



**THC BIOMED INTL LTD.**

**Consolidated Financial Statements**

**For the Years Ended July 31, 2022 and 2021**

**(Expressed in Canadian Dollars)**

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

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## MANAGEMENT'S RESPONSIBILITY

To the Shareholders of THC BioMed Intl Ltd.:

Management is responsible for the preparation of the consolidated financial statements and accompanying note disclosures in accordance with International Financial Reporting Standards. This responsibility includes selection of appropriate accounting policies and principles as well as decisions related to significant estimates and areas of judgment.

In discharging its responsibilities to support the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are properly maintained to provide reliable information.

The Board of Directors includes Independent Directors and the Audit Committee is chaired by an Independent Director. The Board is responsible for the oversight of management in the performance of its financial reporting responsibilities. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

Baker Tilly WM LLP, an independent registered public accounting firm, has been appointed by the Company's shareholders to audit the consolidated financial statements and report directly to them. The external auditors have full and free access to the Audit Committee and management to discuss their audit findings.

November 23, 2022

*"John Miller"*

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Chief Executive Officer

*"Hee Jung Chun"*

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Chief Financial Officer

## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of THC BioMed Intl Ltd.:

### ***Opinion***

We have audited the consolidated financial statements of THC BioMed Intl Ltd. and its subsidiaries (together the “Company”), which comprise the consolidated statements of financial position as at July 31, 2022 and 2021, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at July 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### ***Basis for Opinion***

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

### **Material Uncertainty Related to Going Concern**

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

### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

*Baker Tilly WM LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.  
November 23, 2022

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

<b>For the Years Ended</b>	<b>July 31 2022</b>	<b>July 31 2021</b>
Revenue (note 16)	\$ 3,339,997	\$ 3,774,321
Cost of sales (notes 5 and 7)	(3,331,247)	(4,024,679)
Gross profit (loss) before fair value adjustments	8,750	(250,358)
Realized fair value changes in biological assets included in inventory sold	(662,376)	(1,915,973)
Unrealized loss on changes in fair value of biological assets	(376,021)	(1,007,930)
Net change in fair value (note 6)	(1,038,397)	(2,923,903)
Gross loss after fair value adjustments	(1,029,647)	(3,174,261)
Expenses		
Depreciation and amortization (note 8)	928,537	979,957
General and administration (notes 17 and 21)	1,504,042	1,452,297
Sales and marketing	60,121	57,205
Share-based compensation (notes 15 and 21)	137,440	671,011
	2,630,140	3,160,470
Other income (expense) items		
Accretion expense on convertible debentures (note 13)	(43,946)	(22,321)
Foreign exchange gain (loss)	2,431	(3,499)
Extinguishment of accounts payable	173,824	-
Gain on sale of asset (note 8)	455,381	-
Interest income	5,970	129
Other	279	1,168
	593,939	(24,523)
<b>Net and comprehensive loss for the year</b>	<b>\$ (3,065,848)</b>	<b>\$ (6,359,254)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.02)</b>	<b>\$ (0.04)</b>
<b>Weighted average number of shares outstanding</b>	<b>163,902,392</b>	<b>163,565,571</b>

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

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

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<b>As at</b>	<b>July 31 2022</b>	<b>July 31 2021</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 484,085	\$ 111,162
Amounts receivable (note 5)	446,518	553,305
Due from related party (note 21)	82,022	110,757
Biological assets (note 6)	1,073,465	1,259,124
Inventory (note 7)	1,719,075	1,961,284
Prepaid expenses and deposits	486,789	275,803
	<b>4,291,954</b>	<b>4,271,435</b>
<b>Non-current</b>		
Prepaid expenses and deposits	49,702	-
Property and equipment (note 8)	10,404,710	13,125,006
	<b>10,454,412</b>	<b>13,125,006</b>
	<b>\$14,746,366</b>	<b>\$ 17,396,441</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (notes 9,11 and 13)	\$ 3,250,146	\$ 3,041,464
Unearned revenues	75,900	-
Commercial operating loan (note 10)	-	486,004
Current portion of mortgages payable (note 11)	2,537,049	1,482,368
Current portion lease liabilities (note 12)	100,458	167,104
Current portion of convertible debentures payable (note 13)	881,105	791,552
	<b>6,844,658</b>	<b>5,968,492</b>
<b>Non-current</b>		
Mortgages payable (note 11)	367,165	1,605,878
Lease liabilities (note 12)	110,149	38,662
Convertible debentures payable (note 13)	491,263	-
	<b>968,577</b>	<b>1,644,540</b>
	<b>7,813,235</b>	<b>7,613,032</b>
<b>Shareholders' Equity</b>		
Share capital (note 14)	31,664,098	31,641,256
Reserves	606,958	8,693,174
Accumulated deficit	(25,337,925)	(30,551,021)
	<b>6,933,131</b>	<b>9,783,409</b>
	<b>\$14,746,366</b>	<b>\$ 17,396,441</b>

Description of the business (note 1)

Subsequent events (note 23)



## THC BIOMED INTL LTD.

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

	Number of Shares	Share Capital	Share-Based Payment Reserve	Agent Warrants Reserve	Equity Feature on Convertible Debentures Reserve	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)	-	-	-	-
Fair value of stock options cancelled	-	-	(199,587)	-	-	199,587	-
Fair value of stock options expired	-	-	(92,598)	-	-	92,598	-
Fair value of agent warrants expired	-	-	-	(7,961,454)	-	7,961,454	-
Equity feature on previous convertible debentures	-	-	-	-	(25,305)	25,305	-
Equity feature on convertible debentures	-	-	-	-	63,130	-	63,130
Share-based compensation	-	-	137,440	-	-	-	137,440
Net and comprehensive loss for the year	-	-	-	-	-	(3,065,848)	(3,065,848)
<b>Balance, July 31, 2022</b>	<b>163,938,556</b>	<b>\$ 31,664,098</b>	<b>\$ 520,621</b>	<b>\$ 23,207</b>	<b>\$ 63,130</b>	<b>\$(25,337,925)</b>	<b>\$ 6,933,131</b>
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	-	(38,500)	-	-	-	-	(38,500)
Fair value of agent warrants issued	-	(23,207)	-	23,207	-	-	-
Stock options exercised	412,500	61,875	-	-	-	-	61,875
Fair value of stock options exercised	-	31,750	(31,750)	-	-	-	-
Fair value of stock options cancelled	-	-	(446,629)	-	-	446,629	-
Fair value of stock options expired	-	-	(2,642,567)	-	-	2,642,567	-
Equity feature on previous convertible debentures	-	-	-	-	(28,558)	28,558	-
Equity feature on amended convertible debentures	-	-	-	-	25,305	-	25,305
Share-based compensation	-	-	671,011	-	-	-	671,011
Net and comprehensive loss for the year	-	-	-	-	-	(6,359,254)	(6,359,254)
Balance, July 31, 2021	163,838,556	\$ 31,641,256	\$ 683,208	\$ 7,984,661	\$ 25,305	\$(30,551,021)	\$ 9,783,409

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

<b>For the Years Ended</b>	<b>July 31 2022</b>	<b>July 31 2021</b>
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Net loss for the year	<b>\$ (3,065,848)</b>	\$ (6,359,254)
Items not affecting cash		
Depreciation and amortization	<b>928,537</b>	979,957
Gain on sale of assets	<b>(455,381)</b>	-
Interest expense from lease liabilities	<b>19,930</b>	23,862
Realized fair value changes in biological assets included in inventory sold	<b>662,376</b>	1,915,973
Share-based compensation	<b>137,440</b>	671,011
Unrealized loss on changes in fair value of biological assets	<b>376,021</b>	1,007,930
	<b>(1,396,925)</b>	(1,760,521)
Net change in non-cash working capital (note 19)	<b>(460,262)</b>	726,412
	<b>(1,857,187)</b>	(1,034,109)
<b>Financing activities</b>		
Advances from related parties	<b>28,735</b>	-
Convertible debentures issued	<b>750,000</b>	-
Convertible debenture principal payment	<b>(150,000)</b>	(50,000)
Issuance of shares for cash, net of share issuance costs	<b>15,000</b>	573,375
Payments on lease liabilities	<b>(223,983)</b>	(153,011)
Mortgage principal received	<b>1,000,000</b>	523,893
Mortgage principal repaid	<b>(1,184,032)</b>	(127,418)
Proceeds received on commercial operating loan	<b>7,347</b>	23,897
Repayments on commercial operating loan	<b>(493,351)</b>	-
	<b>(250,284)</b>	790,736
<b>Investing activities</b>		
Advances to related parties	-	(27,614)
Proceeds from sale of property and equipment	<b>2,640,700</b>	-
Acquisition of property and equipment	<b>(160,306)</b>	(369,310)
	<b>2,480,394</b>	(396,924)
<b>Net increase (decrease) in cash</b>	<b>372,923</b>	(640,297)
<b>Cash, beginning of year</b>	<b>111,162</b>	751,459
<b>Cash, end of year</b>	<b>\$ 484,085</b>	\$ 111,162
Supplemental cash flow information (note 19)		

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## THC BIOMED INTL LTD.

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

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For the Years Ended July 31, 2022 and 2021

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#### 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 #1 – 2550 Acland Road, Kelowna, British Columbia, Canada, V1X 7L4. 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.) has a license for production of cannabis for medicinal and scientific use in Zimbabwe. 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 and incurred a loss for the year of \$3,065,848 (July 31, 2021 - \$6,359,254) and has an accumulated deficit of \$25,337,925 (July 31, 2021 - \$30,551,021).

The 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.

These events and conditions create a material uncertainty 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 22d.

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## **THC BIOMED INTL LTD.**

### **Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)**

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**For the Years Ended July 31, 2022 and 2021**

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#### **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 23, 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 of disposal, as explained in the significant accounting policies in note 3. 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.

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

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**For the Years Ended July 31, 2022 and 2021**

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**2. BASIS OF PREPARATION (continued)****f) Critical accounting judgments and estimates (continued)****(i) Critical 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) 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, as well as whether or not the conversion feature portion of the instrument qualifies as equity. Should it be determined that the discount rate was not appropriate, or that the conversion feature should have been accounted for as a liability for any given convertible debenture, then the carrying value and the recognition of expenses across the life of the instrument could be materially different.

**(c) 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.

**(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:

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## **THC BIOMED INTL LTD.**

### **Notes to the Consolidated Financial Statements (Expressed in Canadian Dollars)**

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**For the Years Ended July 31, 2022 and 2021**

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#### **2. BASIS OF PREPARATION (continued)**

##### **f) Critical accounting judgments and estimates (continued)**

###### **(ii) Significant accounting estimates**

###### **(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 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, depreciation and amortization, and recoverability 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. 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 of disposal. 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.

#### **3. SIGNIFICANT ACCOUNTING POLICIES**

##### **a) Cash**

Cash in the consolidated statements of financial position is comprised of cash at banks and on hand. The Company does not invest in any asset-backed deposits or investments.

##### **b) Biological assets**

The Company recognizes a biological asset when, and only when: (a) it controls the asset as a result of past events; (b) it is probable that future economic benefits associated with the asset will flow to the Company; and (c) the fair value or cost of the asset can be measured reliably.

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

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

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**For the Years Ended July 31, 2022 and 2021**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****b) Biological assets (continued)**

The Company capitalizes all direct and certain indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest. Direct costs include growing materials. Indirect costs capitalized include overhead expenditures incurred during the growing process and indirect labour for individuals involved in the growing and quality control process. The Company allocates overhead expenditures based on the percentage of square footage used for production purposes. General and administrative expenses for corporate offices are not included in any biological assets or inventories. The Company does not capitalize depreciation of its growing facilities.

**c) Inventory**

Biological assets are measured at the end of each reporting period at their fair value less costs to sell, unless the Company is unable to reliably measure the fair value thereof. At the point of harvest, the biological assets are transferred to inventory at the fair value less costs to sell. Fair value at the time of harvest becomes the basis for cost of finished goods inventories.

Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in profit or loss at the time they are determined.

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

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

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

**d) Property and equipment**

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

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

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****d) Property and equipment (continued)**

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

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

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use.

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

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

**e) Convertible debentures**

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

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

**f) Right of use assets and lease liabilities**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.



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**For the Years Ended July 31, 2022 and 2021**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****f) Right of use assets and lease liabilities (continued)****(i) Right of use assets**

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

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

**(ii) Lease liability**

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. When measuring the lease liabilities, the Company used the implicit interest rate in the leases, which is materially equivalent to the Company's incremental borrowing rate. The weighted-average rate applied was 8.06% (July 31, 2021 – 8.06%).

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

The right-of-use assets are recognized in property and equipment (note 8) and lease liabilities are recognized in other current liabilities and other long-term liabilities (note 12).

**g) Impairment**

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

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****g) Impairment (continued)**

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

**h) Financial instruments****(i) Financial assets**

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

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

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

**(a) Amortized cost**

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

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

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****h) Financial instruments (continued)****(i) Financial assets (continued)****(c) Fair value through profit or loss (“FVTPL”)**

Financial assets that do not meet the criteria for amortized cost or FVTOCI are measured as FVTPL. Gains or losses on these types of financial assets are recognized in profit or loss.

**(ii) Financial liabilities**

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

**(a) Fair value through profit or loss (“FVTPL”)**

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

**(b) Amortized cost**

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

**(iii) Impairment**

The Company is required to apply an expected credit loss (“ECL”) model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the consolidated statement of financial position date. For trade receivables, the Company has applied the simplified approach and has calculated ECLs based on lifetime ECLs taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions.

**(iv) Classification and measurement**

The following table shows the classification and measurement of the Company’s financial instruments:

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****h) Financial instruments (continued)****(iv) Classification and measurement (continued)**

<b>Financial assets/liabilities</b>	<b>Classification/measurement</b>
Cash	Amortized cost
Other and trade receivables	Amortized cost
Due from related party	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Commercial operating loan	Amortized cost
Mortgages payable	Amortized cost
Convertible debentures payable	Amortized cost

**i) Share capital****(i) Common shares**

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

**(ii) Equity units**

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

**(iii) Non-monetary consideration**

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

**j) Share-based compensation**

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

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## THC BIOMED INTL LTD.

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

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For the Years Ended July 31, 2022 and 2021

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### j) Share-based compensation (continued)

The fair value of the options granted to employees is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted.

At each consolidated statement of financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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

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

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

##### k) Equity reserves

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

##### l) Income (loss) per share

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

##### m) Provisions

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

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## THC BIOMED INTL LTD.

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

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For the Years Ended July 31, 2022 and 2021

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### n) Revenue recognition

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

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

Revenue is recognized when control of the goods has transferred to the purchaser and the collectability is reasonably assured. For sales to medical customers and licensed producers, control is transferred when goods are shipped or prior to shipment when it is demonstrated the customer obtains control of the product. For provincial customers, control is transferred when goods have been delivered. The point at which control transfers is also when the performance obligations have been fulfilled under the terms of the related sales contract. Revenues are recorded net of discounts and incentives but inclusive of freight. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue. Excise taxes are netted against gross revenue within profit or loss.

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

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

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

##### o) Income taxes

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

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

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****o) Income taxes (continued)**

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

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

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

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

**p) Contingencies**

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

**q) Government assistance**

Government assistance is recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them and that the government assistance will be received.

Assistance for operating expenses under the Government of Canada COVID-19 response programs is recorded as a reduction of expenses when the assistance is receivable.

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**4. 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, 2022. 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.

There were no new standards, interpretations to existing standards or amendments which became effective for the year ended July 31, 2022 which had a material impact on the consolidated financial statements.

**5. AMOUNTS RECEIVABLE**

	<b>July 31 2022</b>	July 31 2021
Canadian Emergency Wage and Rent Subsidies	\$ -	\$ 189,685
Other receivable	<b>6,082</b>	-
Trade receivables	<b>440,436</b>	363,620
	<b>\$ 446,518</b>	\$ 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 had been affected by COVID-19, and who had 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.

At July 31, 2022, an amount of \$72,161 (July 31, 2021 – \$881,272) 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. As at July 31, 2022, \$Nil (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.

**6. 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.



## THC BIOMED INTL LTD.

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

For the Years Ended July 31, 2022 and 2021

#### 6. BIOLOGICAL ASSETS (continued)

	July 31 2022	July 31 2021
Carrying amount, beginning of year	\$ 1,259,124	\$ 3,200,051
Capitalized costs	2,628,415	2,742,548
Sales of biological assets	(1,481)	(992)
Transferred to inventory upon harvest	(1,774,196)	(1,758,580)
Net change in fair value	(1,038,397)	(2,923,903)
Carrying amount, end of year	\$ 1,073,465	\$ 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 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, attrition, and expected yields from the marijuana plants.

Unobservable input	Description	Sensitivity
Yield per plant – expected number of grams of finished cannabis inventory which is expected to be obtained from each harvested flowering plant.	Represents the weighted average historic yield of 54 grams per plant	A change of 5% in the yield per plant would result in a significant change in fair value.
Yield per plant – expected number of clones which is expected to be obtained from mother plant.	Represents the historic number of 90 clones per plant	A change of 5% in the yield per plant would result in a significant change in fair value.
Selling price of dried cannabis and clones for sale	\$2.50 (average selling price of dried cannabis) \$20 (selling price of clones for sale)	A change of 5% in the estimated selling prices would result in a significant change in fair value.
Selling and harvesting costs of dried cannabis and clones for sale	Based on actual production costs	A change of 5% in the estimated selling and harvesting costs of dried cannabis and clones for sale would result in a significant change in fair value
Average attrition rate	Represents the weighted average number of plants culled at each stage of production	A change of 5% in the estimated attrition rate would result in a significant change in fair value

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**6. BIOLOGICAL ASSETS** (continued)

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 54 (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 \$2.50 per gram (July 31, 2021 - \$3.00 per gram); and
- f) average selling costs of \$1.70 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 year ended July 31, 2022, the Company’s biological assets produced 1,213 (July 31, 2021 – 1,369) kilograms of dried cannabis. At July 31, 2022, the weighted average stage of growth for the biological assets was 65% (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	
	July 31 2022	July 31 2021	July 31 2022	July 31 2021
Average selling price per gram	\$ 2.50	\$ 3.00	\$ 137,145	\$ 117,203
Average selling cost per gram	\$ 1.70	\$ 1.25	\$ 93,259	\$ 48,835
Average yield per plant	54 grams	66 grams	\$ 303,565	\$ 410,742

## THC BIOMED INTL LTD.

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

#### For the Years Ended July 31, 2022 and 2021

#### 7. INVENTORY

Inventory is comprised of the following:

	July 31 2022	July 31 2021
Finished goods	\$ 204,611	\$ 436,313
Supplies and consumables	250,765	295,794
Unpackaged cannabis and edibles	1,263,699	1,229,177
Carrying amount - inventory	\$ 1,719,075	\$ 1,961,284

Inventory expensed during the year ended July 31, 2022 was \$1,619,142 (July 31, 2021 - \$1,531,577).

During the year ended July 31, 2021, it was determined that 403,587 grams of cannabis trim that was stored for extraction purposes would not be used due to aging as it had lost potency and was destroyed. It had a cost of \$359,192 and a fair value of \$1,291,478. The cost and fair value were expensed as part of cost of sales.

#### 8. PROPERTY AND EQUIPMENT

	July 31 2020	Additions	July 31 2021	Additions	Dispositions	July 31 2022
<b>Cost</b>						
Automobile equipment	\$ 33,600	\$ -	\$ 33,600	\$ -	\$ -	\$ 33,600
Buildings	6,773,321	255,366	7,028,687	49,178	(1,230,156)	5,847,709
Computer equipment	83,652	-	83,652	18,424	-	102,076
Equipment	2,193,773	105,617	2,299,390	82,105	-	2,381,495
Furniture and fixtures	98,828	-	98,828	2,777	(37,399)	64,206
Land	4,366,584	-	4,366,584	-	(1,068,750)	3,297,834
Leasehold improvements	1,585,959	8,327	1,594,286	7,822	-	1,602,108
Right of use property	482,708	-	482,708	228,824	-	711,532
Software	81,002	-	81,002	-	-	81,002
	\$ 15,699,427	\$ 369,310	\$ 16,068,737	\$ 389,130	\$ (2,336,305)	\$ 14,121,562

## THC BIOMED INTL LTD.

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

For the Years Ended July 31, 2022 and 2021

#### 8. PROPERTY AND EQUIPMENT (continued)

	July 31 2020	Depreciation/ Amortization	July 31 2021	Depreciation/ Amortization	Depreciation/ Reversed	July 31 2022
<b>Accumulated Depreciation/Amortization</b>						
Automobile equipment	\$ 10,080	\$ 5,040	\$ 15,120	\$ 5,040	\$ -	\$ 20,160
Buildings	508,018	255,720	763,738	232,465	(137,157)	859,046
Computer equipment	71,115	6,896	78,011	8,169	-	86,180
Equipment	626,967	323,923	950,890	277,911	-	1,228,801
Furniture and fixtures	39,013	11,964	50,977	6,020	(18,259)	38,738
Leasehold improvements	491,974	219,629	711,603	177,319	-	888,922
Right of use property	135,605	156,785	292,390	221,613	-	514,003
Software	81,002	-	81,002	-	-	81,002
	\$ 1,963,774	\$ 979,957	\$ 2,943,731	\$ 928,537	\$ (155,416)	\$ 3,716,852
<b>Carrying Amounts</b>	\$ 13,735,653		\$ 13,125,006			\$ 10,404,710

On April 12, 2022, the Company sold its head office location on St. Paul Street, Kelowna, British Columbia to an arm's length party for gross proceeds of \$2,735,000 and recognized a gain on sale of \$455,381.

#### 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31 2022	July 31 2021
Accrued liabilities	\$ 215,870	\$ 166,007
Excise taxes payable	1,654,005	1,387,980
Goods and services tax payable	304,864	204,984
Trade payables	1,075,407	1,282,493
	\$ 3,250,146	\$ 3,041,464

#### 10. COMMERCIAL OPERATING LOAN

On February 1, 2019, the Company secured a \$500,000 commercial operating loan for business operating funds using the property on St. Paul Street in Kelowna, British Columbia as collateral. The interest rate was the Credit Union's Prime Lending Rate plus 1%. The loan was payable upon demand and subject to an annual review. At July 31, 2022, the balance payable is \$Nil (July 31, 2021 - \$486,004) and the loan facility was closed upon the sale of the building on St. Paul Street, Kelowna, British Columbia.

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**11. MORTGAGES PAYABLE**

	<b>July 31 2022</b>	July 31 2021
Mortgages payable at beginning of the year	<b>\$ 3,088,246</b>	\$ 2,691,771
Mortgages added during the year	<b>1,000,000</b>	410,000
Mortgage refinanced during the year	-	113,893
Less principal payments	<b>(1,184,032)</b>	(127,418)
Mortgages payable at the end of the year	<b>2,904,214</b>	3,088,246
Less current portion	<b>(2,537,049)</b>	(1,482,368)
Non-current portion	<b>\$ 367,165</b>	\$ 1,605,878

The Company had a mortgage payable on property on Acland Road in Kelowna, British Columbia with a principal amount of \$210,560. The mortgage bore 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 with a principal amount of \$250,000. The mortgage bore 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 with another lender on October 1, 2021 (see below discussion on October 1, 2021).

The Company has a mortgage payable on property on Acland Road in Kelowna, British Columbia with a 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 December 1, 2022. At July 31, 2022, the balance payable is \$251,229 (July 31, 2021- \$263,666) with accrued interest of \$2,093 (July 31, 2021 - \$990) included in accounts payable and accrued liabilities.

The Company has a mortgage payable on property on Acland Road in Kelowna, British Columbia with a principal amount of \$400,000 with interest at 10% per annum with monthly payments of \$3,807 due on the 1st day of each month starting August 1, 2019 with the mortgage due on July 1, 2024. At July 31, 2022, the balance payable is \$367,165 (July 31, 2021 - \$383,395) with accrued interest of \$3,131 (July 31, 2021 - \$3,195) included in accounts payable and accrued liabilities.

The Company had a mortgage payable on property on Acland Road in Kelowna, British Columbia with a 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 July 31, 2022, the balance payable is \$419,786 (July 31, 2021 - \$434,105) with accrued interest of \$1,607 (July 31, 2021 - \$1,624) included in accounts payable and accrued liabilities.

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**11. MORTGAGES PAYABLE** (continued)

The Company had a mortgage payable on property on St. Paul Street in Kelowna, British Columbia with a 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 had been extended to November 1, 2022 under the same terms. At July 31, 2022, the balance payable is \$Nil (July 31, 2021 - \$372,373) and the mortgage closed upon the sale of the building.

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 mortgage is payable on demand and subject to an annual review. At July 31, 2022, the balance payable is \$884,735 (July 31, 2021 - \$944,207) with accrued interest of \$2,426 (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 was 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 July 31, 2022, the balance payable is \$Nil (July 31, 2021 - \$403,755) and the mortgage closed upon the sale of the building on St. Paul Street, Kelowna, British Columbia.

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 July 31, 2022, the balance payable is \$972,781 (July 31, 2021 - \$Nil) with accrued interest of \$2,667 (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.

**12. LEASE LIABILITIES**

The Company has leases for premises for office space and biological asset growing spaces. The following table presents the lease liabilities of the Company:

	<b>July 31 2022</b>	July 31 2021
Operating lease liabilities recognized at beginning of the year	<b>\$ 205,766</b>	\$ 358,777
Lease liabilities recognized during the period	<b>228,824</b>	-
Payments of lease liabilities	<b>(248,343)</b>	(176,873)
Interest expense on lease liabilities	<b>24,360</b>	23,862
Lease liabilities balance at end of the year	<b>\$ 210,607</b>	\$ 205,766

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**12. LEASE LIABILITIES** (continued)

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

	<b>July 31 2022</b>	July 31 2021
Lease liabilities balance at end of the period	<b>\$ 210,607</b>	\$ 205,766
Current portion	<b>(100,458)</b>	(167,104)
Long term portion	<b>\$ 110,149</b>	\$ 38,662

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

	<b>July 31 2022</b>	July 31 2021
Less than one year	<b>\$ 109,442</b>	\$ 177,605
One to five years	<b>125,798</b>	38,603
Total undiscounted lease liabilities	<b>\$ 235,240</b>	\$ 216,208

At July 31, 2022, the lease liabilities totaled \$210,607 (July 31, 2021 - \$205,766). Three of the leases expired on August 31, 2022 which were renewed for the same terms; one expired on September 30, 2022 which was renewed for the same terms; one expires on January 14, 2023; one expires on February 28, 2023; and one expires on October 31, 2026.

**13. 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.

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 year ended July 31, 2022, the Company paid \$43,166 (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 year ended July 31, 2022, the Company repaid \$150,000 (July 31, 2021 - \$50,000) of principal and paid \$10,324 (July 31, 2021 - \$19,639) of accrued interest.

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## THC BIOMED INTL LTD.

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

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#### For the Years Ended July 31, 2022 and 2021

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#### 13. CONVERTIBLE DEBENTURES PAYABLE (continued)

These two debentures had an original maturity date of August 16, 2020 and October 23, 2020. At maturity, the Company extended the debentures to August 16, 2022 and October 23, 2022, respectively. Pursuant to the extensions for the 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 \$676,096 (July 31, 2021 - \$819,231) as the fair value of the debt portion of the convertible debentures with a residual value of \$22,807 (July 31, 2021 - \$25,305) allocated as the value of the equity conversion features. Upon maturity on August 16, 2022 and October 23, 2022, these debentures were extended for an additional year on the same terms.

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 year ended July 31, 2022, the Company paid \$45,753 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 year ended July 31, 2022, the Company paid \$14,959 of accrued interest.

During the year ended July 31, 2022, \$123,393 (July 31, 2021 - \$71,347) in interest was accrued on the convertible debentures and \$114,202 (July 31, 2021 - \$70,271) was paid. At July 31, 2022, accrued interest payable of \$25,809 (July 31, 2021 - \$10,220) was included in accounts payable and accrued liabilities.



## THC BIOMED INTL LTD.

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

#### For the Years Ended July 31, 2022 and 2021

#### 13. CONVERTIBLE DEBENTURES PAYABLE (continued)

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	37,825	748,846
Decognize carrying values of original debentures and equity features	(694,536)	(22,807)	(717,343)
Fair value of amended convertible debentures and equity features	676,096	22,807	698,903
Accretion expense	38,235	-	38,235
Repayment of principal	(150,000)	-	(150,000)
<b>Balance, July 31, 2022</b>	<b>1,372,368</b>	<b>63,130</b>	<b>1,435,498</b>
<b>Less current portion</b>	<b>(881,105)</b>	<b>-</b>	<b>(881,105)</b>
<b>Non-current portion</b>	<b>\$ 491,263</b>	<b>\$ 63,130</b>	<b>\$ 554,393</b>

#### 14. 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	163,838,556	\$ 31,641,256
Stock options exercised	100,000	15,000
Fair value of stock options exercised	-	7,842
<b>Balance, July 31, 2022</b>	<b>163,938,556</b>	<b>\$ 31,664,098</b>

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**14. 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 years, 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 years, 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.

**b) Escrow shares**

At July 31, 2022, 690 (July 31, 2021 – 690) common shares are held in escrow.

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**For the Years Ended July 31, 2022 and 2021**

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

		<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
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		(27,014,880)	0.5991
<b>Balance, July 31, 2022</b>		<b>5,000,000</b>	<b>\$ 0.1500</b>

  

<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
October 22, 2022	0.23	1,363,637	0.1500
November 12, 2022	0.28	3,636,363	0.1500
		5,000,000	\$ 0.1500

**d) Agent warrants outstanding**

		<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, July 31, 2020		5,385,000	\$ 1.20
Agent warrants issued		350,000	0.15
Balance, July 31, 2021		5,735,000	\$ 1.14
Agent warrants expired		(5,385,000)	1.20
<b>Balance, July 31, 2022</b>		<b>350,000</b>	<b>\$ 0.15</b>

  

<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
October 22, 2022	0.23	95,455	0.15
November 12, 2022	0.28	254,545	0.15
		350,000	\$ 0.15

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**15. SHARE-BASED COMPENSATION**

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

The following summarizes the stock options outstanding:

			<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	
Balance, July 31, 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			(2,300,000)		0.209
Options expired			(1,225,000)		0.150
<b>Balance, July 31, 2022</b>			<b>6,250,000</b>	<b>\$</b>	<b>0.207</b>

  

<b>Date of Grant</b>	<b>Expiry Date</b>	<b>Remaining Life (Years)</b>	<b>Number of Options Vested</b>	<b>Number of Options Outstanding</b>	<b>Exercise Price</b>
February 12, 2021	February 12, 2023	0.54	5,450,000	5,450,000	0.215
March 17, 2021	March 17, 2023	0.63	50,000	500,000	0.165
June 14, 2021	June 14, 2023	0.87	300,000	300,000	0.130
			5,800,000	6,250,000	\$ 0.207

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## THC BIOMED INTL LTD.

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

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#### For the Years Ended July 31, 2022 and 2021

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#### 15. SHARE-BASED COMPENSATION (continued)

On February 12, 2021, the Company granted 8,550,000 stock options to 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 years, 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, 2022, the Company recognized \$137,440 (July 31, 2021 - \$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 years, 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, 2022, the Company recognized \$Nil (July 31, 2021 - \$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 years, 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, 2022, the Company recognized \$Nil (July 31, 2021 - \$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 Accumulated 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 Accumulated Deficit.

During the year ended July 31, 2022, 2,300,000 stock options were cancelled with an average exercise price of \$0.20. On cancellation of the stock options, \$199,587 of share-based compensation included in Share-Based Payment Reserve was reallocated to Accumulated Deficit.

During the year ended July 31, 2021, 1,225,000 stock options expired with an exercise price of \$0.15. On expiration of the stock options, \$92,598 of share-based compensation included in Share-Based Payment Reserve was reallocated to Accumulated Deficit.

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**For the Years Ended July 31, 2022 and 2021**

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**16. REVENUE**

The total revenue earned for the year ended July 31, 2022 includes excise taxes of \$890,318 (July 31, 2021 - \$1,145,852).

**17. GENERAL AND ADMINISTRATION EXPENSES**

	July 31 2022	July 31 2021
Automobile expenses	\$ 3,631	\$ 5,709
Bank charges and interest	457,212	399,434
Consulting fees	2,840	5,693
Director fees	86,127	101,479
Insurance	4,445	14,491
Investor relations	55,596	80,371
Legal and accounting	426,588	334,680
Office and sundry	77,951	112,881
Payroll and benefits	257,326	281,136
Property tax	21,515	37,143
Telephone	17,002	16,149
Transfer agent and filing fees	53,155	53,165
Travel	40,654	9,966
	<b>\$ 1,504,042</b>	<b>\$ 1,452,297</b>

**18. SEGMENTED INFORMATION**

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

**19. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	July 31 2022	July 31 2021
Amounts receivable	\$ 106,787	\$ (328,041)
Biological assets	(852,738)	(982,976)
Inventory	242,209	1,570,181
Prepaid expenses and deposits	(260,688)	(28,184)
Accounts payable and accrued liabilities	228,268	495,432
Unearned revenues	75,900	-
	<b>\$ (460,262)</b>	<b>\$ 726,412</b>

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**19. SUPPLEMENTAL CASH FLOW INFORMATION (continued)**

The reconciliation of liabilities arising from financing activities are as follows:

	July 31 2020	Cash Flows	Non-cash changes		July 31 2021
			Accrued Interest	Acquisitions	
Commercial operating loan	\$ 462,107	\$ 23,897	\$ -	\$ -	\$ 486,004
Mortgages payable	2,691,771	396,475	-	-	3,088,246
Lease liabilities	358,777	(153,011)	-	-	205,766
Convertible debentures payable	842,491	(50,000)	(969)	-	791,522
Total liabilities from financing activities	\$ 4,355,146	\$ 217,361	\$ (969)	\$ -	\$ 4,571,538

	July 31 2021	Cash Flows	Non-cash changes		July 31 2022
			Accrued Interest	Acquisitions	
Commercial operating loan	\$ 486,004	\$ (486,004)	\$ -	\$ -	\$ -
Mortgages payable	3,088,246	(184,032)	-	-	2,904,214
Lease liabilities	205,766	(223,983)	-	228,824	210,607
Convertible debentures payable	791,522	600,000	(19,154)	-	1,372,368
Total liabilities from financing activities	\$ 4,571,538	\$ (294,019)	\$ (19,154)	\$ 228,824	\$ 4,487,189

Other supplemental cash flow information is as follows:

	July 31 2022	July 31 2021
Fair value of stock options exercised, cancelled and expired	\$ 300,027	\$ 3,089,196
Fair value of agent warrants cancelled	\$ 7,961,454	\$ -
Income taxes paid	\$ -	\$ -
Interest paid	\$ 433,515	\$ 381,533
Interest received	\$ 5,970	\$ 129

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**20. INCOME TAXES**

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

	<b>July 31 2022</b>	July 31 2021
Loss for the year	<b>\$ (3,065,848)</b>	\$ (6,359,254)
Expected income tax expense (recovery)	<b>\$ (828,000)</b>	\$ (1,717,000)
Non-deductible items for tax purposes and other	<b>(259,000)</b>	285,000
Share issue costs	-	(17,000)
Adjustment to prior years provision versus statutory tax returns	<b>1,080,000</b>	377,000
Change in unrecognized deductible temporary differences	<b>7,000</b>	1,072,000
Total income tax expense (recovery)	<b>\$ -</b>	\$ -

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

	<b>July 31 2022</b>	July 31 2021
Deferred tax assets (liabilities)		
Biological assets and inventory	<b>\$ (279,000)</b>	\$ (486,000)
Equipment	<b>120,000</b>	526,000
Intellectual property	<b>294,000</b>	326,000
Share issuance costs	<b>253,000</b>	525,000
Warrant liability	<b>2,150,000</b>	2,150,000
Allowable capital losses available for future years	<b>10,000</b>	10,000
Non-capital losses available for future years	<b>3,914,000</b>	3,404,000
	<b>6,462,000</b>	6,455,000
Tax benefits not recognized	<b>(6,462,000)</b>	(6,455,000)
Net deferred tax assets	<b>\$ -</b>	\$ -



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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**20. INCOME TAXES** (continued)

At July 31, 2022, the Company has non-capital tax losses of approximately \$14,495,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

<b>Expiry Date</b>	<b>Amount</b>
2033	\$ 78,000
2034	203,000
2035	942,000
2036	498,000
2037	1,849,000
2038	1,707,000
2039	2,000,000
2040	2,643,000
2041	3,753,000
2042	822,000
	<b>\$ 14,495,000</b>

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

**21. RELATED PARTY TRANSACTIONS**

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

	<b>July 31 2022</b>	<b>July 31 2021</b>
Director fees	\$ 80,000	\$ 95,000
Interest	68,333	-
Lease liability payments	135,200	135,200
Salaries and benefits	200,000	200,000
Share-based compensation	25,066	97,803
	<b>\$ 508,599</b>	<b>\$ 528,003</b>

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## THC BIOMED INTL LTD.

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

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#### For the Years Ended July 31, 2022 and 2021

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#### 21. 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 ending August 31, 2025. 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 ending August 31, 2025. 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 ending September 30, 2025. 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 ending August 31, 2025. A security deposit of \$2,600 was also paid.

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. No principal payments were made during the year ended July 31, 2022.

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## THC BIOMED INTL LTD.

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

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#### For the Years Ended July 31, 2022 and 2021

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#### 21. 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. No principal payments were made during the year ended July 31, 2022.

At July 31, 2022, the Chief Executive Officer owes \$82,022 (July 31, 2021 - \$110,757) to the Company. The amount is unsecured, without interest, and has no stated terms of repayment.

Close family members of the Chief Executive Officer were paid salaries in the amount of \$105,325 (July 31, 2021 - \$120,818) for the year ended July 31, 2022 and stock options with share-based compensation totaling \$12,533 (July 31, 2021 - \$56,777).

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

#### 22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)****a) Fair value of financial assets and liabilities that are measured at fair value on a recurring basis (continued)**

The 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 (note 6). There were no transfers between levels of the fair value hierarchy.

The convertible debentures approximate their fair value due to the application at issuance of a discount rate of 12%, which approximates a market rate of interest.

The carrying values of cash, other and trade receivables, amounts due from related party, accounts payable and accrued liabilities, commercial operating loan, and mortgages payable all approximate their fair values due either to 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 or 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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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. The Company's exposure and approach to managing interest rate risk has not changed materially from that of the prior year.

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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

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

At July 31, 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 July 31, 2022, approximately \$68,859 (US\$53,695) (July 31, 2021 - \$17,352 or US\$13,924) of the Company's cash was in US Dollars and \$26,040 (US\$20,306) (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 \$4,280 (July 31, 2021 - \$350) to the unrealized gain or loss. The Company has approximately \$3,526 (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 \$352 (July 31, 2021 - \$400) to the unrealized gain or loss. The Company has approximately \$Nil (AUD 3,972) (July 31, 2021 - \$3,638 or AUD 3,972) in accounts payable and accrued liabilities. A 10% change in the AUD foreign exchange rate would result in a change of \$Nil (July 31, 2021 - \$360) to the unrealized gain or loss.

At July 31, 2022, financial instruments were converted at a rate of US\$1.2824 to \$1 Canadian; 1.3072 Euro to \$1 Canadian; and 0.89 AUD to \$1 Canadian.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk. The Company's exposure and approach to managing foreign currency risk has not changed materially from that of the prior year.

**(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. The Company's exposure and approach to managing price risk has not changed from that of the prior year.

**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 July 31 2022, all amounts receivable are current.

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)****c) Credit risk (continued)**

The Company's financial assets are not subject to material credit risk as it does not anticipate significant loss for non-performance. The Company's exposure and approach to managing credit risk has not changed materially from that of the prior year.

**d) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by maintaining adequate cash balances when possible.

The Company's expected source of cash flow in the upcoming year will be through sales and debt or equity financing. Cash on hand at July 31, 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. The Company's exposure and approach to managing liquidity risk has not changed materially from that of the prior year.

The following table presents a maturity analysis of the contractual undiscounted cash flows from financial liabilities:

	Total	<1 Year	Over 1 Year to 2 Years	Over 2 Years to 3 years	Over 3 Years to 4 Years	Over 4 Years to 5 Years
Accounts payable and accrued liabilities	\$ 3,250,146	\$ 3,250,146	\$ -	\$ -	\$ -	\$ -
Mortgages payable	2,904,214	2,537,049	367,165	-	-	-
Lease liabilities	235,240	109,442	38,707	38,707	38,707	9,677
Convertible debentures payable	1,454,536	-	1,454,536	-	-	-
Total undiscounted financial liabilities	\$ 7,844,136	\$ 5,896,637	\$ 1,860,408	\$ 38,707	\$ 38,707	\$ 9,677

**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 July 31, 2022, total managed capital was \$6,933,131 (July 31, 2021 - \$9,783,409).

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**THC BIOMED INTL LTD.****Notes to the Consolidated Financial Statements  
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**For the Years Ended July 31, 2022 and 2021**

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**23. SUBSEQUENT EVENTS**

The convertible debentures that came due on August 14, 2022 and October 23, 2022 were extended on the same terms for another one-year term upon payment of a 10% extension fee (note 13).

Subsequent to July 31, 2022, 5,000,000 warrants expired with an exercise price of \$0.15; 350,000 agent warrants expired with an exercise price of \$0.15; and 150,000 stock options were cancelled with an exercise price of \$0.215.