



THC BIOMED INTL LTD.

**Condensed Interim Consolidated Financial Statements
For the Three Months Ended October 31, 2021 and 2020
(Expressed in Canadian Dollars)**

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

For the Three Months Ended October 31, 2021 and 2020	Page
Notice to Readers	3
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)	4
Condensed Interim Consolidated Statements of Financial Position	5
Condensed Interim Consolidated Statements of Changes in Equity	6
Condensed Interim Consolidated Statements of Cash Flows	7
Notes to the Condensed Interim Consolidated Financial Statements	8 - 31

Notice to Readers

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

The accompanying unaudited condensed interim consolidated financial statements of THC BioMed Intl Ltd. for the three months ended October 31, 2021 and 2020 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or a review of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 30, 2021. They are signed on the Company's behalf by:

"John Miller"

Director

"Hee Jung Chun"

Director

THC BIOMED INTL LTD.**Condensed Interim Consolidated Statements of Comprehensive Income (Loss)**
(Expressed in Canadian Dollars)

	For the three months ended	
	(Unaudited)	(Unaudited)
	October 31	October 31
	2021	2020
Revenue (note 15)	\$ 1,136,796	\$ 622,025
Cost of sales (notes 5 and 6)	(1,069,111)	(729,379)
Gross profit (loss) before fair value adjustments	67,685	(107,354)
Realized fair value changes in biological assets included in inventory sold	(230,346)	(578,325)
Unrealized gain (loss) on changes in fair value of biological assets	874,422	598,678
Net change in fair value (note 5)	644,076	20,353
Gross margin profit (loss)	711,761	(87,001)
Expenses		
Depreciation and amortization (note 7)	219,852	241,882
General and administration (notes 16 and 19)	356,193	319,996
Sales and marketing	7,743	9,972
Share-based compensation (notes 14 and 19)	94,204	34,620
	677,992	606,470
Other income (expense) items		
Accretion expense on convertible debentures (note 12)	(8,695)	-
Foreign exchange gain (loss)	(417)	1,094
Interest income	5	32
Other	344	168
	(8,763)	1,294
Net and comprehensive income (loss) for the period	\$ 25,006	\$ (692,177)
Basic and diluted loss per share	\$ 0.00	\$ (0.00)
Weighted average number of shares outstanding	163,838,556	159,641,472

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

As at	October 31 2021	July 31 2021
Assets		
Current		
Cash	\$ 377,096	\$ 111,162
Amounts receivable (note 4)	566,370	553,305
Due from related party (note 19)	123,810	110,757
Biological assets (note 5)	2,100,607	1,259,124
Inventory (note 6)	1,824,193	1,961,284
Prepaid expenses and deposits	274,625	275,803
	5,266,701	4,271,435
Non-current		
Property and equipment (note 7)	12,983,552	13,125,006
	\$18,250,253	\$ 17,396,441
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 8 and 10)	\$ 2,700,184	\$ 3,041,464
Commercial operating loan (note 9)	471,820	486,004
Current portion of mortgages payable (note 10)	1,036,217	1,482,368
Current portion of other liabilities (note 11)	150,835	167,104
Convertible debentures payable (note 12)	676,096	791,552
	5,035,152	5,968,492
Non-current		
Mortgages payable (note 10)	2,734,858	1,605,878
Other liabilities (note 11)	14,537	38,662
Convertible debentures payable (note 12)	524,151	-
	3,273,546	1,644,540
	8,308,698	7,613,032
Shareholders' Equity		
Share capital (note 13)	31,641,256	31,641,256
Reserves	8,782,629	8,693,174
Accumulated deficit	(30,482,330)	(30,551,021)
	9,941,555	9,783,409
	\$18,250,253	\$ 17,396,441

Nature of operations (note 1)

Subsequent event (note 21)

THC BIOMED INTL LTD.

Condensed Interim 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, 2021	163,838,556	\$ 31,641,256	\$ 683,208	\$ 7,984,661	\$ 25,305	\$(30,551,021)	\$ 9,783,409
Fair value of stock options cancelled	-	-	(18,380)	-	-	18,380	-
Equity feature on previous convertible debentures	-	-	-	-	(25,305)	25,305	-
Equity feature on convertible debentures	-	-	-	-	38,936	-	38,936
Share-based compensation	-	-	94,204	-	-	-	94,204
Net and comprehensive income for the period	-	-	-	-	-	25,006	25,006
Balance, October 31, 2021	163,838,556	\$ 31,641,256	\$ 759,032	\$ 7,984,661	\$ 38,936	\$(30,482,330)	\$ 9,941,555
Balance, July 31, 2020	158,426,056	\$ 31,059,338	\$ 3,133,143	\$ 7,961,454	\$ 28,558	\$(27,309,521)	\$ 14,872,973
Shares issued for cash	1,363,637	150,000	-	-	-	-	150,000
Share issuance costs	-	(10,500)	-	-	-	-	(10,500)
Reverse fair value of stock options cancelled	-	-	(352,150)	-	-	352,150	-
Reverse fair value of stock options expired	-	-	(1,688,414)	-	-	1,688,414	-
Remove equity feature on previous convertible debentures	-	-	-	-	(28,558)	28,558	-
Equity feature on convertible debentures	-	-	-	-	25,305	-	25,305
Share-based compensation	-	-	34,620	-	-	-	34,620
Net and comprehensive loss for the period	-	-	-	-	-	(692,177)	(692,177)
Balance, October 31, 2020	159,789,693	\$ 31,198,838	\$ 1,127,199	\$ 7,961,454	\$ 25,305	\$(25,932,576)	\$ 14,380,221

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

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

	For the three months ended	
	(Unaudited) October 31 2021	(Unaudited) October 31 2021
Cash provided by (used for)		
Operating activities		
Net and comprehensive income (loss) for the period	\$ 25,006	\$ (692,177)
Items not affecting cash		
Depreciation and amortization	219,852	241,882
Interest expense from right of use assets	4,004	5,490
Realized fair value changes in biological assets included in inventory sold	230,346	578,325
Share-based compensation	94,204	34,620
Unrealized gain on changes of fair value of biological assets	(874,422)	(598,678)
	(301,010)	(430,538)
Net change in non-cash working capital	(365,852)	(112,553)
	(666,862)	(543,091)
Financing activities		
Net convertible debentures received	400,000	-
Issuance of shares for cash, net of share issuance costs	-	139,500
Net mortgage principal received (repaid)	682,829	(28,699)
Principal lease payments for right of use assets	(44,398)	(36,985)
Proceeds repaid on commercial operating loan	(14,184)	(4,536)
	1,024,247	69,280
Investing activities		
Acquisition of property and equipment	(78,398)	(41,493)
Advances to related parties	(13,053)	(4,064)
	(91,451)	(45,557)
Net decrease in cash	265,934	(519,368)
Cash, beginning of period	111,162	751,459
Cash, end of period	\$ 377,096	\$ 232,091
Supplemental cash flow information (note 18)		

THC BIOMED INTL LTD.

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

For the Three Months Ended October 31, 2021 and 2020

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., Clone Shipper Ltd., THC BioMed Victoria Falls 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. Clone Shipper Ltd. owns all rights to the Clone Shipper product used to transport live plants. THC BioMed Victoria Falls Ltd. (formerly THC BioMedical Ltd.) will conduct research and development of next generation cannabis products. THC2GO and THC Lesotho are inactive.

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 20d.

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.

THC BIOMED INTL LTD.

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

For the Three Months Ended October 31, 2021 and 2020

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 30, 2021.

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 or 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 (Note 1) 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.

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

For the Three Months Ended October 31, 2021 and 2020

2. BASIS OF PREPARATION (continued)**f) Critical accounting judgments and estimates (continued)****(i) Significant accounting judgments**

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

(a) 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.

(b) 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.

(c) Convertible debentures payable

The Company has issued convertible debentures as described in Note 13. 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.

(d) 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.

(e) Leases

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.

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

For the Three Months Ended October 31, 2021 and 2020

2. BASIS OF PREPARATION (continued)**f) Critical accounting judgments and estimates** (continued)**(i) Significant accounting judgments** (continued)**(f) Going concern and liquidity**

In assessing the Company's ability to continue as a going concern, management uses significant judgment in the forecasting of future cash flows. Critical input estimates such as economic conditions, market demands, production quality, integrated operating activities, capital expenditures, and debt repayment are used.

(ii) Significant accounting estimates

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:

(a) 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.

(b) 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.

(c) 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.

3. ADOPTION OF NEW STANDARDS

The Company has not yet adopted certain standards, interpretations to existing standards and amendments which have been issued but have an effective date later than August 1, 2020. These updates are not currently relevant to the Company or are not expected to have a material impact on the consolidated financial statements and are therefore not discussed herein.

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

For the Three Months Ended October 31, 2021 and 2020

4. AMOUNTS RECEIVABLE

	October 31 2021	July 31 2021
Canadian Emergency Wage and Rent Subsidies	\$ 72,161	\$ 189,685
Trade receivables	494,209	363,620
	\$ 566,370	\$ 553,305

The Federal Government of Canada passed legislation providing the Canada Emergency Wage Subsidy ("CEWS") on April 11, 2020 and the Canada Emergency Rent Subsidy ("CERS") on November 19, 2020. CEWS is a wage subsidy and CERS is a rent 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.

At October 31, 2021, an amount of \$72,161 (October 31, 2020 – \$226,721) was recognized as an offset to cost of sales in accordance with *IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance*, in profit or loss. At October 31, 2021, \$72,161 (July 31, 2021 – \$189,685) remains outstanding and is included in amounts receivable. There are no unfulfilled conditions and outstanding contingencies regarding the CEWS and CERS.

5. BIOLOGICAL ASSETS

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

	October 31 2021	July 31 2021
Carrying amount, beginning of year	\$ 1,259,124	\$ 3,200,051
Capitalized costs	738,629	2,742,548
Sales of biological assets	-	(992)
Transferred to inventory upon harvest	(541,222)	(1,758,580)
Net change in fair value	644,076	(2,923,903)
Carrying amount, end of period	\$ 2,100,607	\$ 1,259,124

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 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 inputs and assumptions used in determining the fair value of cannabis plants are as follows:

- a) yield per plant;
- b) expected yield by strain of plant of approximately 77 (July 30, 2021 – 66) grams per plant based on an average of historical growing results;

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

For the Three Months Ended October 31, 2021 and 2020

5. BIOLOGICAL ASSETS (continued)

- 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 \$3.00 per gram (July 31, 2021 - \$3.00 per gram); and
- f) average selling costs of \$1.28 per gram (July 31, 2021 - \$1.25 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.

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.

During the three months ended October 31, 2021, the Company’s biological assets produced 534 (July 31, 2021 – 1,369) kilograms of dried cannabis. At October 31, 2021, the weighted average stage of growth for the biological assets was 72% (July 31, 2021 - 88%).

The following table summarizes the significant inputs and assumptions used in the fair value model, their weighted average range of value and sensitivity analysis:

Significant inputs and assumptions	Input Values		An increase or decrease of 10% applied to the unobservable input would result in a change to the fair value by approximately	
	October 31 2021	July 31 2021	October 31 2021	July 31 2021
Average selling price per gram	\$ 3.00	\$ 3.00	\$ 136,281	\$ 117,203
Average selling cost per gram	\$ 1.28	\$ 1.25	\$ 59,055	\$ 48,835
Average yield per plant	77 grams	66 grams	\$ 160,290	\$ 410,742

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

For the Three Months Ended October 31, 2021 and 2020

6. INVENTORY

Inventory is comprised of the following:

	October 31 2021	July 31 2021
Finished goods	\$ 200,170	\$ 436,313
Supplies and consumables	312,891	295,794
Unpackaged cannabis and edibles	1,311,132	1,229,177
Carrying amount - inventory	\$ 1,824,193	\$ 1,961,284

Inventory expensed during the three months ended October 31, 2021 was \$445,411 (October 31, 2020 - \$205,098).

7. PROPERTY AND EQUIPMENT

	July 31 2020	Additions	July 31 2021	Additions	October 31 2021
Cost					
Automobile equipment	\$ 33,600	\$ -	\$ 33,600	\$ -	\$ 33,600
Buildings	6,773,321	255,366	7,028,687	12,945	7,041,632
Computer equipment	83,652	-	83,652	7,247	90,899
Equipment	2,193,773	105,617	2,299,390	58,206	2,357,596
Furniture and fixtures	98,828	-	98,828	-	98,828
Land	4,366,584	-	4,366,584	-	4,366,584
Leasehold improvements	1,585,959	8,327	1,594,286	-	1,594,286
Right of use property	482,708	-	482,708	-	482,708
Software	81,002	-	81,002	-	81,002
	\$ 15,699,427	\$ 369,310	\$ 16,068,737	\$ 78,398	\$ 16,147,135

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

For the Three Months Ended October 31, 2021 and 2020

7. PROPERTY AND EQUIPMENT (continued)

	July 31 2020	Depreciation/ Amortization	July 31 2021	Depreciation/ Amortization	October 31 2021
Accumulated Depreciation/Amortization					
Automobile equipment	\$ 10,080	\$ 5,040	\$ 15,120	\$ 1,260	\$ 16,380
Buildings	508,018	255,720	763,738	62,714	826,452
Computer equipment	71,115	6,896	78,011	1,274	79,285
Equipment	626,967	323,923	950,890	68,882	1,019,772
Furniture and fixtures	39,013	11,964	50,977	2,392	53,369
Leasehold improvements	491,974	219,629	711,603	44,134	755,737
Right of use property	135,605	156,785	292,390	39,196	331,586
Software	81,002	-	81,002	-	81,002
	\$ 1,963,774	\$ 979,957	\$ 2,943,731	\$ 219,852	\$ 3,163,583
Carrying Amounts	\$ 13,735,653		\$ 13,125,006		\$ 12,983,552

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	October 31 2021	July 31 2021
Accrued liabilities	\$ 188,377	\$ 166,007
Excise taxes payable	1,143,921	1,387,980
Goods and services tax payable	232,015	204,984
Trade payables	1,135,871	1,282,493
	\$ 2,700,184	\$ 3,041,464

9. 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 October 31, 2021, the balance payable is \$471,820 (July 31, 2021 - \$486,004).

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

For the Three Months Ended October 31, 2021 and 2020

10. MORTGAGES PAYABLE

	October 31 2021	July 31 2021
Mortgages payable at beginning of the year	\$ 3,088,246	\$ 2,691,771
Mortgages added during the year	-	410,000
Mortgage refinanced during the year	1,000,000	113,893
Less principal payments	(317,171)	(127,418)
Total mortgages	3,771,075	3,088,246
Less current portion	(1,036,217)	(1,482,368)
Non-current portion	\$ 2,734,858	\$ 1,605,878

The Company had a mortgage payable on property on Acland Road in Kelowna, British Columbia 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 October 31, 2021, the balance payable was \$Nil (July 31, 2021 - \$102,144) with accrued interest of \$Nil (July 31, 2021 - \$275) included in accounts payable and accrued liabilities. The mortgage was paid in full on August 21, 2021.

The Company had a mortgage payable on property on Acland Road in Kelowna, British Columbia 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 was extended to mature on October 2, 2023 on the same terms. At October 31, 2021, the balance payable is \$Nil (July 31, 2021 - \$184,601) with accrued interest of \$Nil (July 31, 2021 - \$1,439) included in accounts payable and accrued liabilities. The mortgage was refinanced on October 1, 2021 (see below).

The Company has a mortgage payable on a property on Acland Road in Kelowna, British Columbia 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 October 31, 2021, the balance payable is \$260,672 (July 31, 2021 - \$263,666) with accrued interest of \$2,172 (July 31, 2021 - \$990) included in accounts payable and accrued liabilities.

The Company had a mortgage payable on a property acquired on Acland Road in Kelowna, British Columbia 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. The Company also had 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. These mortgages were refinanced into a new mortgage in the principal amount of \$440,000 with interest at 4.55% per annum with monthly payments of \$2,800 due on the 1st day of each month starting February 1, 2021 with the mortgage due on January 31, 2023. At October 31, 2021, the balance payable is \$430,627 (July 31, 2021 - \$434,105) with accrued interest of \$1,649 (July 31, 2021 - \$1,624) included in accounts payable and accrued liabilities.

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

For the Three Months Ended October 31, 2021 and 2020

10. MORTGAGES PAYABLE (continued)

The Company has a mortgage payable on a property acquired on Acland Road in Kelowna, British Columbia 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 October 31, 2021, the balance payable is \$381,538 (July 31, 2021 - \$383,395) with accrued interest of \$3,179 (July 31, 2021 - \$3,195) included in accounts payable and accrued liabilities.

The Company has a mortgage payable on a property acquired for the building on St. Paul Street in Kelowna, British Columbia in the principal amount of \$400,000 with interest at the Credit Union's Prime Lending Rate plus 1.5% with monthly payments of \$2,760 due on the 1st day of each month starting November 1, 2019 with the mortgage due on November 1, 2021. The mortgage has been extended to November 1, 2022 under the same terms. At October 31, 2021, the balance payable is \$367,786 (July 31, 2021 - \$372,373) with accrued interest of \$1,223 (July 31, 2021 - \$1,249) 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 Road, 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 October 31, 2021, the balance payable is \$930,411 (July 31, 2021 - \$944,207) with accrued interest of \$3,528 (July 31, 2021 - \$3,568) included in accounts payable and accrued liabilities.

On December 29, 2020, the Company secured a \$410,000 mortgage for business operating funds using the building on St. Paul Street, in Kelowna, British Columbia as collateral. The interest rate is 3.25% with monthly payments of \$2,330 due on the 1st day of each month starting February 1, 2020 with the mortgage due on April 30, 2023. At October 31, 2021, the balance payable is \$400,041 (July 31, 2021 - \$403,755) with accrued interest of \$1,223 (July 31, 2021 - \$1,223) included in accounts payable and accrued liabilities.

On October 1, 2021, the Company secured a \$1,000,000 mortgage for business operating funds using the property on Acland Road in Kelowna, British Columbia as collateral. The interest rate is 3.25% with monthly payments of \$5,675 due on the 1st day of each month starting November 1, 2021 with the mortgage due on November 1, 2024. At October 31, 2021, the balance payable is \$1,000,000 (July 31, 2021 - \$Nil) with accrued interest of \$Nil (July 31, 2021 - \$Nil) included in accounts payable and accrued liabilities.

Except as otherwise noted, mortgages are secured against the property to which they relate.

11. OTHER LIABILITIES

The following table presents the lease obligations of the Company:

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

For the Three Months Ended October 31, 2021 and 2020

11. OTHER LIABILITIES (continued)

	October 31 2021	July 31 2021
Operating lease obligations recognized at beginning of the year	\$ 205,766	\$ 358,777
Payments of lease obligations	(44,398)	(176,873)
Interest expense on lease obligations	4,004	23,862
Lease obligations balance at end of the period	\$ 165,372	\$ 205,766

The following table presents the current and non-current portions of the lease obligations:

	October 31 2021	July 31 2021
Lease obligations balance at end of the period	\$ 165,372	\$ 205,766
Current portion	(150,835)	(167,104)
Long term portion	\$ 14,537	\$ 38,662

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

	October 31 2021	July 31 2021
Less than one year	\$ 157,672	\$ 177,605
One to five years	14,135	38,603
Total undiscounted lease obligations	\$ 171,807	\$ 216,208

At October 31, 2021, the lease liabilities totaled \$165,372 (July 31, 2021 - \$205,766). Three of the leases expire on August 31, 2022, one expires on September 30, 2022, and one expires on February 28, 2023.

12. 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 by paying an extension fee equal to 1% of the principal amount for the extension.

THC BIOMED INTL LTD.

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

For the Three Months Ended October 31, 2021 and 2020

12. 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. The debenture was extended for another year on the same terms. During the three months ended October 31, 2021, the Company paid \$11,749 (July 31, 2021 - \$39,175) 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. The debenture was extended for another year on the same terms. During the three months ended October 31, 2021, the Company repaid \$100,000 (July 31, 2021 - \$50,000) of principal and paid \$4,869 (July 31, 2020 - \$19,639) of accrued interest.

On August 10, 2021, the Company closed a non-brokered private placement of convertible debentures for gross proceeds of \$500,000 (the "Debenture") from a company owned by the Chief Executive Officer and Chief Financial Officer. The term of the Debenture is 24 months (two years) and bears interest at 10% per annum calculated on an annual basis and payable monthly. The Debenture is convertible into common shares of the Company at a price of \$0.10 per share at any time at the election of the company holding the Debenture. In the event that the Company's common share price on a Canadian stock exchange is \$0.60 or greater per common share for a period of ten or more consecutive trading days, the Company can force the conversion of the entire principal amount plus interest accrued into common shares of the Company at \$0.10 per share. During the three months ended October 31, 2021, the Company paid \$9,315 (July 31, 2021 - \$Nil) of accrued interest.

The first two debentures had an original maturity date of August 16, 2020 and October 23, 2020. At maturity, the Company extended the debentures twice for one year to August 16, 2022 and October 23, 2022. The third debenture has a maturity date of August 10, 2023. Pursuant to the extensions for the first two debentures, the carrying values of the debentures and the equity features were derecognized and the fair values of the renewed convertible debentures were recognized. The convertible debentures were fair valued using a discount rate of 12%. The resulting calculations allocated \$1,152,616 as the fair value of the debt portion of the convertible debentures with a residual value of \$38,936 allocated as the value of the equity conversion features.

During the three months ended October 31, 2021, \$44,090 (July 31, 2021 - \$71,347) in interest was accrued on the convertible debentures and \$25,933 (July 31, 2021 - \$70,271) was paid. At October 31, 2021, total interest payable of \$18,157 (July 31, 2021 - \$10,220) was included in accounts payable and accrued liabilities.

The continuity of the convertible debentures issued is as follows:

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

For the Three Months Ended October 31, 2021 and 2020

12. CONVERTIBLE DEBENTURES PAYABLE (continued)

	Liability	Equity Portion	Total
Balance, July 31, 2021	\$ 842,491	\$ 28,558	\$ 871,049
Decognize carrying values of original debentures and equity features	(842,491)	(28,558)	(871,049)
Fair value of amended convertible debentures and equity features	819,231	25,305	844,536
Accretion expense	22,321	-	22,321
Repayment of principal	(50,000)	-	(50,000)
Balance, July 31, 2021	\$ 791,552	\$ 25,305	\$ 816,857
Convertible debenture issued during the current period	485,215	16,129	501,344
Decognize carrying values of original debentures and equity features	(694,536)	(25,305)	(719,841)
Fair value of amended convertible debentures and equity features	670,385	22,807	693,192
Accretion expense	8,695	-	8,695
Repayment of principal	(100,000)	-	(100,000)
Balance, October 31, 2021	1,161,311	38,936	1,200,247
Less current portion	(676,096)	-	(676,096)
Non-current portion	\$ 485,215	\$ 38,936	\$ 524,151

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

Unlimited number of common shares without par value

Issued:

	Issued Number	Amount
Balance, July 31, 2020	158,426,056	\$ 31,059,338
Shares issued for cash	5,000,000	550,000
Share issuance costs	-	(61,707)
Stock options exercised	412,500	61,875
Fair value of stock options exercised	-	31,750
Balance, July 31, 2021 and October 31, 2021	163,838,556	\$ 31,641,256

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

For the Three Months Ended October 31, 2021 and 2020

13. SHARE CAPITAL (continued)**a) Common shares** (continued)

On October 21, 2020, the Company completed the first tranche of a private placement and issued 1,363,637 units ("Units") at a price of \$0.11 per Unit, for gross proceeds of \$150,000. Each Unit consists of one common share and one common share purchase warrant ("Unit 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. Cash commission of \$10,500 was paid and 95,455 broker warrants were issued. The broker warrants have the same terms as the Unit warrants. The broker warrants have a total fair value, calculated using the Black-Scholes option pricing model, of \$6,207 or \$0.065 per warrant, assuming an expected life of 2 Three Months, a risk-free interest rate of 0.24%, an expected dividend rate of 0.00%, stock price of \$0.14 and an expected annual volatility coefficient of 97%. Volatility was determined using historical stock prices.

On November 12, 2020, the Company completed the second tranche of a private placement and issued 3,636,363 units ("Units") at a price of \$0.11 per Unit, for gross proceeds of \$400,000. Each Unit consists of one common share and one common share purchase warrant ("Unit 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. Cash commission of \$28,000 was paid and 254,545 broker warrants were issued. The broker warrants have the same terms as the Unit warrants. The broker warrants have a total fair value, calculated using the Black-Scholes option pricing model, of \$17,000 or \$0.067 per warrant, assuming an expected life of 2 Three Months, a risk-free interest rate of 0.26%, an expected dividend rate of 0.00%, stock price of \$0.14 and an expected annual volatility coefficient of 100%. Volatility was determined using historical stock prices.

During the year ended July 31, 2021, 412,500 stock options were exercised at \$0.15 per share for proceeds of \$61,875. The average market price of the Company's common shares over the exercise period was \$0.20 per share.

b) Escrow shares

At October 31, 2021, 690 (July 31, 2021 – 690) common shares are held in escrow.

c) Warrants outstanding

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2020	35,363,633	\$ 0.0733
Warrants expired	(8,348,753)	1.4073
Warrants issued	5,000,000	0.1500
Balance, July 31, 2021	32,014,880	0.5290
Warrants expired	(2,772,658)	1.1239
Balance, October 31, 2021	29,242,222	\$ 0.4726

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

For the Three Months Ended October 31, 2021 and 2020

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

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
December 10, 2021	0.11	1,449,275	0.5750
January 13, 2022	0.20	6,675,652	0.8000
January 18, 2022	0.22	1,479,289	0.5630
January 30, 2022	0.25	1,552,795	0.5380
February 8, 2022	0.27	1,449,275	0.5750
February 28, 2022	0.33	1,623,377	0.5120
March 14, 2022	0.37	1,623,377	0.5120
March 29, 2022	0.41	1,901,141	0.4380
July 15, 2022	0.70	5,222,219	0.3000
July 22, 2022	0.72	1,265,822	0.2620
October 22, 2022	0.98	1,363,637	0.1500
November 12, 2022	1.03	3,636,363	0.1500
		29,242,222	\$ 0.4726

d) Agent warrants outstanding

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2020	5,385,000	\$ 1.20
Warrants issued	350,000	0.15
Balance, July 31, 2021 and October 31, 2021	5,735,000	\$ 1.14

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
March 13, 2022	0.36	5,385,000	\$ 1.20
October 22, 2022	0.98	95,455	0.15
November 12, 2022	1.03	254,545	0.15
		5,735,000	\$ 1.14

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

For the Three Months Ended October 31, 2021 and 2020

14. SHARE-BASED COMPENSATION

The Company is authorized to grant options to directors, officers, employees, and consultants to acquire common shares under the 2015 Stock Option Incentive Plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's common shares issuable pursuant to options granted under the Plan may not exceed 10% of the issued common shares of the Company from time to time. Options granted under the Plan may have a maximum term of ten (10) years. The exercise price of options granted under the Plan will not be less than the fair market value price of the shares on the date of grant of the options (defined as the last closing market price of the Company's shares on the last day shares are traded prior to the grant date). Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors. Stock options granted under the Plan are to be settled with the issuance of equity instruments.

The following summarizes the stock options outstanding:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2020	11,125,000	\$ 0.535
Options granted	9,350,000	0.210
Options exercised	(412,500)	0.150
Options cancelled	(2,387,500)	0.403
Options expired	(7,800,000)	0.630
Balance, July 31, 2021	9,875,000	0.200
Options cancelled	(250,000)	0.189
Balance, October 31, 2021	9,625,000	\$ 0.200

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Vested	Number of Options Outstanding	Exercise Price
December 12, 2019	December 12, 2021	0.12	1,225,000	1,225,000	0.150
March 9, 2020	March 9, 2022	0.35	50,000	50,000	0.150
May 26, 2020	May 26, 2022	0.57	150,000	150,000	0.150
February 12, 2021	February 12, 2023	1.28	5,550,000	7,400,000	0.215
March 17, 2021	March 17, 2023	1.38	50,000	500,000	0.165
June 14, 2021	June 14, 2023	1.62	300,000	300,000	0.130
			7,325,000	9,625,000	\$ 0.200

THC BIOMED INTL LTD.

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

For the Three Months Ended October 31, 2021 and 2020

14. SHARE-BASED COMPENSATION (continued)

On February 12, 2021, the Company granted 8,550,000 stock options to a certain employees to acquire 8,550,000 common shares of the Company with an expiry date of February 12, 2023 at \$0.215 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 \$786,294 or \$0.09 per option, assuming an expected life of 2 Three Months, a risk-free interest rate of 0.19%, an expected dividend rate of 0.00%, stock price of \$0.215 and an expected annual volatility coefficient of 80%. Volatility was determined using historical stock prices. During the year ended July 31, 2021, the Company recognized \$602,082 in share-based compensation.

On March 17, 2021, the Company granted 500,000 stock options to a certain consultant to acquire 500,000 common shares of the Company with an expiry date of March 17, 2023 at \$0.165 per share. 50,000 options vest immediately upon grant with the balance vested once certain milestones are achieved. Options terminate immediately upon cessation of services to the Company. On initial recognition of the share-based compensation associated with the stock options, the Company estimated the likelihood of achieving the milestones as being unlikely. This estimate impacted the estimated fair value of the options on the grant date. The 50,000 options which vested immediately upon grant have a total fair value, calculated using the Black-Scholes option pricing model, of \$3,703 or \$0.07 per option, assuming an expected life of 2 Three Months, a risk-free interest rate of 0.27%, an expected dividend rate of 0.00%, stock price of \$0.17 and an expected annual volatility coefficient of 80%. Volatility was determined using historical stock prices. During the year ended July 31, 2021, the Company recognized \$3,703 in share-based compensation.

On June 14, 2021, the Company granted 300,000 stock options to a certain consultant to acquire 300,000 common shares of the Company with an expiry date of June 14, 2023 at \$0.13 per share. The options vest immediately. The options have a total fair value, calculated using the Black-Scholes option pricing model, of \$15,713 or \$0.05 per option, assuming an expected life of 2 Three Months, a risk-free interest rate of 0.32%, an expected dividend rate of 0.00%, stock price of \$0.125 and an expected annual volatility coefficient of 80%. Volatility was determined using historical stock prices. During the year ended July 31, 2021, the Company recognized \$15,713 in share-based compensation.

During the year ended July 31, 2021, 2,387,500 stock options were cancelled with an average weighted exercise price of \$0.40. On cancellation of the stock options, \$446,629 of share-based compensation included in Share-Based Payment Reserve was reallocated to Deficit.

During the year ended July 31, 2021, 7,800,000 stock options expired with an average weighted exercise price of \$0.63. On expiration of the stock options, \$2,642,567 of share-based compensation included in Share-Based Payment Reserve was reallocated to Deficit.

During the three months ended October 31, 2021, 2,772,658 warrants expired with an average exercise price of \$1.12, and 250,000 stock options were cancelled with an average exercise price of \$0.19.

15. REVENUE

The total revenue earned for the three months ended October 31, 2021 includes excise taxes of \$311,595 (October 31, 2020 - \$161,458).

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

For the Three Months Ended October 31, 2021 and 2020

16. GENERAL AND ADMINISTRATION EXPENSES

	October 31	October 31
	2021	2020
Automobile expenses	\$ 1,385	\$ 1,888
Bank charges and interest	111,932	99,156
Consulting fees	2,840	-
Director fees	25,585	24,472
Insurance	1,392	4,357
Investor relations	21,570	11,589
Legal and accounting	63,441	59,447
Office and sundry	18,276	17,804
Payroll and benefits	79,214	72,831
Property tax	7,606	7,828
Telephone	3,799	4,964
Transfer agent and filing fees	12,776	12,061
Travel	6,377	3,599
	\$ 356,193	\$ 319,996

17. SEGMENTED INFORMATION

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

18. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital are as follows:

	October 31	October 31
	2021	2020
Amounts receivable	\$ (13,065)	\$ (175,728)
Biological asserts	(197,407)	571,588
Inventory	137,091	(589,423)
Prepaid expenses and deposits	1,178	73,074
Accounts payable and accrued liabilities	(293,649)	7,936
	\$ (365,852)	\$ (112,553)

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

For the Three Months Ended October 31, 2021 and 2020

18. SUPPLEMENTAL CASH FLOW INFORMATION (continued)

	October 31 2021	October 31 2020
Fair value of stock options cancelled and expired	\$ 18,380	\$ 2,040,564
Income taxes paid	\$ -	\$ -
Interest paid	\$ 103,585	\$ 51,504
Interest received	\$ 5	\$ 32

19. RELATED PARTY TRANSACTIONS

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

	October 31 2021	October 31 2020
Director fees	\$ 24,000	\$ 23,000
Interest	11,233	-
Rent	33,800	33,800
Salaries and benefits	50,000	75,002
Share-based compensation	16,549	4,484
	\$ 135,582	\$ 136,286

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.

THC BIOMED INTL LTD.

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

For the Three Months Ended October 31, 2021 and 2020

19. RELATED PARTY TRANSACTIONS (continued)

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.

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 had no interest for the first three calendar months following its withdrawal. In the event that a draw down amount was not repaid on the business day following the last day of the third month following the withdrawal, then interest would incur on that draw down at a rate of Prime plus 1%. Interest was calculated and payable monthly on the last business day of each month until the Line of Credit was repaid in full. During the year ended July 31, 2020, the Line of Credit was paid in full with interest paid in the amount of \$2,767.

On January 13, 2020, the Company issued 5,333,333 Units of a non-brokerage private placement to John Miller, the President and Chief Executive Officer, 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.

On August 10, 2021, the Company closed a non-brokered private placement of convertible debentures for gross proceeds of \$500,000 (the "Debenture") from a company owned by the Chief Executive Officer and Chief Financial Officer. The term of the Debenture is 24 months (two years) and bears interest at 10% per annum calculated on an annual basis and payable monthly. The Debenture is convertible into common shares of the Company at a price of \$0.10 per share at any time at the election of the company holding the Debenture. In the event that the Company's common share price on a Canadian stock exchange is \$0.60 or greater per common share for a period of ten or more consecutive trading days, the Company can force the conversion of the entire principal amount plus interest accrued into common shares of the Company at \$0.10 per share. During the three months ended October 31, 2021, the Company paid \$9,315 (July 31, 2021 - \$Nil) of accrued interest.

At October 31, 2021, the Chief Executive Officer owes \$123,810 (July 31, 2021 - \$110,757) to the Company.

THC BIOMED INTL LTD.

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

For the Three Months Ended October 31, 2021 and 2020

19. RELATED PARTY TRANSACTIONS (continued)

Close family members of the Chief Executive Officer were paid salaries in the amount of \$29,842 (October 31, 2020 - \$25,834) for the three months ended October 31, 2021 and stock options with share-based compensation totaling \$8,275 (October 31, 2020 - \$1,495).

Amounts due to or from related parties are unsecured, do not bear interest, and are classified as a current asset or liability due to their nature and expected time of repayment.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist.

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 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 measured at fair value at issuance using a discount rate of 12%.

The carrying values of cash, other and trades receivables, amounts due from related party, accounts payable and accrued liabilities, commercial operating loan, and mortgages payable all approximate their fair values due the short term nature of the financial instrument, or the market rates of interest attached thereto.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**b) Market risk**

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

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.

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.

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 dates. 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.

(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.

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

For the Three Months Ended October 31, 2021 and 2020

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**b) Market risk (continued)****(ii) Foreign currency risk (continued)**

At October 31, 2021, the Company is exposed to foreign currency risk with respect to its US denominated bank account and accounts payable, and Euro and Australian denominated accounts payable. At October 31, 2021, approximately \$35,307 (US\$28,510) (July 31, 2021 - \$17,352 or US\$13,924) of the Company's cash was in US Dollars and \$20,743 (US\$16,750) (July 31, 2021 - \$20,874 or US\$16,750) was in accounts payable and accrued liabilities. A 10% change in the US foreign exchange rate would result in a change of 1,456 (July 31, 2021 - \$350) to the unrealized gain or loss. The Company has approximately \$3,868 (Euro 2,697) (July 31, 2021 - \$3,989 or Euro 2,697) in accounts payable and accrued liabilities. A 10% change in the Euro foreign exchange rate would result in a change of \$386 (July 31, 2021 - \$400) to the unrealized gain or loss. The Company has approximately \$3,698 (AUD 3,971) (July 31, 2021 - \$3,638 or AUD 3,971) in accounts payable and accrued liabilities. A 10% change in the AUD foreign exchange rate would result in a change of \$369 (July 31, 2021 - \$360) to the unrealized gain or loss.

At October 31, 2021, financial instruments were converted at a rate of US\$1.2384 to \$1 Canadian; 1.4338 Euro to \$1 Canadian; and 0.9310 AUD to \$1 Canadian.

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

(iii) 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.

c) 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 other and trade receivables. 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 expected credit loss model and no material difference was noted. At October 31, 2021, 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.

d) 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.

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

For the Three Months Ended October 31, 2021 and 2020

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**d) Liquidity risk (continued)**

The Company's expected source of cash flow in the upcoming year will be through sales and debt or equity financing. Cash on hand at October 31, 2021 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.

e) 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 to managing capital remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, options, 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.

At October 31, 2021, total managed capital was \$9,941,555 (July 31, 2021 - \$9,783,409).

21. SUBSEQUENT EVENT

On November 1, 2021, the Company entered into a lease for an additional unit at the facility on Acland Road in Kelowna, British Columbia. The lease is for a five year term expiring October 31, 2026. The monthly lease payment is \$2,500 plus costs of \$726 excluding the Goods and Services Tax.