HYDROPOTHECARY®






MANAGEMENT DISCUSSION AND ANALYSIS

For the three- and six-month periods ended January 31, 2018

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This management discussion and analysis ("MD&A") of the financial condition and results of operations of The Hydropothecary Corporation and our wholly-owned subsidiaries (collectively, "we" or "us" or "our" or "Company" or "Hydropothecary"), is for the three and six months ended January 31, 2018, the second quarter of our 2018 fiscal year ("Fiscal 2018"). It is supplemental to, and should be read in conjunction with, our unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended January 31, 2018, as well as the audited financial statements and MD&A for the fiscal year ended July 31, 2017. Our 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 the Company is available on our websites at www.thehydropothecary.com or THCX.com or through the SEDAR website at www.sedar.com.

Certain information in this MD&A contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information, in general, can be identified by the use of forward-looking terminology such as "may", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "continue" or "objective", or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our plans and objectives, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities; and, statements regarding our future economic performance. These statements are not historical facts but instead represent management beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management control. We have based these forward-looking statements on our current expectations about future events. Although the forward-looking statements contained in this MD&A are based on what we believe are reasonable assumptions, these assumptions are subject to a number of risks beyond our control and there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to: financial risks; industry competition; general economic conditions and global events; product development, facility and technological risks; changes to government laws, regulations or policy, including tax; agricultural risks; supply risks; product risks; dependence on senior management; sufficiency of insurance; and, other risks and factors described from time to time in the documents filed by us with securities regulators. For more information on the risk factors that could cause our actual results to differ from current expectations, see "Risk Factors". All forward-looking information is provided as of the date of this MD&A. We do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by law.

This MD&A is dated March 27, 2018.

NON-IFRS MEASURES

We have included certain non-IFRS performance measures in this MD&A, including Weighted average cash cost of dried inventory sold per gram and adjusted gross margin, as defined in this section. We employ these measures internally to measure our operating and financial performance and to assist in business decision making.

We believe that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate our operating results, underlying performance and future prospects in a manner similar to management.

As there are no standardized methods of calculating these non-IFRS measures, our methods may differ from those used by others, and accordingly, these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Weighted average cash cost of dried inventory sold per gram

Weighted average cash cost of dried inventory sold per gram includes direct costs associated with the growing, harvesting and processing of inventory sold such as labour, utilities, fertilizer costs, biological control costs, general supplies and materials, curing, milling, quality assurance and testing, of inventory sold in the period.

We believe this measure provides useful information as it measures production efficiency and may be a benchmark against our competitors.

Adjusted Gross Margin

We use Adjusted Gross Margin to provide a better representation of performance in the period by excluding non-cash fair value measurements as required by IFRS. We believe this measure provides useful information as it represents the gross margin for management purposes based on our full cost to produce inventory sold, exclusive of any fair value measurements as required by IFRS. The metric is calculated by removing all amounts related to biological asset fair value accounting under IFRS, including gains on transformation of biological assets and the cost of finished harvest inventory sold, which represents the fair value measured portion of inventory cost ("fair value cost adjustment") recognized as cost of goods sold.

We believe this measure provides useful information as it measures production efficiency and may be a benchmark against our competitors.

Company Overview

Our company was founded in 2013 for the purpose of producing cannabis under Health Canada's *Marihuana for Medical Purposes Regulations* ("MMPR"). We became the 17th licensed producer in Canada in March 2014 and made our first sale of medical cannabis in May 2015.

The MMPR was replaced by the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR") in August 2016. Under our current ACMPR license, we are authorized to produce and sell cannabis to medical patients in dried and oil form. Our license has a term ending on October 15, 2019 and we are not currently aware of any circumstances that would impede renewal.

We cultivate, process and package medical cannabis at our facilities in Gatineau, Québec. Our corporate offices, R&D and product development are located on the same 143-acre site. We were the first licensed producer in Québec and are the only significant cannabis company headquartered in Québec.

To date, we have sold nearly one million grams of medical cannabis to thousands of patients across Canada who count on us for safe, high quality products. We have acquired valuable experience and knowledge by serving these patients, while developing an extensive product line and establishing a distinct brand that positions us favourably for the opening of the adult recreational market.

Investors have responded positively to both our strategy and execution, as evidenced by the $243.6 million we have raised in public markets since July 2017, making us one of the best-capitalized companies in the industry.

As at January 31, 2018, we employed approximately 101 people. Which included 21 people in cultivation and harvesting; 23 in operations, manufacturing and processing; 33 in sales and marketing; 4 in quality assurance and research and development, and 20 in corporate services and executive.

We do not, and do not intend to, carry on business or invest, directly or indirectly, in any business that derives revenue, directly or indirectly, from the sale of cannabis or cannabis products in the United States or in any other jurisdiction where the sale of cannabis is unlawful under applicable laws.

For additional information about our corporate structure, please refer to our Annual Information Form for the fiscal year ended July 31, 2017, which is available under our profile on SEDAR at www.sedar.com.

Canadian cannabis market

According to Statistics Canada, nearly five million Canadians purchased $5.7 billion worth of cannabis in 2017, mostly from illegal sources. The federal agency estimates that the average price per gram was $7.50. Various market studies have estimated the size of the Canadian cannabis market at over $10 billion per year.

Legislation to legalize adult recreational use – Bill C-45, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts* – is presently being debated in the Senate of Canada and is expected to become law during the summer of 2018. Only licensed producers will be authorized to sell cannabis into the adult recreational market. As at January 31, 2018, there were approximately 90 licensed producers under the ACMPR.

Regulation of the sale of adult recreational cannabis in retail and online environments is the responsibility of the provinces and territories. We expect that most jurisdictions will require licensed producers to sell all cannabis products to provincial and territorial control boards, which will sell to consumers online and through their own outlets or licensed private outlets.

In Québec, which has a population of 8.4 million or approximately 23% of the Canadian population, the Société des alcools du Québec (‘‘SAQ’’) will operate the distribution and sale of adult recreational cannabis in the province through a subsidiary. The SAQ has indicated that, upon the anticipated legalization of adult recreational use, it intends to begin with 20 retail locations across Québec in which it will sell cannabis onsite and that it expects to increase this number to 100 locations within the first two years of legalization. It will also sell cannabis online.

As at March 27, 2018, there are five other licensed producers of cannabis in Québec in addition to Hydropothecary: Agri-Médic ASP Inc; Agro-Biotech Inc; Aurora Cannabis Enterprises Inc.; IsoCanMed Inc., and Vert Cannabis Inc.

Of the six licensed producers, Hydropothecary is the only one currently authorized to sell cannabis. The other licensed producers possess a license to cultivate but are not yet licensed to sell cannabis from their facilities.

In Ontario, which has a population of 14.2 million or approximately 39% of the Canadian population, the government has announced that it will sell recreational cannabis through stores and online through the Ontario Cannabis Retail Corporation (‘‘OCRC’’). The OCRC is proposing an open tendering process, whereby licensed producers of cannabis can submit bids in response to requests from the OCRC. The OCRC will offer consumers a variety of cannabis products from 40 initial retail locations in 29 communities. Products will include dried cannabis, oil and capsule products, pre-rolled, and clones and seeds.

As at the date of this MD&A, the cannabis control authorities of four provinces – New Brunswick, Newfoundland & Labrador, Prince Edward Island, and Québec – have announced cannabis supply agreements leading up to the anticipated legalization of adult recreational use.

Corporate strategy

Since inception, we have been laying the foundation for becoming a leader in the Canadian cannabis market, serving both medical patients and, post-legalization, adult recreational users. We believe that success in Canada can then be leveraged into global cannabis markets.

Given the different regulations governing the sale of recreational use cannabis across Canada, the number of large-scale licensed producers, and the limited cultivation capacity at the present time, among other factors, we believe the initial years post-legalization will be the most critical in determining the future shape of the cannabis industry in Canada.

For this and other reasons, we have deliberately set out to build a commanding position in one jurisdiction – Québec – immediately post-legalization, while making strategic inroads in selected other markets across the country. By quickly proving our business model and operational excellence in Québec, we expect to establish Hydropothecary as a desirable business partner for cannabis control authorities across Canada and globally.

Our strategy is built on three pillars – scale, distribution and brand. As we approach the opening of the adult recreational market, we are focused on the execution of three strategic priorities:

1. Increasing production capacity rapidly to meet Year 1 (beginning approximately July 2018) and Year 2 (beginning approximately July 2019) demand in the adult recreational market in Québec, while achieving low-cost producer status;
2. Establishing large-scale product distribution in Québec and strategic penetration in selected other Canadian markets as well as internationally;
3. Gaining strong consumer awareness of our brand by offering the best customer experiences through the broadest range of products and delivery methods.

In everything we do – cultivation, production, product development, distribution – we will always exercise rigor in order to offer medical cannabis patients and adult recreational users uncompromising quality and safety, while earning and maintaining the trust of all of our stakeholders. This commitment is supported by our strict compliance with Health Canada's stringent quality control requirements, our pharmaceutical grade production system, full seed-to-sale traceability, third-party independent testing, and a system of posting our product testing results online.

Scale

We have been cultivating cannabis for four years and we believe we now have the right systems in place under the ACMPR regulatory regime to grow and produce high-quality cannabis with consistent yields.

We chose to locate in Gatineau because we believe Québec offers the ideal conditions for cannabis production. The key is an abundant supply of renewable electricity at competitive rates, combined with abundant water resources and the availability of skilled people.

Our location also positions us in close proximity to two of Canada's largest urban areas (Greater Montreal and the National Capital Region) and on the border of our country's two largest consumer markets – Québec and Ontario.

Our current licensed facilities total approximately 50,000 sq. ft. They include our original 7,000 sq. ft. greenhouse, a new 35,000 sq. ft. greenhouse under glass completed in 2017, a new warehouse, two stand-alone laboratories, and two modular buildings for final packaging and customer service, all located on our 143-acre land parcel. The annual production capacity of these facilities is estimated at approximately 3,600 kg of dried cannabis.

We broke ground on a 250,000 sq. ft. state-of-the-art curved-glass greenhouse in October 2017, and construction work is on schedule and on budget for a planned completion by July 2018. This expansion will increase our annual production capacity to approximately 25,000 kg of dried cannabis.

In December 2017, we acquired an adjacent 78-acre land parcel upon which we are planning to build a 1 million sq. ft. greenhouse. This second expansion, currently underway, is expected to be completed for December 2018, at which time our total annual production capacity will be approximately 108,000 kg of dried cannabis per year.

As at January 31, 2018, our weighted average cash cost of dried inventory sold per gram was $0.97. While there are currently no standardized measures for cash cost of inventory per gram in the Canadian medical cannabis industry, we believe we are one of the lowest cost producers, as measured by weighted average cash cost of dried inventory sold per gram. Our costs have decreased steadily as a result of improvements in cultivation processes and economies of scale from the full utilization of the new 35,000 sq. ft. greenhouse. We also benefit from competitive electricity rates, particularly in comparison to Ontario-based producers, and significantly lower construction-related capital costs in comparison to indoor facilities.

Distribution

As the only significant licensed producer headquartered in Québec, our objective is to build a long-term supply relationship with the provincial authority responsible for cannabis distribution and sales.

On February 14, 2018, we announced the signing of a letter of intent (LOI) with SAQ for the supply of 20,000 kg of cannabis products for Year 1 of the adult recreational cannabis market. To the best of our knowledge, this is the largest forward supply contract ever awarded in the history of the emerging cannabis industry. We are in active negotiations with SAQ to finalize a definitive agreement for the supply of cannabis to the Quebec market for the next several years, including the volume currently under LOI. Based on the LOIs signed between the SAQ and five licensed producers, we obtained the highest Year 1 volume, representing approximately 35% market share, and we are aiming to remain the largest supplier in subsequent years.

Our top priority in Year 1 of the adult recreational market is to serve the Québec market and to make a strategic entry into other Canadian markets such as Ontario to position for full-scale supply to that market in Year 2. As we execute on our relationship with SAQ and enter Ontario, we will also engage with authorities responsible for cannabis distribution and retail in Alberta and British Columbia to open additional markets for our brand. Until our capacity expansions are operational, our objective is to use our award-winning, innovative products to position our brand at retail and in online stores in markets outside Québec on a limited basis.

In terms of processing and distribution capacity, we are significantly increasing our capabilities. Our current expansion project, to be completed in July 2018, features a state-of-the-art processing, packaging and distribution centre.

Brand

We have built a robust innovation and product development team responsible for developing products that offer consumers a full range of experiences and price points, including a variety of ways to consume cannabis products. This team works hand-in-hand with our marketing team in leveraging these products to build brand awareness in a highly-regulated environment.

We currently offer patients a choice of nearly two dozen medical cannabis products under four product lines: *Time of Day*, premium dried cannabis; *H2*, mid-market dried cannabis; *Decarb*, activated fine-milled cannabis powder; and *Elixir*, a peppermint-based cannabis oil sublingual mist. Our dried cannabis products are currently priced between $3.00 and $15.00 per gram. THC and CBD sublingual mist are sold for $69.00 and $89.00 per 15 ml bottle. Certain of our products have received kosher certification.

Decarb and Elixir, launched in recent months, have both won excellence awards. Decarb, a cannabis powder, is an alternative to smoking, vaping and oils. Decarb uses a proprietary drying method and exacting scientific standards to decarboxylate (decarb) the cannabis, which activates the cannabinoids (THC and CBD), so that they can be consumed orally.

Elixir is the first sub-lingual cannabis spray authorized under the ACMPR. Packaged in a child-resistant spray bottle, Elixir is a smoke-free, ready to use, high THC product. We have since extended this product line with the launch of Elixir CBD. We are the first to market with THC and CBD cannabis oil spray products.

Decarb was voted "Top New Product'' at the Canadian Cannabis Awards and Elixir received the third-place award in this category and the second-place award in the "Top High THC Oil". We also received the top honour in the packaging category.

We are currently undertaking a holistic review of our branding strategy in anticipation of the opening of the adult recreational market. This review will inform future branding initiatives as part of our ambitious product release plan, which is driven by research, innovation and development.

Shareholder value creation

Our strategic priorities reflect our view that long-term shareholder value in our industry will be created by companies that achieve large-scale distribution and high brand awareness. We aim to be the best partner for provincial cannabis distribution and retail authorities, while being recognized for delivering the best user experiences across the full spectrum of products, price points and delivery methods.

This view is reflected in our distribution strategy and our focus on research, innovation and product development. We are actively exploring ways to increase our expertise related to cannabis applications and forms of delivery, and to expand our product range and brand portfolio. These include potential partnerships, joint ventures and strategic acquisitions of intellectual property and related transactions.

Beyond the funds required for our currently planned investments in cultivation capacity, we expect to allocate the majority of our capital to distribution, downstream activities, intellectual property and branding, while remaining alert for opportunistic transactions that create shareholder value. This approach will directly support us on our journey to becoming a leader in the Canadian cannabis market both as a distributor and product innovator.

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Corporate Highlights

SAQ Supply Agreement

On February 14, 2018 we announced a letter of intent ("LOI") with *Société des alcools du Québec* (SAQ), for the supply of cannabis for the Quebec market. We will supply 20,000 kg of cannabis products in the first year of adult-use recreational cannabis. The LOI covers the full range of our products and brands, from H2 and Time of Day (flower) to Elixir (sub-lingual oil spray) to Decarb (powder).

Executive Appointments

On March 13, 2018 we announced the addition of three experienced executives to our team. Roch Vaillancourt (General Counsel), Sonia Isabel (Vice-President of Sales), and Jocelyn Racine (Vice-President of Finance) bring decades of legal, sales, finance, and business experience to Hydropothecary as we continue to strengthen our team in the lead-up to the legalization of adult-use recreational cannabis. Dr. Shane Morris, Vice-President of Quality Assurance and Scientific Affairs, resigned during the quarter to pursue other interests. His responsibilities have been delegated within the organization and he will not be replaced.

Segra Agreement

On March 16, 2018 we announced an agreement with Segra International Corp. ("Segra") to incorporate plant tissue culture propagation into the cannabis plant production process. Segra's expertise and unique tissue culture technique will allow us to increase our yield of healthy, top-quality plants to serve the growing medical and recreational cannabis markets.

Shopify Agreement

On March 20, 2018, we announced an agreement with Shopify, one of the world's most respected online commerce companies, to build our ecommerce platform for cannabis products. The bilingual website will improve the shopping experience for medical cannabis patients by streamlining the medical registration and ordering process, and provide information for discerning recreational consumers. It will also support engagement with provincial and territorial cannabis retailers, while giving us the flexibility to adapt to regulatory challenges and market variations from province to province. This platform is an important component of our Canadian distribution strategy.

Operational and Financial Highlights

Key Performance Indicators

	Q2'18	Q1'18	Q2'17
Revenue	$1,182	$1,102	$914
Grams and gram equivalents sold	131,501	120,844	90,518
Revenue/gram equivalent	$8.99	$9.12	$10.10
Weighted average cash cost of dried inventory sold per gram	$0.97	$1.07	$1.73

- Revenue increased 29% to $1,182 compared to $914 in the second quarter of Fiscal 2017. Higher revenue was driven mainly by increased sales volume, offset partially by lower average selling prices. Compared to the prior quarter, the sequential revenue increase was 7%, also reflecting higher volumes and lower average selling prices.

- Sales volume increased 45% to 131,501 gram equivalents, compared to 90,518 in the same prior year period, reflecting growth in the number of patients served and strong market acceptance of our new products. On a sequential basis, sales volume increased 9% compared to the first quarter of Fiscal 2018.

- Weighted average cash cost of dried inventory sold per gram as at January 31, 2018 declined 9% to $0.97, compared to $1.07 in the prior quarter, reflecting higher production efficiencies. We believe we are a Canadian leader in production efficiency.

- We established relationships with 12 additional clinics during the quarter, further expanding and diversifying our patient base and market presence. We had relationships with 134 clinic locations at the end of the quarter.

- As a result of the growing scale of operations, our head count rose by 9% to 101 employees as at January 31, 2018 from 93 on October 31, 2017.

Facility Expansion

- On December 11, 2017 we announced a 1 million sq. ft. expansion, expected to be completed by December 2018, and the acquisition of 78 acres of land adjacent to our existing 65-acre Gatineau, Quebec property. This expansion will increase our annual production capacity of dried cannabis to 108,000 kg.

Product Line Expansion

- On February 1, 2018 we continued our commitment to innovation by launching Elixir CBD Peppermint, Canada’s first CBD medical cannabis oil mist. With less than 4 mg/ml of THC and between 50 to 60 mg/ml of CBD, Elixir CBD Peppermint delivers the therapeutic benefits of CBD to patients while minimizing the psychoactive effects of THC.

Financial Position

- As at January 31, 2018, we held cash and short-term investments of $264,661, and there was no debt on our balance sheet.

- On December 27, 2017, pursuant to our conversion right, our 8.0% unsecured convertible debentures due June 30, 2019 and unpaid accrued interest thereon were converted into common shares, resulting in the issuance of 15,853,887 common shares from treasury.

- On November 24, 2017, we closed a $69,000 bought deal financing of 69,000 convertible debenture units at a price of $1 per unit. Each unit consisted of $1 principal amount of 7.0% unsecured convertible debentures and 227 common share purchase warrants. Each warrant has an exercise price of $3.00 per share and a maturity of November 24, 2020. On January 15, 2018, pursuant to our conversion right, all outstanding convertible debentures and unpaid accrued interest thereon were converted into common shares, resulting in the issuance of 31,384,081 common shares from treasury.

- On January 30, 2018, we closed a $149,500 bought deal public offering of 37,375,000 units at a price of $4 per unit. Each unit consists of a common share and half of a common share purchase warrant. Each warrant has an exercise price of $5.60 per share and a maturity of January 30, 2020.

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Summary of Results

Summary of results for the three- and six-month periods ended January 31, 2018 and January 31, 2017

Income Statement Snapshot	*For the three months ended*		*For the six months ended*	
	31-Jan-18	*31-Jan-17*	*31-Jan-18*	*31-Jan-17*
Revenue	$ 1,182	$ 914	$ 2,283	$ 2,053
Adjusted Gross Margin	$ 731	$ 652	$ 1,370	$ 1,442
Gross margin	$752	$ 939	$ 3,215	$ 2,009
Operating expenses	$ 5,491	$ 1,713	$ 8,335	$ 3,202
Loss from operations	$ (4,739)	$ (774)	$ (5,120)	$ (1,193)
Net of other income/expenses	$ (4,213)	$ (340)	$ (5,751)	$ (350)
Net income (loss)	$ (8,952)	$ (1,114)	$ (10,870)	$ (1,544)
Weighted average shares outstanding	93,202,241	51,526,560	84,841,163	45,545,664
Net income (loss) per share	$(0.10)	$ (0.02)	$ (0.13)	$ (0.03)

** As a result of a business combination 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. (See Note 4 to the condensed interim consolidated financial statements for the three and six months ended January 31, 2018.)*

Change in presentation

Since the last quarter, several of our competitors, have changed their financial statement presentation, in an effort to provide greater clarity and comparability on the actual costs involved in cannabis production and the fair value component. In order to ensure that our financial reporting is in line with new developing industry standards, we have made similar changes to the presentation on our income statement.

Previous Presentation

	For the three months ended		*For the six months ended*	
	31-Jan-18	*31-Jan-17*	*31-Jan-18*	*31-Jan-17*
Revenue	$ 1,182	$ 914	$ 2,283	$ 2,053
Fair value adjustment on biological assets	$ (1,261)	$ (592)	$ (3,880)	$ (1,002)
Production costs	$ 217	$ 159	$ 196	$ 238
Cost of goods sold	$ 1,474	$ 408	$ 2,752	$ 808
Gross margin	$ 752	$ 939	$ 3,215	$ 2,009

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Revised Presentation

	For the three months ended		For the six months ended	
	31-Jan-18	31-Jan-17	31-Jan-18	31-Jan-17
Revenue	$ 1,182	$ 914	$ 2,283	$ 2,053
Cost of goods sold	$ 451	$ 262	$ 914	$ 610
Gross margin before fair value adjustments	$731	$652	$1,370	$ 1,442
Fair value adjustment on sale of inventory	$ 1,032	$ 146	$ 1,846	$ 198
Fair value adjustment on biological assets	$ (1,053)	$ (434)	$ (3,692)	$ (765)
Gross margin	$ 752	$ 939	$ 3,215	$ 2,009

Revenue

	For the three months ended		For the six months ended	
	31-Jan-18	31-Jan-17	31-Jan-18	31-Jan-17
Revenue	$ 1,182	$ 914	$ 2,283	$ 2,053
Total gram equivalents sold	131,501	90,518	252,345	171,300

Revenue for the second quarter ended January 31, 2018 increased 29% to $1,182 compared to $914 in the same period in Fiscal 2017. Higher revenue was driven mainly by increased sales volume, offset partially by lower average selling prices. Compared to the prior quarter, the sequential revenue increase was 7%, also reflecting higher sales volume and lower average selling prices.

Sales volume increased 45% to 131,501 gram equivalents, compared to 90,518 in the same prior year period, reflecting growth in the number of patients served and strong market acceptance of our new products. Revenue per gram equivalent was $8.99 compared to $10.10 in the same prior year period, mainly as a result of higher sales of our H2 and Decarb product lines, which retail for $3.00 to $15 per gram. Lower average realized prices in the latest quarter also reflect the decision by Veterans Affairs Canada (VAC) to cap the reimbursable amount at $8.50 per gram, effective in the second quarter of Fiscal 2017.

On a sequential basis, sales volume increased 9% compared to the first quarter of Fiscal 2018, essentially for the same reasons as noted above.

For the six months ended January 2018, revenue increased 11% to $2,283 compared to $2,053 in the same period in Fiscal 2017. Sales volume increased 47% to 252,345 gram equivalents, compared to 171,300 in the same prior year period.

Cost of Sales

Cost of goods sold includes the direct costs of materials and labour related to inventory sold, and includes harvesting, processing, packaging and shipping costs.

Fair value adjustment on sale of inventory includes the fair value of biological assets included in the value of inventory transferred to cost of sales.

Fair value of biological assets represents the increase or decrease in fair value of plants during the growing process less expected cost to complete and selling costs and includes certain management estimates.

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

	For the three months ended		***For the six months ended***	
	31-Jan-18	***31-Jan-17***	***31-Jan-18***	***31-Jan-17***
Cost of Sales	$ 451	$ 262	$ 914	$ 610
Fair value adjustment on sale of inventory	$ 1,032	$ 146	$ 1,846	$ 198
Fair value adjustment on biological assets	$ (1,053)	$ (434)	$ (3,692)	$ (765)
Total Fair value adjustment	**$ (21)**	**$ (288)**	**$ (1,846)**	**$ (567)**

Cost of sales for the second quarter ended January 31, 2018 was $451, compared to $262 for the same quarter ended January 31, 2017. This is due to an increase in the number of gram and gram equivalents sold during the period as well as an increase in the number of grams sold from more recent harvests, with a lower production cost.

Fair value adjustment on the sale of inventory for the second quarter ended January 31, 2018 was $1,032 compared to $146 for the same quarter ended January 31, 2017. This is due to changes in the valuation of biological assets, as well as an increase in the number of gram and gram equivalents sold during the period.

Fair value adjustment on biological assets for the second quarter ended January 31, 2018 was ($1,053) compared to ($434) for the same quarter ended January 31, 2017. This is due to B5 coming on line in January 2017 resulting in an increase in the number of plants as well as changes in the determination of fair value of biological assets from the prior period.

Non – IFRS Measure

Weighted average cash cost of dried inventory sold per gram

Weighted average cash cost of dried inventory sold per gram includes direct costs associated with the growing, harvesting and processing of inventory sold such as labour, utilities, fertilizer costs, biological control costs, general supplies and materials, curing, milling, quality assurance and testing, of inventory sold in the period.

As there are no standardized methods of calculating this non-IFRS measure, our methods may differ from those used by others, and accordingly, the use of this measure may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Weighted average cash cost of dried inventory sold is calculated as follows:

	Q2'18	**Q1'18**	**Q2'17**
Cost of goods sold	$ 451	$ 463	$ 262
Less			
Order fulfillment costs	$ (286)	$ (307)	$ (106)
Cannabis oil conversion costs	$ (41)	$ (32)	-
	$ 124	$ 124	$ 156
Number of dried gram sold	127,769	115,768	90,518
Weighted average cash cost of dried inventory sold (g)	$0.97	$1.07	$1.73

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

In an effort to become more comparable with the metrics reported by our competitors, we have chosen to report the weighted average cash cost of inventory sold in the period, we have previously reported the cash cost of finished goods inventory. The weighted average cash cost of inventory sold in the period is higher than the cash cost of finished goods inventory because it also includes the sale of inventory produced in previous periods when the cash cost of finished goods inventory was higher.

Weighted average cash cost of dried inventory sold per gram declined 44% year over year to $0.97 for the second quarter ended January 31, 2018, compared to $1.73 for the same prior year quarter. Cost per gram sold has been trending downward as a result of improvements in cultivation processes and economies of scale resulting from the full utilization of higher production capacity. We expect the scale up of growing and harvesting methodology to drive further improvements in production efficiencies.

Operating Expenses

Operating Expenses	*For the three months ended*		*For the six months ended*	
	31-Jan-18	*31-Jan-17*	*31-Jan-18*	*31-Jan-17*
Marketing and promotion	$1,358	$673	$ 2,426	$1,450
General and administration	$1,770	$727	$ 3,046	$1,244
Stock-based compensation	$1,968	$179	$2,281	$281
Amortization of property, plant and equipment	$188	$78	$ 312	$110
Amortization of intangible assets	$207	$56	$ 270	$116
Total	**$5,491**	**$1,713**	**$8,335**	**$3,202**

Operating expenses include marketing and promotion, general and administrative, research and development, stock-based compensation, and amortization expenses. Marketing and promotion expenses include customer acquisition costs, customer experience costs, salaries for marketing and promotion staff, general corporate communications expenses and research and development costs. General and administrative expenses include salaries for administrative staff and executive salaries as well as general corporate expenditures including legal, insurance and professional fees.

Marketing and promotion

Marketing and promotion expenses increased to $1,358 in the second quarter, compared to $673 for the same period in Fiscal 2017. This reflects mainly the addition of marketing and promotion staff and higher travel-related expenses, printing and promotional materials, and research and development costs, consistent with our focus to prepare for the legalization of the adult recreational market.

For the six months ended January 31, 2018, marketing and promotion expenses increased to $2,426, compared to $1,450 for the same period in Fiscal 2017.

General and Administrative

General and administrative expenses increased to $1,770 in the second quarter, compared to $727 for the same period in Fiscal 2017. This increase reflects the growing scale of our operations, including an increase in general and administrative staffing, consulting and professional fees, as well as increased compliance costs as a listed company.

For the six months ended January 31, 2018, general and administrative expenses increased to $3,046 compared to $1,244 for the same period in Fiscal 2017.

Amortization of intangible assets

Amortization of intangible assets increased to $207 in the second quarter, compared with $56 for the same period in Fiscal 2017, and $63 in the first quarter of Fiscal 2018. The increase is the result of a change in the expected useful life of certain software as we prepare for the implementation of a new ERP system in the second half of Fiscal 2018, which will replace certain software programs we currently use.

Loss from Operations

Loss from operations for the second quarter was $4,739, compared to $774 for the same period in Fiscal 2017. The increased loss from operations is due mainly to higher expenses in line with the expanding scale of operations as we prepare for the legalization of the adult recreational market.

For the six months ended January 31, 2018, loss from operations was $5,119, compared to $1,193 in the same prior year period for the same reasons as the change for the three month period.

Other Income/Expenses

Other income/expense was ($4,213) and ($5,751) for the three and six months ended January 31, 2018 (($340) and ($350) for the three and six months ended January 31, 2017 respectively). Revaluation of financial instruments of ($3,330) in the latest quarter reflects the revaluation of an embedded derivative related to $3,275 of USD convertible debentures issued and converted in the prior year. Additionally, we incurred interest expense for the three months ended January 31, 2018 and January 31, 2017 of $1,094 and $354, respectively. This increase reflects the interest related to convertible debentures issued in July 2017 and November 2017.

Outlook

We have achieved excellent revenue visibility as we approach the legalization of recreational cannabis, with the 20,000 kg supply commitment under our letter of intent with SAQ and our medical cannabis sales. Predictable revenue streams from the recreational and medical markets, a debt-free balance sheet, two fully-funded expansion projects, and additional liquidity for corporate purposes, provide strong business certainty through Year 1 post-legalization and beyond. Without a doubt, this achievement is the most important milestone to date in our company’s history.

We are in active negotiations with SAQ to finalize a definitive agreement for the supply of cannabis to the Québec market for the next several years, including the volume currently under LOI. Based on the LOIs signed between the SAQ and five licenced producers in February 2018, we obtained the highest Year 1 volume, representing over 30% market share, and we are aiming to remain the largest supplier in subsequent years.

Our objective is to use our advantage as the only significant licensed producer in Québec to develop a close relationship with SAQ and establish Hydropothecary as the partner of choice in our home market. Our position is strengthened by our diversified and innovative product line, our ability to deliver Year 1 volume with the timely completion of our 250,000 sq. ft. greenhouse expansion, which is advancing on schedule, and our capacity to supply significantly higher volumes beyond Year 1, with the completion of our 1 million sq. ft. expansion at the end of 2018. With this second expansion, we will be well-positioned to supply more provincial markets across Canada.

Current indications are that the Government of Canada will delay the starting date for recreational cannabis sales for a period of eight to 12 weeks after the enabling legislation has been enacted, which is now expected by June 2018. There can be no assurance that this timeline will be met. We do not expect a material negative impact on our business or operations if this timeline is exceeded.

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

While serving our medical cannabis patients, we are very focused on the execution of our strategic priorities for the adult recreational market, including the completion of our two large-scale greenhouse expansions. We are working to increase yield per square foot and decrease our production cost per gram in our existing facilities to remain the low-cost industry leader.

We are also continuing to invest in product innovation and development to offer consumers a variety of ways to experience cannabis at a broad range of price points, and to support the SAQ in achieving an efficient and successful roll-out of recreational cannabis sales in Québec.

Biological Assets - Fair Value Measurements

As at January 31, 2018, the changes in the carrying value of biological assets are as follow:

	31-Jan-18	**31-July-17**
	$	$
Carrying amount, beginning of period	1,504	121
Production costs capitalized	396	659
Net increase in fair value due to biological transformation less cost to sell	3,983	5,003
Transferred to inventory upon harvest	(4,692)	(4,280)
Carrying amount, end of period	**1,191**	**1,504**

Our biological assets consist of cannabis plants from seeds all the way through to mature plants. As at January 31, 2018, the carrying amount of biological assets consisted of $6 in seeds and $1,185 in cannabis plants ($6 in seeds and $1,498 in cannabis plants as at July 31, 2017). The increase in the carrying amount of biological assets is attributable to an increase in plants on hand. 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; and,
- fair value selling price per gram less cost to complete and cost to sell.

We view our biological assets as Level 3 fair value estimates and estimate the probability of certain harvest rates at various stages of growth. As at January 31, 2018, it is expected that our biological assets will yield approximately 985,991 grams (July 31, 2017 – 700,169 grams). Our 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.

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Quarterly Results

The following table presents certain unaudited financial information for each of the eight fiscal quarters up to and including the quarter ended January 31, 2018. The information has been derived from our unaudited consolidated financial statements, which in management's opinion have been prepared on a basis consistent with the condensed interim consolidated financial statements for the three and six months ended January 31, 2018. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	Q2'18 31-Jan-18	Q1'18 31-Oct-17	Q4'17 31-Jul-17	Q3'17 30-Apr-17
Revenue	1,182	1,102	862	1,182
Net income (loss)	(8,952)	(1,918)	935	(11,808)
Income per share – basic	(0.10)	(0.03)	0.02	(0.17)
Income per share – fully diluted	(0.10)	(0.03)	0.01	(0.17)
	Q2'17 31-Jan-17	**Q1'17 31-Oct-16**	**Q4'16 31-Jul-16**	**Q3'16 30-Apr-16**
Revenue	914	1,139	1,053	617
Net income (loss)	(1,114)	(430)	(1,371)	(401)
Income per share – basic	(0.02)	(0.01)	(0.04)	(0.01)
Income per share – fully diluted	(0.02)	(0.01)	(0.04)	(0.01)

Financial Position

The following table provides a summary of our interim condensed financial position as at January 31, 2018 and July 31, 2017:

	31-Jan-18	31-July-17
Total assets	$299,590	$56,179
Total liabilities	11,128	23,739
Share capital	299,271	45,159
Share-based payment reserve	3,726	1,562
Contributed Surplus	-	1,775
Warrants	16,121	3,728
Deficit	(30,655)	(19,785)

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Total assets

Total assets increased to $299,590 as at January 31, 2018 from $56,179 as at July 31, 2017 primarily due to recent financings, capital asset additions related to facility expansion and an increase in the fair value of biological assets. Since July 31, 2017, we have raised gross proceeds of approximately $218,500 through two financings. At January 31, 2018, we had a cash balance of $145,993 and short-term investments of $118,668.

Total liabilities

Total liabilities decreased to $11,127 as at January 31, 2018 from $23,739 as at July 31, 2017, primarily due to the conversion of the unsecured convertible debentures from our July 2017 financing. Total liabilities include a warrant liability of $4,187 as at January 31, 2018, from $1,356 as at July 31, 2017, recorded at fair value, related to a private placement completed in the prior year. The increase in the value of the fair value of the warrant liability is the result of changes in the share price and foreign exchange rate in the period, partially offset by the reduction in the number of warrants outstanding.

Share capital

Share capital increased to $299,271 as at January 31, 2018 from $45,159 as at July 31, 2017, primarily due to the closing of the January 2018 financing, the conversion of the unsecured convertible debentures from our July 2017 and November 2017 financings, as well as warrant exercises.

Liquidity and Capital Resources

Liquidity

Our objectives when managing our liquidity and capital structure are to maintain sufficient cash to fund operating and organic growth requirements, and to meet contractual obligations. Our ability to reach profitability is dependent on successful implementation of our business strategy. While management is confident in the future success of the business, there can be no assurance that our products will gain adequate market penetration or acceptance, or generate sufficient revenue to reach profitability.

As at January 31, 2018, we had $145,993 of cash on hand, $118,668 of short-term investments, $324 of accounts receivable, and $6,940 of accounts payable and accrued liabilities. As at July 31, 2017, we had $38,453 of cash on hand, $2,872 of short-term investments, $351 of accounts receivable, $1,672 of accounts payable and accrued liabilities, and $25,100 in 8% unsecured convertible debentures.

Liquidity	**Six months ended 31-Jan-18**	**Six months ended 31-Jan-17**
	$	$
Operating activities	(6,810)	(2,555)
Financing activities	240,675	19,044
Investing activities	(126,324)	(1,295)

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Operating Activities

Net cash used in operating activities for the six months ended January 31, 2018 was $6,810 as a result of the net loss for the six months of $10,870, and a decrease in working capital of $3,250, partially offset by non-cash expense of $7,311. In the same prior year period, cash used in operating activities was $2,556 , reflecting the net loss of $1,544, net non-cash income of $469, and a decrease in working capital of $543. The change in cash flow reflects an increase in the unrealized gain on biological assets as the result of a change in estimate, offset by an increase in accounts payable due to the timing of payments as well as higher inventory related to an increase in dried cannabis and oil products, and an increase in the revaluation of financial instruments.

Financing Activities

Net cash received from financing activities for the six months ended January 31, 2018 was $240,675, reflecting the issuance of $149,500 in units from the January 2018 equity financing, $69,000 from the November 2017 convertible debenture financing, and $31,969 related to the exercise of warrants.

Investing Activities

For the six months ended January 31, 2018, we used $126,324 for investing activities, mainly the acquisition of short term investments. The balance was used in the construction of our Building 6, our new 250,000 sq. ft. greenhouse, which currently scheduled to be completed for July 2018.

Capital Resources

As at January 31, 2018, total current assets less accounts payable totaled $270,422. The exercise of all the issued and outstanding warrants, as at January 31, 2018, would result in an increase in cash of approximately $157,768, and the exercise of all stock options would increase cash by approximately $10,756.

Management believes that current working capital provides sufficient funds to fund current expansion projects and meet contractual obligations for the next 12 months. We periodically evaluate the opportunity to raise additional funds through the public or private placement of equity capital to strengthen our financial position and to provide sufficient cash reserves for growth and development of the business.

Our authorized share capital is comprised of 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, 2017, January 31, 2018 and March 27, 2018.

	27-Mar-18	**31-Jan-18**	**31-July-17**
Common Shares	179,076,540	177,317,976	76,192,990
Warrants	40,483,808	42,177,928	20,994,123
Options	8,532,896	8,272,340	5,748,169
Total	228,093,244	227,768,244	102,935,282

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

We have certain contractual financial obligations related to service agreements and construction contracts for the construction in progress shown in Note 8 of unaudited condensed interim consolidated financial statements and the accompanying notes for the three and six months ended January 31, 2018.

These contracts have optional renewal terms that we may exercise at our option. The annual minimum payments payable under these contracts over the next five years are as follows:

Fiscal Year	2018	2019	2020	2021	2022	Total
Amount	$7,678	$102	$71	$70	$17	$7,937

Financial Risk Management

We are exposed to risks of varying degrees of significance which could affect our ability to achieve our strategic objectives for growth. The main objectives of our risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which we are exposed are described below.

Interest Risk

Our exposure to interest rate risk only relates to any investments of surplus cash. We 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, 2018, we had short term investments of $118,668.

Credit Risk

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from our accounts receivable. As at January 31, 2018, we are exposed to credit related losses in the event of non-performance by the counterparties.

We provide credit to our customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Since the majority of the sales are transacted with clients covered under various insurance programs, we have limited credit risk.

The carrying amount of cash and cash equivalents, short term investments and accounts receivable represents the maximum exposure to credit risk and as at January 31, 2018, this amounted to $264,986. The cash is held by one of the largest cooperative financial groups in Canada. Since our inception, no losses have been incurred in relation to cash held by our financial institution. The accounts receivable balance is held with one of the largest medical insurance companies in Canada.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. We manage our liquidity risk by reviewing on an ongoing basis our capital requirements. As at January 31, 2018, we had $264,661 of cash and short term investments.

We are obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $6,940 due in the next 12 months.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

Critical Accounting Assumptions

Our financial statements 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. Our critical accounting assumptions are presented in our Annual MD&A for the year ended July 31, 2017 (Fiscal 2017), which is available under our profile on SEDAR.

Changes in Accounting Policies

New and revised IFRS in issue, but not yet effective

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 effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

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 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.

We are assessing the impact of these new or revised IFRS standards in issue but not yet effective on our financial position and financial performance.

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)

Related Party Transactions

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling our operations, directly or indirectly. Our key management personnel are the members of the executive management team and Board of Directors, who collectively control approximately 10.36% of the outstanding common shares as at January 31, 2018 (July 31, 2017 – 25.11%).

Compensation provided to key management for the three and six months ended January 31, 2018 and January 31, 2017 was as follows:

	For the three months ended		*For the six months ended*	
	31-Jan-18	***31-Jan-17***	***31-Jan-18***	***31-Jan-17***
	$	**$**	**$**	**$**
Salary and or consulting fees	476	474	860	578
Stock-based compensation	1,748	177	2,009	239
Total	**2,224**	**651**	**2,869**	**817**

On December 4, 2017, we granted certain directors and executives a total of 1,750,000 stock options with an exercise price of $2.69, half of which vested immediately and the balance over a three-year period.

On September 8, 2017, we granted certain of our executives a total of 650,000 stock options with an exercise price of $1.37, which vest over a three-year period.

We leased a building to a related party for $0.7 per month as part of a usufruct agreement. The related party used this property as a personal residence. On December 2, 2016, we reached an agreement with the related party to terminate the usufruct. In exchange, we paid the related party $46. Gaining access to this building provides us 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

Our overall performance and results of operations are subject to various risks and uncertainties which could cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in our Annual Information Form dated November 8, 2017 and in our final short form prospectus dated January 22, 2018 filed with securities regulators and available under our profile on www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- We operate 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 our securities is speculative and involves a high degree of risk and uncertainty.

- We face intense competition from licensed producers and other companies, some of which may have greater financial resources, and more industry, manufacturing and marketing experience than we do.

- The number of licences granted, and the number of licensed producers ultimately authorized by Health Canada could have an impact on our operations. We expect to face additional competition from new market entrants that are granted licences under the ACMPR or existing licence holders which are not yet active in the industry.

- We maintain various types of insurance which may include errors and omissions insurance; directors' and officers' insurance; property coverage; and, general commercial insurance. A judgment against any member of the Company in excess of available coverage could have a material adverse effect on us in terms of damages awarded and the impact on our reputation.

- Reliance on management and key persons' ability to execute on strategy. This exposes us to management's ability to perform, and as well the risk of management leaving the Company.

- Given the nature of our business, we may from time to time be subject to claims or complaints from investors or others in the normal course of business.

- Failure to adhere to laws and regulations may result in possible sanctions including the revocation or imposition of conditions on licenses to operate our business; the suspension or expulsion from a particular market or jurisdiction or of our key personnel; and, the imposition of fines and censures.

- Achievement of our business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the production and sale of our products. We cannot predict the time required to secure all appropriate regulatory approvals for our products, or the extent of testing and documentation that may be required by governmental authorities.

- While to the knowledge of our management, it is currently in compliance with all laws, regulations and guidelines relating to the marketing, acquisition, manufacture, management, transportation, storage, sale and disposal of medical marijuana and also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment, changes to such laws, regulations and guidelines due to matters beyond our control may cause adverse effects to our operations.

- Our business operations are dependent on our licence under the ACMPR. The licence must be renewed by Health Canada. Our current licence expires on October 15, 2019. Failure to comply with the requirements of the licence or any failure to renew the licence would have a material adverse impact on our business, financial condition and operating results.

- Our activities and resources are currently primarily focused on our Gatineau campus, and we will continue to be focused on this facility for the foreseeable future. Adverse changes or developments affecting the Gatineau campus would have a material and adverse effect on our business, financial condition and prospects.

- We have incurred operating losses since commencing operations, and may incur losses in the future and may not achieve profitability.

- Our growth strategy contemplates outfitting the Gatineau campus with additional production resources. There is a risk that these additional resources will not be completed on time, on budget, or at all.

- A key aspect of our business is growing marijuana, and as such we are exposed to the risks inherent in any agriculture business, such as disease spread, hazards, pests and similar agricultural risks that may create crop failures and supply interruptions for our customers.

- Our medical marijuana growing operations consume considerable energy, making us vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact our business and our ability to operate profitably.

- We believe the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of our products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity.

- As a manufacturer and distributor of products designed to be ingested or inhaled by humans, we face an inherent risk of exposure to product liability claims, regulatory action and litigation if our products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of our products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties.

- Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure.

- Our business is dependent on a number of key inputs and their related costs including raw materials and supplies related to our growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact our business, financial condition and operating results.

- We must rely largely on our own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada.

- We may be subject to growth-related risks including capacity constraints and pressure on our internal systems and controls. Our ability to manage growth effectively will require it to continue to implement and improve our operational and financial systems and to expand, train and manage our employee base.

- We may become party to litigation from time to time in the ordinary course of business which could adversely affect our business.

- We have no earnings or dividend record and may not pay any dividends on our common shares in the foreseeable future.

- Our common shares are listed on the TSX-V; however, there can be no assurance that an active and liquid market for the common shares will be maintained, and an investor may find it difficult to resell such shares.

- The market price for our common shares may be volatile and subject to wide fluctuations in response to numerous factors, including governmental and regulatory regimes, community support for the medical marijuana industry, variations in our operating results, changes in our business prospects, as well as many other factors that are beyond.

- We may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company.

- Our TSX-V's listing conditions required us to deliver an undertaking confirming that, while listed on the TSX-V, we will only conduct the business of production, acquisition, sale and distribution of medical marijuana in Canada as permitted under the Health Canada license.

- Our operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. We will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations.

- The development of our business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada.

- We are exposed to the risk that our employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data.