requirements to export to the European Union. The transaction has not been completed.

On July 21, 2017, the Company entered into a capital commitment from Alumina Partners (Ontario) Ltd. ("Alumina") for up to \$12,000,000.

On August 24, 2017, the Company announced that Health Canada amended the Company's license to allow the sale of dried marijuana to registered patients under the *ACMPR*.

On September 1, 2017, the Company signed a Secondary Site License Agreement ("Agreement") with Canadian Biotechnology and Development Services Ltd. ("CBD"). The Agreement provides for the Company to apply to Health Canada for a second site license, the location to be determined by CBD, and the use of the Company's laboratory facilities to conduct experiments in accordance with the *ACMPR* and the Company's current licensing. CBD will pay the Company a total of \$250,000 of which \$130,000 is to be paid up front, and an additional \$20,000 per month commencing October 1, 2017 to and including March 1, 2018.

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On November 1, 2017, the Company completed the acquisition of two additional units to add to its existing facilities in Kelowna. The total purchase price of the two units was \$485,000 in an arm's-length transaction. \$185,000 was paid in cash and a \$300,000 mortgage was obtained by the Company. An agent's fee of \$10,000 per unit was paid to an arm's length party. These additional units added 4,000 square feet to the Company's facility.

On November 20, 2017, the Company announced the creation of THC2GO Dispensaries Ltd., a wholly-owned subsidiary. The Company has begun the application process to become a cannabis retailer in Manitoba and intends to apply for retail outlets in each Canadian province that permits private cannabis outlets.

On December 20, 2017, the Company announced that Health Canada has amended its license to include four additional Grow Rooms. These additional Grow Rooms will allow THC to ramp up production, potentially adding an additional 400 kg in production per annum. These additional Grow Rooms have now gone into production.

On February 15, 2018, the Company announced that it has entered into a Letter of Intent to purchase a greenhouse business in Ontario. The greenhouse business has been operating for more than 20 years and is well suited for growing cannabis. Successful completion of this acquisition would immediately give THC 100,000 square feet of grow capacity. The transaction is pending approval from the municipality.

On February 22, 2018, the Company announced that it has received Good Manufacturing Practice ("GMP") certification for the production of marijuana plants and dried marijuana (propagation, growing, harvesting, drying, curing, and packaging). This certification recognizes the Company's high standards and will assist in the Company's marketing efforts to export the Company's products into Europe and other international markets.

On March 2, 2018, the Company announced that it has entered into an investor relations agreement with Emerging Growth, LLC doing business as CFN Media (CFN"). CFN, launched in June, 2013, is the leading creative agency and media network dedicated to the worldwide cannabis industry. CFN has agreed to provide investor relations services over a 90-day period which will include an investor awareness and media campaign including videos, articles, and subscriber emails. The Company will pay \$10,000 per month in cash for the period of the agreement.

On March 16, 2018, the Company announced that it has entered into a License Agreement with InterNexusMedia Ltd. ("INM"), a technology company, to use its new Cannabis Regulatory Operations Point of Sales ("CROPOS") software solution in retail Point of Sale ("POS") transactions, as well as to manage compliance in recordkeeping, reporting, inventory, customer validations, and sales limits across multiple future THC2GO Dispensaries and other retail cannabis outlets. THC will receive a 3% royalty on all revenue collected from the sales of the new CROPOS product to third parties up to the earlier of: i) receipt of \$100,000 by THC; or ii) December 31, 2028. THC has purchased 15 licenses from INM at a discounted rate for a total of \$30,000. Other fees may be charged to THC for potential website development and additional licenses, if required.

On April 3, 2018, the Company acquired a 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.

On April 4, 2018, the Company entered into a Letter of Intent ("LOI") with an Australia licensed importer and wholesaler of medical cannabis, Burleigh Heads Cannabis Pty Ltd. ("BHC"), for the acquisition of 51% of that company. The LOI provides that the Company will purchase 51% for AUD\$750,000 and the Company will invest an additional AUD\$1,000,000 for the operations of the business and ensure that AUD\$88,357 in existing shareholder loans are repaid. The Company subsequently executed a Definitive Agreement with BHC. The

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Company's investment in BHC will take the form of an investment in shares at \$0.20 per share for a total of 5,441,785 shares which are non-voting, non-participating, and non-dividend earning shares while BHC is a private company. The shares will convert into regular common shares in the event that BHC goes public in Australia. The transaction was not completed.

On April 4, 2018, the Company announced the creation of THC BioMed Lesotho Ltd. in Lesotho, South Africa for the purpose of applying to become a licensed producer in that country. The Company has begun the process of applying to the Ministry of Health for a license to permit the legal cultivation and export of cannabis. The Company's goal is to acquire a cannabis license and produce high quality cannabis for export to European and other markets. The Company estimates that the process to acquire a facility and a license, not including rental and license fees, will cost approximately US\$85,000 and take several months. There are no guarantees that the Company will receive a cannabis license in South Africa.

On April 24, 2018, the Company announced that THC2GO Dispensaries Ltd. completed a 5-year license agreement with Bhang & Shatter, an Alberta company, for the operation of up to two retail stores in the Province of Alberta. The non-exclusive license will allow Bhang & Shatter to sell cannabis products, using branding and trademarks, including trademark applications, for five years for up to two retail stores. Bhang & Shatter has made an application to the Government of Alberta and the City of Calgary for a license to operate a retail store in Calgary.

On June 12, 2018, the Company acquired two additional units to expand their warehouse facilities in Kelowna. The total purchase price of the two units was \$666,805 in an arm's-length transaction. Both units were purchased with cash and will not require a mortgage. These additional units added 2,000 square feet to the Company's facility. This acquisition increases the Company's footprint to approximately 18,000 square feet of owned and rented premises.

On July 11, 2018, the Company announced that it has been selected by the Province of British Columbia to supply adult-use cannabis to their retail outlets for sales of recreational cannabis beginning on October 17, 2018.

On August 9, 2018, the Company announced that it has developed a cannabis beverage, "THC Kiss". This beverage mimics alcohol with an uplifting and energizing effect of the cannabis felt by the consumer in a short period of time. Although production and sale of the beverage is not currently legal in Canada, the Company is preparing itself when beverages may become legal at a later date.

On October 16, 2018, the Company acquired an additional unit to expand their warehouse facilities in Kelowna. The purchase price was \$390,000 plus fees and taxes. The unit was purchased with cash.

On November 8, 2018, the Company received a *Cannabis Act and Cannabis Regulations License* from Health Canada. This new license under the *Cannabis Act* allows the Company to grow, produce, and sell cannabis products on a large scale under the new regime.

On November 14, 2018, the Company announced that its wholly-owned subsidiary, Clone Shipper Ltd., has received a Notice of Allowance from the U.S. Patent and Trademark Office regarding the Company's patent application for the invention of an illuminated shipping container for live cannabis plants. The Notice of Allowance is not a grant of patent rights but a notice from the Examiner at the U.S. Patent and Trademark Office that the application is being allowed.

On December 3, 2018, the Company closed the acquisition of a two additional strata lots in the industrial complex in Kelowna for its production facilities. The purchase price was \$700,000 plus fees and taxes for a total of \$33,020. The Company closed the transaction with cash and did not require a mortgage.

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On December 4, 2018, the Company closed another tranche with Alumina Partners (Ontario) Ltd. The Company issued 1,449,275 Units at a price of \$0.345 for total gross proceeds of \$500,000. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for a period of 36 months from the closing at a price of \$0.575 per share.

The Company aims to become a leader in the industry by producing a product of high quality and reliable quantity.

**BIOLOGICAL ASSETS**

|  |                     |
|--|---------------------|
| Carrying amount, July 31, 2017           | \$ 362,218          |
| Capitalized costs                        | 893,339             |
| Sales                                    | (193,619)           |
| Cultivated assets destroyed              | (525,906)           |
| Transferred to inventory upon harvest    | (160,993)           |
| Change in fair value                     | 480,915             |
| Carrying amount, July 31, 2018           | 855,954             |
| Capitalized costs                        | 368,784             |
| Sales                                    | (46,386)            |
| Cultivated assets destroyed              | (126,043)           |
| Transferred to inventory upon harvest    | (46,633)            |
| Change in fair value                     | 2,511,313           |
| <b>Carrying amount, October 31, 2018</b> | <b>\$ 3,516,989</b> |

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

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

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

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

|                                 | 20%<br>Decrease | 10%<br>Decrease | FV           | 10%<br>Increase | 20%<br>Increase |
|---------------------------------|-----------------|-----------------|--------------|-----------------|-----------------|
| Fair value of biological assets | \$ 2,813,591    | \$ 3,165,290    | \$ 3,516,989 | \$ 3,868,688    | \$ 4,220,387    |

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**INVENTORY**

|   |                   |
|---|-------------------|
| Carrying amount, July 31, 2017                  | \$ 180,716        |
| Capitalized costs                               | 105,244           |
| Sales   | (113,863)         |
| Inventory destroyed and other                   | (17,227)          |
| Transferred from biological assets upon harvest | 160,993           |
| <hr/>   |                   |
| Carrying amount, July 31, 2018                  | 315,863           |
| Capitalized costs                               | 77,628            |
| Sales   | (87,661)          |
| Transferred from biological assets upon harvest | 46,633            |
| <hr/>   |                   |
| <b>Carrying amount, October 31, 2018</b>        | <b>\$ 352,463</b> |

**SUMMARY OF QUARTERLY RESULTS**

|         | <b>Quarter Ended</b> | <b>Revenue</b> | <b>Net<br/>Income (Loss)</b> | <b>Income (Loss)<br/>Per Share</b> |
|---------|----------------------|----------------|------------------------------|------------------------------------|
| Q1/2019 | October 31, 2018     | \$ 279,140     | \$ 1,106,841                 | \$ 0.01                            |
| Q4/2018 | July 31, 2018        | \$ 163,883     | \$ (3,208,291)               | \$ (0.02)                          |
| Q3/2018 | April 30, 2018       | \$ 179,771     | \$ (89,245)                  | \$ -                               |
| Q2/2018 | January 31, 2018     | \$ 305,448     | \$ (9,348,704)               | \$ (0.09)                          |
| Q1/2018 | October 31, 2017     | \$ 276,237     | \$ 187,332                   | \$ -                               |
| Q4/2017 | July 31, 2017        | \$ 21,037      | \$ (932,197)                 | \$ (0.01)                          |
| Q3/2017 | April 30, 2017       | \$ 35,644      | \$ (740,078)                 | \$ (0.01)                          |
| Q2/2017 | January 31, 2017     | \$ 3,195       | \$ 125,702                   | \$ -                               |

**RESULTS OF OPERATIONS****Three Months Ended October 31, 2018**

The Company's net income for the three months ended October 31, 2018 was \$1,106,841 compared to net income of \$187,332 for the three months ended October 31, 2017.

During the three months ended October 31, 2018, the Company had sales revenue of \$279,140 whereas the comparative period had sales revenue of \$133,380 plus consulting fees of \$142,857 for total revenue of \$276,237. The revenue figures produced a gross margin of \$2,487,950 in the current period versus \$819,278 in the comparative period. The fair value amounts used in the current period for cannabis resin is less than the fair value attributed to that product in the comparative period. The Company also increased the fair value of the seeds held as biological assets in the current period.

General and administrative expenses increased for the three months ended October 31, 2018 to \$339,442 (October 31, 2017 - \$299,551) as a direct result of the increased activity of the Company. The Company currently has 25 (October 31, 2017 – 14) employees.

Depreciation and amortization increased for the three months ended October 31, 2018 to \$103,290 (October 31, 2017 - \$28,479) as a direct result of acquisitions of property and equipment.



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Sales and marketing increased for the three months ended October 31, 2018 to \$7,934 (October 31, 2017 - \$2,065) with expenses incurred for the Company's products sold on the provincial website for the recreational market.

Share-based compensation increased for the three months ended October 31, 2018 to \$926,008 (October 31, 2017 - \$435,667) with additional stock options granted during the period.

Other expenses totaled \$4,435 for the three months ended October 31, 2018 versus income of \$133,816 for the comparative period: the foreign exchange loss for the current period is \$3,294 (October 31, 2017 - \$1,596); there is a loss on sale of a company automobile to an arm's length employee of \$1,154 (October 31, 2017 - \$Nil) ; interest and other income is only \$13 (October 31, 2017 - \$141); and there is a revaluation of agent warrants in the comparative period of \$135,271 with no such amount in the current period.

#### LIQUIDITY

The Company does not have positive cash flow from operations; accordingly, it must rely on equity financing to fund operations.

The Company has secured two capital commitments: (i) GEM Global Yield Fund LLC SCS ("GEM") for up to \$10,000,000; and (ii) Alumina Partners (Ontario) Ltd. ("Alumina") for up to \$12,000,000. At October 31, 2018, the remaining amounts that can be drawn down under these commitments are \$9,160,026 and \$4,368,446 respectively.

The Company's cash on hand at October 31, 2018 decreased to \$1,815,439 (July 31, 2018 - \$2,007,333).

At October 31, 2018, the Company's working capital increased to \$2,762,991 (July 31, 2018 - \$ 2,085,573).

The Company's current asset balance of \$6,699,405 (July 31, 2018 - \$3,719,625) is comprised of cash of \$1,815,439 (July 31, 2018 - \$ 2,007,333); amounts receivable of \$183,312 (July 31, 2018 - \$4,754); goods and services tax receivable from the Canada Revenue Agency of \$98,915 (July 31, 2018 - \$45,978); biological assets of \$3,516,989 (July 31, 2018 - \$855,954); inventory of \$352,463 (July 31, 2018 - \$315,863); and prepaid expenses and deposits of \$732,287 (July 31, 2018 - \$486,743).

The Company's current liabilities total \$1,751,097 (July 31, 2018 - \$1,634,052) consisting of accounts payable and accrued liabilities of \$824,955 (July 31, 2018 - \$612,428); current portion of the mortgages payable of \$38,580 (July 31, 2018 - \$38,015); promissory note payable relating to the GEM financing of \$99,004 (July 31, 2018); and advances from related parties of \$788,558 (July 31, 2018 - \$884,605).

As of the date of this MD&A, the Company has insufficient working capital to meet its ongoing financial obligations for the coming year.

#### OPERATING LEASE COMMITMENTS

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

| Year Ended | Amount            |
|------------|-------------------|
| 2019       | \$ 119,435        |
| 2020       | 15,871            |
|            | <b>\$ 135,306</b> |

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**PROPOSED TRANSACTIONS**

There are no proposed asset 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

**RELATED PARTY TRANSACTIONS**

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

|                         | Director<br>Fees | Rent             | Salaries<br>and Benefits | Share-Based<br>Compensation | October 31, 2018<br>Total |
|-------------------------|------------------|------------------|--------------------------|-----------------------------|---------------------------|
| Ashish Dave             | \$ 1,500         | \$ -             | \$ -                     | \$ 64,326                   | \$ 65,826                 |
| Chief Executive Officer | 1,500            | 9,100            | 15,000                   | 64,326                      | 89,926                    |
| Chief Financial Officer | 1,500            | 26,700           | 15,000                   | 64,326                      | 107,526                   |
| Close family member     | -                | -                | 14,043                   | 32,163                      | 46,206                    |
| George Smitherman       | 1,500            | -                | -                        | 64,326                      | 65,826                    |
|                         | <b>\$ 6,000</b>  | <b>\$ 35,800</b> | <b>\$ 44,043</b>         | <b>\$ 289,467</b>           | <b>\$ 375,310</b>         |

|                         | Director<br>Fees | Rent             | Salaries<br>and Benefits | Share-Based<br>Compensation | October 31, 2017<br>Total |
|-------------------------|------------------|------------------|--------------------------|-----------------------------|---------------------------|
| Ashish Dave             | \$ 1,500         | \$ -             | \$ -                     | \$ 49,339                   | \$ 50,839                 |
| Chief Executive Officer | 1,500            | 4,550            | 15,000                   | 49,339                      | 70,389                    |
| Chief Financial Officer | 1,500            | 12,740           | 15,000                   | 49,339                      | 78,579                    |
| Close family member     | -                | -                | 12,229                   | 24,670                      | 36,899                    |
| George Smitherman       | 1,500            | -                | -                        | 49,339                      | 50,839                    |
|                         | <b>\$ 6,000</b>  | <b>\$ 17,290</b> | <b>\$ 42,229</b>         | <b>\$ 222,026</b>           | <b>\$ 287,545</b>         |

Ashish Dave receives a director fee of \$500 per month. On July 25, 2017, Dr. Dave was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706. On September 25, 2018, Dr. Dave was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.89 with a total fair value of \$241,202 of which \$64,326 vested during the period.

The President and Chief Executive Officer ("CEO") of the Company, a director, and co-founder of the THC Companies, receives a salary from the THC Companies of \$5,000 per month and receives a director fee of \$500 per month. On July 25, 2017, the CEO was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706. On September 25, 2018, the CEO was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.89 with a total fair value of \$241,202 of which \$64,326 vested during the period. The CEO also purchased product from the Company with sales totaling \$3,085 (October 31, 2017 - \$1,138).

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The Chief Financial Officer ("CFO"), a director of the Company, and co-founder of the THC Companies, receives a salary from the THC Companies of \$5,000 per month and receives a director fee of \$500 per month. On July 25, 2017, the CFO was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706. On September 25, 2018, the CEO was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.89 with a total fair value of \$241,202 of which \$64,326 vested during the period. At October 31, 2018, the Company owed the CFO \$778,558 (July 31, 2018 - \$884,605).

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

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

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

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

A close family member of the CEO works full-time in the office in Kelowna. This close family member is paid an hourly wage of \$25. On July 25, 2017, this close family member was granted 250,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$59,853. On September 25, 2018, this close family member was granted 250,000 stock options that vest over 12 months with an exercise price of \$0.89 with a total fair value of \$120,601 of which \$32,163 vested during the period.

George Smitherman receives a director fee of \$500 per month. On July 25, 2017, Mr. Smitherman was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.385 with a total fair value of \$119,706. On September 25, 2018, Mr. Smitherman was granted 500,000 stock options that vest over 12 months with an exercise price of \$0.89 with a total fair value of \$241,202 of which \$64,326 vested during the period.

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.

#### **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

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

#### **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 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.

#### **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 receivable. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. For amounts receivable, the Company limits its exposure to credit risk by dealing with what management believes to be financially sound counter parties. At October 31, 2018, all amounts receivable are current.

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

##### **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.

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

The Company has entered into a Capital Commitment Agreement with GEM Global Yield Fund LLC SCS for up to \$10,000,000 and Alumina Partners (Ontario) Ltd. for up to \$12,000,000 of which subscriptions totaling \$9,160,026 (July 31, 2018 - \$9,160,026) and \$2,368,446 (July 31, 2018 - \$4,368,446) are available at October 31, 2018.

#### **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 fair value interest rate risk.

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

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

#### **Foreign currency risk**

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

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

At October 31, 2018, financial instruments were converted at a rate of \$1 US dollar to \$1.3142 Canadian; 11.2108 LSL to \$1 Canadian; and \$0.9308 Australian to \$1 Canadian.

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.

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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 not exposed to price risk as it has no investments held for sale.

#### **OTHER RISKS AND UNCERTAINTIES**

The Company is the development stage with respect to its medical marijuana and adult-use cannabis 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 changing 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 that sufficient 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.

#### **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 and adult-use cannabis business.

#### **Reliance on license**

The Company's ability to grow, store, and sell medical marijuana and adult-use cannabis in Canada is dependent on the license issued 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. 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

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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 and adult-use cannabis 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 significant 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 the 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 ensure 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.

#### **Factors which may prevent realization of growth targets**

The Company is currently in the 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**

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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 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. The Company will 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.

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 and adult-use cannabis 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 and adult-use cannabis, 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 grows 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 and adult-use cannabis 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



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the Company and its ability to operate profitably.

#### **Unfavourable publicity or consumer perception**

The Company believes the medical marijuana and adult-use cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy, and quality of the medical marijuana and adult-use cannabis 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 and adult-use cannabis 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 medical marijuana or adult-use cannabis 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 and adult-use cannabis in general, or the Company's products specifically, or associating the consumption of medical marijuana and adult-use cannabis with illness or other negative effects or events, could have such a material adverse 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

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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 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 and adult-use cannabis 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

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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.

#### **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.

#### **CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES**

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

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

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

#### **Impairment of non-financial assets**

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

#### **Share-based compensation**

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

#### **Purchase price allocation**

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

#### **Biological assets and inventory**

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

#### **Estimated useful lives, and depreciation and amortization of property and equipment**

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

#### **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.

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**NEW ACCOUNTING STANDARDS ADOPTED DURING THE REPORTING PERIOD****IFRS 9 *Financial Instruments***

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

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

**IFRS 15 *Revenue Recognition***

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

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED****IFRS 16 *Leases***

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

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**CAPITAL RESOURCES****Common shares**

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|   | <b>Issued<br/>Number</b> | <b>Amount</b>        |
|---|--------------------------|----------------------|
| Balance, July 31, 2017  | 103,232,631              | \$ 5,420,535         |
| Shares issued for cash  | 10,141,656               | 8,471,524            |
| Share issue costs   | -                        | (473,451)            |
| Stock options exercised   | 1,604,000                | 451,100              |
| Fair value of stock options exercised                             | -                        | 268,462              |
| Warrants exercised  | 362,903                  | 140,625              |
| Agent warrants exercised  | 1,250,000                | 1,500,000            |
| Reallocation from warrant liability on exercise of agent warrants | -                        | 2,114,231            |
| Settlement with Jacob Securities                                  | 1,700,000                | 2,227,000            |
| <hr/>   |                          |                      |
| Balance, July 31, 2018  | 118,291,190              | 20,120,026           |
| Shares issued for cash  | 4,221,933                | 2,500,000            |
| Share issue costs   | -                        | (12,087)             |
| Stock options exercised   | 162,500                  | 62,563               |
| Fair value of stock options exercised                             | -                        | 38,904               |
| <hr/>   |                          |                      |
| <b>Balance, December 20, 2018</b>                                 | <b>122,675,623</b>       | <b>\$ 22,709,406</b> |

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**Escrow Shares**

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

**Warrants**

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|                                   | <b>Number of<br/>Warrants</b> | <b>Weighted Average<br/>Exercise Price</b> |
|-----------------------------------|-------------------------------|--|
| Balance, July 31, 2017            | -                             | \$ -                                       |
| Warrants issued                   | 8,711,656                     | 1.3648                                     |
| Warrants exercised                | (362,903)                     | 0.3875                                     |
| <hr/>                             |                               |  |
| Balance, July 31, 2018            | 8,348,753                     | 1.4073                                     |
| Warrants issued                   | 4,221,933                     | 1.1239                                     |
| <hr/>                             |                               |  |
| <b>Balance, December 20, 2018</b> | <b>12,570,686</b>             | <b>\$ 1.3366</b>                           |

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**THC BIOMED INTL LTD.****Management's Discussion and Analysis  
(Expressed in Canadian Dollars)**

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**For the Three Months Ended October 31, 2018**

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| <b>Expiry Date</b> | <b>Remaining Life<br/>(Years)</b> | <b>Number of<br/>Warrants</b> | <b>Exercise Price</b> |
|--------------------|-----------------------------------|-------------------------------|-----------------------|
| August 9, 2020     | 1.63                              | 120,967                       | \$ 0.3875             |
| October 2, 2020    | 1.79                              | 403,226                       | 0.9600                |
| October 5, 2020    | 1.79                              | 359,196                       | 1.0875                |
| October 12, 2020   | 1.81                              | 355,115                       | 1.1000                |
| October 20, 2020   | 1.83                              | 333,333                       | 0.9400                |
| October 23, 2020   | 1.84                              | 333,333                       | 0.9400                |
| October 31, 2020   | 1.86                              | 362,318                       | 0.8625                |
| November 8, 2020   | 1.88                              | 513,698                       | 0.9125                |
| November 14, 2020  | 1.90                              | 666,666                       | 0.9375                |
| November 23, 2020  | 1.93                              | 1,488,095                     | 1.0500                |
| January 15, 2021   | 2.07                              | 314,070                       | 2.4900                |
| January 24, 2021   | 2.09                              | 631,313                       | 2.4800                |
| February 8, 2021   | 2.14                              | 1,002,673                     | 2.0800                |
| March 2, 2021      | 2.20                              | 932,835                       | 1.6800                |
| March 15, 2021     | 2.23                              | 531,915                       | 1.7630                |
| September 25, 2021 | 2.76                              | 1,344,086                     | 1.1625                |
| October 2, 2021    | 2.92                              | 1,428,572                     | 1.0875                |
| December 4, 2021   | 2.96                              | 1,449,275                     | 0.5750                |
|                    |                                   | <b>12,570,686</b>             | <b>\$ 1.2488</b>      |

**Agent Warrants**

|   | <b>Number of<br/>Warrants</b> | <b>Weighted Average<br/>Exercise Price</b> |
|---|-------------------------------|--|
| Balance, July 31, 2017                              | -                             | \$ -                                       |
| Warrants issued                                     | 6,635,000                     | 1.20                                       |
| Warrants exercised                                  | (1,250,000)                   | 1.20                                       |
| <b>Balance, July 31, 2018 and December 20, 2018</b> | <b>5,385,000</b>              | <b>\$ 1.20</b>                             |

| <b>Expiry Date</b> | <b>Remaining Life<br/>(Years)</b> | <b>Number of<br/>Warrants</b> | <b>Exercise Price</b> |
|--------------------|-----------------------------------|-------------------------------|-----------------------|
| March 13, 2022     | 3.23                              | 5,385,000                     | \$ 1.20               |

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**THC BIOMED INTL LTD.****Management's Discussion and Analysis  
(Expressed in Canadian Dollars)**

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**For the Three Months Ended October 31, 2018**

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**Options**

|                                   | <b>Number of<br/>Options</b> | <b>Weighted Average<br/>Exercise Price</b> |
|-----------------------------------|------------------------------|--|
| Balance, July 31, 2017            | 4,999,000                    | \$ 0.352                                   |
| Options granted                   | 1,000,000                    | 1.100                                      |
| Options exercised                 | (1,604,000)                  | (0.281)                                    |
| Options cancelled                 | (56,250)                     | 0.385                                      |
| Balance, July 31, 2018            | 4,338,750                    | 0.550                                      |
| Options granted                   | 5,550,000                    | 0.890                                      |
| Options exercised                 | (162,500)                    | 0.385                                      |
| <b>Balance, December 20, 2018</b> | <b>9,726,250</b>             | <b>\$ 0.747</b>                            |

| <b>Date of Grant</b> | <b>Expiry Date</b> | <b>Remaining<br/>Life (Years)</b> | <b>Number of<br/>Options<br/>Vested</b> | <b>Number of<br/>Options<br/>Outstanding</b> | <b>Exercise Price</b> |
|----------------------|--------------------|-----------------------------------|---|--|-----------------------|
| July 25, 2017        | July 25, 2019      | 0.59                              | 3,176,250                               | 3,176,250                                    | \$ 0.385              |
| June 4, 2018         | June 4, 2020       | 1.45                              | 250,000                                 | 1,000,000                                    | \$ 1.100              |
| September 25, 2018   | September 25, 2020 | 1.77                              | 555,000                                 | 5,550,000                                    | \$ 0.890              |
|                      |                    |                                   | 3,981,250                               | 9,726,250                                    | \$ 0.747              |

**DIRECTORS AND OFFICERS**

The Company's directors and officers as of the date of this MD&amp;A are:

|                   |  |
|-------------------|--|
| John Miller       | President, Chief Executive Officer, Director |
| Hee Jung Chun     | Chief Financial Officer, Director            |
| George Smitherman | Independent Director                         |
| Dr. Ashish Dave   | Independent Director                         |

**ADDITIONAL INFORMATION**Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).