The Hydropothecary Corporation

Management Discussion & Analysis

For the three and six months ending January 31, 2017 and 2016

This management discussion and analysis ("MD&A") of the financial condition and results of operations of The Hydropothecary Corporation and its wholly-owned subsidiaries (collectively, the "Company" or "THCX" or the "Hydropothecary"), is for the three and six months ending January 31, 2017. It is supplemental to, and should be read in conjunction with, the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended January 31, 2017, as well as the financial statements and MD&A for the year ended July 31, 2016. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts presented herein are stated in Canadian dollars, unless otherwise indicated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Additional information regarding THCX is available on our websites at www.thehydropothecary.com or THCX.com or through the SEDAR website at www.sedar.com.

The information contained herein, together with any amendments or supplements and any other information that may be furnished by the Company, includes forward looking information. Such information is based on assumptions as to future events that are inherently uncertain and assumptions, including as to whether future results will occur as projected. It must be recognised that assumptions about the Company's future performance are necessarily subject to a high degree of uncertainty and that actual results can be expected to vary from the results projects and that such variances may be material and adverse. Prospective investors are expected to conduct their own investigation with regard to the Company and its prospects. This MD&A does not constitute an offer to sell or a solicitation of an offer to buy any security.

This MD&A is prepared as of March 31, 2017.

Company Overview

On October 1, 2013, Health Canada's *Marijuana for Medical Purposes Regulations* ("MMPR") came into effect, legislating access to cannabis for medical purposes through producers licensed by Health Canada. On August 24, 2016, the Government of Canada introduced new regulations governing the use of marijuana for medical purposes; these new regulations are known as the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR"). The ACMPR remained largely consistent with the former MMPR, but restored the ability of patients to grow their own marijuana at home, including the ability to designate a third-party grower through regulations akin to the former *Medical Marijuana Access Regulations*.

The Hydropothecary Corporation was incorporated in August 2013 with the strategic purpose of developing a premium brand and offering a suite of products and services for this new market. On November 5, 2014 THCX acquired 167151 Canada Inc. and its license under the MMPR. Through its wholly-owned subsidiary 167151 Canada Inc., THCX commenced commercial production and sales of legal medical marijuana in Canada.

THCX obtained its initial license from Health Canada to produce, possess and destroy medical marijuana in March 2014. The license for the sale, production, possession, and destruction of medical marijuana was most recently renewed on October 25, 2016 and will be up for renewal on October 16, 2017. Hydropothecary's operations are based in Gatineau, Quebec in Canada's National Capital Region. The Gatineau facility houses the Company's corporate offices as well as the greenhouse and production facilities on approximately 65 acres of land. Hydropothecary's commercial license covers the Gatineau facility and currently includes approximately 42,000 square feet of licensed production space across 2 all-season climate controlled greenhouses.

Hydropothecary's first product offerings were premium dried bud products focused on targeting symptoms that are universally reported by patients at different times of the day. Since then, THCX has expanded the product offering to include a mid-market offering, and innovative delivery methods for existing products. The Company's primary focus is strengthening the Company's market share position and continuing to build on the reputation of the brand as a customer focused premium brand providing marijuana in the Canadian legal marijuana market. In order to achieve this, the Company will continue to make investments to:

- Increase the quality and inventory of the Company's current suite of products;
- Increase the diversity of the product offering by investing in new and innovative products and new methods of product delivery;
- Increase the ability of the customer experience team to provide the highest quality of customer service as efficiently and effectively as possible;
- Significantly increase the Company's production capacity in indoor greenhouses using the Company's established production methods; and
- Further expanding its existing facility with the addition of an additional 250,000 square feet, anticipated to be operational by the second half of calendar 2018.

In order to support the growth strategy outlined above, the Company has completed the following transactions subsequent to the quarter ended January 31, 2017:

- On March 9, 2017, the Company sold 415,493 common shares for $4.50 per share. These shares were issued pursuant to an agent's option under the concurrent financing completed by the Company in December 2016 in connection with its previously announced business combination with BFK Capital Corp. ("BFK"), in which 2,900,000 shares were offered, which allowed the agent to sell an additional number of shares equal to 15% of the number of offered shares. 19,507 of the common shares issuable pursuant to the agent's option had been sold on closing of the base offering in December 2016 and the sale of these 415,493 common shares represented the balance of the shares issuable pursuant to the agent's option.
- On March 14, 2017, the Company issued 714,286 common shares at a price of $3.50 per share pursuant to a call option the Company granted to a group of private investors in connection with a private placement completed with those investors on November 4, 2016.
- On March 15, 2017, the Company closed its business combination with BFK. The transaction was completed by way of a three-cornered amalgamation under which each THCX shareholder received six post-consolidation common shares in the capital of BFK (following the completion of a 1 for 1.5 common share consolidation by BFK) for each THCX common share held and the Company completed the reverse take-over of BFK. Concurrently with the completion of the amalgamation, BFK changed its name to "The Hydropothecary Corporation" and the directors and management of BFK were replaced with the directors and management of THCX. References in this MD&A to the Company, THCX or Hydropothecary for periods following the completion of the business combination refer to the issuer resulting from the transaction (i.e. the former BFK on a post-consolidation, post-acquisition and post-name change basis). Following the completion of the transaction, the Company had a total of 70,266,594 common shares outstanding, as well as: (i) common share purchase warrants exercisable to purchase up to 12,342,822 common shares at exercise prices ranging from $0.67 to $1.04 per share; (ii) stock options exercisable to purchase up to 5,051,673 common shares at exercise prices ranging from $0.16 to $0.90 per share; (iii) US$3,275,000 principal amount of secured convertible debentures convertible into common shares at a price of US$0.70 per share; and (iv) $345,000 principal amount of unsecured convertible debentures convertible into units of the Company at a price of $0.75 per unit, each unit consisting of one common share and one common share purchase warrant exercisable to acquire one common share at an exercise price of $0.83 per share.
- On March 21, 2017, the Company began trading on the TSX Venture Exchange (the "TSXV") under the ticker symbol, THCX.
- In March 2017 and subsequent to the completion of the business combination with BFK, the Company converted $345,000 of unsecured convertible debentures resulting in the issuance of 460,000 units at a price

of $0.75 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.83 per share for a term of two years.
- On March 29, 2017, the Company received an amendment to its license from Health Canada to include the sale of cannabis oils. In anticipation of this approval, the Company has been producing cannabis oil and extracts. Sales are anticipated to begin in late Spring 2017.

Investor Highlights

- During the quarter the Company completed construction on a new 35,000 square foot 4 season glass roof greenhouse ("Building 5"). The completion of Building 5 has allowed the Company to increase its licensed production facility from 7,000 square feet to 42,000 square feet. The total cost to construct and fit-up Building 5 was approximately $3.5M or $100 per square foot. Production capacity has increased from 600 kilograms to 3,600 kilograms per year.
- During the quarter the Company established relationships with two new clinics, further diversifying its patient base and presence in the marketplace.
- In December 2016, THCX unveiled its Decarb line and CannaCap product, a novel pre-activated cannabis product for consumption in capsule form. This innovative product allows patients an alternative to smoking, vaping and oils.
- In December 2016, THCX launched its H2 line, a mid-market offering that allows consumers access to the Company's high quality and premium service at more affordable cost.
- For the quarter ended January 31, 2017, revenue per gram was $10.10.
- As at January 31, 2017, cash cost of inventory per gram was $1.47.
- On November 4, 2016, the Company completed a non-brokered private placement with a group of private investors under which it issued 714,286 common shares at $3.50 per shares for gross proceeds of $2,500,001. The investors were also granted a call option to purchase another 714,286 common shares at $3.50 per share prior to May 31, 2017, which was exercised and closed subsequent to the end of the quarter on March 14, 2017.
- On November 14, 2016, the Company completed a brokered private placement through Axiom Capital Management in which it issued US $3,275,000 principal amount of secured debentures bearing 8% interest per annum, together with 389,868 warrants, each warrant being exercisable to acquire one common share at an exercise price of US$4.60 per share until November 14, 2019. The debentures may be converted into common shares at the option of the holder at a conversion price of US$4.20 per share. The debentures will automatically convert to common shares after the Company becomes a reporting issuer on a Canadian or Unites States exchange and maintains a volume weighted average trading price equal to or exceeding the conversion price of the debentures for 15 days. As of the date of this MD&A, the Company had traded above the conversion price of the debentures for 9 days since completing the BFK business combination transaction.
- On November 17, 2016, the Company announced it had entered into a non-binding letter of intent to complete a reverse take-over business combination transaction with BFK. BFK was then a Capital Pool Company listed on the TSXV. The Company subsequently signed a definitive agreement in respect of the transaction with BFK on December 22, 2016.
- On December 22 2016, the Company completed a brokered concurrent private placement financing in connection with the business combination with BFK under which it issued 2,919,507 common shares at $4.50 per share for gross proceeds of $13,137,782. THCX paid the agent a cash commission of $803,487, representing 7% of the gross proceeds from the financing subject to a reduced commission of 3.5% for

certain subscribers on the President's List, and issued warrants to the agent exercisable to acquire 178,553 shares at an exercise price of $4.50 per share for a 2 year term. The Company also granted the agent an option to sell additional shares equal to 15% of the shares offered in the concurrent financing. 19,507 common shares issuable pursuant to the agent's option were sold on closing of the base offering on December 22, 2016 and the balance of 415,493 common shares issuable pursuant to the agent's option were sold subsequent to the end of the quarter on March 9, 2017.

- In November 2016, Veterans Affairs Canada ("VAC") announced some significant changes to its reimbursement policy on Cannabis for Medical purposes. VAC has revised their previous limit of 10 grams per day to 3 grams per day, and placed a dollar limit of $8.50 per gram. As expected, these changes resulted in a decrease in the revenue per gram during the quarter.

	Q1'17	Q2'17
Revenue	$ 1,138,702	$ 913,897
Grams sold (g)	80,782	90,518
Revenue/gram	$ 14.10	$ 10.10
Cash inventory cost/gram	$ 1.61	$ 1.47

Inventory cost per gram is calculated as follows:

	31-Oct-16	31-Jan-17
Inventory	$ 807,564	$ 1,249,901
LESS:		
Packaging inventory	28,132	32,028
Oil inventory	38,374	36,122
Cannabis inventory	$ 741,058	$ 1,181,751
Fair value adjustment in inventory	(365,377)	(646,592)
Cash cost of inventory	$ 375,681	$ 535,159
Total inventory (g)	233,444	363,829
Cash cost per gram of inventory	$ 1.61	$ 1.47

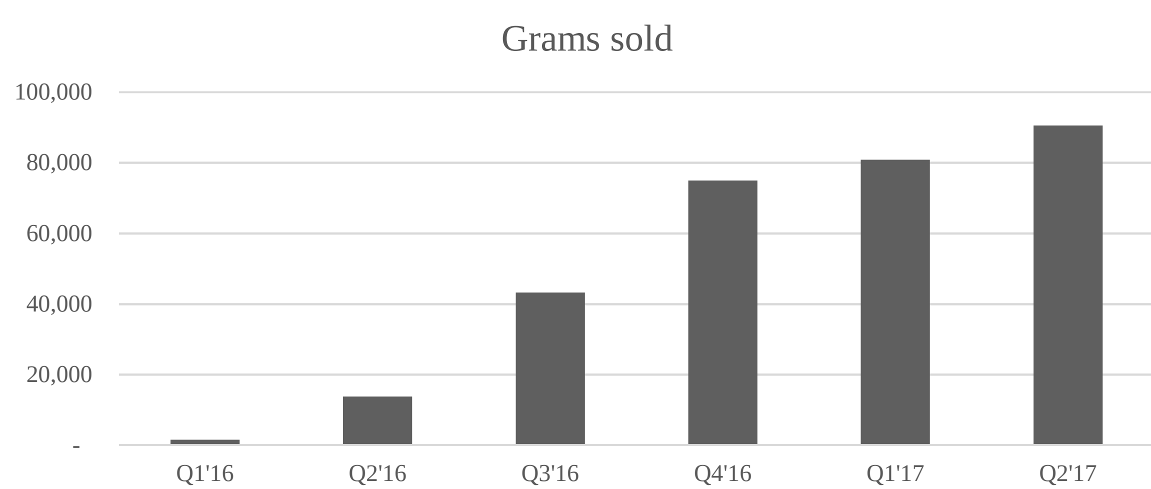
Summary of Results

Summary of results for the three and six month periods ending January 31, 2017 and January 31, 2016

Income Statement Snapshot	*For the three months ended* **31-Jan-17**	**31-Jan-16**	*For the six months ended* **31-Jan-17**	**31-Jan-16**
Revenue	$ 913,897	$ 180,537	$ 2,052,599	$ 201,220
Gross margin	$ 939,306	$ 228,642	$ 2,008,683	$ 244,246
Operating expenses	$ 1,941,903	$ 791,592	$ 3,430,394	$ 1,602,208
Loss from operations	$ (1,002,597)	$ (562,950)	$ (1,421,710)	$ (1,357,963)
Net interest cost	$ (110,946)	$ (116,717)	$ (122,138)	$ (224,344)
Net loss	$ (1,113,543)	$ (679,667)	$ (1,543,848)	$ (1,582,307)
Weighted average shares outstanding	8,587,760	4,923,284	7,590,944	4,860,947
Net loss per share	$ (0.13)	$ (0.14)	$ (0.20)	$ (0.33)

Revenue

Revenue represents the sale of medical cannabis to patients and is typically sold by the gram. For the six months ending January 31, 2017 and January 31, 2016 the Company posted revenue of $2,052,599 and $201,220, respectively. For the quarters ending January 31, 2017 and January 31, 2016, the Company posted revenue of $913,897 and $180,537. The growth of revenue period-over-period is primarily driven by the fact that sales activity was only commencing during the quarter ended October 31, 2015 and the number of patients increased significantly period-over-period. The average revenue per gram decreased as expected during the quarter from $14.10 to $10.10 following the VAC cap on reimbursable price per gram and launch of the H2 line, a mid-market offering. The introduction of this line is expected to appeal to a larger market segment, diversifying the Company's patient base, and resulting in an overall increase of revenues. For the six months ending January 31, 2017 and January 31, 2016 total grams sold were 171,300 and 15,355, respectively. The new production facilities that came online in December 2016 increased production capacity and will further the Company's ability to provide a reliable supply of quality product for its patients.



Cost of Sales

Cost of Sales includes direct production costs such as labour, utilities, fertilizer costs, biological control costs and general supplies and materials required to grow and harvest the cannabis plants ("Production Costs"). Also, included in Cost of Sales is the fair value adjustment to biological assets which represents the increase or decrease in value of plants during the growing process less expected selling costs. The fair value of biological assets is a result of management estimates. Cost of goods sold includes the cost of biological assets at fair value on date of transfer, packaging and supplies, packaging and shipping labour, and shipping fees.

For the six months ending January 31, 2017 and January 31, 2016 the Company's Cost of Sales and recovery to Cost of Sales were ($43,916) and $43,026, respectively. Cost of Sales for the six months ended January 31, 2017 was comprised of $238,025 in Production Costs, $808,425 in costs of goods, and a $1,002,534 increase in the fair value of biological assets. Cost of sales for the six months ended January 31, 2016 was comprised of $46,616 in Production Costs, $84,564 costs of goods sold, and a $174,206 increase in the fair value of biological assets. The variance to the comparative period is primarily driven by an increase in sales and increases in both the utilization and capacity of total greenhouse space in the current period as a result of Building 5 becoming operational.

For the quarters ending January 31, 2017 and January 31, 2016 the Company's recovery to Cost of Sales were $25,409 and $48,105, respectively. Cost of Sales for the quarter ended January 31, 2017 consisted of $158,539 of Production Costs, $408,491 in costs of goods, and a $592,439 increase in the fair value of biological assets. Cost of Sales for the quarter ended January 31, 2016 consisted of $9,243 of Production Costs, $68,506 in costs of goods, $125,854 increase in the fair value of biological assets. The increase in Cost of Sales during the three-month period was largely related to the same factors as in the six-month period.

The cash inventory cost per gram for the quarter ending January 31, 2017 and October 31, 2016 were $1.47 and $1.61 respectively. The cost per gram has been trending downward as a result of the Company improving its cultivation processes. The new production facility will allow the Company to increase its production capacity and realize economies of scale, resulting in an overall decrease in price per gram. In addition, recent changes to growing and harvest methodology will allow us to further improve production efficiency.

Operating Expenses

Operating Expenses	*For the three months ended*		*For the six months ended*	
	31-Jan-17	**31-Jan-16**	**31-Jan-17**	**31-Jan-16**
Marketing and promotion	658,118	265,090	1,417,652	449,214
General and administrative	726,965	382,057	1,243,805	766,486
Research and development	14,573	34,259	32,749	81,054
Stock-based compensation	179,347	13,232	281,473	105,315
Financing charges	228,578	31,500	228,578	77,211
Amortization of PPE	78,135	33,523	109,879	63,861
Amortization of intangibles	56,187	31,930	116,257	59,068
Total	**1,941,903**	**791,592**	**3,430,394**	**1,602,208**

Operating expenses include marketing and promotion, research and development, general and administrative, stock-based compensation, and amortization expenses. Marketing and promotion expenses include customer acquisition costs, customer experience costs, salaries for marketing and promotion staff and general corporate communication expenses. General and administrative expenses include salaries for administrative staff, quality assurance staff and executive salaries as well as general corporate expenditures including legal, insurance and professional fees. Research and development expenses include salaries for research and development as well as any material and contractor expenses related to research and development of THCX's product.

Marketing and promotion

For the three months ended January 31, 2017 the marketing and promotion expenses of the Company were $658,118 compared to $265,090 for the three months ended January 31, 2016. This overall increase in cost was due primarily to an increase in customer acquisition costs in relation to the growth in patient base. The focus on patient growth also resulted in an increase in marketing and promotion staff resulting in a corresponding increase in the related payroll expense.

The increase in marketing and promotion costs during the six-month period was largely related to the same factors as in the three-month period.

General & Administrative

For the three months ending January 31, 2017 general & administrative expenses of the Company were $726,695 compared with $382,057 for the three months ended January 31, 2016. The increase in costs during the quarter is due primarily to the expansion of the production facilities and company personnel. This expansion resulted an increase in the overall head count, and an increase in the general & administrative payroll expense of $174,826. The expansion of the production facilities also resulted in the Company incurring a one-time cost of $46,000 related to the abandonment of a usufruct agreement so that the Company could expand its office space.

The increase in general & administrative costs during the six-month period was largely related to the same factors as in the three-month period.

Loss from Operations

Loss from operations for the six months ending January 31, 2017 and January 31, 2016 was $1,421,710 and $1,357,963, respectively. Loss from operations for the quarter ending January 31, 2017 and the quarter ended January 31, 2016 was $1,002,597 and $562,950, respectively. Though there has been a significant increase in revenue over the prior year, the increase in expenses related to the Company's expansion of its production facilities has resulted in an increase in loss from operations. To support its long term growth strategy, the Company continues to invest significantly in human and capital resources. The Company increased to 46 full time staff as at January 31, 2017 and is continuing to increase as Building 5 becomes fully productive. With the appropriate resources in place the Company anticipates it will be able to leverage economies of scale and increase profitability and achieve break-even Adjusted EBITDA within the next four quarters.

	For the three months ended		*For the six months ended*	
	31-Jan-17	**31-Jan-16**	**31-Jan-17**	**31-Jan-16**
Net loss and comprehensive loss attributable to shareholders	(1,113,543)	(679,667)	(1,543,848)	(1,582,307)
Interst expense	125,916	116,717	140,409	224,344
Interest income	(14,969)	-	(18,271)	-
Stock option expense	179,347	13,232	281,473	105,315
Amortization of property, plant and equip.	78,135	33,523	109,879	63,861
Amortization of intangible assets	56,187	31,930	116,257	59,068
Financing charges	228,578	31,500	228,578	77,211
Fair value adjustment to biological assets	(592,439)	(125,854)	(1,002,534)	(174,206)
Adjusted EBITDA	**(1,052,788)**	**(578,619)**	**(1,688,057)**	**(1,226,714)**

"Adjusted EBITDA" is a non-GAAP financial measure that does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. It is a metric used by management which is Net loss, as reported, and adjusted by removing interest, tax, other non-cash items, including the stock based compensation expense, depreciation, and the non-cash effects of accounting for biological assets and inventories. Management believes "Adjusted EBITDA" is a useful financial metric to assess its operating performance on a cash basis before the impact of non-cash items and acquisition related activities.

Liquidity and Capital Resources

Liquidity

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating and organic growth requirements. The Company's ability to reach profitability is dependent on successful implementation of the business strategy. While management is confident in the success and profitability of the business, there can be no assurance that THCX will gain adequate market acceptance for its products or be able to generate sufficient revenues to reach profitability.

As at July 31, 2016 the Company had $1,931,454 of cash on hand and $1,043,365 of accounts receivable. As at January 31, 2017 the Company had $17,124,972 of cash on hand and $811,020 of accounts receivable.

Liquidity	*Six months ending*	
	31-Jan-17	**31-Jan-16**
Operating Activities	($ 2,410,076)	($ 1,292,864)
Financing Activities	$ 19,043,916	$ 1,648,499
Investing Activities	($ 1,294,771)	($ 700,982)

Operating Activities

Net cash used in operating activities for the six months ended January 31, 2017 was $2,410,076 as a result of the net loss during the period of $1,543,848, cash used for working capital of $543,193, and net non-cash income of $320,956. In the prior year comparative period, cash used in operating activities was $1,292,864 which was a result of the net loss during the year of $1,582,307 offset by net non-cash expenses of $115,285, and increases in working capital of $174,158.

Financing Activities

Net cash received through financing activities for the six months ended January 31, 2017 was $19,043,916. The financing cash flow was primarily made up of:

1) During the quarter, the Company completed a non-brokered private placement of 714,286 common shares at a price of $3.50 per share for gross proceeds of $2,500,001.
2) During the quarter, the Company completed a brokered private placement of US$3,275,000 (CDN$4,403,881) of 8% interest bearing secured convertible debentures and 389,880 common share purchase warrants. The principal amount of the debentures is convertible into common shares at a price of US$4.20 per share at any time prior to the maturity date. The warrants have an exercise price of US$4.60 per share and are exercisable for 3 years from the date of issuance.
3) During the quarter, the Company completed a brokered private placement of 2,919,507 common shares at a price of $4.50 per share for gross proceeds of $13,137,782.
4) During the quarter the Company collected subscriptions receivable from share issuances during previous quarters in the amount of $250,000.
5) During the quarter, the Company issued an additional 56,379 units at $4.50 per unit generating gross proceeds of $253,706. Each unit consisted of 1.05 common shares and one common share purchase warrant having an exercise price of $5.00 per share and a term of three years.

6) The Company incurred $1,124,153 of share issuance costs related to the above equity transactions and $437,836 of financing fees related to the secured convertible debentures.

Investing Activities

For the six months ending January 31, 2017 the Company spent $1,294,771 on investing activities. The majority of this investment was spent on the completion of construction of Building 5; see Note 6 in the Company's unaudited condensed interim consolidated financial statements for the three and six months ended January 31, 2017 for more information.

Capital Resources

As at January 31, 2017, total current assets less accounts payable was $18,238,776. Subsequent to January 31, 2017, the Company raised an additional $4,369,720 through the issuance of common shares. The $345,000 of unsecured convertible debentures converted to common shares in March 2017. The US$3,275,000 secured convertible debentures will automatically convert to common shares after the Company becomes a reporting issuer on a Canadian or Unites States exchange and maintains a volume weighted average trading price equal or exceeding the conversion price of the debenture for 15 days. As of the date of this MD&A, the Company had traded on the TSXV above the conversion price of the debenture for 9 days. The exercise of all the issued and outstanding warrants would result in an increase of cash of approximately $10.0M and the exercise of all stock options would increase cash by approximately $3.0M.

Management believes the current working capital provides sufficient funds for the Company to support the Company to profitability and fund current capital expansion plans for the next 24 months. The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business.

THCX's authorized share capital is an unlimited number of common shares. The table below outlines the number of issued and outstanding common shares, warrants and options as at July 31, 2016, January 31, 2017 and March 31, 2017.

	31-Mar-17*	31-Jan-17	31-July-16
Common Shares	70,726,591	10,275,025	6,550,972
Warrants	12,802,812	2,028,054	1,250,377
Options	5,117,673	812,316	580,316

** As a result of the business combination with BFK completed on March 15, 2017 pre-consolidation THCX shares were exchanged at a rate of six to one. Shares after this date have been stated using post-consolidation figures.*

Off-Balance Sheet Arrangements and Contractual Obligations

THCX has no off-balance sheet arrangements

The Company has certain contractual financial obligations related to service agreements that are contingent on customer purchases.

The Company has five long term supply arrangement and a service contracts which are operating leases. These contracts have optional renewal terms that the Company may exercise at its option. The annual minimum payments payable under these contracts over the next five years is as follows:

Fiscal Year	2017	2018	2019	2020	2021	Total
Amount	$60,892	$80,403	$72,163	$69,417	$69,417	$352,290

The Company has a commitment to finance $35,195 related to the purchase of a vehicle. The financing bears interest at 6.99%, matures August 15, 2019 and is secured by a vehicle. The Company pays principal and interest payments of $697. As at January 31, 2017, there was $19,735 included in accounts payable related to the financing commitment.

Biological Assets - Fair Value Measurements

As at January 31, 2017, the changes in the carrying value of biological assets are as follow:

	January 31, 2017	July 31, 2016
	$	$
Carrying amount, beginning of period	**120,667**	27,226
Net increase in fair value due to biological transformation less cost to sell	**1,002,534**	595,658
Transferred to inventory upon harvest	**(904,793)**	(502,217)
Carrying amount, end of period	**218,408**	120,667

The Company's biological assets consists of cannabis plants from seeds all the way through to mature plants. As of January 31, 2017, the carrying amount of biological assets consisted of $7,200 in seeds and $211,209 in cannabis plants ($7,200 in seeds and $113,467 in cannabis plants as at July 31, 2016). The significant estimates used in determining the fair value of cannabis on plants are as follow:

- yield by plant;
- stage of growth estimated as the percentage of costs incurred as a percentage of total cost as applied to the estimated total fair value per gram (less fulfilment costs) to arrive at an in-process fair value for estimated biological assets which have not yet been harvested;
- percentage of costs incurred for each stage of plant growth.

The Company views its biological assets as Level 3 fair value estimate and estimates the probability of certain harvest rates at various stages of growth. As of January 31, 2017, it is expected that the Company's biological assets will yield approximately 383,709 grams (July 31, 2016 - 143,586 grams). The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair values of biological assets.

Transactions with Related Parties

Key management personnel compensation

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, control approximately 32.44% of the outstanding shares of the Company as at January 31, 2017 (July 31, 2016 - 40.62%).

Compensation provided to key management for the three and six months ending January 31 was as follows:

	For the six months ended	
	31-Jan-17	31-Jan-16
	$	$
Salary and/or Consulting fees	577,794	458,148
Stock-based compensation	238,973	134,423
	816,767	592,571

On November 15, 2016 the Company granted certain directors and management of the Company a total of 204,500 stock options with an exercise price of $4.50 which vest over a three year period. On September 30, 2015 a director exercised 25,000 options which had an exercise price of $1.00. In July 2016, certain directors and members of the executive management of the Company exercised 54,500 options for proceeds to the Company of $65,750.

The Company leased a building to a related party for $700 per month as part of a usufruct agreement. The related party used this property as a personal residence. On December 2, 2016, the related party and the Company reached an agreement to abandon the usufruct that gave the related party the right to use the building. In exchange for abandoning the usufruct the Company paid the related party $46,000. Gaining access to this building provides the Company with additional office space and thereby reduces the need to rent or build additional offices in the short term.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

Risk Factors

THCX's operations are subject to many factors that may cause results to differ from expectations. Below is a summary of the risk factors. For greater detail regarding risk factors related to the Company, see the filing statement of BFK dated February 28, 2017 which is available under the Company's profile on SEDAR at www.sedar.com.

Interest risk

The Company's exposure to interest rate risk only relates to any investments of surplus cash. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at January 31, 2017, the Company did not have any short-term investments.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's amounts receivable. As at January 31, 2017, the Company is exposed to credit related losses in the event of non-performance by the counterparties.

The Company provides credit to its customers in the normal course of business and has established a credit evaluation and monitoring processes to mitigate credit risk, but has limited risk due to the fact the majority of the sales are transacted with clients that are covered under various insurance programs.

The carrying amount of cash and accounts receivable represents the maximum exposure to credit risk and at January 31, 2017, this amounted to $17,935,992. The cash is held by the Company's bank which is one of the largest cooperative financial groups in Canada. Since the inception of the Company, no losses have been suffered in relation to cash held by the bank.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at January 31, 2017, the Company had $17,124,972 of cash. As disclosed in “Subsequent Events” below, subsequent to January 31, 2017, the Company completed additional financings.

The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $1,531,813 due in the next 12 months and secured convertible debentures with a carrying amount of $3,963,398 and a contractual cash flow of $5,276,366 maturing December of 2019. The secured convertible debentures have a face value of US$3,275,000 resulting in the Company being subject to foreign exchange rate risk.

The Company also had unsecured convertible debentures with a carrying value of $335,191 as at January 31, 2017 converted to equity in March. See “Subsequent Events” below for more information.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity. The Secured Convertible Debentures have a fair value of approximately $3,963,398 ($nil at July 31, 2016) based on the sum of the fair value of the debt component, conversion liability and warrant liability. The Unsecured Convertible Debentures have a fair value of approximately $335,191 ($306,205 at July 31, 2016) which is based on the present value of future interest and principal payments using a discount rate of 20%.

Regulatory

The Company is currently satisfying all regulatory requirements necessary to sustain the ACMPR license, but changes to government policies and the current regulatory framework is outside of the Company’s control, and hence THCX is subject to any changes in the framework that may cause the Company to adjust its operations or cut into the Company’s profit margins, such as new taxes.

Limited Operating History

THCX commenced operations on August 13, 2013, and as such is an early stage business and subject to the risks any early stage business faces. THCX has incurred operating losses since commencing operations. The success, among other things, is dependent on profitability of operations, ability to raise funds when necessary in a timely manner, and senior management’s ability to execute on strategy. The Company may incur losses in the future and may not achieve profitability.

Competition

To date, there is a limited number of medical marijuana ‘selling’ and ‘production’ licenses available in the market, and as such the Company is exposed to the risk of the government increasing the cap on available licenses. In that case, other companies with longer operating histories and more funds available to deploy can potentially enter the market and present more competition for THCX.

Additionally, with the Liberal party now in power with a majority government, the recreational marijuana market may be legalized which could change the landscape of the marijuana market. Depending on how the government chooses to implement a recreational market, if they chose to do so, there may be adverse effects on the medical marijuana market, and the businesses within the medical marijuana market.

Reliance on Management

Hydropothecary is reliant on senior management’s ability to execute on strategy. This exposes the Company to management’s ability to perform, and as well the risk of management leaving the Company. To mitigate this risk, THCX has implemented incentive plans for all members of the senior management team. In addition, all senior members currently hold significant equity in the Company, another deterrent from having them leave.

Risks Inherent in an Agricultural Business

A key aspect of THCX's business is growing marijuana, and as such the Company is exposed to the risks inherent in any agriculture business, such as disease spread, hazards, pests and much more. To mitigate the risk, THCX has trained personnel to carefully monitor the growing conditions.

Risks Associated with Rising Energy Costs

Growing marijuana is subject to significant energy usage, and as such the Company's profits are subject to the volatility in the price of energy.

Product Liability

As a manufacturer and seller of our own product, we are subject to risks of our product being recalled, returned, or complained against which, if realized, may cause significant losses to the Company and require a significant time investment from our management.

Insurance Coverage

To protect the Company, THCX has insurance coverage to mitigate many unexpected costly situations. That being said, insurance is subject to certain caps and restrictions, and hence cannot be relied upon to mitigate all risks facing the business.

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties, and as a result, management expectations may not be realized for a number of reasons. An investment in THCX securities is speculative and involves a high degree of risk and uncertainty.

Critical Accounting Assumptions

The financial statements of THCX are prepared in accordance with IFRS. Management makes estimates and assumptions and uses judgment in applying these accounting policies and reporting the amounts of assets and liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Significant estimates in the accompanying financial statements relate to the valuation of biological assets, stock-based compensation, warrants and hybrid instruments, the estimated useful lives of property, plant and equipment. Actual results could differ from these estimates.

Changes in Accounting Policies

New and revised IFRS in issue, but not yet effective

Amendments to IAS 12

Amends IAS 12 Income Taxes are amended to clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
- The carrying amount of an asset does not limit the estimation of probable future taxable profits;
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

This amendment is applicable to annual periods beginning on or after January 1, 2017.

Disclosure Initiative (Amendments to IAS 7)

Amends IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financial activities by making the following changes:

- The following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes;
- The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition; and
- Changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

This amendment is applicable to annual periods beginning on or after January 1, 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018.

IFRS 16 Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

The Company is assessing the impact of the new or revised IFRS standards in issue but not yet effective on its financial position and financial performance.

Subsequent Events

Issuance of common shares

On March 9, 2017, the Company sold 415,493 common shares for $4.50 per share for gross proceeds of $1,869,719. These shares were issued pursuant to an agent's option under the concurrent financing completed in December 2016, in which 2,900,000 shares were offered, which allowed the agent to sell an additional number of shares equal to 15% of the number of offered shares. The Company paid the agent $130,880 and issued 29,084 warrants to the broker. The warrants have an exercise price of $4.50 and expire in 2 years.

Exercise of Call Option

On March 14, 2017, the Company issued 714,286 common shares at a price of $3.50 per share pursuant to a call option the Company had issued to a group of private investors on November 4, 2016 resulting in gross proceeds to the Company of $2,500,001.

Per Completion of Reverse Take-over

On March 15, 2017, the Company closed its previously announced business combination with BFK. By way of a three cornered amalgamation each THCX shareholder received six post-consolidation common shares in the capital of the company for each THCX common share held. Following the completion of the transaction (on a post-consolidation and post-acquisition basis), the Company had a total of 70,266,594 common shares outstanding, as well as: (i) common share purchase warrants exercisable to purchase up to 12,342,822 common shares at exercise prices ranging from $0.67 to $1.04 per share; (ii) stock options exercisable to purchase up to 5,051,673 common shares at exercise prices ranging from $0.16 to $0.90 per share; (iii) US$3,275,000 principal amount of secured convertible debentures convertible into common shares at a price of US$0.70 per share; and (iv) $345,000 principal amount of unsecured convertible debentures convertible into units of the Company at a price of $0.75 per unit, each unit consisting of one common share and one common share purchase warrant exercisable to acquire one common share at an exercise price of $0.83 per share.

Conversion of convertible debentures

In March 2017, the Company converted $345,000 of unsecured convertible debentures to equity resulting in the issuance of 459,990 units at a price of $0.75 per unit. Each unit consists of one post consolidation common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional post consolidation common share at a price of $0.83 per share for a term of two years.

Obtain license of Cannabis Oil Sales

On March 29, 2017, the Company received an amendment to its license from Health Canada to include the sale of cannabis oils. In anticipation of this approval, the Company has been producing cannabis oil and extracts. Sales are anticipated to begin in late Spring 2017.