THC BIOMED INTL LTD.

Consolidated Financial Statements

For the Years Ended July 31, 2019 and 2018

(Expressed in Canadian Dollars)

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For the Years Ended July 31, 2019 and 2018	**Page**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of THC BioMed Intl Ltd.:

Opinion

We have audited the consolidated financial statements of THC BioMed Intl Ltd. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at July 31, 2019 and 2018, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at July 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which describes the conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion & Analysis filed with the relevant Canadian securities commissions.
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Graeme L. Cocke.

Baker Tilly WM LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia
November 25, 2019

THC BIOMED INTL LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	July 31 2019	July 31 2018
Assets		
Current		
Cash	$ 991,155	$ 2,007,333
Amounts receivable (note 5)	365,148	4,754
Goods and services tax receivable	99,159	48,978
Biological assets (note 6)	2,454,455	855,954
Inventory (note 7)	1,029,726	315,863
Prepaid expenses and deposits	278,353	486,743
Prepaid financing fee (note 12)	-	4,458,153
	5,217,996	8,177,778
Non-current		
Property and equipment (note 8)	12,840,341	6,302,145
	$ 18,058,337	$ 14,479,923
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 1,060,236	$ 612,428
Subscription received in advance (note 23)	642,679	-
Commercial operating loan (note 9)	463,137	-
Line of credit (note 10)	350,000	-
Current portion of mortgages payable (note 11)	57,529	38,015
Promissory note payable (note 12)	-	99,004
Advances from related parties (note 21)	717,143	884,605
	3,290,724	1,634,052
Non-current		
Mortgages payable (note 11)	1,313,007	631,417
	4,603,731	2,265,469
Shareholders' Equity		
Share capital (note 13)	30,194,842	20,120,026
Reserves	11,660,399	8,993,601
Accumulated deficit	(28,400,635)	(16,899,173)
	13,454,606	12,214,454
	$ 18,058,337	$ 14,479,923

Commitments (note 19)
Subsequent events (note 23)

THC BIOMED INTL LTD.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	July 31 2019	July 31 2018
Revenue (note 15)	**$ 1,489,603**	$ 925,339
Production costs (note 7)	**(1,502,452)**	(939,032)
Gross profit (loss) before fair value adjustments	**(12,849)**	(13,693)
Realized fair value changes in biological assets included in inventory sold	**(175,055)**	(54,319)
Unrealized gain on changes in fair value of biological assets	**1,690,321**	535,234
Net change in fair value (note 6)	**1,515,266**	480,915
Gross margin	**1,502,417**	467,222
Expenses		
General and administration (notes 16 and 17)	**1,801,427**	1,670,302
Depreciation and amortization (note 8)	**604,692**	198,413
Sales and marketing	**42,314**	26,107
Share-based compensation (notes 14 and 21)	**3,903,587**	1,141,558
	6,352,020	3,036,380
Other income (expense) items		
Fair value of earn out shares issued (note 13)	**(3,377,877)**	-
Financing fees (note 12)	**(4,458,153)**	-
Foreign exchange loss	**(12,009)**	(7,631)
Interest income	**710**	20
Loss on sale of assets (note 8)	**(2,672)**	-
Other	**257**	4,082
Revaluation of agent warrants (note 12)	**-**	(7,659,221)
Settlement (note 13)	**-**	(2,227,000)
	(7,849,744)	(9,889,750)
Net and comprehensive loss for the year	**$ (12,699,347)**	$ (12,458,908)
Basic and diluted loss per share	**$ (0.10)**	$ (0.11)
Weighted average number of shares outstanding	**132,620,613**	112,317,311

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

THC BIOMED INTL LTD.

Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscription Received in Advance	Share-Based Payment Reserve	Agent Warrants Reserve	Accumulated Deficit	Total Equity
Balance, July 31, 2018	118,291,190	$ 20,120,026	$ -	$ 1,032,147	$ 7,961,454	$(16,899,173)	$ 12,214,454
Shares issued for cash	17,283,674	6,090,000	-	-	-	-	6,090,000
Share issue costs	-	(44,528)	-	-	-	-	(44,528)
Stock options exercised	162,500	62,563	-	-	-	-	62,563
Fair value of stock options exercised	-	38,904	-	(38,904)	-	-	-
Reclassification of fair value of stock options cancelled	-	-	-	(1,197,885)	-	1,197,885	-
Shares issued for debt settlement	3,055,554	550,000	-	-	-	-	550,000
Earn out shares issued (note 13)	14,074,486	3,377,877	-	-	-	-	3,377,877
Share-based compensation (note 14)	-	-	-	3,903,587	-	-	3,903,587
Net loss for the year	-	-	-	-	-	(12,699,347)	(12,699,347)
Balance, July 31, 2019	**152,867,404**	**$ 30,194,842**	**$ -**	**$ 3,698,945**	**$ 7,961,454**	**$(28,400,635)**	**$ 13,454,606**
Balance, 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	8,471,524	(839,974)	-	-	-	7,631,550
Share issue costs	-	(473,451)	-	-	-	-	(473,451)
Stock options exercised	1,604,000	451,100	-	-	-	-	451,100
Fair value of stock options exercised	-	268,462	-	(268,462)	-	-	-
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 12)	-	2,114,231	-	-	-	-	2,114,231
Reallocation of agent warrants from financing fee liability (note 12)	-	-	-	-	7,961,454	-	7,961,454
Shares issued for debt settlement	1,700,000	2,227,000	-	-	-	-	2,227,000
Share-based compensation (note 14)	-	-	-	1,141,558	-	-	1,141,558
Net loss for the year	-	-	-	-	-	(12,458,908)	(12,458,908)
Balance, July 31, 2018	118,291,190	$ 20,120,026	$ -	$ 1,032,147	$ 7,961,454	$(16,899,173)	$ 12,214,454

THC BIOMED INTL LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	July 31 2019	July 31 2018
Cash provided by (used for)		
Operating activities		
Net loss for the year	**$(12,699,347)**	$(12,458,908)
Items not affecting cash		
Depreciation and amortization	**604,692**	198,413
Earn out shares issued	**3,377,877**	-
Financing fees	**4,458,153**	-
Loss on sale of automobiles	**2,672**	-
Realized fair value changes in biological assets included in inventory sold	**175,055**	54,319
Revaluation of agent warrants	**-**	7,659,221
Settlement	**-**	2,227,000
Share-based compensation	**3,903,587**	1,141,558
Unrealized gain on changes in fair value of biological assets	**(1,690,321)**	(535,234)
	(1,867,632)	(1,713,631)
Net change in non-cash working capital	**1,525**	(717,911)
	(1,866,107)	**(2,431,542)**
Financing activities		
Advances repaid to related parties	**(167,462)**	(314,907)
Issuance of shares for cash, net of share issuance costs	**6,108,035**	9,658,636
Net mortgage proceeds received	**701,104**	268,166
Proceeds from commercial operating loan	**463,137**	-
Proceeds from line of credit	**350,000**	-
Promissory note repaid	**(99,004)**	(135,000)
Subscription received in advance	**642,679**	-
	7,998,489	9,476,895
Investing activities		
Acquisition of property and equipment	**(7,155,084)**	(5,131,620)
Advances repaid from related parties	**-**	70,748
Net proceeds from sale of automobiles	**6,524**	-
	(7,148,560)	(5,060,872)
Net increase (decrease) in cash	**(1,016,178)**	1,984,481
Cash, beginning of year	**2,007,333**	22,852
Cash, end of year	**$ 991,155**	$ 2,007,333

Supplemental cash flow information (note 18)

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

1. DESCRIPTION OF THE BUSINESS AND GOING CONCERN

THC BioMed Intl Ltd. ("THC" or the "Company") 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 Best Market ("OTCQX") under the symbol THCBF, and on the Frankfurt Stock Exchange under the symbol TFHC.

These 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. ("THC2GO"), THC BioMed Lesotho Ltd. ("THC Lesotho"), and THC Laboratories Ltd.

The Company's principal business is the production and sale of cannabis through THC BioMed Ltd. which is a small batch Licensed Producer as regulated by the *Cannabis Act* which regulates the production, distribution, and possession of cannabis for both medical and adult recreational access in Canada. Clone Shipper Ltd. owns all rights to the Clone Shipper product used to transport live plants. THC2GO was initially incorporated for the retail business; however, Health Canada subsequently ruled that Licensed Producers were prevented from operating retail outlets. THC Lesotho was initially incorporated to seek a business opportunity in Lesotho; however, no business was transacted. Management has determined there is no necessity for THC Laboratories Ltd. and it was dissolved effective July 29, 2019.

These 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 achieve profitable operations in the future. To date the Company is considered to be in the development stage. These factors create material uncertainties that may cast significant doubt about the Company being able to continue as a going concern. These 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 as a going concern. Further discussion of liquidity risk has been disclosed in Note 22b.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Board of Directors and authorized for issuance by the Board of Directors on November 25, 2019.

b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as explained in the accounting policies. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

2. BASIS OF PREPARATION (continued)

c) Presentation and functional currency

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

d) Foreign currency transactions

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Foreign exchange differences are recognized in profit (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

e) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its five wholly-owned subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls where it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity.

f) 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.

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:

(i) 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.

2. BASIS OF PREPARATION (continued)

f) Critical accounting judgments and estimates (continued)

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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 annual consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash in the consolidated statements of financial position is comprised of cash at banks and on hand which are readily convertible into a known amount of cash. The Company does not invest in any asset-backed deposits or investments.

b) Biological assets

The Company recognizes a biological asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Biological assets (continued)

The Company's biological assets include cannabis plants (including mother plants, clones for sale and clones for growth), seeds, resin, oil, and harvested marijuana flowers prior to completion of the drying, grading and testing processes.

The Company capitalizes all direct and certain indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. Direct costs include growing materials. Indirect costs capitalized include overhead expenditures incurred during the growing process and indirect labour for individuals involved in the growing and quality control process. 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 biological assets or inventories. The Company does not capitalize depreciation of its growing facilities.

Biological assets are measured 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. At the point of harvest, the biological assets are transferred to inventory at the fair value less costs to sell. Fair value at the time of harvest becomes the basis for cost of finished goods inventories.

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.

c) Inventory

The Company's inventory consists of packaged dried marijuana, bulk dried marijuana, packaged oil, bulk oil, and supplies and packaging materials, which are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method.

Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs to sell. Supplies and packaging are initially valued at cost.

Any gains or write downs of inventories to net realizable value are included in profit or loss at the time they are determined.

d) Property and equipment

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

The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property and equipment (continued)

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use and, in the year of acquisition, only one-half of normal rates are used:

Automobile equipment	30%
Buildings	4%
Computer equipment	55%
Equipment	20%
Furniture and fixtures	20%
Software	100%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

e) Leased assets

The Company leases some properties. A lease of property is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Company. A lease of property is classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Operating lease payments are recognized as an expense on a straight-line basis over the term of the lease. The Company has classified its leases of properties as operating leases.

f) Impairment

At each financial reporting date, the carrying amounts of the Company's long lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Impairment (continued)

An asset's recoverable amount is the higher of fair value less costs to sell, and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss.

g) 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, *Financial Instruments: Recognition and Measurement* ("IAS39"). IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. This standard was adopted by the Company for the year beginning August 1, 2018.

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, *Financial Instruments: Recognition and Measurement* ("IAS 39"). Under IFRS 9, the classification of financial assets is based on two criteria: the Company's business objectives for managing the assets; and whether the financial instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI test"). Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date. Financial liabilities are classified in a similar manner as under IAS39.

i) Financial assets

The Company initially recognizes financial assets at fair value on the date the Company becomes a party to the contractual provisions of the instrument. The Company recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Under IFRS 9, financial assets are initially measured at fair value. In the case of a financial asset not categorized as fair value through profit or loss ("FVTPL"), transaction costs are capitalized as a component of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in net income (loss).

Subsequent classification and measurement of financial assets depends on the Company's business objective for managing the asset and the cash flow characteristics of the asset:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

(i) Financial assets (continued)

(a) Amortized cost

Financial assets held for collection of contractual cash flows that meet the SPPI test are measured at amortized cost. Interest income is recognized as other income (expense) in the consolidated financial statements, and gains (losses) are recognized in net income (loss) when the asset is derecognized or impaired.

(b) Fair value through other comprehensive income ("FVTOCI")

Financial assets held to achieve a particular business objective other than short-term trading are designated at FVTOCI. IFRS 9 also provides the ability to make an irrevocable election at initial recognition of a financial asset, on an instrument-by-instrument basis, to designate an equity investment that would otherwise be classified as FVTPL and that is neither held for trading nor contingent consideration arising from a business combination to be classified as FVTOCI. There is no recycling of gains or losses through net income (loss). Upon derecognition of the asset, accumulated gains or losses are transferred from Other Comprehensive Income "(OCI") directly to deficit.

(c) Fair value through profit or loss ("FVTPL")

Financial assets that do not meet the criteria for amortized cost or FVTOCI are measured as FVTPL.

(ii) Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The subsequent measurement of financial liabilities is determined based on their classification as follows:

(a) Fair value through profit or loss ("FVTPL")

Derivative financial instruments entered into by the Company that do not meet hedge accounting criteria are classified as FVTPL. Gains or losses on these types of financial liabilities are recognized in net income (loss).

(b) Amortized cost

All other financial liabilities are classified as amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments over the expected life of the financial instrument, or where appropriate, a shorter period. Gains and losses are recognized in net income (loss) when the liabilities are derecognized as well as through the amortization process.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

(iii) Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the statement of financial position date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amounts receivable using the expected credit loss model and no material difference was noted.

The adoption of IFRS 9 did not result in any material transition adjustments recognized as of August 1, 2018.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities:

	Under IAS 39	**Under IRFS 9**
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Commercial operating loan	Other financial liabilities	Amortized cost
Line of credit	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost
Promissory note payable	Other financial liabilities	Amortized cost

h) Share capital

(i) Common shares

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Share capital (continued)

(ii) Equity units

Proceeds received on the issuance of units comprised of common shares and warrants are allocated on the residual value method where proceeds are allocated to the common shares up to their fair value as determined by the current quoted trading price on the issue date, and the balance, if any, to the reserve for the warrants.

(iii) Non-monetary consideration

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair value of the shares is used to record the transaction. The fair value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

i) Share-based compensation

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (a direct employee) or provides services similar to those performed by a direct employee (a consultant). The fair value is measured at grant date and recognized over the period during which the options vest.

The fair value of the options granted to employees is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

The fair value of share options granted to non-employees is recognized as an expense in profit or loss unless they are related to the issuance of shares and is recorded at the fair value of the services received. The amount related to the issuance of shares is recorded as a reduction of share capital.

When the value of services received in exchange for the share-based compensation cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioral considerations. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

All share-based compensation is reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from the equity reserve to accumulated deficit.

k) Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Diluted loss per share equates to basic loss per share, as the effects of potentially dilutive common shares would be anti-dilutive.

l) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

m) 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.

The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligations within the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue from the sale of cannabis to medical and recreational customers is recognized when the Company transfers control of the goods to the customer. Control of the product transfers upon shipment to the customer.

The Company recognizes revenue in an amount that reflects the consideration that the Company expects to receive taking into account any variation that may result from rights of return.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Revenue recognition (continued)

The adoption of IFRS 15 did not result in any transition adjustments recognized in the year ended July 31, 2019.

n) Income taxes

Income tax on the profit or loss for the years presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the year end, adjusted for amendments to the tax payable with regards to previous years.

Deferred tax is provided using the liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

o) Contingencies

The Company recognizes loss contingency provisions for probable losses when management is able to reasonably estimate the loss. When the estimated loss lies within a range, the Company records a loss contingency provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the mid-point of the range is used. As information becomes known, a loss contingency provision is recorded when a reasonable estimate can be made. The estimates are reviewed at each reporting date and the estimates are changed when expectations are revised. An outcome that deviates from the Company’s estimate may result in an additional expense or release in a future reporting period.

(Expressed in Canadian Dollars)

4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED

IFRS 16 *Leases*

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16") and brings most leases onto the statement of financial position for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease or an entity's incremental borrowing rate if the implicit rate cannot be readily determined. Lessees are permitted to make an election for leases with a term of 12 months or less, or where the underlying asset is of low value, and not recognize lease assets and lease liabilities. The expense associated with these leases can be recognized on a straight-line basis over the lease term or on another systematic basis.

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. Management expects this new standard to have an impact on the balance sheet by adding a lease liability and four right-of-use assets.

5. AMOUNTS RECEIVABLE

	July 31 2019	July 31 2018
Other	**$ 3,000**	$ -
Trade receivables	**362,148**	4,754
	$ 365,148	$ 4,754

6. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants:

	July 31 2019	July 31 2018
Carrying amount, beginning of year	**$ 855,954**	$ 362,218
Capitalized costs	**1,844,832**	893,339
Sales of biological assets	**(223,942)**	(193,619)
Transferred to inventory upon harvest	**(1,537,655)**	(686,899)
Net unrealized gain on changes in fair value of biological assets	**1,515,266**	480,915
Carrying amount, end of year	**$ 2,454,455**	$ 855,954

(Expressed in Canadian Dollars)

6. BIOLOGICAL ASSETS (continued)

Biological assets are presented at their fair value less costs to sell up to 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 pries 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 1 year. Clones for sale have approximately 2 weeks before they outgrow the Clone Shipper container.

The significant unobservable inputs and their range of values are as follows:

Unobservable input	Amount	Sensitivity
Yield per plant – expected number of grams of finished cannabis inventory which is expected to be obtained from each harvested flowering plant. Based on historical results.	70 grams per plant	A slight change in the yield per plant would result in a significant change in fair value.
Yield per plant – expected number of clones which is expected to be obtained from mother plant. Based on historical results.	90 clones per plant	A slight change in the yield per plant would result in a significant change in fair value.
Selling price of dried cannabis and clones for sale	$4.20 (average selling price of dried cannabis) $20 (selling price of clones for sale)	A slight change in the estimated selling prices would result in a significant change in fair value.

A sensitivity analysis of the impact on profit or loss of changes to the above significant unobservable inputs used to calculate the fair value of biological assets at July 31, 2019 is as follows:

	20% Decrease	10% Decrease	FV	10% Increase	20% Increase
Fair value of biological assets	$ 1,963,564	$ 2,209,010	$ 2,454,455	$ 2,699,901	$ 2,945,346

(Expressed in Canadian Dollars)

7. INVENTORY

Inventory is comprised of the following items:

		July 31 2019		July 31 2018
Finished goods	**$**	**278,191**	$	247,926
Supplies and consumables		**128,233**		65,742
Unpackaged cannabis		**623,302**		2,195
Carrying amount - inventory	**$**	**1,029,726**	$	315,863

Inventory expensed during the year ended July 31, 2019 was $1,278,510 (July 31, 2018 - $745,413).

The fair value changes in biological assets included as inventory and sold during the year ended July 31, 2019 was $175,055 (July 31, 2018 - $54,319). Included in other inventory charges are net realizable value adjustments and net write-offs of biological assets.

8. PROPERTY AND EQUIPMENT

		July 31 2017		Additions		July 31 2018		Additions (Dispositions)		July 31 2019
Cost										
Automobile equipment	$	6,741	$	9,630	**$**	**16,371**	$	17,229	**$**	**33,600**
Buildings		756,684		1,918,059		**2,674,743**		3,482,075		**6,156,818**
Computer equipment		54,132		11,813		**65,945**		10,348		**76,293**
Equipment		198,870		349,012		**547,882**		1,117,610		**1,665,492**
Furniture and fixtures		36,546		1,342		**37,888**		60,149		**98,037**
Land		422,613		1,931,126		**2,353,739**		1,756,881		**4,110,620**
Leasehold improvements		-		879,304		**879,304**		688,593		**1,567,897**
Software		43,840		31,334		**75,174**		5,828		**81,002**
	$	1,519,426	$	5,131,620	**$**	**6,651,046**	$	7,138,713	**$**	**13,789,759**

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT (continued)

	July 31 2017	Depreciation/ Amortization	**July 31 2018**	Depreciation/ Amortization	**July 31 2019**
Accumulated Depreciation					
Automobile equipment	$ 1,011	$ 3,164	**$ 4,175**	$ 865	**$ 5,040**
Buildings	53,154	33,488	**86,642**	173,166	**259,808**
Computer equipment	35,054	13,741	**48,795**	11,494	**60,289**
Equipment	31,595	68,358	**99,953**	201,347	**301,300**
Furniture and fixtures	7,208	6,001	**13,209**	10,950	**24,159**
Leasehold improvements	-	36,620	**36,620**	184,114	**220,734**
Software	22,466	37,041	**59,507**	18,581	**78,088**
	$ 150,488	$ 198,413	**$ 348,901**	$ 600,517	**$ 949,418**
Carrying Amounts	$ 1,368,938		**$ 6,302,145**		**$ 12,840,341**

During the year ended July 31, 2019, the Company sold two automobiles to employees with a cost of $16,371 and a net book value of $12,196, for proceeds of $10,000 including the Goods and Services Tax.

9. COMMERCIAL OPERATING LOAN

On February 1, 2019, the Company secured a $500,000 commercial operating loan for business operating funds using the property at St. Paul Street in Kelowna, British Columbia as collateral. The interest rate is the Credit Union's Prime Lending Rate plus 1%. The loan is payable upon demand and subject to an annual review. At July 31, 2019, the balance payable is $463,137.

10. LINE OF CREDIT

On May 28, 2019, the Company entered into a line of credit with its President, John Miller, for up to $500,000. Each separate draw down of funds from the Line of Credit will not bear interest for the first three calendar months following its withdrawal. In the event that a draw down amount is not repaid on the business day following the last day of the third month following the withdrawal, then interest will incur on that draw down at a rate of Prime plus 1%. Interest will be calculated and payable monthly on the last business day of each month until the Line of Credit is repaid in full. At July 31, 2019, $350,000 was drawn on Line of Credit.

11. MORTGAGES PAYABLE

The Company has a mortgage payable on its first property acquired in the principal amount of $210,560. The mortgage was initially with interest at 5.50% per annum with monthly payments of $2,760 due on the 21st day of each month and the mortgage due on September 21, 2015. The mortgage was extended to mature on August 21, 2018 with interest at 10% per annum starting on September 22, 2015. The mortgage has been extended again to August 21, 2021 on the same terms. At July 31, 2019, the balance payable is $137,912 (July 31, 2018 - $156,261) with accrued interest of $378 included in accounts payable and accrued liabilities.

11. MORTGAGES PAYABLE (continued)

The Company has a mortgage payable on its second property acquired in the principal amount of $250,000. The mortgage was initially with interest at 10% per annum with monthly payments of $2,656 due on the 2nd day of each month and the mortgage due on October 2, 2017. The mortgage has been extended to mature on October 2, 2020 on the same terms. At July 31, 2019, the balance payable is $208,505 (July 31, 2018 - $218,942) with accrued interest of $1,657 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property acquired 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 and the mortgage due on November 1, 2022. At July 31, 2019, the balance payable is $285,000 (July 31, 2018 - $294,229) with accrued interest of $2,421 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property recently acquired in the principal amount of $170,000 with interest at 4.7% per annum with monthly payments of $1,100 due on the 1st day of each month starting June 1, 2019 with the mortgage due on June 1, 2021. At July 31, 2019, the balance payable is $169,119 with accrued interest of $669 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property recently acquired in the principal amount of $170,000 with interest at 4.9% per annum with monthly payments of $1,120 due on the 1st day of each month starting September 1, 2019 with the mortgage due on August 1, 2021. At July 31, 2019, the balance payable is $170,000 with accrued interest of $662 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property recently acquired in the principal amount of $400,000 with interest at 10% per annum with monthly payments of $3,807 due on the 1st day of each month starting August 1, 2019 with the mortgage due on July 1, 2024. At July 31, 2019, the balance payable is $400,000 with accrued interest of $Nil included in accounts payable and accrued liabilities.

12. CAPITAL COMMITMENTS

GEM Global Yield Fund LLC SCS

On March 13, 2017, the Company entered into a Capital Commitment Agreement with GEM Global Yield Fund LLC SCS (“GEM”) for a $10 million capital commitment from GEM to invest into THC. Proceeds raised from the investment was for working capital and general corporate purposes, and in particular, to close the acquisition of the Clone Shipper assets.

THC had the right to draw down under the Capital Commitment Agreement for a term of two years to March 31, 2019. Common shares were 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 was subject to certain market out rights of GEM (as defined in the agreement) and approval of the CSE. GEM would hold freely trading common shares of the Company through a share lending facility provided by the current Chief Executive Officer and Chief Financial Officer.

12. CAPITAL COMMITMENTS (continued)

GEM Global Yield Fund LLC SCS (continued)

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 was payable by THC at the 18-month date even if THC made no demands on the capital commitment. If GEM failed to invest pursuant to the terms of the Capital Commitment Agreement, the fee was not payable by THC. THC could elect to pay the commitment fee in cash or common shares, 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. The remaining balance of this promissory note as at July 31, 2019 is $Nil (July 31, 2018 - $99,004).

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 have an exercise period of 5 years.

The agent warrants were recorded as a derivative liability as the value was based on inputs that were subject to change. The agent warrants were not on a fixed for fixed basis as the number of warrants were fixed, but the exercise price was 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 had 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%, share price of $0.76 and an expected annual volatility coefficient of 165%. Volatility was determined using historical share 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. 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 July 31, 2017 produced a gain of $2,225,501.

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.

12. CAPITAL COMMITMENTS (continued)

GEM Global Yield Fund LLC SCS (continued)

At March 13, 2018, the exercise price of the warrants became fixed at $1.20 per warrant and the balance of the agent warrants were revalued and transferred from a derivative liability to warrant reserve within equity. The agent warrants had a fair value calculated using the Black-Scholes option pricing model of $7,961,454 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 during the year ended July 31, 2018 produced a loss of $7,659,221.

The prepaid financing fee was to be reduced on a pro-rated basis as the drawdowns occurred and would be recorded in share capital as a share issuance cost. Any remaining balance at the end of the term was to be expensed in profit or loss as a financing fee. The prepaid financing fee was expensed on March 13, 2019 in the amount of $4,458,153 (July 31, 2018 - $Nil).

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 is to be a subscription of common shares and warrants referred to as a unit (“Unit”).

Following the initial subscription, the Company may request that Alumina subscribe for subsequent tranches a minimum of five trading days following the issuance of the previous tranche.

The purchase price for each Unit 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 July 31, 2019, there have been 26 tranches in excess of the original $12,000,000 commitment for a total issuance of 24,939,776 Units (see Note 13a) for gross proceeds of $13,531,554 (July 31, 2018 – $7,631,554).

(Expressed in Canadian Dollars)

13. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

Issued:

	Issued Number		Amount
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
Balance, July 31, 2018	118,291,190		20,120,026
Shares issued for cash	17,283,674		6,090,000
Share issue costs	-		(44,528)
Stock options exercised	162,500		62,563
Fair value of stock options exercised	-		38,904
Shares issued for debt	3,055,554		550,000
Earn out shares issued	14,074,486		3,377,877
Balance, July 31, 2019	**152,867,404**	**$**	**30,194,842**

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 12) for gross proceeds of $839,974. 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. The Company recorded share issue costs of $408,812 in connection with this financing. The amount was deducted from the prepaid financing fee (Note 12).

On April 23, 2018, 1,700,000 common shares were issued with a fair value of $2,227,000 pursuant to a settlement agreement with Jacob Securities Inc.

13. SHARE CAPITAL (continued)

a) Common shares (continued)

During the year ended July 31, 2018, the Company closed 15 tranches with Alumina Partners (Ontario) Ltd. The Company issued a total of 8,711,656 Units at a weighted average price of $0.88 for total gross proceeds of $7,631,550. Each Unit consists of one common share and one common share purchase warrant. Warrants issued have a weighted average exercise price of $1.36 for a period of 36 months from the date of issue. Warrants were valued at $Nil using the residual value method. The Company paid $64,639 of share issue costs in connection with these financings.

During the year ended July 31, 2018: 584,000 options were exercised at $0.10 for gross proceeds of $58,400; 1,020,000 options were exercised at $0.385 for gross proceeds of $392,700; 362,903 warrants were exercised at $0.3875 for gross proceeds of $140,625; and 1,250,000 agent warrants were exercised at $1.20 for gross proceeds of $1,500,000. The weighted average market price during the year when options and warrants were exercised was $1.38.

On February 13, 2019, the Company issued 14,074,486 earn out shares to the original shareholders of THC's predecessor companies pursuant to the Earn Out Share provisions on the original share exchange agreement for the reverse takeover taking the Company public in January of 2015. The shares were issued at a price of $0.24 per shares after applying a 33% discount. The shares are subject to a lockup agreement for 36 months from the date of issuance. The corresponding value of $3,377,877 was expensed in profit and loss as it represented compensation to those original shareholders.

During the year ended July 31, 2019, the Company closed 11 tranches with Alumina Partners (Ontario) Ltd. The Company issued a total of 16,228,120 Units at a weighted average price of $0.36 for total gross proceeds of $5,900,000. Each Unit consists of one common share and one common share purchase warrant. Warrants issued have a weighted average exercise price of $0.59 for a period of 36 months from the date of issue. Warrants were valued at $Nil using the residual value method. The Company paid $44,528 of share issue costs in connection with these financings.

During the year ended July 31, 2019, the Company issued 1,055,554 Units at $0.18 per Unit for gross proceeds of $190,000. Each Unit consists of one common share and one common share purchase warrant. Warrants issued have a weighted average exercise price of $0.30 for a period of 36 months from the date of issue. Warrants were valued at $Nil using the residual value method.

During the year ended July 31, 2019, the Company issued 3,055,554 Units at $0.18 per Unit for settlement of debt of $550,000. Each Unit consists of one common share and one common share purchase warrant. Warrants issued have a weighted average exercise price of $0.30 for a period of 36 months from the date of issue. Warrants were valued at $Nil using the residual value method.

During the year ended July 31, 2019, 162,500 options were exercised at $0.385 for gross proceeds of $62,563.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

b) Escrow shares

Currently 690 common shares (July 31, 2018 – 690) are held in escrow.

c) Warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
Balance, July 31, 2017	-	$	-
Warrants issued	8,711,656		1.3648
Warrants exercised	(362,903)		0.3875
Balance, July 31, 2018	8,348,753		1.4073
Warrants issued	20,339,228		0.5332
Balance, July 31, 2019	**28,687,981**	**$**	**0.7875**

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

c) Warrants outstanding (continued)

Expiry Date	Remaining Life (Years)	Number of Warrants		Exercise Price
August 9, 2020	1.02	120,967	$	0.3875
October 2, 2020	1.17	403,226		0.9600
October 5, 2020	1.18	359,196		1.0875
October 12, 2020	1.20	355,115		1.1000
October 20, 2020	1.22	333,333		0.9400
October 23, 2020	1.23	333,333		0.9400
October 31, 2020	1.25	362,318		0.8625
November 8, 2020	1.27	513,698		0.9125
November 14, 2020	1.29	666,666		0.9375
November 23, 2020	1.32	1,488,095		1.0500
January 15, 2021	1.46	314,070		2.4900
January 24, 2021	1.48	631,313		2.4800
February 8, 2021	1.53	1,002,673		2.0800
March 2, 2021	1.59	932,835		1.6800
March 15, 2021	1.62	531,915		1.7630
September 25, 2021	2.15	1,344,086		1.1625
October 2, 2021	2.17	1,428,572		1.0875
December 10, 2021	2.36	1,449,275		0.5750
January 18, 2022	2.47	1,479,289		0.5630
January 30, 2022	2.50	1,552,795		0.5380
February 8, 2022	2.53	1,449,275		0.5750
February 28, 2022	2.58	1,623,377		0.5120
March 14, 2022	2.62	1,623,377		0.5120
March 29, 2019	2.66	1,901,141		0.4380
July 15, 2022	2.96	5,222,219		0.3000
July 22, 2022	2.98	1,265,822		0.2620
		28,687,981	$	0.7875

d) 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, July 31, 2018 and 2019	**5,385,000**	**$**	**1.20**

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

d) Agent warrants outstanding (continued)

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
March 13, 2022	2.62	5,385,000	$ 1.20

14. SHARE-BASED COMPENSATION

The Company is authorized to grant options to directors, officers, employees, and consultants to acquire common shares under 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 common shares 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, 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	12,250,000	0.633
Options exercised	(162,500)	0.385
Options cancelled	(1,250,000)	(0.857)
Options expired	(3,176,250)	(0.385)
Balance, July 31, 2019	**12,000,000**	**$ 0.654**

(Expressed in Canadian Dollars)

14. SHARE-BASED COMPENSATION (continued)

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Vested	Number of Options Outstanding	Exercise Price
June 4, 2018	June 4, 2020	0.84	600,000	600,000	$ 1.100
September 25, 2018	September 25, 2020	1.15	4,013,750	5,100,000	$ 0.890
March 8, 2019	March 8, 2021	1.60	1,630,000	6,300,000	$ 0.420
			6,243,750	12,000,000	$ 0.654

On June 4, 2018, the Company granted 1,000,000 stock options to directors, certain employees, and a consultant 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% nine 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 $642,371 or $0.64 per option, assuming an expected life of 2 years, a risk-free interest rate of 1.93%, an expected dividend rate of 0.00%, stock price of $1.10 and an expected annual volatility coefficient of 113%. Volatility was determined using historical share prices.

During the year ended July 31, 2018, 1,604,000 options were exercised with an average weighted exercise price of $0.28 for gross proceeds of $451,100. On exercise, $268,462 of previously recognized share-based compensation was reallocated from Share-Based Payment Reserve to Share Capital.

During the year ended July 31, 2018, 56,250 stock options were cancelled that were exercisable at $0.385 per share. The options had not vested.

On September 25, 2018, the Company granted 5,550,000 stock options to directors, certain employees, and a consultant to acquire 5,550,000 common shares of the Company with an expiry date of September 25, 2020 at $0.89 per share. The options vest over 12 months with 10% at the date of grant; 15% three months from the date of grant; 25% nine months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant. Options terminate immediately upon cessation of services by the optionee to the Company. The options have a total fair value, calculated using the Black-Scholes option pricing model, of $2,677,343 or $0.48 per option, assuming an expected life of 2 years, a risk-free interest rate of 2.20%, an expected dividend rate of 0.00%, stock price of $0.89 and an expected annual volatility coefficient of 103%. Volatility was determined using historical stock prices.

On March 8, 2019, the Company granted 6,700,000 stock options to directors, certain employees, and a consultant to acquire 6,700,000 common shares of the Company with an expiry date of March 8, 2021 at $0.42 per share. The options vest over 12 months with 10% at the date of grant; 15% three months from the date of grant; 25% nine months from the date of grant; 25% nine months from the date of grant; and 25% 12 months from the date of grant. Options terminate immediately upon cessation of services by the optionee to the Company. The options have a total fair value, calculated using the Black-Scholes option pricing model, of $1,486,699 or $0.22 per option, assuming an expected life of 2 years, a risk-free interest rate of 1.65%, an expected dividend rate of 0.00%, stock price of $0.41 and an expected annual volatility coefficient of 104%. Volatility was determined using historical stock prices

(Expressed in Canadian Dollars)

14. SHARE-BASED COMPENSATION (continued)

During the year ended July 31, 2019, 162,500 options were exercised at $0.385 for gross proceeds of $62,563. On exercise, $38,904 of previously recognized share-based compensation was reallocated from Share-Based Payment Reserve to Share Capital.

During the year ended July 31, 2019, 1,250,000 stock options were cancelled with an average weighted exercise price of $0.86 and 3,176,250 stock options expired with an exercise price of $0.385. On cancellation or expiry of the stock options, $1,197,885 of share-based compensation included in Share-Based Payment Reserve was reallocated to Deficit.

15. REVENUE

The total revenue earned for the year ended July 31, 2019 includes sales revenue of $1,489,603 (July 31, 2018 - $782,482) and consulting fees of $Nil (July 31, 2018 - $142,857).

16. GENERAL AND ADMINISTRATION EXPENSES

Following is a breakdown of general and administration expenses:

	July 31 2019	July 31 2018
Automotive expenses	**$ 5,342**	$ 9,271
Bank charges and interest	**97,736**	158,728
Consulting fees	**110,754**	84,118
Director fees	**27,520**	35,972
Financing fees	**8,400**	-
Insurance	**29,253**	28,564
Investor relations	**121,173**	94,998
Legal and accounting	**616,372**	530,048
Payroll and benefits	**350,657**	233,247
Property tax	**41,144**	20,111
Rent	**17,800**	129,775
Repairs and maintenance	**5,224**	9,437
Strata fees	**17,032**	11,152
Supplies and sundry	**129,198**	62,176
Telephone	**17,489**	22,180
Transfer agent and filing fees	**64,268**	78,178
Travel	**126,894**	147,461
Utilities	**15,171**	14,886
	$ 1,801,427	$ 1,670,302

(Expressed in Canadian Dollars)

17. SEGMENTED INFORMATION

The Company operates in a single reportable segment being the cultivation and sale of cannabis in Canada.

18. SUPPLEMENTAL CASH FLOW INFORMATION

		July 31 2019		July 31 2018
Fair value of stock options exercised	**$**	**38,904**	$	268,462
Fair value of agent warrants to be issued (note 12)	**$**	**-**	$	7,659,221
Fair value of warrants exercised	**$**	**-**	$	2,114,231
Income taxes paid	**$**	**-**	$	-
Prepaid share issuance costs recognized	**$**	**-**	$	408,812
Interest paid	**$**	**74,616**	$	137,751
Interest received	**$**	**709**	$	21

During the years ended July 31, 2019 and 2018, the Company settled outstanding debts with creditors by issuance of common shares of the Company. Those transactions are disclosed in Note 13a.

19. OPERATING LEASE COMMITMENTS

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

Year Ended		Amount
2020	**$**	**135,200**
2021		**135,200**
2022		**135,200**
2023		**13,867**
	$	**419,467**

(Expressed in Canadian Dollars)

20. INCOME TAXES

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

	July 31 2019	July 31 2018
Income (loss) before income taxes	**$ (12,699,347)**	$ (12,458,908)
Statutory Canadian corporate tax rate	**27.00%**	27.00%
Income tax recovery at statutory rates	**$ (3,428,824)**	$ (3,363,905)
Non-deductible items for tax purposes, change in estimate, and other	**3,270,270**	681,905
Tax benefits not recognized	**158,554**	2,682,000
	$ -	$ -

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

	July 31 2019	July 31 2018
Deferred income tax assets		
Biological assets and inventory	**$ (617,000)**	$ (208,000)
Equipment	**163,000**	(9,000)
Intellectual property	**343,000**	343,000
Prepaid financing fee	**-**	(1,143,000)
Share issuance costs	**90,000**	113,000
Warrant liability	**2,150,000**	2,720,000
Allowable capital losses available for future years	**10,000**	10,000
Non-capital losses available for future years	**1,937,000**	1,486,000
	4,076,000	3,312,000
Tax benefits not recognized	**(4,076,000)**	(3,312,000)
	$ -	$ -

At July 31, 2019, the Company has non-capital tax losses of approximately $7,176,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

(Expressed in Canadian Dollars)

20. INCOME TAXES (continued)

Expiry Date	Amount
2033	$ **78,000**
2034	**191,000**
2035	**897,000**
2036	**478,000**
2037	**1,843,000**
2038	**1,707,000**
2039	**1,982,000**
	$ **7,176,000**

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

21. RELATED PARTY TRANSACTIONS

Key management personnel are those persons having the authority and responsibility for planning, directing, and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to key management personnel is as follows:

	July 31 2019	July 31 2018
Director fees	$ **26,000**	$ 28,000
Rent	**135,200**	96,983
Salaries and benefits	**120,406**	120,000
Share-based compensation	**1,228,636**	417,764
	$ **1,510,242**	$ 662,747

The Company initially signed a month-to-month lease for premises from two directors. 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 a director. 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, 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.

21. RELATED PARTY TRANSACTIONS (continued)

The Company initially signed a month-to-month lease for premises from two directors. 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 two directors. The lease began on January 12, 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.

At July 31, 2019, the Company owed a director $717,143 (July 31, 2018 - $884,605).

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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial assets and liabilities that are measured at fair value on a recurring basis

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether the price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Under 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 fair value hierarchy requires the use of observable market inputs whenever such inputs exists.

The biological assets are carried at fair value, calculated in accordance with 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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

a) Fair value of financial assets and liabilities that are measured at fair value on a recurring basis (continued)

The carry values of cash, amounts receivable, accounts payable and accrued liabilities, commercial operating loan, line of credit, mortgages payable, promissory note payable and advances from related parties all approximate their fair values due the short term nature of the financial instrument, or the market rates of interest attached thereto.

b) Market risk

Market risk is the risk of loss that the fair value of future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. The Company faces market risk from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(i) 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 exposed to cash flow interest rate risk on line of credit if a draw down amount is not repaid within three months. The Company is not exposed to cash flow interest rate risk on the advances from related parties which 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.

(ii) 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 July 31, 2019, the Company is exposed to foreign currency risk with respect to its US and Lesotho Loti ("LSL") denominated bank accounts, an amount held in trust in Australia, and a Euro denominated account payable.

At July 31, 2019, financial instruments were converted at a rate of $1 US dollar to $1.3148 Canadian; 9.2393 LSL to $1 Canadian; $1.4627 Euro to $1 Canadian; and $0.9044 Australian to $1 Canadian.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Market risk (continued)

(ii) Foreign currency risk (continued)

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

(iii) 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 July 31, 2019, 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.

(iv) 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 sales and debt or equity financing. Cash on hand at July 31, 2019 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.

On February 1, 2019, the Company secured a $500,000 commercial operating loan (see note 9) for operating funds using the property at St. Paul Street in Kelowna, British Columbia as collateral. The interest rate is Prime plus 1%. The loan is payable upon demand and subject to an annual review.

The Company also entered into a line of credit of up to $500,000 (see note 10) with its President. The line of credit will not bear interest for the first three calendar months following its withdrawal. Interest will then incur after three months at prime plus 1.0% with the interest payable monthly on the last day of each month until the line of credit is repaid in full.

(v) 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.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Market risk (continued)

(v) Capital risk management (continued)

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

(vi) 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.

23. SUBSEQUENT EVENTS

On August 16, 2019 the Company closed a non-brokered private placement of a convertible debenture for gross proceeds of $642,679. The term of the debenture is twelve months and bears interest at 8% per annum calculated on an annual basis and payable quarterly in arrears. The debenture is convertible into common shares at a price of $0.25 per share at any time at the election of the holder. The entire proceeds were allocated to liability on issuance.

On October 21, 2019, the Company purchased an additional lot in the industrial complex in Kelowna, British Columbia to expand its current facilities used for production purposes. The purchase price was $391,500 plus fees and taxes for a total of $400,149. THC purchased the strata lot for cash and did not require a mortgage.

On October 23, 2019 the Company closed a non-brokered private placement of a convertible debenture for gross proceeds of $261,857. The term of the debenture is twelve months and bears interest at 10% per annum calculated on an annual basis and payable quarterly in arrears. The debenture is convertible into common shares at a price of $0.20 per share at any time at the election of the holder. The entire proceeds were allocated to liability on issuance.