



**THC BIOMED INTL LTD.**

**Condensed Interim Consolidated Financial Statements**

**For the Six Months Ended January 31, 2020 and 2019**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

---

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

---

<b>For the Six Months Ended January 31, 2020 and 2019</b>	<b>Page</b>
Notice to Readers	3
Consolidated Statements of Comprehensive Income (Loss)	4
Consolidated Statements of Financial Position	5
Consolidated Statements of Changes in Equity	6
Consolidated Statements of Cash Flows	7
Notes to the Condensed Interim Consolidated Financial Statements	8 – 25

### Notice to Readers

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

The accompanying unaudited condensed interim consolidated financial statements of THC BioMed Intl Ltd. for the six months ended January 31, 2020 and 2019 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or a review of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 7, 2020. They are signed on the Company's behalf by:

*"John Miller"*

---

Director

*"Hee Jung Chun"*

---

Director

## THC BIOMED INTL LTD.

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

	For the three months ended		For the six months ended	
	(Unaudited) January 31 2020	(Unaudited) January 31 2019	(Unaudited) January 31 2020	(Unaudited) January 31 2019
Revenue (note 15)	\$ 1,246,625	\$ 474,041	\$ 2,291,135	\$ 753,181
Inventory expensed to cost of sales	(791,146)	(302,103)	(1,540,176)	(604,606)
Gross profit (loss) before fair value adjustments	455,479	171,938	750,959	148,575
Realized fair value changes in biological assets included in inventory sold	(1,319,362)	(36,605)	(1,445,040)	(105,262)
Unrealized gain on changes in fair value of biological assets	1,824,045	267,538	3,314,127	2,847,508
Net change in fair value (note 5)	504,683	230,933	1,869,087	2,742,246
Gross margin	960,162	402,871	2,620,046	2,890,821
Expenses				
Depreciation and amortization (note 7)	244,853	148,031	483,519	251,321
General and administration (notes 16 and 19))	392,908	500,963	744,829	840,405
Sales and marketing	4,210	21,011	9,294	28,945
Share-based compensation (notes 14 and 19)	228,854	1,078,794	602,063	2,004,802
	870,825	1,748,799	1,839,705	3,125,473
Other income (expense) items				
Foreign exchange income (loss)	(1,741)	479	(3,922)	(2,815)
Fair value of earn out shares to be issued	-	(3,377,877)	-	(3,377,877)
Loss on sale of asset	-	-	-	(1,154)
Interest income	14	442	41	450
Other	581	65	656	70
	(1,146)	(3,376,891)	(3,225)	(3,381,326)
<b>Net and comprehensive income (loss) for the period</b>	<b>\$ 88,191</b>	<b>\$ (4,722,819)</b>	<b>\$ 777,116</b>	<b>\$ (3,615,978)</b>
<b>Basic and diluted income (loss) per share</b>	<b>\$ 0.00</b>	<b>\$ (0.04)</b>	<b>\$ 0.01</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding</b>	<b>154,173,510</b>	<b>122,271,412</b>	<b>153,520,457</b>	<b>120,834,103</b>

---

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

<b>As at</b>	<b>(Unaudited) January 31 2020</b>	<b>(Audited) July 31 2019</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 385,295	\$ 991,155
Amounts receivable (note 4)	798,604	365,148
Goods and services tax receivable	-	99,159
Biological assets (note 5)	3,346,626	2,454,455
Inventory (note 6)	2,589,576	1,029,726
Prepaid expenses and deposits	217,121	278,353
	7,337,222	5,217,996
<b>Non-current</b>		
Property and equipment (note 7)	13,754,305	12,840,341
	\$ 21,091,527	\$ 18,058,337
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,757,321	\$ 1,060,236
Subscription received in advance	-	642,679
Commercial operating loan (note 8)	499,213	463,137
Line of credit (note 9)	60,136	350,000
Current portion of mortgages payable (note 10)	265,535	57,529
Current portion of other long term liabilities (note 11)	115,451	-
Convertible debentures payable (note 12)	904,536	-
Advances from related parties (note 19)	-	717,143
	3,602,192	3,290,724
<b>Non-current</b>		
Mortgages payable (note 19)	1,475,483	1,313,007
Other long term liabilities (note 11)	203,719	-
	1,679,202	1,313,007
	5,281,394	4,603,731
<b>Shareholders' Equity</b>		
Share capital (note 13)	31,196,190	30,194,842
Subscription receivable	(25,000)	-
Reserves	11,929,426	11,660,399
Accumulated deficit	(27,290,483)	(28,400,635)
	15,810,133	13,454,606
	\$ 21,091,527	\$ 18,058,337
Nature of operations (note 1)		
Subsequent events (note 21)		

**THC BIOMED INTL LTD.**

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

	Number of Shares	Share Capital	Share Subscription Receivable	Share-Based Payment Reserve	Agent Warrants Reserve	Accumulated Deficit	(Unaudited) Total Equity
Balance, July 31, 2019	152,867,404	\$ 30,194,842	\$ -	\$ 3,698,945	\$ 7,961,454	\$(28,400,635)	\$ 13,454,606
Shares issued for cash	1,342,319	201,348	(25,000)	-	-	-	176,348
Shares issued for debt	5,333,333	800,000	-	-	-	-	800,000
Reverse fair value of stock options cancelled	-	-	-	(333,036)	-	333,036	-
Share-based compensation	-	-	-	602,063	-	-	602,063
Income for the period	-	-	-	-	-	777,116	777,116
<b>Balance, January 31, 2020</b>	<b>159,543,056</b>	<b>\$ 31,196,190</b>	<b>\$ (25,000)</b>	<b>\$ 3,967,972</b>	<b>\$ 7,961,454</b>	<b>\$(27,290,483)</b>	<b>\$ 15,810,133</b>
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	7,254,017	3,500,000	-	-	-	-	3,500,000
Share issue costs	-	(20,167)	-	-	-	-	(20,167)
Stock options exercised	162,500	62,563	-	-	-	-	62,563
Fair value of stock options exercised	-	38,904	-	(38,904)	-	-	-
Share-based compensation	-	-	-	2,004,802	-	-	2,004,802
Loss for the period	-	-	-	-	-	(3,615,978)	(3,615,978)
Balance, January 31, 2019	125,707,707	\$ 23,701,326	\$ -	\$ 2,998,045	\$ 7,961,454	\$(20,515,151)	\$ 14,145,674

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

# THC BIOMED INTL LTD.

## Condensed Interim Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)

	For the three months ended (Unaudited) January 31 2020		For the six months ended (Unaudited) January 31 2019	
<b>Cash provided by (used for)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	\$ 88,191	\$ (4,722,819)	\$ 777,116	\$ (3,615,978)
Items not affecting cash				
Depreciation and amortization	244,853	148,031	483,519	251,321
Loss on sale of asset	-	-	-	1,154
Realized fair value changes in biological assets included in inventory sold	1,319,362	36,605	1,445,040	105,262
Share-based compensation	228,854	1,078,794	602,063	2,004,802
Unrealized gain on changes of fair value of biological assets	(1,824,045)	(267,538)	(3,314,127)	(2,847,508)
	57,215	(3,726,927)	(6,389)	(4,100,947)
Net change in non-cash working capital	236,832	3,475,259	(158,914)	3,023,541
	294,047	(251,668)	(165,303)	(1,077,406)
<b>Financing activities</b>				
Advances from (repaid) to related parties	144,395	(35,071)	82,857	(131,118)
Convertible debenture issued	-	-	261,857	-
Issuance of shares for cash, net of share issuance costs	176,348	1,487,920	176,348	3,542,396
Mortgage proceeds received (repaid)	384,004	(9,248)	370,482	(18,265)
Proceeds received from (repaid) commercial operating loan	(100,789)	-	36,076	-
Proceeds received from (repaid) line of credit	(379,864)	-	(289,864)	-
Promissory note repaid	-	(99,004)	-	(99,004)
	224,094	1,344,597	637,756	3,294,009
<b>Investing activities</b>				
Acquisition of property and equipment	(313,702)	(2,058,700)	(1,078,313)	(3,374,268)
<b>Net decrease in cash</b>	<b>204,439</b>	<b>(965,771)</b>	<b>(605,860)</b>	<b>(1,157,665)</b>
<b>Cash, beginning of period</b>	<b>180,856</b>	<b>1,815,439</b>	<b>991,155</b>	<b>2,007,333</b>
<b>Cash, end of period</b>	<b>\$ 385,295</b>	<b>\$ 849,668</b>	<b>\$ 385,295</b>	<b>\$ 849,668</b>
<b>Supplemental cash flow information (note 18)</b>				

---

# THC BIOMED INTL LTD.

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

---

For the Six Months Ended January 31, 2020 and 2019

---

### 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 condensed interim consolidated financial statements include the accounts of THC BioMed Intl Ltd. and its five wholly owned subsidiaries: THC BioMed Ltd., THC BioMedical Ltd., Clone Shipper Ltd., THC2GO Dispensaries Ltd. ("THC2GO"), and THC BioMed Lesotho Ltd. ("THC Lesotho").

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. THC BioMedical Ltd. was recently incorporated to acquire a separate license from Health 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.

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to commence profitable operations in the future. To date the Company is considered to be in the development stage. These factors create material uncertainties that may cast significant doubt about the Company being able to continue as a going concern. These condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Further discussion of liquidity risk has been disclosed in note 20b.

### 2. BASIS OF PREPARATION

#### a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 34, "*Interim Financial Reporting*" ("IAS34") as issued by the International Accounting Standards Board ("IASB") using accounting policies consistent with International Financial Reporting Standards ("IFRS"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The preparation of the condensed interim consolidated financial statements using accounting policies consistent with IFRS requires management to make certain critical accounting estimates which requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the unaudited condensed interim financial statements have been set out in Note 2 of the annual audited consolidated financial statements for the year ended July 31, 2019.



---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**2. BASIS OF PREPARATION** (continued)**a) Statement of compliance** (continued)

These unaudited condensed interim consolidated financial statements were prepared using the same accounting policies and methods as those used in the annual audited consolidated financial statements for the year ended July 31, 2019, and should be read in conjunction with those statements.

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issuance by the Board of Directors on April 7, 2020.

**b) Basis of measurement**

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

**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 condensed interim consolidated financial statements include the accounts of the Company and its four 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.

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**3. ADOPTION OF NEW STANDARD – 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.

On August 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach; therefore, the comparative information has not been restated and continues to be reported under IAS 17, *Leases*. Furthermore, given the short term nature of the leases during the year ended July 31, 2019, under IFRS 16, lessees may elect not to recognize assets and liabilities with a lease term of twelve months or less; accordingly, there is no adjustment to opening equity at the date of initial application.

On transition to IFRS 16, at August 1, 2019, the Company recognized \$373,779 of right-of-use assets and \$346,727 of lease liabilities with a nil impact on the deficit. The transition to IFRS 16 did not have a material impact on the Company’s statement of comprehensive income (loss) or liquidity.

When measuring the lease liabilities, the Company used the implicit interest rate stated in the leases. The weighted-average rate applied was 7.4%.

The right-of-use assets are recognized in property and equipment (see note 8) and lease liabilities are recognized in other current liabilities and other long-term liabilities (see note 6).

**4. AMOUNTS RECEIVABLE**

---

	<b>January 31</b>	July 31
	<b>2020</b>	2019
Other	\$ 3,000	\$ 3,000
Trade Receivables	<b>795,604</b>	362,148
	<b>\$ 798,604</b>	\$ 365,148

---

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**5. BIOLOGICAL ASSETS**

The Company's biological assets consist of cannabis plants:

	<b>January 31</b>	July 31
	<b>2020</b>	2019
Carrying amount, beginning of period	<b>\$ 2,454,455</b>	\$ 855,954
Capitalized costs	<b>1,507,685</b>	1,844,832
Sales of biological assets	<b>(10,619)</b>	(223,942)
Transferred to inventory upon harvest	<b>(2,473,982)</b>	(1,537,655)
Net unrealized gain on changes in fair value of biological assets	<b>1,869,087</b>	1,515,266
Carrying amount, end of period	<b>\$ 3,346,626</b>	\$ 2,454,455

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 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.

A sensitivity analysis of the impact of changes to the above significant unobservable inputs used to calculate the fair value of biological assets at January 31, 2020 is as follows:

	20%	10%		10%	20%
	Decrease	Decrease	FV	Increase	Increase
Fair value of biological assets	\$ 2,677,301	\$ 3,011,963	\$ 3,346,626	\$ 3,681,289	\$ 4,015,951

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**6. INVENTORY**

Inventory is comprised of the following items:

	<b>January 31 2020</b>	July 31 2019
Finished goods	<b>\$ 538,964</b>	\$ 278,191
Supplies and consumables	<b>131,510</b>	128,233
Unpackaged cannabis	<b>1,919,102</b>	623,302
Carrying amount - inventory	<b>\$ 2,589,576</b>	\$ 1,029,726

Inventory expensed during the six months ended January 31, 2020 was \$1,540,176 (January 31, 2019 - \$604,606).

The fair value changes in biological assets included as inventory and sold during the six months ended January 31, 2020 was \$1,445,040 (January 31, 2019 - \$105,262).

**7. PROPERTY AND EQUIPMENT**

	July 31 2018	Additions (Dispositions)	July 31 2019	Additions (Dispositions)	<b>January 31 2020</b>
<b>Cost</b>					
Automobile equipment	\$ 16,371	\$ 17,229	\$ 33,600	\$ -	<b>\$ 33,600</b>
Buildings	2,674,743	3,482,075	6,156,818	505,467	<b>6,662,285</b>
Computer equipment	65,945	10,348	76,293	3,102	<b>79,395</b>
Equipment	547,882	1,117,610	1,665,492	258,380	<b>1,923,872</b>
Furniture and fixtures	37,888	60,149	98,037	791	<b>98,828</b>
Land	2,353,739	1,756,881	4,110,620	255,964	<b>4,366,584</b>
Leasehold improvements	879,304	688,593	1,567,897	-	<b>1,567,897</b>
Right of use property	-	-	-	373,779	<b>373,779</b>
Software	75,174	5,828	81,002	-	<b>81,002</b>
	<b>\$ 6,651,046</b>	<b>\$ 7,138,713</b>	<b>\$ 13,789,759</b>	<b>\$ 1,397,483</b>	<b>\$ 15,187,242</b>

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

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

	July 31 2018	Depreciation/ Amortization	July 31 2019	Depreciation/ Amortization	January 31 2020
<b>Accumulated Depreciation</b>					
Automobile equipment	\$ 4,175	\$ 865	\$ 5,040	\$ 2,520	\$ 7,560
Buildings	86,642	173,166	259,808	122,995	382,803
Computer equipment	48,795	11,494	60,289	4,828	65,117
Equipment	99,953	201,347	301,300	149,338	450,638
Furniture and fixtures	13,209	10,950	24,159	7,427	31,586
Leasehold improvements	36,620	184,114	220,734	134,716	355,450
Right of use property	-	-	-	60,238	60,238
Software	59,507	18,581	78,088	1,457	79,545
	\$ 348,901	\$ 600,517	\$ 949,418	\$ 483,519	\$ 1,432,937
<b>Carrying Amounts</b>	\$ 6,302,145		\$ 12,840,341		\$ 13,754,305

**8. 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 was subsequently increased to \$900,000. The loan is payable upon demand and subject to an annual review. At January 31, 2020, the balance payable is \$499,213 (July 31, 2019 - \$463,137).

**9. 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 January 31, 2020, \$57,625 (July 31, 2019 - \$350,000) was drawn on Line of Credit. The amount reported includes accrued interest to January 31, 2020 of \$2,511 (July 31, 2019 - \$Nil).

**10. 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 January 31, 2020, the balance payable is \$128,085 (July 31, 2019 - \$137,912) with accrued interest of \$351 included in accounts payable and accrued liabilities.

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**10. 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 January 31, 2020, the balance payable is \$202,968 (July 31, 2019 - \$208,505) with accrued interest of \$1,668 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 January 31, 2020, the balance payable is \$280,145 (July 31, 2019 - \$285,000) with accrued interest of \$2,302 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 January 31, 2020, the balance payable is \$166,461 (July 31, 2019 - \$169,119) with accrued interest of \$665 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 January 31, 2020, the balance payable is \$167,832 (July 31, 2019 - \$170,000) with accrued interest of \$690 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 January 31, 2020, the balance payable is \$397,269 (July 31, 2019 - \$400,000) with accrued interest of \$3,265 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 \$2,760 due on the 1st day of each month starting November 1, 2019 with the mortgage due on November 1, 2024. At January 31, 2020, the balance payable is \$398,260 (July 31, 2019 - \$Nil) with accrued interest of \$1,789 included in accounts payable and accrued liabilities.

**11. OTHER LIABILITIES**

Pursuant to IFRS 16, as of August 1, 2019, lease liabilities have been recognized for the right-of-use assets underlying the four property leases. At January 31, 2020, the lease liabilities totaled \$319,170 (July 31, 2019 - \$Nil). Three of the leases expire on August 31, 202 and one expires on September 30, 2022.

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**12. CONVERTIBLE DEBENTURES PAYABLE**

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. Accrued interest of \$4,821 is included in accounts payable and accrued liabilities.

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. Accrued interest of \$6,600 is included in accounts payable and accrued liabilities

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

Unlimited number of common shares without par value.

**Issued:**

	<b>Issued Number</b>	<b>Amount</b>
Balance, July 31, 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
Shares issued for cash	1,342,319	201,348
Shares issued for debt	5,333,333	800,000
<b>Balance, January 31, 2020</b>	<b>159,543,056</b>	<b>\$ 31,196,190</b>

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.

---

## THC BIOMED INTL LTD.

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

---

#### For the Six Months Ended January 31, 2020 and 2019

---

#### 13. SHARE CAPITAL (continued)

##### a) Common shares (continued)

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.

On January 13, 2020, the Company completed a non-brokered private placement for 6,675,652 Units at \$0.15 per Unit for gross proceeds of \$201,348 and a repayment a bona fide debt of \$800,000 to John Miller, the President and CEO. 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 24 months from closing at a price of \$0.18 per share for the first three months, at \$0.25 during the following three months, at \$0.50 for the three months following that, and at \$0.80 during the final fifteen months. Warrants were valued at \$Nil using the residual value method. No finder's fees were paid.



---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**13. SHARE CAPITAL (continued)****b) Escrow shares**

Currently 690 common shares (July 31, 2019 – 690) are held in escrow.

**c) Warrants outstanding**

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
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
Warrants issued	6,675,652	0.1800
<b>Balance, January 31, 2020</b>	<b>35,363,633</b>	<b>\$ 0.6729</b>

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

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

<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
August 9, 2020	0.52	120,967	\$ 0.3875
October 2, 2020	0.67	403,226	0.9600
October 5, 2020	0.68	359,196	1.0875
October 12, 2020	0.70	355,115	1.1000
October 20, 2020	0.72	333,333	0.9400
October 23, 2020	0.73	333,333	0.9400
October 31, 2020	0.75	362,318	0.8625
November 8, 2020	0.77	513,698	0.9125
November 14, 2020	0.79	666,666	0.9375
November 23, 2020	0.82	1,488,095	1.0500
January 15, 2021	0.96	314,070	2.4900
January 24, 2021	0.98	631,313	2.4800
February 8, 2021	1.03	1,002,673	2.0800
March 2, 2021	1.09	932,835	1.6800
March 15, 2021	1.22	531,915	1.7630
September 25, 2021	1.65	1,344,086	1.1625
October 2, 2021	1.67	1,428,572	1.0875
December 10, 2021	1.86	1,449,275	0.5750
January 13, 2022	1.95	6,675,652	0.1800
January 18, 2022	1.97	1,479,289	0.5630
January 30, 2022	2.00	1,552,795	0.5380
February 8, 2022	2.03	1,449,275	0.5750
February 28, 2022	2.08	1,623,377	0.5120
March 14, 2022	2.13	1,623,377	0.5120
March 29, 2022	2.16	1,901,141	0.4380
July 15, 2022	2.46	5,222,219	0.3000
July 22, 2022	2.48	1,265,822	0.2620
		35,363,633	\$ 0.6729

**d) Agent warrants outstanding**

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance, July 31, 2018 and 2019, and January 31, 2020</b>	<b>5,385,000</b>	<b>\$ 1.20</b>

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**13. SHARE CAPITAL (continued)****d) Agent warrants outstanding**

<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
March 13, 2022	2.05	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:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
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	0.6540
Options granted	2,700,000	0.1500
Options cancelled	(1,300,000)	0.5000
<b>Balance, January 31, 2020</b>	<b>13,400,000</b>	<b>\$ 0.5670</b>

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

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

<b>Date of Grant</b>	<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Options Vested</b>	<b>Number of Options Outstanding</b>	<b>Exercise Price</b>
June 4, 2018	June 4, 2020	0.34	600,000	600,000	\$ 1.100
September 25, 2018	September 25, 2020	0.65	4,700,000	4,700,000	0.890
March 8, 2019	March 8, 2021	1.10	4,275,000	5,700,000	0.420
December 12, 2019	December 12, 2021	1.86	600,000	2,400,000	0.150
			10,175,000	13,400,000	\$ 0.567

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 and 25%; 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 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 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.

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.

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

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

During the year ended July 31, 2019, 1,250,000 stock options were cancelled with an average weighted exercise price of \$0.86 and 3,165,260 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.

On December 12, 2019, the Company granted 2,700,000 stock options to directors, certain employees, and a consultant to acquire 2,700,000 common shares of the Company with an expiry date of December 12, 2021 at \$0.15 per share. The options vest over 12 months with 25% at the date of grant and then 25% each quarter thereafter. Options terminate immediately upon cessation of services to the Company. The options have a total fair value, calculated using the Black-Scholes option pricing model, of \$377,717 or \$0.08 per option, assuming an expected life of 2 years, a risk-free interest rate of 1.70%, an expected dividend rate of 0.00%, stock price of \$0.15 and an expected annual volatility coefficient of 99%. Volatility was determined using historical stock prices.

During the six months ended January 31, 2020, 1,300,000 stock options were cancelled with an average weighted exercise price of \$0.50. On cancellation of the stock options, \$333,036 of share-based compensation included in Share-Based Payment Reserve was reallocated to Deficit.

**15. REVENUE**

The total revenue earned for the six months ended January 31, 2020 includes excise sales taxes of \$493,299 (January 31, 2019 - \$Nil).

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**16. GENERAL AND ADMINISTRATION EXPENSES**

	For the three months ended		For the six months ended	
	January 31	January 31	January 31	January 31
	2020	2019	2020	2019
Automobile expenses	\$ 1,920	\$ 1,176	\$ 2,689	\$ 2,568
Bank charges and interest	78,940	21,159	145,333	43,402
Consulting fees	20,886	66,185	20,886	75,329
Director fees	6,128	8,084	12,256	14,146
Insurance	1,074	10,142	5,276	16,587
Investor relations	32,499	18,341	66,156	29,430
Legal and accounting	81,527	128,443	146,574	264,554
Office and sundry	34,598	33,901	59,559	63,964
Payroll and benefits	92,391	87,820	189,020	163,711
Property tax	10,490	9,352	20,990	18,121
Rent	-	7,800	-	17,800
Repairs and maintenance	-	11,603	-	13,542
Strata fees	3,312	3,559	6,883	7,383
Telephone	3,784	3,783	8,489	8,361
Transfer agent and filing fees	14,619	27,329	25,251	31,143
Travel	10,740	62,286	35,467	70,364
	\$ 392,908	\$ 500,963	\$ 744,829	\$ 840,405

**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**

	January 31	January 31
	2020	2019
Fair value of stock options exercised	\$ -	\$ 38,904
Fair value of stock options cancelled	\$ 333,036	\$ -
Income taxes paid	\$ -	\$ -
Interest paid	\$ 134,016	\$ 29,726
Interest received	\$ 41	\$ 450

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**19. 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:

	<b>January 31 2020</b>	January 31 2019
Director fees	<b>\$ 12,000</b>	\$ 14,000
Interest	<b>2,511</b>	-
Rent	<b>67,600</b>	67,600
Salaries and benefits	<b>60,000</b>	88,000
Share-based compensation	<b>87,093</b>	685,634
	<b>\$ 229,204</b>	\$ 855,234

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. The lease was renewed for another three-year term. 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. The lease was renewed for another three-year term. 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 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. The lease was renewed for another three-year term. 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. The lease was renewed for another three-year term. A security deposit of \$2,600 was also paid.

---

## THC BIOMED INTL LTD.

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

---

For the Six Months Ended January 31, 2020 and 2019

---

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

On January 13, 2020, the Company issued 5,333,333 Units of a non-brokerage private placement to John Miller, the President and CEO, in exchange for debt owing by the Company in the amount of \$800,000. 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 24 months from closing at a price of \$0.18 per share for the first three months, at \$0.25 during the following three months, at \$0.50 for the three months following that, and at \$0.80 during the final fifteen months. Warrants were valued at \$Nil using the residual value method. No finder's fees were paid.

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.

#### 20. 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.

The carry values of cash, amounts receivable, accounts payable and accrued liabilities, commercial operating loan, line of credit, mortgages payable, convertible debentures 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.



---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)****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 January 31, 2020, the Company is exposed to foreign currency risk with respect to its US denominated bank accounts and accounts payable, and a Euro denominated account payable.

At January 31, 2020, financial instruments were converted at a rate of \$1 US dollar to \$1.3233 Canadian and \$1.4653 Euro to \$1 Canadian.

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

---

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

---

**For the Six Months Ended January 31, 2020 and 2019**

---

**20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)****b) Market risk (continued)****(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 January 31, 2020, 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 January 31, 2020 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 which has been increased to \$900,000 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 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.

---

## THC BIOMED INTL LTD.

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

---

For the Six Months Ended January 31, 2020 and 2019

---

#### 20. 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.

#### 21. SUBSEQUENT EVENTS

On February 6, 2020, the Company announced its intention to commence a normal course issuer bid to purchase up to an aggregate of 7,977,152 common shares representing 5% of the issued and outstanding common shares as at that date. The Company has purchased a total of 1,080,000 common shares to date pursuant to the normal course issuer bid for \$148,562 or an average price of \$0.14 per share.

On February 14, 2020 the Company's *Cannabis Act* license was renewed by Health Canada for a further three years or until February 14, 2023.

On March 1, 2020, the Company began a three-year lease for a property adjacent to its production facility in Kelowna, British Columbia. The Company intends to use the leased property for administration, storage, and other activities not related to cannabis production. The Company expects to free up space at the production facility by constructing four new grow rooms with the space once it is renovated and approval has been received from Health Canada.