THC BIOMED INTL LTD.

Condensed Interim Consolidated Financial Statements

For the Six Months Ended January 31, 2022 and 2021

(Expressed in Canadian Dollars)

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Notice to Readers

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

The accompanying unaudited condensed interim consolidated financial statements of THC BioMed Intl Ltd. for the six months ended January 31, 2022 and 2021 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or a review of these condensed interim consolidated financial statements.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on April 1, 2022. They are signed on the Company's behalf by:

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

THC BIOMED INTL LTD.

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

	For the three months ended		For the six months ended	
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	January 31	January 31	**January 31**	January 31
	2022	2021	**2022**	2021
Revenue (note 15)	**$ 606,826**	$ 1,021,989	**$ 1,743,622**	$ 1,644,014
Cost of sales (notes 5 and 6)	**(436,672)**	(1,226,557)	**(1,505,783)**	(1,955,936)
Gross profit (loss) before fair value adjustments	**170,154**	(204,568)	**237,839**	(311,922)
Realized fair value changes in biological assets included in inventory sold	**(69,762)**	(577,346)	**(300,108)**	(1,155,671)
Unrealized gain (loss) on changes in fair value of biological assets	**(1,042,459)**	(1,485,291)	**(168,037)**	(886,613)
Net change in fair value (note 5)	**(1,112,221)**	(2,062,637)	**(468,145)**	(2,042,284)
Gross margin profit (loss)	**(942,067)**	(2,267,205)	**(230,306)**	(2,354,206)
Expenses				
Depreciation and amortization (note 7)	**234,983**	245,767	**454,835**	487,649
General and administration (notes 16 and 19)	**348,730**	328,842	**704,923**	648,838
Sales and marketing	**14,909**	10,374	**22,652**	20,346
Share-based compensation (notes 14 and 19)	**-**	66,199	**94,204**	100,819
	598,622	651,182	**1,276,614**	1,257,652
Other income (expense) items				
Accretion expense on convertible debentures (note 12)	**(7,719)**	-	**(16,414)**	-
Foreign exchange gain (loss)	**1,060**	(3,559)	**643**	(2,465)
Interest income	**7**	70	**12**	102
Other	**325**	366	**669**	534
	(6,327)	(3,123)	**(15,090)**	(1,829)
Net and comprehensive loss for the period	**$ (1,547,016)**	$ (2,921,510)	**$ (1,522,010)**	$ (3,613,687)
Basic and diluted loss per share	**$ (0.01)**	$ (0.02)	**$ (0.01)**	$ (0.02)
Weighted average number of shares outstanding	**163,895,078**	162,951,748	**163,866,817**	160,763,013

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

THC BIOMED INTL LTD.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	January 31 2022	July 31 2021
Assets		
Current		
Cash	**$ 125,028**	$ 111,162
Amounts receivable (note 4)	**358,554**	553,305
Due from related party (note 19)	**118,968**	110,757
Biological assets (note 5)	**887,947**	1,259,124
Inventory (note 6)	**2,385,921**	1,961,284
Prepaid expenses and deposits	**501,720**	275,803
	4,378,138	4,271,435
Non-current		
Property and equipment (note 7)	**13,033,255**	13,125,006
	$17,411,393	$ 17,396,441
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 8 and 10)	**$ 3,021,493**	$ 3,041,464
Commercial operating loan (note 9)	**483,301**	486,004
Current portion of mortgages payable (note 10)	**1,612,659**	1,482,368
Curent portion of other liabilities (note 11)	**213,125**	167,104
Convertible debentures payable (note 12)	**903,573**	791,552
	6,234,151	5,968,492
Non-current		
Mortgages payable (note 10)	**2,115,750**	1,605,878
Other liabilities (note 11)	**136,496**	38,662
Convertible debentures payable (note 12)	**491,263**	-
	2,743,509	**1,644,540**
	8,977,660	7,613,032
Shareholders' Equity		
Share capital (note 13)	**31,664,098**	31,641,256
Reserves	**8,652,612**	8,693,174
Accumulated deficit	**(31,882,977)**	(30,551,021)
	8,433,733	9,783,409
	$17,411,393	$ 17,396,441

Nature of operations (note 1)

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

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
Stock options exercised	100,000	15,000	-	-	-	-	15,000
Fair value of stock options exercised	-	7,842	(7,842)	-	-	-	-
Reverse fair value of stock options cancelled	-	-	(77,458)	-	-	77,458	-
Reverse fair value of stock options expired	-	-	(87,291)	-	-	87,291	-
Equity feature on previous convertible debentures	-	-	-	-	(25,305)	25,305	-
Equity feature on convertible debentures	-	-	-	-	63,130	-	63,130
Share-based compensation	-	-	94,204	-	-	-	94,204
Net and comprehensive loss for the period	-	-	-	-	-	(1,522,010)	(1,522,010)
Balance, January 31, 2022	**163,938,556**	**$ 31,664,098**	**$ 604,821**	**$ 7,984,661**	**$ 63,130**	**$(31,882,977)**	**$ 8,433,733**
Balance, July 31, 2020	158,426,056	$ 31,059,338	$ 3,133,143	$ 7,961,454	$ 28,558	$(27,309,521)	$ 14,872,972
Shares issued for cash	5,000,000	550,000	-	-	-	-	550,000
Share issuance costs	-	(50,500)	-	-	-	-	(50,500)
Reverse fair value of stock options cancelled	-	-	(377,985)	-	-	377,985	-
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	-	-	-	-	15,636	-	15,636
Share-based compensation	-	-	100,819	-	-	-	100,819
Net and comprehensive loss for the period	-	-	-	-	-	(3,613,687)	(3,613,687)
Balance, January 31, 2021	163,426,056	$ 31,558,838	$ 1,167,563	$ 7,961,454	$ 15,636	$(28,828,251)	$ 11,875,240

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

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

	For the three months ended		For the six months ended	
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	January 31	January 31	**January 31**	January 31
	2022	2021	**2022**	2021
Cash provided by (used for)				
Operating activities				
Net and comprehensive loss for the period	**$ (1,547,016)**	$ (2,921,510)	**$ (1,522,010)**	$ (3,613,687)
Items not affecting cash				
Depreciation and amortization	**234,983**	245,767	**454,835**	487,649
Interest expense from right of use assets	**6,759**	7,971	**10,763**	13,461
Realized fair value changes in biological assets included in inventory sold	**69,762**	577,346	**300,108**	1,155,671
Share-based compensation	**-**	66,199	**94,204**	100,819
Unrealized gain on changes of fair value of biological assets	**1,042,459**	1,485,291	**168,037**	886,613
	(193,053)	(538,936)	**(494,063)**	(969,474)
Net change in non-cash working capital	**(190,476)**	647,567	**(656,328)**	535,014
	(383,529)	108,631	**(1,150,391)**	(434,460)
Financing activities				
Convertible debentures issued	**250,000**	-	**750,000**	-
Issuance of shares for cash, net of share issuance costs	**15,000**	360,000	**15,000**	499,500
Net mortgage principal received (repaid)	**(42,666)**	492,695	**640,163**	463,996
Net lease payments for right of use assets	**177,490**	(51,193)	**133,092**	(88,178)
Net proceeds received (repaid) on commercial operating loan	**11,481**	(123,562)	**(2,703)**	(128,098)
	411,305	677,940	**1,535,552**	747,220
Investing activities				
Acquisition of property and equipment	**(284,686)**	(226,908)	**(363,084)**	(268,401)
Advances (to) from related parties	**4,842**	(20,652)	**(8,211)**	(24,716)
	(279,844)	(247,560)	**(371,295)**	(293,117)
Net increase (decrease) in cash	**(252,068)**	539,011	**13,866**	19,643
Cash, beginning of period	**377,096**	232,091	**111,162**	751,459
Cash, end of period	**$ 125,028**	$ 771,102	**$ 125,028**	$ 771,102

Supplemental cash flow information (note 18)

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.

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 April 1, 2022.

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.

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 12. 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.

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.

(Expressed in Canadian Dollars)

4. AMOUNTS RECEIVABLE

	January 31 2022	July 31 2021
Canadian Emergency Wage and Rent Subsidies	**$ -**	$ 189,685
Trade receivables	**358,554**	363,620
	$ 358,554	$ 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. The Company's eligibility for these subsidies ended on October 23, 2021 as phased out by the Government of Canada.

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.

	January 31 2022	July 31 2021
Carrying amount, beginning of year	**$ 1,259,124**	$ 3,200,051
Capitalized costs	**1,050,125**	2,742,548
Sales of biological assets	**(587)**	(992)
Transferred to inventory upon harvest	**(952,570)**	(1,758,580)
Net change in fair value	**(468,145)**	(2,923,903)
Carrying amount, end of period	**$ 887,947**	$ 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 44 (July 30, 2021 – 66) 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 $3.00 per gram (July 31, 2021 - $3.00 per gram); and
f) average selling costs of $1.72 per gram (July 31, 2021 - $1.25 per gram).

(Expressed in Canadian Dollars)

5. BIOLOGICAL ASSETS (continued)

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 six months ended January 31, 2022, the Company's biological assets produced 571 (July 31, 2021 – 1,369) kilograms of dried cannabis. At January 31, 2022, the weighted average stage of growth for the biological assets was 46% (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**	
	January 31 2022	July 31 2021	**January 31 2022**	July 31 2021
Average selling price per gram	**$ 3.00**	$ 3.00	**$ 903**	$ 117,203
Average selling cost per gram	**$ 1.72**	$ 1.25	**$ 67,348**	$ 48,835
Average yield per plant	**44 grams**	66 grams	**$ 171,227**	$ 410,742

6. INVENTORY

Inventory is comprised of the following:

	January 31 2022	July 31 2021
Finished goods	**$ 400,581**	$ 436,313
Supplies and consumables	**257,644**	295,794
Unpackaged cannabis and edibles	**1,727,696**	1,229,177
Carrying amount - inventory	**$ 2,385,921**	$ 1,961,284

Inventory expensed during the six months ended January 31, 2022 was $723,730 (January31, 2021 - $1,955,936).

(Expressed in Canadian Dollars)

7. PROPERTY AND EQUIPMENT

	July 31 2020	Additions	July 31 2021	Additions	**January 31 2022**
Cost					
Automobile equipment	$ 33,600	$ -	$ 33,600	$ -	**$ 33,600**
Buildings	6,773,321	255,366	7,028,687	49,178	**7,077,865**
Computer equipment	83,652	-	83,652	7,247	**90,899**
Equipment	2,193,773	105,617	2,299,390	66,894	**2,366,284**
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	4,800	**1,599,086**
Right of use property	482,708	-	482,708	234,965	**717,673**
Software	81,002	-	81,002	-	**81,002**
	$ 15,699,427	$ 369,310	$ 16,068,737	$ 363,084	**$ 16,431,821**

	July 31 2020	Depreciation/ Amortization	July 31 2021	Depreciation/ Amortization	**January 31 2022**
Accumulated Depreciation/Amortization					
Automobile equipment	$ 10,080	$ 5,040	$ 15,120	$ 2,520	**$ 17,640**
Buildings	508,018	255,720	763,738	125,791	**889,529**
Computer equipment	71,115	6,896	78,011	2,548	**80,559**
Equipment	626,967	323,923	950,890	138,195	**1,089,085**
Furniture and fixtures	39,013	11,964	50,977	4,785	**55,762**
Leasehold improvements	491,974	219,629	711,603	88,508	**800,111**
Right of use property	135,605	156,785	292,390	92,488	**384,878**
Software	81,002	-	81,002	-	**81,002**
	$ 1,963,774	$ 979,957	$ 2,943,731	$ 454,835	**$ 3,398,566**
Carrying Amounts	$ 13,735,653		$ 13,125,006		**$ 13,033,255**

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	January 31 2022	July 31 2021
Accrued liabilities	**$ 122,537**	$ 166,007
Excise taxes payable	**1,255,127**	1,387,980
Goods and services tax payable	**250,288**	204,984
Trade payables	**1,393,541**	1,282,493
	$ 3,021,493	$ 3,041,464

(Expressed in Canadian Dollars)

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 January 31, 2022, the balance payable is $483,301 (July 31, 2021 - $486,004).

10. MORTGAGES PAYABLE

	January 31 2022	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	**(359,837)**	(127,418)
Total mortgages	**3,728,409**	3,088,246
Less current portion	**(1,612,659)**	(1,482,368)
Non-current portion	**$ 2,115,750**	$ 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 was extended again to August 21, 2021 on the same terms. 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. 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. January 31, 2022, the balance payable is $257,603 (July 31, 2021- $263,666) with accrued interest of $2,147 (July 31, 2021 - $990) included in accounts payable and accrued liabilities.

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 January 31, 2022, the balance payable is $379,635 (July 31, 2021 - $383,395) with accrued interest of $3,164 (July 31, 2021 - $3,195) included in accounts payable and accrued liabilities.

10. MORTGAGES PAYABLE (continued)

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 January 31, 2022, the balance payable is $427,265 (July 31, 2021 - $434,105) with accrued interest of $1,477 (July 31, 2021 - $1,624) 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 January 31, 2022, the balance payable is $396,401 (July 31, 2021 - $372,373) with accrued interest of $982 (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 January 31, 2022, the balance payable is $913,146 (July 31, 2021 - $944,207) with accrued interest of $2,504 (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 January 31, 2022, the balance payable is $363,270 (July 31, 2021 - $403,755) with accrued interest of $1,101 (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 January 31, 2022, the balance payable is $991,088 (July 31, 2021 - $Nil) with accrued interest of $2,717 (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.

(Expressed in Canadian Dollars)

11. OTHER LIABILITIES

The following table presents the lease obligations of the Company:

	January 31 2022	July 31 2021
Operating lease obligations recognized at beginning of the year	**$ 205,766**	$ 358,777
Lease obligations recognized during the period	**246,217**	-
Payments of lease obligations	**(91,108)**	(176,873)
Interest expense on lease obligations	**(11,254)**	23,862
Lease obligations balance at end of the period	**$ 349,621**	$ 205,766

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

	January 31 2022	July 31 2021
Lease obligations balance at end of the period	**$ 349,621**	$ 205,766
Current portion	**(213,125)**	(167,104)
Long term portion	**$ 136,496**	$ 38,662

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

	January 31 2022	July 31 2021
Less than one year	**$ 191,755**	$ 177,605
One to five years	**154,613**	38,603
Total undiscounted lease obligations	**$ 346,368**	$ 216,208

At January 31, 2022, the lease liabilities totaled $349,621 (July 31, 2021 - $205,766). Three of the leases expire on August 31, 2022, one expires on September 30, 2022, one expires on January 14, 2023, one expires on February 28, 2023 and one expires on October 31, 2026.

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.

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 six months ended January 31, 2022, the Company paid $21,338 (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 six months ended January 31, 2022, the Company repaid $100,000 (July 31, 2021 - $50,000) of principal and paid $3,041 (July 31, 2021 - $19,639) 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.

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 six months ended January 31, 2022, the Company paid $20,833 of accrued interest.

On January 7, 2022, the Company closed a non-brokered private placement of convertible debentures for gross proceeds of $250,000 (the "Debenture") from a company owned by the Chief Executive Officer and Chief Financial Officer. The term of the Debenture is 12 months (one year) and bears interest at 12% per annum calculated on an annual basis and payable monthly. The Debenture is convertible into common shares of the Company at a price of $0.08 per share or 3,125,000 common shares of the Company 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 $0.08 per share. During the six months ended January 31, 2022, the Company paid $Nil of accrued interest.

(Expressed in Canadian Dollars)

12. CONVERTIBLE DEBENTURES PAYABLE (continued)

During the six months ended January 31, 2022, $79,151(July 31, 2021 - $71,347) in interest was accrued on the convertible debentures and $28,071 (July 31, 2021 - $70,271) was paid. At January 31, 2022, total interest payable of $51,080 (July 31, 2021 - $10,220) was included in accounts payable and accrued liabilities.

The continuity of the convertible debentures issued is as follows:

	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 debentures issued during the current period	711,021	40,323	751,344
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	16,414	-	16,414
Repayment of principal	(100,000)	-	(100,000)
Balance, January 31, 2022	**1,394,836**	**63,130**	**1,457,966**
Less current portion	**(491,263)**	**-**	**(491,263)**
Non-current portion	**$ 903,573**	**$ 63,130**	**$ 966,703**

13. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value

Issued:

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

a) Common shares (continued)

	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	163,838,556	$	31,641,256
Stock options exercised	100,000		15,000
Fair value of stock options exercised	-		7,842
Balance, January 31, 2022	**163,938,556**	**$**	**31,664,098**

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.

On December 10, 2021, a total of 100,000 stock options were exercised at $0.15 per share by the Chief Executive Officer and the Chief Financial Officer for gross proceeds of $15,000. The average market price of the Company's common shares over the exercise period was $0.26 per share.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

b) Escrow shares

At January 31, 2022, 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	(13,929,669)		0.2237
Balance, January 31, 2022	**18,085,211**	**$**	**0.3305**

Expiry Date	Remaining Life (Years)	Number of Warrants		Exercise Price
February 8, 2022	0.02	1,449,275		0.5750
February 28, 2022	0.08	1,623,377		0.5120
March 14, 2022	0.12	1,623,377		0.5120
March 29, 2022	0.16	1,901,141		0.4380
July 15, 2022	0.45	5,222,219		0.3000
July 22, 2022	0.47	1,265,822		0.2620
October 22, 2022	0.72	1,363,637		0.1500
November 12, 2022	0.78	3,636,363		0.1500
		18,085,211	$	0.3305

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 January 31, 2022	**5,735,000**	**$**	**1.14**

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

d) Agent warrants outstanding

Expiry Date	Remaining Life (Years)	Number of Warrants	Exercise Price
March 13, 2022	0.11	5,385,000	$ 1.20
October 22, 2022	0.72	95,455	0.15
November 12, 2022	0.78	254,545	0.15
		5,735,000	$ 1.14

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 exercised	(100,000)	0.150
Options cancelled	(950,000)	0.200
Options expired	(1,125,000)	0.150
Balance, January 31, 2022	**7,700,000**	**$ 0.200**

(Expressed in Canadian Dollars)

14. SHARE-BASED COMPENSATION (continued)

Date of Grant	Expiry Date	Remaining Life (Years)	Number of Options Vested	Number of Options Outstanding	Exercise Price
March 9, 2020	March 9, 2022	0.10	50,000	50,000	0.150
May 26, 2020	May 26, 2022	0.32	100,000	100,000	0.150
February 12, 2021	February 12, 2023	1.03	5,550,000	6,750,000	0.215
March 17, 2021	March 17, 2023	1.12	50,000	500,000	0.165
June 14, 2021	June 14, 2023	1.37	300,000	300,000	0.130
			6,050,000	7,700,000	$ 0.200

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.

(Expressed in Canadian Dollars)

14. SHARE-BASED COMPENSATION (continued)

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 six months ended January 31, 2022, 950,000 stock options were cancelled with an average exercise price of $0.20, and 1,125,000 stock options expired with an exercise price of $0.15.

15. REVENUE

The total revenue earned for the six months ended January 31, 2022 includes excise taxes of $470,487 (January 31, 2021 - $464,765).

16. GENERAL AND ADMINISTRATION EXPENSES

	For the three months ended		For the six months ended	
	January 31 2022	January 31 2021	**January 31 2022**	January 31 2021
Automobile expenses	**$ 567**	$ 1,802	**$ 1,952**	$ 3,690
Bank charges and interest	**91,357**	71,126	**203,289**	170,282
Consulting fees	**-**	6,808	**2,840**	6,808
Director fees	**25,611**	25,558	**51,196**	50,030
Insurance	**1,489**	3,729	**2,881**	8,086
Investor relations	**16,008**	22,201	**37,578**	33,790
Legal and accounting	**100,689**	36,959	**164,130**	96,406
Office and sundry	**17,738**	22,461	**36,014**	38,213
Payroll and benefits	**65,466**	105,593	**144,680**	178,424
Property tax	**7,605**	7,827	**15,211**	15,655
Strata fees	**-**	2,052	**-**	4,104
Telephone	**3,518**	3,725	**7,317**	8,689
Transfer agent and filing fees	**16,849**	17,030	**29,625**	29,091
Travel	**1,833**	1,971	**8,210**	5,570
	$ 348,730	$ 328,842	**$ 704,923**	$ 648,838

17. SEGMENTED INFORMATION

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

(Expressed in Canadian Dollars)

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

	January 31 2022	January 31 2021
Amounts receivable	**$ 194,751**	$ (221,544)
Biological asserts	**(627,215)**	9,622
Inventory	**(424,637)**	428,873
Prepaid expenses and deposits	**(225,917)**	(7,595)
Accounts payable and accrued liabilities	**(103,557)**	325,658
	$ (1,186,575)	$ 535,014

Other supplemental cash flow information is as follows:

	January 31 2022	January 31 2021
Fair value of stock options exercised, cancelled and expired	**$ 172,591**	$ 2,066,399
Income taxes paid	**$ -**	$ -
Interest paid	**$ 196,033**	$ 135,696
Interest received	**$ 12**	$ 102

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:

	January 31 2022	January 31 2021
Director fees	**$ 48,000**	$ 47,000
Interest	**20,838**	-
Rent	**67,600**	67,600
Salaries and benefits	**100,000**	150,000
Share-based compensation	**16,549**	12,766
	$ 252,988	$ 277,366

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 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.

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.

19. RELATED PARTY TRANSACTIONS (continued)

On January 7, 2022, the Company closed a non-brokered private placement of convertible debentures for gross proceeds of $250,000 (the "Debenture") from a company owned by the Chief Executive Officer and Chief Financial Officer. The term of the Debenture is 12 months (one year) and bears interest at 12% per annum calculated on an annual basis and payable monthly. The Debenture is convertible into common shares of the Company at a price of $0.08 per share or 3,125,000 common shares of the Company 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 $0.08 per share.

At January 31, 2022, the Chief Executive Officer owes $118,968 (July 31, 2021 - $110,757) to the Company.

Close family members of the Chief Executive Officer were paid salaries in the amount of $54,844 (January 31, 2021 - $50,004) for the six months ended January 31, 2022 and stock options with share-based compensation totaling $8,275 (January 31, 2021 - $4,928).

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.

20. 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 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.

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.

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(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.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Market risk (continued)

(ii) Foreign currency risk

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

At January 31, 2022, 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 January 31, 2022, approximately $27,415 (US$21,554) (July 31, 2021 - $17,352 or US$13,924) of the Company's cash was in US Dollars and $21,304 (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 $2,740 (July 31, 2021 - $350) to the unrealized gain or loss. The Company has approximately $3,846 (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 $384 (July 31, 2021 - $400) to the unrealized gain or loss. The Company has approximately $3,567 (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 $357 (July 31, 2021 - $360) to the unrealized gain or loss.

At January 31, 2022, financial instruments were converted at a rate of US$1.2719 to $1 Canadian; 1.4260 Euro to $1 Canadian; and 0.8984 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 January 31, 2022, 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.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

The Company's expected source of cash flow in the upcoming year will be through sales and debt or equity financing. Cash on hand at January 31, 2022 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.

d) 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 January 31, 2022, total managed capital was $8,844,733 (July 31, 2021 - $9,783,409).