THC BIOMED INTL LTD.

Consolidated Financial Statements

For the Years Ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

THC BIOMED INTL LTD.

Consolidated Financial Statements

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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, 2020 and 2019, 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, 2020 and 2019, 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 events and 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 10, 2020

THC BIOMED INTL LTD.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	July 31 2020	July 31 2019
Revenue (note 17)	**$ 4,178,179**	$ 1,489,603
Cost of sales (notes 5 and 7)	**(3,074,092)**	(1,502,452)
Gross profit (loss) before fair value adjustments	**1,104,087**	(12,849)
Realized fair value changes in biological assets included in inventory sold	**(1,269,559)**	(175,055)
Unrealized gain on changes in fair value of biological assets	**3,409,436**	1,690,321
Net change in fair value (note 6)	**2,139,877**	1,515,266
Gross margin	**3,243,964**	1,502,417
Expenses		
Depreciation and amortization (note 8)	**1,014,356**	604,692
General and administration (notes 18 and 23)	**1,639,709**	1,801,427
Sales and marketing	**21,529**	42,314
Share-based compensation (notes 16 and 23)	**698,494**	3,903,587
	3,374,088	6,352,020
Other income (expense) items		
Accretion expense on convertible debentures (note 14)	**(26,513)**	-
Fair value of earn out shares to be issued	**-**	(3,377,877)
Financing fees	**-**	(4,458,153)
Foreign exchange loss	**(5,799)**	(12,009)
Interest income	**58**	710
Loss on sale of asset	**-**	(2,672)
Other	**788**	257
	(31,466)	(7,849,744)
Net and comprehensive loss for the year	**$ (161,590)**	$(12,699,347)
Basic and diluted loss per share	**$ (0.00)**	$ (0.10)
Weighted average number of shares outstanding	**156,081,594**	132,620,613

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

THC BIOMED INTL LTD.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	July 31 2020	July 31 2019
Assets		
Current		
Cash	**$ 751,459**	$ 991,155
Amounts receivable (note 5)	**225,264**	365,148
Due from related parties (note 23)	**83,143**	-
Goods and services tax receivable	**-**	99,159
Biological assets (note 6)	**3,200,051**	2,454,455
Inventory (note 7)	**3,531,465**	1,029,726
Prepaid expenses and deposits	**247,619**	278,353
	8,039,001	5,217,996
Non-current		
Property and equipment (note 8)	**13,735,653**	12,840,341
	$21,774,654	$ 18,058,337
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 9 and 12)	**$ 2,546,536**	$ 1,060,236
Subscription received in advance	**-**	642,679
Commercial operating loan (note 10)	**462,107**	463,137
Line of credit (note 11)	**-**	350,000
Current portion of mortgages payable (note 12)	**1,565,282**	57,529
Curent portion of other long term liabilities (note 13)	**153,011**	-
Convertible debentures payable (note 14)	**842,491**	-
Advances from related parties (note 23)	**-**	717,143
	5,569,427	3,290,724
Non-current		
Mortgages payable (note 12)	**1,126,489**	1,313,007
Other long term liabilities (note 13)	**205,766**	-
	1,332,255	1,313,007
	6,901,682	4,603,731
Shareholders' Equity		
Share capital (note 15)	**31,059,338**	30,194,842
Reserves	**11,123,155**	11,660,399
Accumulated deficit	**(27,309,521)**	(28,400,635)
	14,872,972	13,454,606
	$21,774,654	$ 18,058,337

Nature of operations (note 1)
Subsequent events (note 25)

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

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-Based Payment Reserve	Agent Warrants Reserve	Equity Feature on Convertible Debentures	Accumulated Deficit	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	-	-	-	-	201,348
Shares issued for debt	5,333,333	800,000	-	-	-	-	800,000
Shares cancelled under Normal Course Issuer Bid	(1,217,000)	(163,444)	-	-	-	-	(163,444)
Stock options exercised	100,000	15,000	-	-	-	-	15,000
Fair value of stock options exercised	-	11,592	(11,592)	-	-	-	-
Reverse fair value of stock options cancelled	-	-	(995,756)	-	-	995,756	-
Reverse fair value of stock options expired	-	-	(256,948)	-	-	256,948	-
Share-based compensation	-	-	698,494	-	-	-	698,494
Equity feature on convertible debentures	-	-	-	-	28,558	-	28,558
Loss for the year	-	-	-	-	-	(161,590)	(161,590)
Balance, July 31, 2020	**158,426,056**	**$ 31,059,338**	**$ 3,133,143**	**$ 7,961,454**	**$ 28,558**	**$(27,309,521)**	**$ 14,872,972**
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)	-	-	-	-
Reverse fair value of stock options cancelled	-	-	(1,197,885)	-	-	1,197,885	-
Shares issued for settlement of debt	3,055,554	550,000	-	-	-	-	550,000
Earn out shares issued (note 15)	14,074,486	3,377,877	-	-	-	-	3,377,877
Share-based compensation	-	-	3,903,587	-	-	-	3,903,587
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

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

THC BIOMED INTL LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	July 31 2020	July 31 2019
Cash provided by (used for)		
Operating activities		
Net loss for the year	$ (161,590)	$(12,699,347)
Items not affecting cash		
Depreciation and amortization	1,014,356	604,692
Earn out shares issued	-	3,377,877
Financing fees	-	4,458,153
Interest expense from right of use assets	28,418	-
Loss on sale of automobiles	-	2,672
Realized fair value changes in biological assets included in inventory sold	1,269,559	175,055
Share-based compensation	698,494	3,903,587
Unrealized gain on changes of fair value of biological assets	(3,409,436)	(1,690,321)
	(560,199)	(1,867,632)
Net change in non-cash working capital	675,132	1,525
	114,933	(1,866,107)
Financing activities		
Advances from (repaid) to related parties	82,857	(167,462)
Convertible debenture issued	261,857	-
Convertible debenture principal payment	(60,000)	-
Issuance of shares for cash, net of share issuance costs	216,348	6,108,035
Net mortgage proceeds received	1,321,235	701,104
Principal lease payments from right of use assets	(152,349)	-
Proceeds received (repaid) from commercial operating loan	(1,030)	463,137
Proceeds received from (repaid) on line of credit	(350,000)	350,000
Promissory note repaid	-	(99,004)
Shares cancelled under Normal Course Issuer Bid	(163,444)	
Subscription received in advance	-	642,679
	1,155,474	7,998,489
Investing activities		
Acquisition of property and equipment	(1,426,960)	(7,155,084)
Advances to related parties	(83,143)	-
Net proceeds from sale of automobiles	-	6,524
	(1,510,103)	(7,148,560)
Net decrease in cash	(239,696)	(1,016,178)
Cash, beginning of period	991,155	2,007,333
Cash, end of period	$ 751,459	$ 991,155

Supplemental cash flow information (note 20)

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 TFHD.

These 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 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 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 24b.

The recent outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the Canadian and global economies, disruptions of financial markets, and created uncertainty regarding potential impacts to the Company's supply chain and operations. The COVID-19 pandemic has impacted and could further impact the Company's operations and the operations of the Company's suppliers and vendors as a result of quarantines, facility closures, and travel and logistics restrictions. The extent to which the COVID-19 pandemic impacts the Company's business, results of operations and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on the Company's suppliers and vendors and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume. The management team is closely following the progression of COVID-19 and its potential impact on the Company. Even after the COVID-19 pandemic has subsided, the Company may experience adverse impacts to its business as a result of any economic recession or depression that has occurred or may occur in the future; therefore, the Company cannot reasonably estimate the impact at this time on our business, liquidity, capital resources and financial results.

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 10, 2020.

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.

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 consolidated 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.

2. BASIS OF PREPARATION (continued)

f) Critical accounting judgments and estimates (continued)

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.

(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.

2. BASIS OF PREPARATION (continued)

f) Critical accounting judgments and estimates (continued)

(vi) Convertible debentures payable

The Company has issued convertible debentures as described in Note 14. The accounting for convertible debentures, a complex compound financial instrument, requires judgment in determining the discount rate applicable to the Company and the instrument. Should it be determined that the discount rate was not appropriate, then the carrying value and the recognition of expenses across the life of the instrument could be materially different.

(vii) 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.

(viii) Application of IFRS 16

The Company applies judgment in determining whether lease contracts contain an identified asset, whether the Company has the right to control the asset and the lease term. The lease term is based on considering the facts and circumstances, both qualitative and quantitative, which can create economic incentive to exercise renewal options. The discount rate applied is based on the judgment of management as to what rate most approximately reflects the incremental borrowing rate of the Company.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Biological assets (continued)

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.

c) Inventory

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.

The Company's inventory consists of packaged dried marijuana, bulk dried marijuana, packaged oil, bulk oil, bottled and bulk edibles, 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 and right of use assets are amortized on a straight-line basis over the term of the lease.

e) Convertible debentures

Compound financial liabilities are bifurcated into their debt and equity components with the debt component being initially measured at the fair value of the debt determined by discounting the cash flows associated with the compound instrument at a market rate of interest for the instrument exclusive of the associated equity feature. The equity component is allocated to the residual value being the difference between the face value of the compound instrument and the fair value of the debt, and is recorded in equity reserve until such time as the convertible debt has been repaid or converted to common shares of the Company at which point it is reclassified from equity reserve to contributed surplus or share capital as applicable.

Transaction costs incurred for the issuance of compound financial liabilities are allocated to the debt and equity component, as applicable, based on their initial relative fair values.

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

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 profit or 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:

(a) Amortized cost

Financial assets held for collection of contractual cash flows that meet the solely payments of principal and interest ("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 profit or 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 profit or loss. Upon derecognition of the asset, accumulated gains or losses are transferred from Other Comprehensive Income ("OCI") directly to deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Financial instruments (continued)

i) Financial assets (continued)

(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 profit or 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 profit or loss when the liabilities are derecognized as well as through the amortization process.

(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 consolidated 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 ECLs taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

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 Company's 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 consolidated statement of 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 net 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 net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive 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

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 or receipt to the customer, depending on the terms of the individual contracts.

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.

Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue from sale of goods, as presented on the consolidated statements of comprehensive loss, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to the Canada Revenue Agency cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Revenue recognition (continued)

Net revenue as presented in the consolidated statements of comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

4. ADOPTION OF NEW STANDARD – IFRS 16, LEASES

In January 2016, the IASB issued IFRS 16 *Leases* ("IFRS 16") and brings most leases onto the consolidated 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 right-of-use assets and lease liabilities. The expense associated with these leases can be recognized on a straight-line basis over the lease term in profit or loss 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, 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 $373,780 of right-of-use assets and lease liabilities with a nil impact on the deficit. The transition to IFRS 16 did not have a material impact on the Company's consolidated statement of comprehensive loss or liquidity.

The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

(Expressed in Canadian Dollars)

4. ADOPTION OF NEW STANDARD – IFRS 16, LEASES (continued)

(i) Right of use asset

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use assets are subsequently amortized from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term using the straight line method.

(ii) Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. When measuring the lease liabilities, the Company used the implicit interest rate stated in the leases. The weighted-average rate applied was 7.79%.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising mainly if the Company changes its assessment of whether it will exercise a purchase, renewal or termination option, or if there is a revised in substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

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 13).

5. AMOUNTS RECEIVABLE

	July 31 2020	July 31 2019
Canadian Emergency Wage Subsidy	**$ 101,182**	$ -
Other	**3,000**	3,000
Trade receivables	**121,082**	362,148
	$ 225,264	$ 365,148

The Federal Government of Canada passed legislation providing the Canada Emergency Wage Subsidy ("CEWS") on April 11, 2020. CEWS is a wage subsidy for eligible Canadian employers whose business has been affected by COVID-19, and who have experienced the required reduction in revenue during the pandemic.

(Expressed in Canadian Dollars)

5. AMOUNTS RECEIVABLE (continued)

At July 31, 2020, an amount of $288,191 (July 31, 2019 – $Nil) was recognized as an offset to cost of sales, in accordance with *IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance*, in the consolidated statement of comprehensive loss. As at July 31, 2020, $101,182 (July 31, 2019 – $Nil) remains outstanding and is included in amounts receivable. There are no unfulfilled conditions and outstanding contingencies regarding the CEWS.

6. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plant, resin, oil, harvested marijuana flowers prior to completion of the drying, grading and testing processes, and edible concentrate:

	July 31 2020	July 31 2019
Carrying amount, beginning of year	**$ 2,454,455**	$ 855,954
Capitalized costs	**656,481**	1,844,832
Sales of biological assets	**(10,619)**	(223,942)
Transferred to inventory upon harvest	**(2,040,143)**	(1,537,655)
Net unrealized gain on changes in fair value of biological assets	**2,139,877**	1,515,266
Carrying amount, end of year	**$ 3,200,051**	$ 2,454,455

Biological assets are valued in accordance with IAS 41 – *Agriculture* and are presented at their fair value less costs to sell up to the point of harvest. The fair value measurements for biological assets have been categorized as Level 3 of the fair value hierarchy based on the inputs to the valuation technique used, as there is currently no actively traded commodity market for plants. The fair value was determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated fair value less costs to sell per gram. The significant assumptions applied in determining the fair value of biological assets are as follows:

a) wastage of plants based on their various stages;
b) expected yield by strain of plant of approximately 70 grams per plant based on an average of historical growing results;
c) percentage of costs incurred to date compared to the estimated total costs to be incurred ("stage of plant growth");
d) percentage of costs incurred for each stage of plant growth;
e) average selling price of $3.20 per gram (July 31, 2019 - $4.20 per gram); and
f) average selling costs of $0.89 per gram (July 31, 2019 - $1.22 per gram).

The selling price used in the valuation of biological assets is based on the average selling price of cannabis products for the recreational market and medical market. Expected yields for the cannabis plant is also subject to a variety of factors based on the grow room used, space allocated in the grow room, and flowering time. Selling costs include packaging, labelling, shipping, and other costs incurred to sell cannabis products for the recreational and medical market.

(Expressed in Canadian Dollars)

6. BIOLOGICAL ASSETS (continued)

The Company periodically assesses the significant assumptions applied in determining the fair value of biological assets based on historical information obtained as well as planned production schedules. When there is a material change in any of the significant assumptions, the fair value of biological assets is adjusted.

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	$3.20 (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 of changes to the above significant observable and unobservable inputs used to calculate the fair value of biological assets at July 31, 2020 is as follows:

	20% Decrease	10% Decrease	FV	10% Increase	20% Increase
Fair value of biological assets	$ 2,560,041	$ 2,880,046	$ 3,200,051	$ 3,520,056	$ 3,840,061

7. INVENTORY

Inventory is comprised of the following:

	July 31 2020	July 31 2019
Finished goods	**$ 911,755**	$ 278,191
Supplies and consumables	**226,726**	128,233
Unpackaged cannabis	**2,392,984**	623,302
Carrying amount - inventory	**$ 3,531,465**	$ 1,029,726

(Expressed in Canadian Dollars)

7. **INVENTORY** (continued)

Inventory expensed during the year ended July 31, 2020 was $1,174,936 (July 31, 2019 - $1,278,510).

Subsequent to July 31, 2020, it was determined that 403,587 grams of cannabis trim that was stored for extraction purposes would not be used due to aging as it had lost potency and was therefore destroyed. It had a cost of $359,192 and a fair value of $1,291,478.

8. **PROPERTY AND EQUIPMENT**

	July 31 2018	Additions (Dispositions)	July 31 2019	Additions (Dispositions)	**July 31 2020**
Cost					
Automobile equipment	$ 16,371	$ 17,229	$ 33,600	$ -	**$ 33,600**
Buildings	2,674,743	3,482,075	6,156,818	616,503	**6,773,321**
Computer equipment	65,945	10,348	76,293	7,359	**83,652**
Equipment	547,882	1,117,610	1,665,492	528,282	**2,193,774**
Furniture and fixtures	37,888	60,149	98,037	791	**98,828**
Land	2,353,739	1,756,881	4,110,620	255,964	**4,366,584**
Leasehold improvements	879,304	688,593	1,567,897	18,061	**1,585,958**
Right of use property	-	-	-	482,708	**482,708**
Software	75,174	5,828	81,002	-	**81,002**
	$ 6,651,046	$ 7,138,713	$ 13,789,759	$ 1,909,668	**$ 15,699,427**

	July 31 2018	Depreciation/ Amortization	July 31 2019	Depreciation/ Amortization	**July 31 2020**
Accumulated Depreciation/Amortization					
Automobile equipment	$ 4,175	$ 865	$ 5,040	$ 5,040	**$ 10,080**
Buildings	86,642	173,166	259,808	248,210	**508,018**
Computer equipment	48,795	11,494	60,289	10,826	**71,115**
Equipment	99,953	201,347	301,300	325,667	**626,967**
Furniture and fixtures	13,209	10,950	24,159	14,854	**39,013**
Leasehold improvements	36,620	184,114	220,734	271,240	**491,974**
Right of use property	-	-	-	135,605	**135,605**
Software	59,507	18,581	78,088	2,914	**81,002**
	$ 348,901	$ 600,517	$ 949,418	$ 1,014,356	**$ 1,963,774**
Carrying Amounts	$ 6,302,145		$ 12,840,341		**$ 13,735,653**

(Expressed in Canadian Dollars)

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31 2020	July 31 2019
Accrued liabilities	**$ 179,876**	$ 104,765
Other payables	**1,038,143**	26,762
Trade payables	**1,328,517**	928,709
	$ 2,546,536	$ 1,060,236

10. COMMERCIAL OPERATING LOAN

On February 1, 2019, the Company secured a $500,000 commercial operating loan for business operating funds using the property on 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, 2020, the balance payable is $462,107 (July 31, 2019 - $463,137).

11. 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, 2020, $Nil (July 31, 2019 - $350,000) was drawn on Line of Credit.

12. MORTGAGES PAYABLE

	July 31 2020	July 31 2019
Total mortgages	**$ 2,691,771**	$ 1,370,536
Current portion	**1,565,282**	57,529
Non-current portion	**$ 1,126,489**	$ 1,313,007

The Company has a mortgage payable on 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, 2020, the balance payable is $117,683 (July 31, 2019 - $137,912) with accrued interest of $322 included in accounts payable and accrued liabilities.

12. MORTGAGES PAYABLE (continued)

The Company has a mortgage payable on 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, 2020, the balance payable is $197,032 (July 31, 2019 - $208,505) with accrued interest of $1,565 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, 2020, the balance payable is $274,852 (July 31, 2019 - $285,000) with accrued interest of $2,328 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property 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 May 1, 2021. At July 31, 2020, the balance payable is $163,690 (July 31, 2019 - $169,119) with accrued interest of $645 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property 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, 2020, the balance payable is $165,137 (July 31, 2019 - $170,000) with accrued interest of $678 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property 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, 2020, the balance payable is $394,174 (July 31, 2019 - $400,000) with accrued interest of $3,348 included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property acquired in the principal amount of $400,000 with interest at prime plus 1.5% per annum with monthly payments of $2,760 due on the 1st day of each month starting December 1, 2019 with the mortgage due on November 1, 2020. At July 31, 2020, the balance payable is $392,315 (July 31, 2019 - $Nil) with accrued interest of $1,791 included in accounts payable and accrued liabilities.

On February 28, 2020, the Company secured a $1,000,000 mortgage for business operating funds using the facility on Acland Street, in Kelowna, British Columbia as collateral. The interest rate is the Credit Union’s Prime Lending Rate plus 2% with monthly payments of $7,140 due on the 1st day of each month starting April 1, 2020. The loan is payable upon demand and subject to an annual review. At July 31, 2020, the balance payable is $986,887 (July 31, 2019 - $Nil) with accrued interest of $3,720 included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

13. OTHER LIABILITIES

The following table presents the lease obligations of the Company:

	July 31 2020	July 31 2019
Operating lease obligations recognized at beginning of the year	$ 373,780	$ -
Leases entered into during the year	108,928	-
Payments of lease obligations	(152,349)	-
Interest expense on lease obligations	28,418	-
Lease obligations balance at end of the year	$ 358,777	$ -

The following table presents a maturity analysis of the contractual undiscounted cash flows from lease obligations:

	July 31 2020	July 31 2019
Less than one year	$ 176,873	$ -
One to five years	206,848	-
Total undiscounted lease obligations	$ 383,721	$ -

	July 31 2020	July 31 2019
Lease obligations balance at end of the year	$ 358,777	$ -
Current portion	(153,011)	-
Long term portion	$ 205,766	$ -

Pursuant to IFRS 16 and Note 4, as of August 1, 2019, lease liabilities have been recognized on the consolidated statement of financial position. At July 31, 2020, the lease liabilities totaled $358,777 (July 31, 2019 - $Nil). Three of the leases expire on August 31, 2022, one expires on September 30, 2022, and one expires on February 28, 2023.

14. CONVERTIBLE DEBENTURES PAYABLE

During the year ended July 31, 2020, the Company issued two convertible debentures in the aggregate amount of $904,536. The debentures have terms of one year each, with options to extend the term by an additional 12 months, at the option of the Company. The Company shall pay an extension fee equal to 1% of the then principal amount if it chooses to do so.

(Expressed in Canadian Dollars)

14. CONVERTIBLE DEBENTURES PAYABLE (continued)

On August 16, 2019 the Company issued a $642,679 debenture, which bears interest at a rate of 8% per annum calculated on an annual basis and payable quarterly in arrears. The debenture holder shall have the option to fully convert the then outstanding principal amount into common shares of the Company based on a conversion price of $0.25 per share. During the year ended July 31, 2020, the Company repaid $60,000 of principal and $38,596 of accrued interest.

On October 23, 2019 the Company issued a $261,857 debenture, which bears interest at a rate of 10% per annum calculated on an annual basis and payable quarterly in arrears. The debenture holder shall have the option to fully convert the then outstanding principal amount into common shares of the Company based on a conversion price of $0.20 per share. During the year ended July 31, 2020, the Company repaid $19,641 of accrued interest.

The convertible debentures were fair valued at issuance using a discount rate of 12%. The resulting calculations allocated $875,978 as the fair value of the debt portion of the convertible debentures, with a residual value of $28,558 allocated as the value of the equity conversion feature.

The continuity of the convertible debentures issued during the year ended July 31, 2020 is as follows:

	Liability	Equity Portion	Total
Balance, July 31, 2019	$ -	$ -	$ -
Issuance of debentures	875,978	28,558	904,536
Accretion expense	26,513	-	26,513
Interest accrued	29,679	-	29,679
Interest paid	(58,237)	-	(58,237)
Repayment of principal	(60,000)	-	(60,000)
Balance, July 31, 2020	**$ 813,933**	**$ 28,558**	**$ 842,491**

15. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

(Expressed in Canadian Dollars)

15. SHARE CAPITAL (continued)

a) Common shares (continued)

Issued:

	Issued Number		Amount
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
Stock options exercised	100,000		15,000
Fair value of stock options exercised	-		11,592
Shares cancelled under Normal Course Issuer Bid	(1,217,000)		(163,444)
Balance, July 31, 2020	**158,426,056**	**$**	**31,059,338**

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 share 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.

(Expressed in Canadian Dollars)

15. SHARE CAPITAL (continued)

a) Common shares (continued)

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.

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. At July 31, 2020, the Company has purchased a total of 1,217,000 common shares pursuant to the normal course issuer bid for $163,445 or an average price of $0.13 per share.

During the year ended July 31, 2020, 100,000 stock options were exercised at $0.15 per share for proceeds of $15,000.

b) Escrow shares

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

c) Warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
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		0.5000
Balance, July 31, 2020	**35,363,633**	**$**	**0.7333**

(Expressed in Canadian Dollars)

15. SHARE CAPITAL (continued)

c) Warrants outstanding (continued)

Expiry Date	Remaining Life (Years)	Number of Warrants		Exercise Price
August 9, 2020	0.02	120,967	$	0.3875
October 2, 2020	0.17	403,226		0.9600
October 5, 2020	0.18	359,196		1.0875
October 12, 2020	0.20	355,115		1.1000
October 20, 2020	0.22	333,333		0.9400
October 23, 2020	0.23	333,333		0.9400
October 31, 2020	0.25	362,318		0.8625
November 8, 2020	0.27	513,698		0.9125
November 14, 2020	0.29	666,666		0.9375
November 23, 2020	0.32	1,488,095		1.0500
January 15, 2021	0.46	314,070		2.4900
January 24, 2021	0.48	631,313		2.4800
February 8, 2021	0.53	1,002,673		2.0800
March 2, 2021	0.59	932,835		1.6800
March 15, 2021	0.72	531,915		1.7630
September 25, 2021	1.15	1,344,086		1.1625
October 2, 2021	1.17	1,428,572		1.0875
December 10, 2021	1.36	1,449,275		0.5750
January 13, 2022	1.45	6,675,652		0.5000
January 18, 2022	1.47	1,479,289		0.5630
January 30, 2022	1.50	1,552,795		0.5380
February 8, 2022	1.53	1,449,275		0.5750
February 28, 2022	1.58	1,623,377		0.5120
March 14, 2022	1.63	1,623,377		0.5120
March 29, 2022	1.66	1,901,141		0.4380
July 15, 2022	1.96	5,222,219		0.3000
July 22, 2022	1.98	1,265,822		0.2620
		35,363,633	$	0.7333

d) Agent warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
Balance, July 31, 2018, 2019 and 2020	**5,385,000**	**$**	**1.20**

Expiry Date	Remaining Life (Years)	Number of Warrants		Exercise Price
March 13, 2022	1.62	5,385,000	$	1.20

(Expressed in Canadian Dollars)

16. 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, 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
Options granted	3,100,000	0.150
Options exercised	(100,000)	0.150
Options cancelled	(3,475,000)	0.530
Options expired	(400,000)	1.100
Balance, July 31, 2020	**11,125,000**	**$ 0.535**

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Vested	Number of Options Outstanding	Exercise Price
September 25, 2018	September 25, 2020	0.15	4,000,000	4,000,000	0.890
March 8, 2019	March 8, 2021	0.60	4,900,000	4,900,000	0.420
December 12, 2019	December 12, 2021	1.36	900,000	1,875,000	0.150
March 9, 2020	March 9, 2022	1.61	25,000	50,000	0.150
May 26, 2020	May 26, 2022	1.82	75,000	300,000	0.150
			9,900,000	11,125,000	$ 0.535

16. SHARE-BASED COMPENSATION (continued)

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% Year from the date of grant; 25% Year 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% Year from the date of grant; 25% Year 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.

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.

On March 9, 2020, the Company granted 50,000 stock options to a director to acquire 50,000 common shares of the Company with an expiry date of March 9, 2022 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 $1,750 or $0.04 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.53%, an expected dividend rate of 0.00%, stock price of $0.10 and an expected annual volatility coefficient of 86%. Volatility was determined using historical stock prices.

(Expressed in Canadian Dollars)

16. SHARE-BASED COMPENSATION (continued)

On May 26, 2020, the Company granted 350,000 stock options to a certain employees to acquire 350,000 common shares of the Company with an expiry date of May 26, 2022 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 $24,904 or $0.07 per option, assuming an expected life of 2 years, a risk-free interest rate of 0.30%, an expected dividend rate of 0.00%, stock price of $0.15 and an expected annual volatility coefficient of 89%. Volatility was determined using historical stock prices.

During the year ended July 31, 2020, 3,475,000 stock options were cancelled with an average weighted exercise price of $0.53. On cancellation of the stock options, $995,756 of share-based compensation included in Share-Based Payment Reserve was reallocated to Deficit.

During the year ended July 31, 2020, 400,000 stock options expired with an exercise price of $1.10. On expiration of the stock options, $256,948 of share-based compensation included in Share-Based Payment Reserve was reallocated to Deficit.

17. REVENUE

The total revenue earned for the year ended July 31, 2020 includes excise sales taxes of $932,642 (July 31, 2019 - $Nil).

18. GENERAL AND ADMINISTRATION EXPENSES

	July 31 2020	July 31 2019
Automobile expenses	**$ 4,994**	$ 5,342
Bad debt	**1,010**	-
Bank charges and interest	**334,374**	97,736
Consulting fees	**43,920**	110,754
Director fees	**57,420**	27,520
Financing fees	**-**	8,400
Insurance	**14,523**	29,253
Investor relations	**141,518**	121,173
Legal and accounting	**363,634**	616,372
Office and sundry	**89,097**	144,369
Payroll and benefits	**393,170**	350,657
Property tax	**35,751**	41,144
Rent	**5,079**	17,800
Repairs and maintenance	**-**	5,224
Strata fees	**10,302**	17,032
Telephone	**16,210**	17,489
Transfer agent and filing fees	**68,425**	64,268
Travel	**60,282**	126,894
	$ 1,639,709	$ 1,801,427

(Expressed in Canadian Dollars)

19. SEGMENTED INFORMATION

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

20. SUPPLEMENTAL CASH FLOW INFORMATION

		July 31 2020		July 31 2019
Fair value of stock options cancelled or expired	**$**	**1,264,296**	$	1,197,885
Fair value of stock options exercised	**$**	**11,592**	$	38,904
Income taxes paid	**$**	**-**	$	-
Interest paid	**$**	**314,237**	$	74,616
Interest received	**$**	**58**	$	709

21. COMMITMENTS

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

Year Ended		Amount
2021	**$**	**176,873**
2022		**178,123**
2023		**160,671**
	$	**515,666**

22. INCOME TAXES

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

		July 31 2020		July 31 2019
Loss before income taxes	**$**	**(161,590)**	$	(12,699,347)
Statutory Canadian corporate tax rate		**27.00%**		27.00%
Income tax recovery at statutory rates	**$**	**(43,629)**	$	(3,428,824)
Non-deductible items for tax purposes, change in estimate, and other		**149,891**		3,270,270
Change in tax benefits not recognized		**(106,262)**		158,554
	$	**-**	**$**	**-**

(Expressed in Canadian Dollars)

22. INCOME TAXES (continued)

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

	July 31 2020	July 31 2019
Deferred income tax assets		
Biological assets and inventory	**$ (524,000)**	$ (617,000)
Equipment	**261,000**	163,000
Intellectual property	**326,000**	343,000
Share issuance costs	**781,000**	90,000
Warrant liability	**2,150,000**	2,150,000
Allowable capital losses available for future years	**10,000**	10,000
Non-capital losses available for future years	**2,379,000**	1,937,000
	5,383,000	4,076,000
Tax benefits not recognized	**(5,383,000)**	(4,076,000)
	$ -	$ -

At July 31, 2020, the Company has non-capital tax losses of approximately $8,809,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

Expiry Date	**Amount**
2033	**$ 78,000**
2034	**203,000**
2035	**942,000**
2036	**498,000**
2037	**1,849,000**
2038	**1,707,000**
2039	**2,000,000**
2040	**1,532,000**
	$ 8,809,000

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

23. 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:

(Expressed in Canadian Dollars)

23. RELATED PARTY TRANSACTIONS (continued)

	July 31 2020	July 31 2019
Director fees	**$ 54,000**	$ 26,000
Interest (note 9)	**2,767**	-
Rent	**135,200**	135,200
Salaries and benefits	**258,610**	244,748
Share-based compensation	**265,536**	1,696,895
	$ 716,113	$ 2,102,843

The Company initially signed a month-to-month lease for premises from its Chief Executive Officer and Chief Financial Officer. 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 its Chief Financial Officer. 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 its Chief Executive Officer and Chief Financial Officer. 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 its Chief Executive Officer and Chief Financial Officer. 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.

23. 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 bona fide 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.

At July 31, 2020, the Chief Executive Officer owes $71,033 (July 31, 2019 - $717,143 was owed) to the Company and the Chief Financial Officer owes $12,492 (July 31, 2019 - $Nil).

Close family members of the Chief Executive Officer were paid salaries in the amount of $111,944 (July 31, 2019 - $124,748) for the year ended July 31, 2020.

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.

24. 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 exist.

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 convertible debentures are carried at fair value at issuance using a discount rate of 12%.

24. 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, and advances to/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 the 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 with 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, 2020, the Company is exposed to foreign currency risk with respect to its US denominated bank accounts and accounts payable, and Euro and Australian denominated accounts payable.

At July 31, 2020, financial instruments were converted at a rate of $1 US dollar to $1.3404 Canadian, $1.5831 Euro to $1 Canadian, and $0.9596 AUD to $1 Canadian.

24. 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. The Company has assessed the impairment of its amounts receivable using the ECL model and no material difference was noted. At July 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 a 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, 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.

(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.

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.

24. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Market risk (continued)

(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.

25. SUBSEQUENT EVENTS

On August 9, 2020, 120,967 warrants expired exercisable at $0.3875 per share.

On August 10, 2020, 1,025,000 stock options were cancelled at an average price of $0.643 per share.

On September 25, 2020, 3,500,000 stock options expired exercisable at $0.89 per share.

On October 2, 2020, 403,226 warrants expired exercisable at $0.96 per share.

On October 5, 2020, 359,196 warrants expired exercisable at $1.0875 per share.

On October 12, 2020, 355,115 warrants expired exercisable at $1.10 per share.

On October 20, 2020, 333,333 warrants expired exercisable at $0.94 per share.

On October 21, 2020, the Company completed the first tranche of a private placement to total $1,500,000. In the first tranche, the Company issued 1,363,637 units ("Units") at a price of $0.11 per Unit, for total proceeds of $150,000. Each Unit consists of one common share and one common share purchase warrant. Each Unit warrant entitles the holder to purchase one common share of the Company for a period of 24 months from closing at a price of $0.15 per share. Commission of 7% cash was paid and 7% broker warrants for 95,455 broker warrants were issued. The broker warrants have the same terms as the Unit warrants. The Company intends to close additional tranches in the near-term.

On October 23, 2020, 333,333 warrants expired exercisable at $0.94 per share.

On October 31, 2020, 362,318 warrants expired exercisable at $0.8625 per share.

On November 8, 2020, 513,698 warrants expired exercisable at $0.9125 per share.