Condensed interim consolidated financial statements of

The Hydropothecary Corporation

for the three and six months ended January 31, 2017 and 2016

(Unaudited, in Canadian dollars)

The Hydropothecary Corporation

January 31, 2017

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THE HYDROPOTHECARY CORPORATION

(the "Company")

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
Three and six months ended January 31, 2016 and 2016

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The management of The Hydropothecary Corporation are responsible for the preparation of the accompanying unaudited condensed interim consolidated financial statements. The condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed consolidated interim financial statements and are in accordance with IAS 34 - Interim Financial Reporting.

The Company's auditor has not performed a review of these condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

April 3, 2017

The Hydropothecary Corporation

Condensed interim consolidated statement of comprehensive loss for the three and six months ended January 31, 2017 and 2016

(In Canadian dollars)
(Unaudited)

	For the three month period ended		For the six month period ended	
	January 31, 2017	January 31, 2016	**January 31, 2017**	January 31, 2016
	$	$	**$**	$
Revenue	**913,897**	180,537	**2,052,599**	201,220
Revaluation of biological assets (Note 5)	**(592,439)**	(125,854)	**(1,002,534)**	(174,206)
Production costs	**158,539**	9,243	**238,025**	46,616
Cost of goods sold	**408,491**	68,506	**808,425**	84,564
Gross margin including unrealized revaluation of biological assets	**939,306**	228,642	**2,008,683**	244,246
Expenses				
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 (Note 9)	**179,347**	13,232	**281,473**	105,315
Financing charges	**228,578**	31,500	**228,578**	77,211
Amortization of property, plant and equipment (Note 6)	**78,135**	33,523	**109,879**	63,861
Amortization of intangible assets (Note 7)	**56,187**	31,930	**116,257**	59,068
	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)
Interest expense	**(125,916)**	(116,717)	**(140,409)**	(224,344)
Interest income	**14,969**	-	**18,271**	-
Net loss and comprehensive loss attributable to shareholders	**(1,113,543)**	(679,667)	**(1,543,848)**	(1,582,307)
Net loss per share, basic and diluted	**(0.13)**	(0.14)	**(0.20)**	(0.33)
Weighted average number of outstanding shares				
Basic and diluted	**8,587,760**	4,923,284	**7,590,944**	4,860,947

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

The Hydropothecary Corporation

Condensed interim consolidated statement of financial position
as at January 31, 2017 and July 31, 2016

(In Canadian dollars)
(Unaudited)

	January 31, 2017	July 31, 2016
	$	$
Assets		
Current assets		
Cash	**17,124,972**	1,931,454
Share subscriptions receivable	**-**	250,011
Accounts receivable	**811,020**	1,043,365
Commodity taxes recoverable	**314,816**	27,425
Prepaid expenses	**51,472**	35,737
Inventory (Note 4)	**1,249,901**	531,425
Biological assets (Note 5)	**218,408**	120,667
	19,770,589	3,940,084
Property, plant and equipment (Note 6)	**4,771,919**	2,936,226
Intangible assets (Note 7)	**2,639,889**	2,633,766
	27,182,397	9,510,076
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**1,531,813**	1,373,498
Commodity taxes payable	**-**	43,863
Unsercured convertible debentures (Note 8)	**335,191**	306,205
Secured convertible debentures (Note 8)	**2,669,333**	-
Conversion liability (Note 8)	**644,099**	-
Warrant liability (Note 8)	**649,966**	-
	5,830,402	1,723,567
Shareholders' equity		
Share capital (Note 9)	**27,055,377**	12,756,262
Share-based payment reserve (Note 9)	**1,177,538**	937,065
Contributed surplus	**89,601**	89,601
Warrants (Note 9)	**1,940,324**	1,370,579
Deficit	**(8,910,846)**	(7,366,998)
	21,351,995	7,786,509
	27,182,397	9,510,076

Approved by the Board

/s/ Sébastien St-Louis
______________________________ Director

/s/ Adam Miron
______________________________ Director

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

The Hydropothecary Corporation

Condensed interim consolidated statements of changes in shareholders' equity
for the three and six month periods ended January 31, 2017 and 2016

(In Canadian dollars)
(Unaudited)

	Number common shares	Share capital	Share-based payment reserve	Warrants	Contributed surplus	Deficit	Shareholders' equity
	#	$	$	$	$	$	$
Balance, July 31, 2016	6,550,972	12,756,262	937,065	1,370,579	89,601	(7,366,998)	7,786,509
Issuance of Units (Note 9)	56,379	192,253	-	61,453	-	-	253,706
Share issuance costs (Note 9)	-	(6,308)	-	-	-	-	(6,308)
Broker/Finder warrants (Note 9)	-	-	-	714	-	-	714
Stock-based compensation (Note 9)	-	-	102,126	-	-	-	102,126
Net loss	-	-	-	-	-	(430,304)	(430,304)
Balance at October 31, 2016	6,607,351	12,942,207	1,039,191	1,432,746	89,601	(7,797,302)	7,706,443
Private placement (Note 9)	714,286	2,500,001	-	-	-	-	2,500,001
Concurrent financing (Note 9)	2,919,507	13,137,782	-	-	-	-	13,137,782
Share issuance costs	-	(1,638,863)	-	-	-	-	(1,638,863)
Broker / Finder warrants	-	-	-	520,304	-	-	520,304
Exercise of stock options	25,000	66,000	(41,000)	-	-	-	25,000
Exercise of warrants	8,881	48,250	-	(12,726)	-	-	35,524
Stock-based compensation (Note 9)	-	-	179,347	-	-	-	179,347
Net Loss	-	-	-	-	-	(1,113,543)	(1,113,543)
Balance at January 31, 2017	**10,275,025**	**27,055,377**	**1,177,538**	**1,940,324**	**89,601**	**(8,910,845)**	**21,351,995**
Balance, July 31, 2015	4,821,681	6,707,250	775,051	22,929	109,394	(4,012,702)	3,601,922
Issuance of common shares (Note 9)	25,000	100,000	-	-	-	-	100,000
Stock-based compensation (Note 9)	-	-	92,083	-	-	-	92,083
Exercise of stock options (Note 9)	25,000	66,000	(41,000)	-	-	-	25,000
Net loss	-	-	-	-	-	(902,640)	(902,640)
Balance at October 31, 2015	4,871,681	6,873,250	826,134	22,929	109,394	(4,915,342)	2,916,365
Issuance of common shares (Note 9)	105,222	473,500	-	-	-	-	473,500
Stock-based compensation (Note 9)	-	-	13,232	-	-	-	13,232
Net loss	-	-	-	-	-	(679,667)	(679,667)
Balance at January 31, 2016	**4,976,903**	**7,346,750**	**839,366**	**22,929**	**109,394**	**(5,595,009)**	**2,723,432**

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

The Hydropothecary Corporation

Condensed interim consolidated statement of cash flows
for the six-month period ended January 31, 2017 and 2016

(In Canadian dollars)
(Unaudited)

	January 31, 2017	January 31, 2016
	$	$
Operating activities		
Net loss and comprehensive loss	**(1,543,848)**	(1,582,307)
Items not affecting cash		
Amortization of intangible assets	**116,257**	59,068
Amortization of property, plant and equipment	**109,879**	63,861
Unrealized revaluation gain on biological assets	**(1,002,534)**	(174,206)
Stock-based compensation (Note 9)	**281,473**	105,315
Accretion of convertible debt (Note 8)	**173,969**	61,247
Changes in non-cash operating working capital items		
Accounts receivable	**232,346**	(307,461)
Commodity taxes payable (recoverable)	**(331,255)**	7,959
Prepaid expenses	**(15,735)**	74,335
Investment tax credit receivable	**-**	40,183
Inventory	**186,317**	(18,600)
Accounts payable and accrued liabilities	**(614,866)**	377,742
	(2,410,076)	(1,292,864)
Financing activities		
Issuance of units (Note 9)	**503,717**	-
Issuance of common shares - Private Placement (Note 9)	**2,500,001**	623,499
Issuance of common shares - Concurrent Financing (Note 9)	**13,137,782**	-
Secured convertible debentures (Note 8)	**4,403,881**	-
Financing fees	**(437,836)**	
Deposit on potential M&A transaction	**-**	1,000,000
Exercise of stock options	**25,000**	25,000
Exercise of warrants	**35,524**	-
Share issuance costs (Note 9)	**(1,124,153)**	-
	19,043,916	1,648,499
Investing activities		
Purchase of intangible assets	**(74,056)**	(76,613)
Acquisition of property, plant and equipment (Note 6)	**(1,220,715)**	(624,369)
	(1,294,771)	(700,982)
Effect of exchange rate changes on cash	**(145,551)**	-
Decrease in cash	**15,339,069**	(345,347)
Cash, beginning of period	**1,931,454**	421,860
Cash, end of period	**17,124,972**	76,513

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

1. Description of business

The Hydropothecary Corporation was incorporated on August 13, 2013, under the Canada Business Corporations Act and has one wholly-owned subsidiary, 167151 Canada Inc. (together “THC” or “the Company”), acquired in November 2014. Its head office is located at 120 Chemin de la Rive, Gatineau, Quebec, Canada. THC is a producer of medical marijuana and its site is licensed by Health Canada for production and sale.

Also refer to Note 17, subsequent to January 31, 2017, the Company completed a business combination with BFK Capital Corp., a capital pool company.

2. Basis of presentation

Statement of compliance

These condensed interim consolidated financial statements have been prepared in compliance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”). These condensed interim consolidated financial statements should be read in conjunction with the annual financial statements of the Company for the year ended July 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on April 3, 2017.

Basis of measurement and consolidation

The consolidated financial statements have been prepared on an historical cost basis except for biological assets, which are measured at fair value on a recurring basis and include the accounts of the Company and its wholly-owned subsidiary 167151 Canada Inc. They also include the accounts of 8980268 Canada Inc., a company for which THC holds a right to acquire the outstanding shares at any time for a nominal amount. Both subsidiaries are located in Canada.

Historical cost is the fair value of the consideration given in exchange for goods and services based upon the fair value at the time of the transaction of the consideration provided.

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 that 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. Fair value for measurement and/or disclosure purposes in these condensed interim consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

Level 2 - inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 - inputs are unobservable inputs for the asset or liability.

The preparation of these unaudited condensed interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates, which requires management to exercise judgement in applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these unaudited condensed interim consolidated financial statements have been set out in Note 3 of the

2. Basis of presentation (continued)

audited consolidated financial statements for the year ended July 31, 2016.

Basis of consolidation

These condensed interim consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

3. Changes to accounting standards and interpretations

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.

(Unaudited, In Canadian dollars)

3. Changes to Accounting Standards and Interpretations (continued)

New and revised IFRS in issue but not yet effective (continued)

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.

4. Inventory

	January 31, 2017	July 31, 2016
	$	$
Dried cannabis	**1,181,751**	451,351
Oils	**36,122**	34,665
Packaging and supplies	**32,028**	45,409
	1,249,901	531,425

The inventory expensed to cost of sales in the three and six months ended January 31, 2017 amounts to $328,407 and $665,043, respectively ($337,433 and $674,112 for the three and six months ended January 31, 2016).

5. Biological assets

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

(Unaudited, In Canadian dollars)

5. Biological assets (continued)

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 $211,208 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 follows:

- 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.

6. Property, plant and equipment

	Balance at July 31, 2016	**Additions**	**Transfers**	**Balance at January 31, 2017**
	$	**$**		**$**
Cost				
Land	105,000	**-**	**-**	**105,000**
Buildings	917,087	**1,490,411**	**1,647,017**	**4,054,515**
Furniture and equipment	320,586	**402,331**	**-**	**722,917**
Vehicles	37,537	**-**	**-**	**37,537**
Computers	91,298	**50,875**	**-**	**142,173**
Construction in progress	1,647,017	**8,333**	**(1,647,017)**	**8,333**
	3,118,525	**1,951,950**	**-**	**5,070,475**

	Balance at July 31, 2016	**Amortization**	**Transfers**	**Balance at January 31, 2017**
	$	**$**		**$**
Accumulated amortization				
Land	-	**-**	**-**	**-**
Buildings	54,095	**52,552**	**-**	**106,647**
Furniture and equipment	67,224	**46,916**	**-**	**114,140**
Vehicles	15,535	**3,754**	**-**	**19,289**
Computers	45,445	**13,035**	**-**	**58,480**
Construction in progress	-	**-**	**-**	**-**
	182,299	**116,257**	**-**	**298,556**
Net carrying value	2,936,226			**4,771,919**

During the second quarter of 2017, the Company completed construction and began production of a new production facility at the Chemin de la Rive location. As at January 31, 2017 all amounts related to the construction of the new production facility previously included in construction in progress, have been transferred to building. As at January 31, 2017, there was $158,138 (July 31, 2016 - $38,629) of property, plant and equipment in accounts payable and accrued liabilities.

(Unaudited, In Canadian dollars)

7. Intangible assets

	Balance at July 31, 2016	Additions	Disposals/ adjustments	Balance at January 31, 2017
	$	$	$	$
Cost				
ACMPR License	2,544,696	-	-	2,544,696
Software	289,564	116,001	-	405,565
Domain names	6,596	-	6,596	-
	2,840,856	116,001	6,596	2,950,261

	Balance at July 31, 2016	Amortization	Disposals/ adjustments	Balance at January 31, 2017
	$	$	$	$
Accumulated amortization				
ACMPR License	149,008	63,861	-	212,869
Software	51,486	46,017	-	97,503
Domain name	6,596	-	6,596	-
	207,090	109,878	6,596	310,372
Net carrying value	2,633,766			2,639,889

As at January 31, 2017, there was $93,151 (July 31, 2016 - $Nil) intangible assets purchases accrued in accounts payable and accrued liabilities.

8. Convertible debentures

Between March and May of 2016, the Company issued $420,000 of non-interest bearing unsecured convertible debentures “2016 Unsecured Debentures”. The principal amount of the 2016 Unsecured Debentures is convertible into units at $4.50 per Unit. A Unit consists of one Common Share and one Common Share purchase warrant. The warrant has an exercise price of $5.00 and is valid for a period of two years from the date of issuance.

The Company has allocated the proceeds from issuance between the estimated value of the equity and debt components using the residual method. The Company used an effective interest rate for the debt component of 20%, which resulted in valuing the debt at $350,000. The equity component of the instrument is valued at $70,000.

In July 2016, two debenture holders holding $66,426 of debentures at book value, converted their debentures into 16,666 units. The 16,666 warrants were valued at $15,047 using the Black-Scholes option pricing model and the following variables: stock price of $3.60; expected life of two years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.56%.

The Company did not incur significant transaction costs for the issuance of these convertible debentures. As a result, no allocation of those costs was made to either the convertible debentures or the equity.

In November 2016, the Company, issued $4,403,893 (US$3,275,000) principal amount of secured debentures, though a brokered private placement. The debentures bear interest at 8% per annum and mature December 31, 2019. Interest for the first year of the term of the Debentures will be accrued and paid in arrears, following which, interest will be accrued and paid quarterly in arrears. The debentures are

8. Convertible debentures (continued)

convertible into common shares of the Company at US$4.20 at the option of the holder. The debentures will automatically convert to common shares after the Company becomes a reporting issuer on a Canadian or United States exchange and maintains a volume weighted average trading price of equal to or exceeding the conversion price of the debentures for 15 days. The obligations of the Company under the debentures are secured by a first priority security interest against all of the assets of the Company and mature on December 31, 2019. The debenture holders received 389,868 warrants, one for every two common shares that would be issued assuming full conversion of the debentures. The warrants have a three year term, expiring November 13, 2019 and have an exercise price of US$4.60.

The Company identified embedded derivatives related to the above described debenture. These embedded derivatives included variable conversion liability and the warrants. The accounting treatment of the derivative financial instruments require that the Company record the fair value of the derivatives as of the inception date of the debenture and to fair value as of each subsequent reporting date.

The company allocated proceeds based on the relative fair values of the debt, warrants, and conversion option, to the warrant and debt conversion provision liabilities to discount the convertible debenture. The fair values of the embedded derivatives were determined using the Black-Scholes option pricing model. The debt warrants were value with a fair value $550,955 (US$409,723) stock price of $4.50; exchange rate of 1.3447; expected life of three years; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%; the debt warrants were revalued at January 31, 2017 with a USD/CAD exchange rate of 1.3012 yielding a fair value of $533,132. The conversion option was initially valued with a fair value of $758,598 (US$564,139); with a stock price of $4.50; expected life of one and half years; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%. At the period end the conversion option was revalued, with a fair value of $644,099 (US$495,004); with a stock price of $4.20; expected life of 15 months; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%.

In connection with the closing of the debentures, the Company paid a placement agent fee of $560,152 (US$416,563) from the gross proceeds of the financing and incurred an additional $62,995 of financing costs. The Company also issued broker warrants exercisable to acquire 62,381 common shares at an exercise price of US$4.20 per share. The broker warrants were attributed a fair value of $95,513 (US$71,029) based on the Black-Scholes option pricing model with the following assumptions: with a stock price of $4.20; expected life of three years; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%. The broker warrants were revalued at January 31, 2017 with a USD/CAD exchange rate of 1.3012 yielding a fair value of $113,663.

In addition to the debt warrant and the broker warrant liabilities, the company also issued a warrant to a service provider as described in Note 9.

9. Share capital

Authorized

An unlimited number of Common Shares

In the first quarter of fiscal 2016, the Company completed a private placement of 25,000 Common Shares at a price of $4.00 per share for gross cash proceeds of $100,000.

On April 30, 2016, the Company converted a non-refundable $1,000,000 deposit that was previously provided by a prospective investor. Under the terms set out in the letter of interest with this investor, the deposit was converted into 250,000 Common Shares at a price of $4.00 per share. The Company did not incur significant transaction costs for the issuance of these equities.

During the second and third quarter of fiscal 2016, the Company completed private placements of 205,311 Common Shares at a price of $4.50 per share for gross cash proceeds of $923,903. The Company did not incur significant transaction costs for the issuance of these equities.

9. Share capital (continued)

During the third and fourth quarter of fiscal 2016, the Company began a private placement that resulted in 696,705 units at $4.50 per unit generating gross proceeds of $3,135,173. One unit provided the

holder with one Common share and one Common Share Purchase Warrant. The Warrant entitled the holder the option to buy a Share at the price of $5.00 for three years from date of issuance. The value of the warrants was estimated using the Black-Scholes option pricing model with the following variables: stock price of $3.41; expected life of three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. The value of the warrants was estimated to be $759,409. As a result, the residual value of the Common Shares was calculated to be $2,375,764.

During the fourth quarter of fiscal 2016, the Company raised 82,115 units at $4.50 per unit generating gross proceeds of $369,517. One unit provided the holder with approximately 1.05 Common Shares and one Common Share Purchase Warrant. The total number of Common Shares and Warrants issued, were 86,217 and 82,115, respectively. The Warrant entitled the holder the option to buy a Share at the price of $5.00 for three years from the date of issuance. The value of the warrants is estimated using the Black-Scholes option pricing model with the following variables: stock price of $3.41; expected life of three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. The value of the warrants was estimated to be $89,505. As a result, the residual value of the Common Shares was calculated to be $280,012.

Share issue costs relating to the above equity financings amounted to $46,518. $8,868 of the costs are related to 6,569 warrants issued that have a $5.00 exercise price and expire in five years. These warrants were issued to a broker in relation to the sale of 82,115 units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.15; expected life of five years; Nil dividends; 64.5% volatility; and risk free interest rate of 0.69%. $3,635 of the costs related to 4,999 warrants issued that have a $4.50 exercise price and expire in one year. These warrants were issued to a financing consultant in relation to a Finders fee for the sale of 83,312 units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.77; expected life of one year; Nil dividends; 64.5% volatility; and risk free interest rate of 0.69%. In both cases, the warrants issued provide the holders with the option to purchase one Common Share.

As previously described in Note 8 of the July 31, 2016, Financial Statements, "*Secured convertible debentures - 2015"*, the Company converted debentures into 368,392 units at a price of $4.00 per unit. The gross value of the conversion was $1,473,576. Each unit consisted of a Common Share and one Common Share purchase warrant. Upon conversion the debenture was extinguished and the security has been released. The warrants were valued at $424,448 using the Black-Scholes option pricing model and the following variables: stock price of $3.35; expected life three years; Nil dividends; 64.5% volatility; and risk free interest rate of 0.59%. The residual value of the value converted of $1,126,421 including $77,293 of related contributed surplus was attributed to the common shares. The following warrants are also related to the "*Secured convertible debentures - 2015":*

- *Originating warrants valued at issue date (fiscal 2015)* - The warrants were valued at $10,203 using the Black-Scholes option pricing model and the following variables: stock price of $3.00; expected life of two years; Nil dividends; 65% volatility; and risk free interest rate of 0.96% and 0.87%.
- *Broker warrants valued at issue date (fiscal 2015)* - There were also 8,881 broker warrants issued to the broker. Each warrant entitles the broker to acquire one Unit for $4.00 and expire in two years. The value of the warrants was estimated to be $12,726 using the Black-Scholes option pricing model and the following variables: underlying security value price of $4.00; expected life of two years; Nil dividends; 65% volatility; and risk free interest rate of 1.01%. These warrants were exercised in December 2016.
- *Amendment warrants (fiscal 2016)* - On February 19, 2016, prior to the debentures being converted, the Company negotiated an amendment with the holders of the Secured Convertible Debentures to

9. Share capital (continued)

delay the maturity date to December 17, 2016. 60,000 warrants were issued with an exercise price of $4.50 and expire 10 months from the effective date of the amendment. The Warrants were valued at $40,135 using the Black-Scholes option pricing model and the following variables: stock price of $3.83; expected life 10 months; Nil dividends; 64.5% volatility; and risk free interest rate of 0.44%.

As previously described in Note 8 of the July 31, 2016, Financial Statements, "Uns*ecured convertible debentures – 2015"*, the Company repaid and extinguished the debentures after the initial due date. In exchange for the late payment, the company issued Penalty Warrants priced at $4.00 a share exercisable up to December 31, 2017. The Warrants were valued at $6,603 using the Black-Scholes option pricing model and the following variables: stock price of $3.46; expected life of 23 months; Nil dividends; 64.5% volatility; and risk free interest rate of 0.39%.

As described in Note 8, Unsecured convertible debentures, the Company issued unsecured debentures in the third and fourth quarter of fiscal 2016. On July 15, 2016, $66,426 of the debentures held by two individuals were converted into 16,666 common shares at a price of $4.50 per unit.

In April 2016, the Company agreed to issue common shares in exchange for services rendered by two contractors. The Company issued 1,500 shares and the gross value of the share issued totaled $3,250. The fair value of the services provided approximated the value of the shares issued.

During the first quarter of 2017, the Company issued 56,379 Units in a private placement at $4.50 per unit generating gross proceeds of $253,706. A Unit provides the holder with one Common share and one Common Share Purchase Warrant. The Warrant entitles the holder the option to buy a Share at the price of $5.00 for three years from date of issuance. The value of the warrants is estimated using the Black-Scholes option pricing model with the following variables: stock price of $3.41; expected life of three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. The value of the warrants was estimated to be $61,453. As a result, the residual value of the Common Shares was calculated to be $192,252.

Share issue costs relating to the equity financings in the first quarter of fiscal 2017 amounted to $6,308. $617 of the costs are related to 444 warrants issued that have a $5.00 exercise price and expire in five years. These warrants were issued to a broker in relation to the sale of 56,379 units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.11; expected life of five years; Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. $97 of the costs related to 133 warrants issued that have a $4.50 exercise price and expire in one year. These warrants were issued to a financing consultant in relation to a Finders fee for the sale of 2,222 units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.77; expected life of one year; Nil dividends; 64.5% volatility; and risk free interest rate of 0.69%. In both cases, the warrants issued provide the holders with the option to purchase one Common Share.

During the second quarter of 2017, the Company issued 714,286 Common Shares at $3.50 per Common Share for total proceeds of $2,500,001 from a group of private investors ("Investors"). As part of the Private Placement the Investors have the right to nominate up to two Directors supported by an agreement between certain shareholders. The Investors also have a call option to purchase another 714,286 Common Shares at a price of $3.50 prior to May 31, 2017. In connection with the closing of this placement, THC incurred share issuance costs of $147,014 and issued 57,142 broker warrants with an exercise price of $4.50 and a five year term.

During the second quarter, THC completed the Concurrent Financing through Canaccord Genuity ("Agent") pursuant to which it issued 2,919,507 THC Common Shares at a price of $4.50 per shares for gross proceeds of $13,137,782. In connection with the closing of the Concurrent Financing, THC paid the Agent a cash commission of $803,487, equal to 7% of the gross proceeds from the Concurrent Financing, subject to a reduced commission of 3.5% for certain subscribers on a President's List of THC, and issued to the Agent warrants exercisable to acquire 178,553 THC Common Shares, being that number of THC Common Shares as was equal to 7% of the number of THC Common Shares sold under

(Unaudited, In Canadian dollars)

9. Share capital (continued)

the Concurrent Financing, subject to a reduced percentage of 3.5% for certain subscribers on the President's List of THC, at an exercise price of $4.50 per share and a two year term. Additional transaction costs of $82,329 were included in share issuance costs.

During the second quarter the Company issued the following warrants:

- 33,867 warrants in exchange for services rendered by two service providers:
  - The Company issued 20,000 warrants that have a strike price of $4.20 USD and expire in May 2018. The warrants were valued at $18,760 using the Black-Scholes option pricing model and the following variables: stock price of $4.50; expected life of 18 months; Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%
  - The Company issued another 13,867 warrants that have a strike price of 4.50 and expire 3 years. The warrants were valued at $30,184 using the Black-Scholes option pricing model and the following variables: stock price of $4.50; expected life of three years; Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%
- 7,490 broker agent warrants with an exercise price of $4.50 and a two year term. The warrants were valued at $13,576 using the Black-Scholes option pricing model and the following variables: stock price of $4.50; expected life of two years; Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%

As at January 31, 2017, there were 10,275,025 Common Shares outstanding and 2,028,054 warrants outstanding.

	July 31, 2016 balance	**Issued**	**Exercised**	**January 31, 2017 balance**
Warrants issued with $4.50 Units	778,820	**56,379**	**-**	**835,199**
2015 secured convertible debenture warrants	368,392	**-**	**-**	**368,392**
2016 secured convertible debenture warrants	16,666	**389,868**	**-**	**406,534**
2015 secured convertible debenture amendment warrants	60,000	**-**	**-**	**60,000**
2015 unsecured convertible debenture amendment warrants	6,350	**-**	**-**	**6,350**
Broker / Consultant warrants	20,449	**340,011**	**(8,881)**	**351,579**
January 31, 2017 balance	1,250,677	**786,258**	**(8,881)**	**2,028,054**

The Company has a service agreement under which it may be required to issue up to $178,000 in Common Shares based on the achievement of certain objectives. The Common Shares will be issued at the last price at which they were sold from treasury to arm's length investors if still a private company, or the volume weighted average price for the Common Shares for the preceding three months if then a public company. As of January 31, 2017, the Company has not accrued anything in relation to the contract.

Stock option plan

The Company has a share option plan (the "Plan") that is administered by the Board of Directors of the Company who establish exercise prices and expiry dates, which are up to 10 years from issuance as determined by the Board at the time of issuance. Unless otherwise determined by the Board, options issued under the Plan vest over a three-year period except for options granted to consultants or persons employed in Investor Relations Activities (as defined in the policies of the Exchange) which vest in stages over 12 months with no more than ¼ of the options vesting in any three-month period. The

(Unaudited, In Canadian dollars)

9. Share capital (continued)

maximum number of Common Shares reserved for issuance for options that may be granted under the Plan is 900,000 Common Shares outstanding as at January 31, 2017.

Stock option plan (continued)

	Options issued	Weighted average exercise price
		$
Opening balance	580,316	2.26
Granted	257,000	4.50
Expired	-	-
Forfeited	-	-
Exercised	(25,000)	1.00
Closing balance	812,316	3.49

The following table summarizes information concerning stock options outstanding as at January 31, 2017.

	Options outstanding		Options exercisable	
Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Weighted average remaining contractual life (years)
$	#		#	
1.00	170,000	2.32	170,000	2.32
3.50	223,650	7.90	157,493	7.88
4.50	418,666	9.50	51,666	8.62
	812,316	7.56	379,159	5.49

Stock-based compensation

For the six months ended January 31, 2017 the Company recorded $281,473 (January 31, 2016 - $105,315) in stock-based compensation expense related to employee options, which are measured at fair value at the date of grant and are expensed over the option's vesting period. For the three months ended January 31, 2017 the Company recorded $179,347(January 31, 2016 – $13,232) in stock-based compensation expense related to employee options.

10. Net loss per share

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have reduced the loss per share (anti-dilutive) for the periods presented are as follow:

(Unaudited, In Canadian dollars)

10. Net loss per share (continued)

	January 31, 2017	July 31, 2016
	$	$
2016 Unsecured convertible debentures	**76,667**	76,667
2016 Warrants to be issued on conversion of unsecured convertible debentures	**76,667**	76,667
Options	**812,316**	588,649
Warrants issued with $4.50 Units	**835,199**	778,820
2015 Secured convertible debenture warrants	**368,392**	368,392
2016 Unsecured convertible debenture warrants	**16,666**	16,666
2016 Secured convertible debenture warrants	**389,868**	-
2015 Secured convertible debenture amendment warrants	**60,000**	60,000
2015 Unsecured convertible debenture amendment warrants	**6,350**	6,350
Convertible debenture broker/finder warrants	**351,579**	20,449
	2,993,704	1,992,660

11. Segmented information

The Company operates in one operating segment.

All property, plant and equipment and intangible assets are located in Canada.

12. Financial instruments

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.

(Unaudited, In Canadian dollars)

12. Financial instruments (continued)

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 Note 17 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 Note 17 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%.

13. Related party disclosure

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 is as follows:

	For the six months ended January 31, 2017	January 31, 2016
	$	$
Salary and or Consulting Fees	577,794	458,148
Stock-based compensation	238,973	134,423
	816,767	592,571

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.

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

(Unaudited, In Canadian dollars)

14. Related party disclosure (continued)

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.

15. Capital management

The Company's objective is to maintain sufficient capital base so as to maintain investor, creditor and customer confidence and to sustain future development of the business and provide the ability to continue as a going concern. Management defines capital as the Company's shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable profitable growth. The Company currently has not paid any dividends to its shareholders.

As at January 31, 2017, total managed capital was comprised of shareholders' equity of $21,351,995.

There were no changes in the Company's approach to capital management during the period.

16. Commitments and contingencies

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.

Litigation

The Company is currently a party to a legal dispute with a supplier with respect to an agreement related to leasing a facility. A definitive lease agreement was contingent on the Company obtaining a license under the Marijuana for Medical Purposes Regulations (MMPR) as well as entering into a definitive lease with the proposed landlord. Neither of these conditions were met by the date agreed to in the proposal. On October 27, 2014, the proposed landlord filed a statement of claim in the amount of $1,107,544.

The Company is currently disputing the claim, and the litigation process will continue into the foreseeable future unless a settlement can be reached between the two parties. There is a hearing scheduled on May 1, 2017. No amount has been recorded in the consolidated interim financial statements due to the fact that the amount is neither determinable nor estimable at this point.

17. Subsequent events

Issuance of common shares

On March 9, 2017, the Company sold 415,493 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 issued to a group of private investors on November 4, 2016.

Completion of Reverse take-over

On March 15, 2017, the Company, closed its previously announced business combination with BFK Capital Corp ("BFK"). By way of a three cornered amalgamation each THC shareholder received six post-consolidation common shares in the capital of the company for each THC common share held.

Following the completion of the Transaction (on a post-consolidation and post-acquisition basis), the Company currently 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; (ii) stock options exercisable to purchase up to 5,051,673 common shares at exercise prices ranging from $0.16 to $0.90; (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 non-interest bearing 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 warrants. Each warrant entitles the holder thereof to purchase one post consolidation additional common share at a price of $0.83 per share for a term of two years.

Obtain license of Cannabis Oil Sales

On March 28, 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.