Condensed interim consolidated financial statements of

The Hydropothecary Corporation

For the three and six months ended January 31, 2018 and 2017
(Unaudited, expressed in Canadian dollars, unless otherwise noted)

The Hydropothecary Corporation

Table of contents

The Hydropothecary Corporation

Condensed interim consolidated statements of financial position as at January 31, 2018 and July 31, 2017

(Unaudited, in Canadian dollars)

	January 31, 2018	July 31, 2017
	$	$
Assets		
Current assets		
Cash	**145,993,226**	38,452,823
Short-term investments (Note 5)	**118,668,048**	2,871,550
Accounts receivable	**324,299**	351,207
Commodity taxes recoverable	**1,689,108**	495,783
Prepaid expenses	**1,914,963**	200,677
Inventory (Note 6)	**7,580,902**	3,689,239
Biological assets (Note 7)	**1,191,406**	1,504,186
	277,361,952	47,565,465
Property, plant and equipment (Note 8)	**19,324,446**	5,849,695
Intangible assets and other longer term assets (Note 9)	**2,903,872**	2,763,764
	299,590,270	56,178,924
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**6,940,128**	1,672,406
Interest payable (Note 10)	**-**	72,511
Warrant liability (Note 10 & 11)	**4,187,416**	1,355,587
	11,127,544	3,100,504
Unsecured convertible debentures (Note 10)	**-**	20,638,930
	11,127,544	23,739,434
Shareholders' equity		
Share capital (Note 11)	**299,270,625**	45,159,336
Share-based payment reserve (Note 11)	**3,726,020**	1,561,587
Contributed surplus	**-**	1,774,880
Warrants (Note 11)	**16,120,859**	3,728,255
Deficit	**(30,654,778)**	(19,784,568)
	288,462,726	32,439,490
	299,590,270	56,178,924

Approved by the Board

/s/ Jason Ewart Director

/s/ Michael Munzar Director

The Hydropothecary Corporation

Condensed interim consolidated statements of comprehensive loss
for the three and six months ended January 31, 2018 and 2017

(Unaudited, in Canadian dollars)

	For the three month period ended		For the six month period ended	
	January 31, 2018	January 31, 2017	**January 31, 2018**	January 31, 2017
			$	$
Revenue	**1,181,622**	913,897	**2,283,124**	2,052,599
Cost of goods sold (Note 6)	**450,551**	262,387	**913,551**	610,391
Gross margin before fair value adjustments	**731,071**	651,510	**1,369,573**	1,442,208
Fair value adjustment on sale of inventory (Note 6)	**1,031,633**	146,103	**1,846,132**	198,034
Fair value adjustment on biological assets (Note 7)	**(1,052,758)**	(433,900)	**(3,692,015)**	(764,509)
Gross margin	**752,196**	939,307	**3,215,456**	2,008,683
Operating Expenses				
General and administrative	**1,770,086**	726,965	**3,045,882**	1,243,805
Marketing and promotion	**1,357,665**	672,691	**2,425,782**	1,450,401
Stock-based compensation (Note 11)	**1,967,754**	179,347	**2,281,293**	281,473
Amortization of property, plant and equipment (Note 8)	**187,904**	78,135	**312,016**	109,879
Amortization of intangible assets (Note 9)	**207,349**	56,187	**270,159**	116,257
	5,490,758	1,713,325	**8,335,132**	3,201,815
Loss from operations	**(4,738,562)**	(774,018)	**(5,119,676)**	(1,193,132)
Revaluation of financial instruments (Note 10)	**(3,330,438)**	-	**(4,612,874)**	-
Foreign exchange loss	**(108,196)**	-	**(23,204)**	-
Interest expense (Note 10)	**(1,094,405)**	(354,494)	**(1,527,313)**	(368,987)
Interest income	**319,593**	14,969	**412,857**	18,271
Net loss and comprehensive loss attributable to shareholders	**(8,952,008)**	(1,113,543)	**(10,870,210)**	(1,543,848)
Net loss per share, basic and diluted	**(0.10)**	(0.02)	**(0.13)**	(0.03)
Weighted average number of outstanding shares				
Basic and diluted (Note 12)	**93,202,241**	51,526,560	**84,841,163**	45,545,664

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

The Hydropothecary Corporation

Condensed interim consolidated statements of changes in shareholders' equity
for the three and six month periods ended January 31, 2018 and 2017
(Unaudited, in Canadian dollars)

	Number common shares	Share capital	Share-based payment reserve	Warrants	Contributed surplus	Deficit	Shareholders' equity
	#	$	$	$	$	$	$
Balance, August 1, 2017	76,192,990	45,159,336	1,561,587	3,728,255	1,774,880	(19,784,568)	32,439,490
Issuance of 7% unsecured convertible debentures (Note 10)	-	-		3,529,770	7,283,084	-	10,812,854
Issuance of Units (Note 11)	37,375,000	139,029,262	-	10,470,738	-	-	149,500,000
Issuance costs (Note 11)	-	(5,725,953)	-	(768,186)	(505,767)	-	(6,999,906)
Issuance of Broker/Finder warrants	-	(1,485,797)	-	2,351,615	-	-	865,818
Conversion of 8% unsecured convertible debentures (Note 10)	15,853,887	23,462,232	-	-	(1,742,779)	-	21,719,453
Conversion of 7% unsecured convertible debentures (Note 10)	31,384,081	61,555,345	-	-	(6,809,418)	-	54,745,927
Exercise of stock options	285,829	335,047	(116,860)	-	-	-	218,187
Exercise of warrants (Note 11)	13,103,115	30,154,364	-	(1,995,962)	-	-	28,158,402
Exercise of Broker/Finder warrants (Note 11)	3,123,074	6,786,789	-	(1,195,371)	-	-	5,591,418
Stock-based compensation (Note 11)	-	-	2,281,293	-	-	-	2,281,293
Net loss	-	-	-	-	-	(10,870,210)	(10,870,210)
Balance at January 31, 2018	**177,317,976**	**299,270,625**	**3,726,020**	**16,120,859**	**-**	**(30,654,778)**	**288,462,726**
Balance, August 1, 2016	39,305,832	12,756,262	937,065	1,370,579	89,601	(7,366,998)	7,786,509
Issuance of Units (Note 11)	338,274	192,253	-	61,453	-	-	253,706
Private placement (Note 11)	4,285,716	2,500,001	-	-	-	-	2,500,001
Concurrent financing (Note 11)	17,517,042	13,137,782	-	-	-	-	13,137,782
Issuance costs (Note 11)	-	(1,645,171)	-	-	-	-	(1,645,171)
Broker/Finder warrants (Note 11)	-	-	-	521,018	-	-	521,018
Exercise of stock options	150,000	66,000	(41,000)	-	-	-	25,000
Exercise of warrants	53,286	48,250	-	(12,726)	-	-	35,524
Stock-based compensation (Note 11)	-	-	281,473	-	-	-	281,473
Net Loss	-	-	-	-	-	(1,543,847)	(1,543,847)
Balance at January 31, 2017	**61,650,150**	**27,055,377**	**1,177,538**	**1,940,324**	**89,601**	**(8,910,845)**	**21,351,995**

Outstanding number of shares has been retrospectively adjusted to reflect a share exchange in connection with the Qualifying Transaction (Note 1) 6 common shares of the Company for every 1 share of The Hydropothecary Corporation, which was effected in March 2017.

The Hydropothecary Corporation

Condensed interim consolidated statements of cash flows
for the six-month period ended January 31, 2018 and 2017
(Unaudited, in Canadian dollars)

	January 31, 2018	January 31, 2017
	$	$
Operating activities		
Net loss and comprehensive loss	**(10,870,210)**	(1,543,848)
Items not affecting cash		
Amortization of property, plant and equipment (Note 8)	**312,016**	109,879
Amortization of intangible assets (Note 9)	**270,159**	116,257
Unrealized revaluation gain on biological assets (Note 7)	**(3,692,015)**	(1,002,534)
Foreign exchange	**-**	(145,551)
Realized fair value adjustment on inventory sold	**1,846,132**	
Stock-based compensation (Note 11)	**2,281,293**	281,473
Non-cash interest expense	**312,043**	(2,079)
Accretion of convertible debt (Note 10)	**1,437,758**	173,969
Accrued interest	**(69,744)**	
Revaluation of financial instruments	**4,612,875**	-
Changes in non-cash operating working capital items		
Accounts receivable	**26,908**	232,346
Commodity taxes recoverable	**(1,193,325)**	(331,255)
Prepaid expenses	**(1,714,286)**	(15,735)
Investment tax credit receivable	**-**	-
Inventory	**(1,733,000)**	186,317
Accounts payable and accrued liabilities	**1,435,981**	(614,866)
Interest payable (Note 10)	**(72,511)**	-
Cash used in operating activities	**(6,809,926)**	(2,555,627)
Financing activities		
Issuance of units (Note 11)	**149,500,000**	503,717
Issuance of common shares - Private Placement (Note 11)	**-**	2,500,001
Issuance of common shares - Concurrent Financing (Note 11)	**-**	13,137,782
Issuance of secured convertible debentures (Note 10)	**69,000,000**	4,403,881
Financing fees (Note 11)	**(3,925,826)**	(437,836)
Exercise of stock options	**218,187**	25,000
Exercise of warrants	**31,968,776**	35,524
Share issuance costs (Note 11)	**(6,086,536)**	(1,124,153)
Cash provided by financing activites	**240,674,601**	19,043,916
Investing activities		
Acquisition of short-term investment (Note 5)	**(115,796,498)**	-
Acquisition of property, plant and equipment (Note 8)	**(10,117,507)**	(1,220,715)
Purchase of intangible assets (Note 9)	**(410,267)**	(74,056)
Cash used in investing activities	**(126,324,272)**	(1,294,771)
Decrease in cash	**107,540,403**	15,193,518
Cash, beginning of period	**38,452,823**	1,931,454
Cash, end of period	**145,993,226**	17,124,972

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

1. Description of business

The Hydropothecary Corporation, formerly BFK Capital Corp. (the “Company”), has one wholly-owned subsidiary, 10074241 Canada Inc. (“1007”). 1007 has three wholly-owned subsidiaries: 167151 Canada Inc., Banta Health Group and Coral Health Group (together “THC”). THC is a producer of medical marijuana and its site is licensed by Health Canada for production and sale. Its head office is located at 120 Chemin de la Rive, Gatineau, Quebec, Canada. The Company is a publicly traded corporation, incorporated in Ontario. The Company’s common shares are listed on the TSX Venture Exchange (“TSX-V”), under the trading symbol “THCX”.

The Company was incorporated under the name BFK Capital Corp. by articles of incorporation pursuant to the provisions of the *Business Corporations Act (Ontario)* on October 29, 2013, and after completing its initial public offering of shares on the TSX-V on November 17, 2014, it was classified as a Capital Pool Corporation as defined in policy 2.4 of the TSX-V. The principal business of the Company at that time was to identify and evaluate businesses or assets with a view to completing a qualifying transaction (a “Qualifying Transaction”) under relevant policies of the TSX-V. The Company had one wholly-owned subsidiary, 10100170 Canada Inc., which was incorporated with the sole purpose of facilitating a future Qualifying Transaction.

On March 15, 2017, the Company completed its Qualifying Transaction which was effective pursuant to an agreement between the Company and the legacy entity, The Hydropothecary Corporation (“Hydropothecary”). As part of the Qualifying Transaction, the Company changed its name to The Hydropothecary Corporation and consolidated its 2,756,655 shares on a 1.5 to 1 basis to 1,837,770. Following this change, Hydropothecary amalgamated with 10100170 Canada Inc., which resulted in the creation of a new entity, 10074241 Canada Inc. (THC). In connection with that amalgamation, THC acquired all of the issued and outstanding shares of the Company and the former shareholders of Hydropothecary received a total of 68,428,824 post-consolidation common shares. Immediately following closing, the Company had a total 70,266,594 common shares outstanding.

Upon closing of the transaction, the shareholders of Hydropothecary owned 97.4% of the common shares of the Company and as a result, the transaction is considered a reverse acquisition of the Company by Hydropothecary. For accounting purposes Hydropothecary is considered the acquirer and the Company is considered the acquiree. Accordingly, the condensed interim consolidated financial statements are in the name of The Hydropothecary Corporation (formerly BFK Capital Corp.); however, they are a continuation of the financial statements of Hydropothecary. Additional information on the transaction is disclosed in Note 4.

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 consolidated financial statements of the Company for the fiscal year ended July 31, 2017, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on March 27, 2018.

Basis of measurement and consolidation

The condensed interim consolidated financial statements have been prepared on an historical cost basis except for short term investments, biological assets, the warrant liability, conversion liability, which are measured at fair value on a recurring basis and include the accounts of the Company and entities controlled by the Company and its subsidiaries. They include its wholly-owned subsidiary, 10074241 Canada Inc. They also include 167151 Canada Inc., Banta Health Group and Coral Health Group, three wholly-owned subsidiaries of 10074241 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. All 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, *Share-based payment* and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2, *Inventories*.

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 condensed interim consolidated financial statements 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 condensed interim consolidated financial statements have been set out in Note 3 of the audited consolidated financial statements for the year ended July 31, 2017.

Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, the functional currency of the Company and its subsidiaries.

3. Changes to Accounting Standard and Interpretations

IFRS 9, Financial Instruments

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Equity investments that are less than significant investments are currently recorded at cost as these are private companies and organizations that do not have a quoted price in an active market and whose fair value cannot be readily measured. Upon implementation of IFRS 9, these investments will need to be recorded at fair value and the Company is currently assessing available information and practicable methods to determine their fair value.

(Unaudited, in Canadian dollars)

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 is 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.

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

4. Reverse Acquisition

On March 15, 2017, BFK Capital Corp. completed its Qualifying Transaction, which was effected pursuant to an agreement between BFK Capital Corp. and Hydropothecary. Pursuant to the agreement, BFK Capital Corp. acquired all of the issued and outstanding shares of Hydropothecary. The former shareholders of Hydropothecary received an aggregate of 68,428,824 post-consolidation common shares of BFK Capital Corp. for all the outstanding Hydropothecary common shares.

The transaction was a reverse acquisition of BFK Capital Corp. and has been accounted for under IFRS 2, *Share-based payment*. Accordingly, the transaction has been accounted for at the fair value of the equity instruments granted by the shareholders of Hydropothecary to the shareholders and option holders of BFK Capital Corp. The difference between the fair value of the consideration (including the outstanding options) and the fair value of BFK Capital Corp.'s net assets, has been recognized as a listing expense in the consolidated statements of comprehensive loss for the fiscal year ended July 31, 2017. The options were valued using the Black-Scholes option pricing model with the following variables: share price of $0.75; expected life of two years; $Nil dividends; 100% volatility; and risk free interest rate of 1.34%. Additional legal and consulting fees of $154,549 were incurred to complete the transaction.

The results of operations of BFK Capital Corp. are included in the condensed interim consolidated financial statements of THC from the date of the reverse acquisition, March 15, 2017.

The following represents management's estimate of the fair value of the net assets acquired and total consideration transferred at March 15, 2017 as a result of the reverse acquisition.

Fair value of BFK shares prior to transaction (1,837,770 at $0.75 per share)	$	1,378,332
Options		70,253
Total consideration transferred		1,448,585
Net assets acquired		(652,110)
Excess attributed to cost of listing		796,475
Professional, consulting and other fees		154,549
RTO Listing expense	$	951,024

Net assets acquired include:

Cash	$	647,214
Prepaid expense		4,896
Total net assets acquired	$	652,110

(Unaudited, in Canadian dollars)

5. Short-term investments

Short-term investments consist of in various guaranteed investment certificates, term deposits, and fixed income securities that mature on dates between January 24, 2018 and October 29, 2018 with annual interest rates ranging from 0.50% to 4.25%.

Short term investments are comprised of liquid investments with maturities of less than 12 months, previously six months. Short term investments are recognized initially at fair value and subsequently adjusted to fair value through profit or loss.

6. Inventory

	January 31, 2018			July 31,
	Capitalized Cost	**Biological Asset Fair value adjustment**	**Total**	2017
			$	$
Dried cannabis	1,426,046	5,590,311	**7,016,357**	3,517,609
Oils	210,327	205,528	**415,855**	106,893
Packaging and supplies	148,690	-	**148,690**	64,737
	1,785,063	5,795,839	**7,580,902**	3,689,239

The inventory expensed to cost of goods sold in the three and six months ended January 31, 2018 amounted to $1,236,311 and $2,259,714, respectively ($328,407 and $665,043 for the three and six months ended January 31, 2017).

7. Biological assets

The Company's biological assets consist of cannabis plants from seeds all the way through to mature plants. The changes in the carrying value of biological assets are as follows:

	January 31, 2018	July 31, 2017
	$	$
Carrying amount, beginning of period	**1,504,186**	120,667
Production costs capitalized	**396,339**	659,339
Net increase in fair value due to biological transformation less cost to sell	**3,982,648**	5,003,822
Transferred to inventory upon harvest	**(4,691,767)**	(4,279,642)
Carrying amount, end of period	**1,191,406**	1,504,186

As at January 31, 2018, the fair value of biological assets included $6,200 in seeds and $1,185,206 in cannabis plants ($6,200 in seeds and $1,497,986 in cannabis plants as at July 31, 2017). The significant estimates used in determining the fair value of cannabis plants are as follows:

- yield by plant;

(Unaudited, in Canadian dollars)

- 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.
- fair value selling price per gram less cost to complete and cost to sell.

The Company views its biological assets as a Level 3 fair value estimate and estimates the probability of certain harvest rates at various stages of growth. As at January 31, 2018, it is expected that the Company's biological assets will yield approximately 985,991 grams of cannabis (July 31, 2017 – 700,169 grams of cannabis). 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.

8. Property, plant and equipment

Cost	Balance at July 31, 2017	Additions	Disposals	**Balance at January 31, 2018**
	$	$	$	**$**
Land	358,405	680,317	-	**1,038,722**
Buildings	3,744,759	314,278	-	**4,059,037**
Furniture and equipment	900,395	38,026	-	**938,421**
Cultivation and production			-	**-**
equipment	379,992	417,392	-	**797,384**
Vehicles	113,926	32,900	-	**146,826**
Computers	233,685	73,805	-	**307,490**
Construction in progress	605,015	12,230,049	-	**12,835,064**
	6,336,177	13,786,767	-	**20,122,944**

Accumulated amortization	Balance at July 31, 2017	Amortization	Disposals/ adjustments	**Balance at January 31, 2018**
	$	$	$	**$**
Land	-	-	-	**-**
Buildings	194,187	105,390	-	**299,577**
Furniture and equipment	165,086	101,064	-	**266,150**
Cultivation and production equipment	23,068	47,659	-	**70,727**
Vehicles	25,589	14,782	-	**40,371**
Computers	78,552	43,121	-	**121,673**
Construction in progress	-	-	-	**-**
	486,482	312,016	-	**798,498**
Net carrying value	5,849,695			**19,324,446**

Construction in progress includes $993,611 (July 31, 2017 - $72,000) of capitalized interest. The effective capitalization rate for interest expense included in the cost of property, plant and equipment was 19.15% (July 31, 2017 – 19.15%) As at January 31, 2018, there was $4,010,372 (July 31, 2017 - $262,502) of property, plant and equipment in accounts payable and accrued liabilities.

(Unaudited, in Canadian dollars)

9. Intangible assets

Cost	Balance at July 31, 2017	Additions	Disposals/ adjustments	**Balance at January 31, 2018**
	$	$	$	**$**
ACMPR License	2,544,696	-	-	**2,544,696**
Software	651,247	300,267	-	**951,514**
Domain names	-	-	-	**-**
Investments held at cost		110,000	-	**110,000**
	3,195,943	410,267	-	**3,606,210**

Accumulated amortization	Balance at July 31, 2017	Amortization	Disposals/ adjustments	**Balance at January 31, 2018**
	$	$	$	**$**
ACMPR License	276,909	62,384	-	**339,293**
Software	155,270	207,775	-	**363,045**
Domain name	-	-	-	**-**
	432,179	270,159	-	**702,338**
Net carrying value	2,763,764			**2,903,872**

Software includes $81,297 relating to a system that is not yet available for use. Accordingly, no amortization has been taken during the six months ended January 31, 2018. The Company expects that the system will be available for use in the third quarter of fiscal 2018.

During the three months ended January 31, 2018, the Company conducted a review of its intangible assets, which resulted in changes in the expected usage of certain items. Certain assets, which management previously intended to use for 5 years from the date or purchase will now be replaced by July and September 2018. As a result, the expected useful lives of these assets decreased. The effect of these changes on actual and expected depreciation expense, in current and future years respectively is as follow.

	2018	**2019**	**2020**	**2021**	**2022**	**Later**
(Decrease) increase in depreciation expense	$309,253	$(87,478)	$(119,136)	$(99,874)	$(2,765)	$0

(Unaudited, in Canadian dollars)

10. Convertible debentures

	2017 unsecured convertible debentures 8%	2017 unsecured convertible debentures 8%	Total
Balance at July 31, 2016			-
Issued	25,100,000	-	**25,100,000**
Equity Portion	(1,163,396)	-	**(1,163,396)**
Conversion	(1,869,678)	-	**(1,869,678)**
Interest paid	-	-	**-**
Financing fees	(1,497,739)	-	**(1,497,739)**
Accretion	69,744	-	**69,744**
Accrued interest	72,511	-	**72,511**
Balance at July 31 ,2017	20,711,442	-	**20,711,442**
Issued	-	69,000,000	**69,000,000**
Equity Portion	-	(3,529,770)	**(3,529,770)**
Conversion	(21,719,454)	(62,029,011)	**(83,748,465)**
Interest paid	(621,367)	(638,426)	**(1,259,793)**
Financing fees	-	(4,040,753)	**(4,040,753)**
Accretion	814,304	684,250	**1,498,554**
Accrued interest	815,075	553,710	**1,368,785**
Balance at January 31, 2018	**-**	**-**	**-**

2017 Secured Convertible Debentures

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 on 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 convertible into common shares of the Company at US$0.70 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 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. The debenture holders received 2,339,208 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$0.76.

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

The Company allocated the proceeds first to the warrant liability and the conversion feature liability based on their fair value, and the residual proceeds represented the fair value of the debentures. The fair values of the embedded derivatives were determined using the Black-Scholes option pricing model.

The warrant liability was valued with a fair value of $550,955 (US$409,723) using the following assumptions:

- stock price of $0.75 (US$0.56);

- exchange rate of 1.3447;
- expected life of three years;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 1.25%.

The conversion feature liability was initially valued with a fair value of $665,632 (US$495,004) using the following assumptions:

- stock price of $0.75 (US$0.56);
- expected life of 15 months;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 1.25%.

The residual proceeds of $3,187,306 (US$2,370,273) represent the fair value of the debenture.

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 $62,996 of financing costs. The Company also issued broker warrants exercisable to acquire 62,381 common shares at an exercise price of US$0.70 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:

- stock price of $0.75 (US$0.56);
- expected life of three years;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 1.25%.

The total financing costs amounted to $718,661 and were allocated on pro-rata basis as follows: Debenture – $520,128, Conversion liability – $108,623, and Warrant liability – $89,910. The issue costs allocated to the conversion feature liability and the warrant liability, totaling $198,533, were included in financing charges on the statement of comprehensive loss.

Pursuant to the debenture agreement, on April 11, 2017 (“the date of conversion”) the debentures automatically converted to 4,678,494 common shares at a conversion price of US$0.70 after the Company became a reporting issuer on TSX-V and by maintaining a volume weighted average trading price equal to or exceeding the conversion price of the debentures for 15 days.

Up to and including the date of conversion, the accreted interest on the debentures was $145,628 (US$109,232), and $70,247 for the deferred financing fees for the fiscal year ended July 31, 2017; both are recorded as interest expense on the statement of comprehensive loss. Additionally, as the debentures are a monetary liability, they were re-translated on the date of conversion resulting in a value of $3,213,505 (US$2,261,041), and a foreign exchange gain of $119,429 was recorded in foreign exchange on the statement of comprehensive loss. Accordingly, the debentures at the date of conversion were valued at $2,763,624, which consisted of the debenture value of $3,213,505 less unamortized financing fees of $449,881.

The conversion liability was revalued on the date of conversion using the Black-Scholes option pricing model. The conversion liability was revalued to $8,807,287 (US$6,606,126);

- stock price of $2.79 converted to US$2.09;
- expected life of 12.6 months;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 1.25%;

- USD/CAD exchange rate of 1.3332.

Accordingly, the loss on the revaluation of the conversion liability was $8,141,655, which is recorded in the revaluation of financial instruments account on the statement of comprehensive loss. Therefore, on April 11, 2017, the conversion of the debentures and the corresponding conversion liability resulted in an increase to share capital of $11,570,911 for the 4,678,494 common shares issued.

During the fiscal year ended July 31, 2017, 285,708 of the warrants were exercised for total proceeds of $292,302 (US$217,138 based on an exercise price of US$0.76). On the various dates of exercise, the warrant liability was revalued using the Black-Scholes option pricing model. Overall, the value of the warrants exercised was $222,988 (US$165,182) using the following variables: stock price of US$1.26-$1.32; expected life of 12 months; $Nil dividends; 60% volatility; risk free interest rate of 1.25%; and USD/CAD exchange rate of 1.3490-1.3503. The exercise of these warrants resulted in an increase to share capital of $515,290.

During the three and six months ended January 31, 2018, 464,268 and 678,552, respectively, warrants were exercised for total proceeds of $437,247 and $639,384, respectively (US$352,799 and US$503,795, respectively, based on an exercise price of US$0.76). On the various dates of exercise, the warrant liability was revalued using the Black-Scholes option pricing model. Overall, the value of the warrants exercised was $1,593,629 and $1,781,045 (US$1,286,529 and US$1,437,525); using the following variables:

- stock price of various;
- expected life of 12 months;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 0.75%;
- USD/CAD exchange rate of various.

The exercise of these warrants resulted in an increase to share capital of $2,030,877 and $2,420,429, respectively.

The remaining warrant liability was revalued on January 31, 2018 using the Black-Scholes option pricing model. The warrant liability was revalued to $4,187,416 (US$3,406,342); with a stock price of US$3.23; expected life of 12 months; $Nil dividends; 60% volatility; risk free interest rate of 0.75%; and USD/CAD exchange rate of 1.2293. The gain on the revaluation of the warrant liability for the three and six months ended January 31, 2018 was $3,330,438 and $4,612,874, which is recorded in the revaluation of financial instruments account on the statement of comprehensive loss.

2017 Unsecured Convertible Debentures 8%

On July 18, 2017, the Company issued $25,100,000 principal amount of unsecured debentures through a brokered private placement. The debentures bear interest at 8% per annum and mature on June 30, 2019. Interest will be accrued and paid semi-annually in arrears. The debentures are convertible into common shares of the Company at $1.60 at the option of the holder. Beginning after November 19, 2017, the Company may force the conversion of the debentures on 30 days prior written notice should the daily weighted average trading price of the common shares of the Company be greater than $2.25 for any 15 consecutive trading days. The debenture holders received 7,856,300 warrants, 313 for every $1,000 unit. The warrants have a two-year term, expiring July 18, 2019, and have an exercise price of $2.00. Beginning after November 19, 2017, the Company has the right to accelerate the expiry of the warrants should the closing trading price of the common shares of the Company be greater than $3.00 for any 15 consecutive trading days.

On initial recognition, the residual method was used to allocate the fair value of the warrants and conversion option. The fair value of the liability component was calculated as $22,066,925 using a discount rate of 16%. The residual proceeds of $3,033,075 were allocated between the warrants and conversion option on a pro-rata basis relative to their fair values. The fair values of the warrants and conversion option were determined using the Black-Scholes option pricing model.

,
The warrants were valued with a fair value $1,929,098 using the following assumptions:

- stock price of $1.26;
- expected life of two years;
- $Nil dividends; 60% volatility;
- risk free interest rate of 1.27%.

The conversion option was valued with a fair value of $3,100,227 using the following assumptions:

- stock price of $1.26;
- expected life of a year;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 1.27%.

Based on the fair value of the warrants and conversion option, the residual proceeds of $3,033,075 were allocated as $1,163,396 to the warrants and $1,869,679 to the conversion option.

In connection with the closing of the debentures, the Company paid a placement fee of $1,292,010 from the gross proceeds of the financing and incurred an additional $218,990 of financing costs. The Company also issued broker warrants exercisable to acquire 784,375 common shares at an exercise price of $2.00 per share.

The broker warrants were attributed a fair value of $192,602 based on the Black-Scholes option pricing model with the following assumptions:

- stock price of $1.26;
- expected life of 2 years;
- $Nil dividends;
- 60% volatility;
- risk free interest rate of 1.27%.

The total financing costs amounted to $1,703,602 and were allocated on pro-rata basis as follows: Debt – $1,497,739, Conversion option – $126,900, and the Warrants – $78,963.

Pursuant to the agreement, on November 22, 2017 the Company announced that it had elected to exercise its right to convert all of the outstanding principal amount of the debentures and unpaid accrued interest thereon into Common Shares. The Company became entitled to force the conversion of the 8.0% Debentures on November 19, 2017 on the basis that the volume weighted average price ("VWAP") of the Common Shares on the TSXV for 15 consecutive trading days was equal to or exceeded $2.25. For the 15 consecutive trading days preceding November 19, 2017, the VWAP of the Common Shares was $2.56. The Company provided the holders of the 8.0% Debentures with the required 30 days advance written notice of the conversion, and the effective date for the conversion was December 27, 2017.

Pursuant to the conversion of the 8.0% Debentures, holders of the 8.0% Debentures received 625 Common Shares for each $1,000 principal amount of 8.0% Debentures held. In addition, the accrued and unpaid interest on each $1,000 principal amount of the 8.0% Debentures for the period from issuance on July 18, 2017 to but excluding the conversion date was $36.00 and 8.0% Debenture holders received an additional 22.5 Common Shares for each $1,000 principal amount of 8.0% Debentures held on account of accrued and unpaid interest, for a total of 647.5 Common Shares for each $1,000 principal amount of 8.0% Debentures held at the conversion date.

The accreted interest for the three and six months ended January 31, 2018 was $320,322 and $814,304 respectively, and for the fiscal year ended July 31, 2017 was $69,744. The accrued interest for the three and six months ended January 31, 2018 was $313,075 and $815,075, and for the fiscal year ended July 31, 2017 was $72,511.

2017 Unsecured Convertible Debentures 7%

On November 24, 2017, the Company issued $69,000,000 principal amount of unsecured debentures through a brokered private placement. The debentures bear interest at 7% per annum and mature on November 24, 2020. Interest will be accrued and paid semi-annually in arrears. The debentures were convertible into common shares of the Company at $2.20 at the option of the holder. The Company may force the conversion of the debentures on 30 days prior written notice should the daily weighted average trading price of the common shares of the Company be greater than $3.15 for any 10 consecutive trading days. The debenture holders received 15,663,000 warrants, 227 for every $1,000 unit. The warrants have a two-year term, expiring November 24, 2019, and have an exercise price of $3.00. The Company has the right to accelerate the expiry of the warrants should the closing trading price of the common shares of the Company be greater than $4.50 for any 10 consecutive trading days.

On initial recognition, the residual method was used to allocate the fair value of the warrants and conversion option. The fair value of the liability component was calculated as $58,187,146 using a discount rate of 14%. The residual proceeds of $10,812,854 were allocated between the warrants and conversion option on a pro-rata basis relative to their fair values. The fair values of the warrants and conversion option were determined using the Black-Scholes option pricing model.

The warrants were valued with a fair value $8,647,797 using the following assumptions:
- stock price of $2.62;
- expected life of one years;
- $Nil dividends; 65% volatility;
- risk free interest rate of 1.25%.

The conversion option was valued with a fair value of $17,843,269 using the following assumptions:
- stock price of $2.62;
- expected life of three months;
- $Nil dividends; 65% volatility;
- risk free interest rate of 1.25%.

Based on the fair value of the warrants and conversion option, the residual proceeds of $10,812,854 were allocated as $3,529,770 to the warrants and $7,283,084 to the conversion option.

In connection with the closing of the debentures, the Company paid a placement fee of $3,450,000 from the gross proceeds of the financing and incurred an additional $475,824 of financing costs. The Company also issued broker warrants exercisable to acquire 1,568,181 common shares at an exercise price of $3.00 per share.

The broker warrants were attributed a fair value of $865,818 based on the Black-Scholes option pricing model with the following assumptions:
- stock price of $2.62;
- expected life of 1 years;
- $Nil dividends;
- 65% volatility;
- risk free interest rate of 1.25%.

The total financing costs amounted to $4,791,642 and were allocated on pro-rata basis as follows: Debt – $4,040,753, Conversion option – $505,767, and the Warrants – $245,121.

On December 15, 2017 the Company announced that it had elected to exercise its right to convert all of the outstanding principal amount of the Company's 7.0% Debentures and unpaid accrued interest thereon into Common Shares. The Company became entitled to force the conversion of the 7.0% Debentures on December 13, 2017 on the basis that the VWAP of the Common Shares on the TSXV for 10 consecutive trading days was equal to or exceeded $3.15. For the 10 consecutive trading days preceding December 13, 2017, the VWAP of the Common Shares was $3.32. The Company provided the holders of the 7.0%

Debentures with the required 30 days advance written notice of the conversion, and the effective date for the conversion was January 15, 2018.

Pursuant to the conversion of the 7.0% Debentures, holders of the 7.0% Debentures received 454.54 Common Shares for each $1,000 principal amount of 7.0% Debentures held. In addition, the accrued and unpaid interest on each $1,000 principal amount of the 7.0% Debentures for the period from December 31, 2017 (the interest payment scheduled for December 31, 2017 was paid in cash) to but excluding the conversion date was $2.92 and 7.0% Debenture holders received an additional 1.33 Common Shares for each $1,000 principal amount of 7.0% Debentures held on account of accrued and unpaid interest, for a total of 455.87 Common Shares for each $1,000 principal amount of 7.0% Debentures held.

The accreted interest for the three and six months ended January 31, 2018 was $553,710 and $553,710, respectively. The accrued interest for the three and six months ended January 31, 2018 was $684,250 and $684,250, respectively.

11. Share capital

a) Authorized

An unlimited number of common shares

b) Issued and Outstanding

During the first quarter of fiscal 2017, the Company issued 338,274 units in a private placement at $0.75 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 $0.83 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 $0.57; 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 $192,253.

Share issue costs relating to the equity financing in the first quarter of fiscal 2017 amounted to $6,308. $617 of the costs were related to 2,664 warrants issued that have a $0.83 exercise price and expire in five years. These warrants were issued to a broker in relation to the sale of 338,274 units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $0.52; expected life of five years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. $97 of the costs related to 798 warrants issued that have a $0.75 exercise price and expire in one year. These warrants were issued to a financing consultant in relation to a finder's fee for the sale of 13,332 units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $0.63; 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 fiscal 2017, the Company issued 4,285,716 common shares at $0.58 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 have a call option to purchase another 4,285,716 common shares at a price of $0.58 per share prior to May 31, 2017. The Company also has a put option to purchase another 4,285,716 common shares at the subscription price of $0.58 prior to June 30, 2017, so long as the Company attains revenues of $3,500,000 between January 1, 2017 and May 31, 2017.

In connection with the closing of this placement, the Company incurred share issuance costs of $147,014 and issued 342,852 broker warrants with an exercise price of $0.75 and a five-year term. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $0.75; expected life of five years; $Nil dividends; 73.2% volatility; and risk free interest rate of 0.75%. The value of the broker warrants was estimated to be $152,890. The broker warrants were measured at the fair value of the equity instruments granted, as the fair value of the related services cannot be measured reliably.

During the second quarter of fiscal year 2017, the Company completed a concurrent financing through an agent pursuant to which it issued 17,517,042 common shares at a price of $0.75 per shares for gross proceeds of $13,137,782 ("Concurrent Financing"). In connection with the closing of the Concurrent Financing, the Company 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 the Company. The Company also issued to the agent warrants exercisable to acquire 1,071,318 common shares, being that number of common shares as was equal to 7% of the number of common shares sold under the Concurrent Financing, subject to a reduced percentage of 3.5% for certain subscribers on the President's List, at an exercise price of $0.75 per share and a two-year term. The warrants were valued at $323,653 using the Black-Scholes option pricing model and the following variables: stock price of $0.75; expected life of two years; $Nil dividends; 73.2% volatility; and risk-free interest rate of 1.25%. Additional transaction costs of $82,329 were included in share issuance costs. The Company also issued 44,940 broker warrants with an exercise price of $0.75 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 $0.75; expected life of two years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%.

These warrants were recorded as a share issuance cost in the statement of changes in shareholders' equity. The agent warrants and broker warrants were measured at the fair value of the equity instruments granted, as the fair value of the related services cannot be measured reliably.

During the second quarter of fiscal 2017, the Company also issued the following warrants:

- 203,202 warrants in exchange for services rendered by two service providers:
  - The Company issued 120,000 warrants with an exercise price of $0.70 USD and expiring in May 2018. The warrants were valued at $24,411 (US$ $18,760) using the Black-Scholes option pricing model and the following variables: stock price of $0.75; expected life of 18 months; $Nil dividends; 73.2% volatility; risk free interest rate of 1.25%; and USD/CAD exchange rate of 1.3447. 30,000 warrants were exercised on April 28, 2017. These warrants were recorded as a share issuance cost in the statements of changes in shareholders' equity.
  - The Company issued another 83,202 warrants with an exercise price of $0.75 and expiring in three years. The warrants were valued at $30,184 using the Black-Scholes option pricing model and the following variables: stock price of $0.75; expected life of three years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%. These warrants were recorded as a share issuance cost in the statements of changes in shareholders' equity.

During the third quarter of fiscal 2017, the Company issued 2,492,958 shares for $0.75 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 17,400,000 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 share issuance costs of $146,792 and issued 174,504 warrants to the broker. The warrants have an exercise price of $0.75 and expire in two years. The warrants were valued at $167,222 using the Black-Scholes option pricing model and the following variables: stock price of $1.55; expected life of two years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%. These warrants were recorded as a share issuance cost in the statements of shareholders' equity. The broker warrants were measured at the fair value of the equity instruments granted, as the fair value of the related services cannot be measured reliably.

During the third quarter of fiscal 2017, the Company issued 4,285,716 common shares at a price of $0.58 per share, for total proceeds of $2,500,001, pursuant to a call option issued to a group of private investors on November 4, 2016.

As described in Note 10, Convertible debentures, the Company issued unsecured debentures in the third and fourth quarters of fiscal 2016. On March 16, 2017, $345,000 of the debentures held by six individuals were converted into 459,990 common shares at a price of $0.75 per unit. In relation to the conversion of this debt, 459,990 warrants were issued. The warrants were valued at $69,220 using the Black-Scholes option pricing model and the following variables: stock price of $0.60; expected life of two years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.59%.

As described in Note 10, Convertible debentures, the Company issued secured debentures in the second quarter of fiscal 2017. On April 11, 2017, the debentures automatically converted to 4,678,494 common shares at a conversion price of US$0.70 after the Company become a reporting issuer on the TSX-V and maintained a volume weighted average trading price equal to or exceeding the conversion price of the debentures for 15 days.

As described in Note 10, Convertible debentures, during the fourth quarter of 2017, 7,856,300 warrants were issued in relation to the issuance of convertible debt. The allocation of the proceeds to these warrants was $1,163,396. In relation to this financing, the Company issued 784,375 broker agent warrants that have an exercise price of $2.00 and expire two years. The warrants were valued at $192,602 using the Black-Scholes option pricing model and the following variables: stock price of $1.52; expected life of two years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.27%. The value of the broker warrants, and other financing costs, were allocated on a pro rata basis based on the allocated fair value of each component of this financing, as detailed in Note 10, Convertible debentures. The broker warrants were measured at the fair value of the equity instruments granted, as the fair value of the related services cannot be measured reliably.

In relation to the third quarter of fiscal 2017 issuance of 4,285,716 common shares, during the fourth quarter of fiscal 2017, the Company issued 342,852 broker warrants with an exercise price of $0.75 and a five-year term from the date of listing. The warrants were valued at $238,753 using the Black-Scholes option pricing model and the following variables: stock price of $1.25; expected life of two years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%. The broker warrants were measured at the fair value of the equity instruments granted, as the fair value of the related services cannot be measured reliably.

During the first quarter of fiscal 2018, 481,896 warrants with exercise prices ranging from $0.75 to US$0.76 were exercised for proceeds of $405,778, resulting in the issuance of 481,896 common shares.

During the second quarter of fiscal 2018, the Company issued 15,687,500 common shares from the conversion of the 8% unsecured convertible debentures and 166,387 common shares in lieu of accrued interest, as described Note 10 Convertible debentures.

On January 2, 2018, the Company announced that it had elected to exercise its right to accelerate the expiry date of the common share purchase warrants issued under the 8% convertible debentures. The Company became entitled to accelerate the expiry date of the warrants on December 27, 2017 on the basis that the closing trading price of the Common Shares on the TSXV exceeded $3.00 for 15 consecutive trading days. The expiry date for the warrants was accelerated from July 18, 2019 to February 1, 2018. During the second quarter of fiscal 2018, the Company issued 7,799,960 common shares related to the exercise of warrants associated with the 8% convertible debentures.

During the second quarter of fiscal 2018, the Company issued 31,363,252 common shares from the conversion of the 7% unsecured convertible debentures and 20,829 common shares in lieu of accrued interest, as described Note 10 Convertible debentures. The Company issued 2,922,393 common shares related to the exercise of warrants from the 7% unsecured convertible debentures.

On January 30, the Company closed a bought deal public offering of 37,375,000 units at a price of $4.00 per unit for gross proceeds of $149,500,000. Each unit consisted one common share and one-half of one share purchase warrant of the Company. Each warrant is exercisable into one common share at a price of $5.60 per share for a period of two years. The fair value of the warrants at the date of grant was estimated at $0.56 per warrants based on the following weighted average assumptions:

- stock price of $3.93;
- expected life of 1 years;
- $Nil dividends;
- 65% volatility;
- risk free interest rate of 1.25%.

Total cash share issue costs amounted to $6,086,522 which consisted of underwriters' commissions of $5,980,000, underwriters' expenses of $10,000, legal fees of $96,522. The Company allocated $5,660,232 of the cash share issuance costs to the common shares and $426,290 to the warrants. In addition, the Company issued an aggregate of 1,495,000 compensation warrants to the underwriters at a fair value of $1,485,797. The compensation warrants have an exercise price of $4.00 and expire January 30, 2020. The fair value of the compensation warrants at the date of grant was estimated at $0.99 per warrant based on the following weighted average assumptions:

- stock price of $3.93;
- expected life of 1 years;
- $Nil dividends;
- 65% volatility;
- risk free interest rate of 1.25%.

As at January 31, 2018, there were 177,317,976 common shares outstanding and 42,177,928 warrants outstanding.

(Unaudited, in Canadian dollars)

The following is a summary of warrants on January 31, 2018:

	Number Outstanding		Book Value
Warrants issued with $0.75 Units			
Exercise price of $0.83 expiring April 28, 2019	13,332	$	2,384
Exercise price of $0.83 expring May 19, 2019	19,332		3,457
Exercise price of $0.83 expring June 2, 2019	999,996		178,796
Exercise price of $0.83 expring June 6, 2019	144,000		25,747
Exercise price of $0.83 expring June 8, 2019	1,333,332		262,002
Exercise price of $0.83 expring June 23, 2019	66,672		11,921
Exercise price of $0.83 expring June 28, 2019	266,670		47,680
Exercise price of $0.83 expring July 21, 2019	280,016		50,066
Exercise price of $0.83 expring July 22, 2019	266,676		47,681
Exercise price of $0.83 expring July 25, 2019	66,672		11,921
Exercise price of $0.83 expring July 28, 2019	420,000		75,095
Exercise price of $0.83 expring August 9, 2019	66,672		12,112
Exercise price of $0.83 expring August 12, 2019	33,336		6,056
Exercise price of $0.83 expring August 18, 2019	266,676		47,681
Exercise price of $0.83 expring August 31, 2019	39,600		7,194
Exercise price of $0.83 expring September 13, 2019	13,332		2,422
Exercise price of $0.83 expring September 26, 2019	72,000		13,080
Exercise price of $0.83 expring October 17, 2019	79,998		14,533
2015 secured convertible debenture warrants			
Exercise price of $0.75 expring July 15, 2019	1,318,332		253,155
2016 unsecured convertible debenture warrants			
Exercise price of $0.83 expring March 16, 2019	259,992		39,124
Exercise price of $0.83 expring July 18, 2019	100,002		15,047
2017 8% unsecured convertible debenture warrants			
Exercise price of $2.00 expiring February 1, 2018	56,340		7,777
2017 7% unsecured convertible debenture warrants			
Exercise price of $3.00 expiring November 24, 2019	12,740,607		2,671,800
2018 Equity financing			
Exercise price of $5.60 expiring January 30, 2020	18,687,500		10,044,448
Broker / Consultant warrants			
Exercise price of $0.75 expring March 15, 2019	411,073		205,883
Exercise price of $0.75 expiring November 9, 2019	41,598		15,091
Exercise price of USD$0.70 expiring November 14, 2019	45,143		11,147
Exercise price of $0.75 expiring July 20, 2021	6,774		1,525
Exercise price of $0.75 expiring August 11, 2021	732		170
Exercise price of $0.75 expiring November 3, 2021	244,284		109,035
Exercise price of $0.75 expiring March 14, 2022	342,852		238,753
Exercise price of $2.00 expiring February 1, 2018	113,084		27,768
Exercise price of $3.00 expiring November 24, 2019	491,355		271,285
Exercise price of $4.00 expiring January 30, 2020	1,495,000		1,389,023
	40,802,980	$	16,120,859
2016 secured convertible debenture warrants			
Exercise price of USD$0.76 expiring November 14, 2019	1,374,948		4,187,416
	42,177,928	$	20,308,275

(Unaudited, in Canadian dollars)

	January 31, 2018		July 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of the period	**20,994,123**	**1.31**	7,504,062	0.86
Expired during the period	**-**	**-**	-	-
Issued during the period	**37,413,681**	**4.34**	14,335,563	1.95
Exercised during the period	**(16,229,876)**	**1.93**	(845,502)	1.16
Outstanding, end of the period	**42,177,928**	**3.74**	20,994,123	1.31

Stock option plan

The Company has a share option plan (the "Plan") that is administered by the Board of Directors 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 TSX-V) which vest in stages over 12 months with no more than ¼ of the options vesting in any three-month period. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 17,731,798 common shares as at January 31, 2018.

In September 2017, the Company granted stock options under the Plan to certain of its officers to acquire a total of 650,000 common shares of the Company. In addition, the Company granted options to acquire an aggregate of 1,000 common shares of the Company to certain non-executive employees. All of the options have an exercise price of $1.37 per share. One-third of the options will vest on the one-year anniversary of the date of grant and the balance will vest quarterly over two years thereafter. The options have a term of 10 years.

On November 6, 2017, the Company granted stock options under its stock option plan to certain of its directors to acquire a total of 125,000 common shares of the Company. In addition, the Company granted options to acquire an aggregate of 3,000 common shares of the Company to certain non-executive employees. All of the options have an exercise price of $2.48 per share. One-third of the options will vest on the one-year anniversary of the date of grant and the balance will vest quarterly over two years thereafter. The options have a term of 10 years.

On December 4, 2017, the Company granted stock options under its stock option plan to certain of its directors to acquire a total of 1,750,000 common shares of the Company. In addition, the Company granted options to acquire an aggregate of 20,000 common shares of the Company to certain non-executive employees. All of the options have an exercise price of $2.69 per share. Half of the options will vest immediately, and the balance will vest annually over three years thereafter. The options have a term of 10 years.

On January 29, 2018, the Company granted stock options under its stock option plan to certain of its non-executive employees to acquire a total of 261,000 common shares of the Company. All of the options have an exercise price of $4.24 per share. One-third of the options will vest on the one-year anniversary of the date of grant and the balance will vest quarterly over two years thereafter. The options have a term of 10 years.

(Unaudited, in Canadian dollars)

	January 31, 2018		July 31, 2017	
	Options issued	Weighted average exercise price	Options issued	Weighted average exercise price
		$		$
Opening balance	**5,748,169**	**0.68**	3,481,896	0.49
Granted	**2,810,000**	**2.52**	2,428,777	0.92
Expired	**-**	**-**	-	-
Forfeited	**-**	**-**	-	-
Exercised	**(285,829)**	**0.76**	(162,504)	0.19
Closing balance	**8,272,340**	**1.30**	5,748,169	0.68

The following table summarizes information concerning stock options outstanding as at January 31, 2018.

	Options outstanding		Options exercisable	
Exercise price	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average remaining contractual life (years)**
$	**#**		**#**	
0.16	**1,020,000**	**0.16**	**1,020,000**	**0.29**
0.58	**1,251,900**	**1.04**	**1,226,900**	**1.82**
0.75	**2,416,996**	**2.48**	**1,418,496**	**2.56**
0.90	**64,444**	**-**	**64,444**	**-**
1.27	**643,000**	**0.74**	**-**	**-**
1.37	**651,000**	**0.76**	**-**	**-**
1.55	**66,000**	**0.07**	**16,500**	**0.03**
2.48	**128,000**	**0.15**	**-**	**-**
2.69	**1,770,000**	**2.11**	**885,000**	**1.88**
4.24	**261,000**	**0.32**	**-**	**-**
	8,272,340	**7.83**	**4,631,340**	**6.58**

Stock-based compensation

For the three and six months ended January 31, 2018, the Company recorded $1,967,754 and $2,281,293 respectively (January 31, 2017 - $179,347 and 281,473 respectively) 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 vesting period. In determining the amount of stock-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

	January 31, 2018	**January 31, 2017**
Exercise price	**$0.16 - 4.24**	**$0.16 - 0.75**
Risk-free interest rate	**2.13 - 2.29%**	**1.25%**
Expected life of options (years)	**7**	**7**
Expected annualized volatility	**65%**	**73%**

(Unaudited, in Canadian dollars)

Volatility was estimated using the average historical volatility of the comparable companies in the industry that have trading history and volatility history.

12. Net loss per share

The following securities could potentially dilute basic net loss per share in the future but have not been included in diluted loss per share because their effect was anti-dilutive:

	January 31 2018	July 31 2017
	$	$
2017 Unsecured convertible debentures	**-**	15,687,500
Options	**8,272,340**	5,748,169
Warrants issued with $0.75 Units	**4,448,312**	4,911,186
2015 Secured convertible debenture warrants	**1,318,332**	2,210,358
2015 Secured convertible debenture amendment warrants	**-**	237,612
2015 Unsecured convertible debenture amendment warrants	**-**	38,100
2016 Unsecured convertible debenture warrants	**359,994**	426,660
2016 Secured convertible debenture warrants	**1,374,948**	2,053,500
2017 8% Unsecured convertible debenture warrants	**56,340**	7,856,300
2017 7% Unsecured convertible debenture warrants	**12,740,607**	-
2018 Equity warrants	**18,687,500**	-
Convertible debenture broker/finder warrants	**3,191,895**	3,260,407
	50,450,268	42,429,792

13. Segmented information

The Company operates in one operating segment.

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

14. 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, 2018, the Company had short term investments of $118,668,048.

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 accounts receivable. As at January 31, 2018, the Company was 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 credit evaluation and monitoring processes to mitigate credit risk. Since the majority of the sales are transacted with clients that are covered under various insurance programs, the Company has limited credit risk.

(Unaudited, in Canadian dollars)

The carrying amount of cash, short term investments and accounts receivable represents the maximum exposure to credit risk and as at January 31, 2018, this amounted to $264,985,573.

The cash is held by one of the largest cooperative financial groups in Canada. Since the inception of the Company, no losses have been incurred in relation to cash held by the 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 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, 2018, the Company had $264,661,274 of cash and short term investments.

The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $6,940,128 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.

15. Operating Expenses by nature

	For the three months period ended		For the six months period ended	
	January 31, 2018	January 31, 2017	**January 31, 2018**	January 31, 2017
	$	$	**$**	$
Stock based compensation	**1,967,754**	179,347	**2,281,293**	281,473
Salaries and benefits	**1,386,640**	708,330	**2,545,303**	1,251,838
Consulting	**510,875**	43,437	**692,486**	61,515
Professional fees	**355,263**	78,072	**491,867**	160,180
Marketing and promotion	**328,503**	311,722	**614,729**	836,623
General and administrative	**279,872**	90,464	**597,956**	175,081
Amortization of intangible assets	**207,349**	24,257	**270,159**	61,382
Amortization of property, plant and equipment	**187,904**	110,066	**312,016**	164,753
Travel	**134,697**	42,177	**242,225**	65,412
Facilities	**131,901**	125,453	**287,097**	143,558
Total	**5,490,758**	1,713,325	**8,335,131**	3,201,815

16. Related party disclosure

Key management personnel compensation

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

Compensation provided to key management was as follows:

	For the three months ended		*For the six months ended*	
	January 31, 2018	**January 31, 2017**	**January 31, 2018**	**January 31, 2017**
	$	$	$	$
Salary and or Consulting Fees	476,359	473,629	860,250	577,794
Stock-based compensation	1,747,792	176,974	2,009,001	238,973
	2,224,151	650,603	2,869,251	816,767

(Unaudited, in Canadian dollars)

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 December 4, 2017, the Company granted certain directors and executives of the Company a total of 1,750,000 stock options with an exercise price of $2.69, of which half of the options will vest immediately, and the balance will vest annually over three years thereafter.

On November 6, 2017, the Company granted certain directors of the Company a total of 125,000 stock options with an exercise price of $2.48, which vest over a three-year period.

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

On July 24, 2017, the Company granted certain directors and executives of the Company a total of 125,000 stock options with an exercise price of $1.27, which vest over a three-year period. On November 15, 2016, the Company granted certain directors and executives of the Company a total of 1,227,000 stock options with an exercise price of $0.75, which vest over a three-year period.

The Company leased a building to a related party for $700 per month as part of a usufruct agreement. The related party used this property as a personal residence. On December 2, 2016, the related party and the Company reached an agreement to terminate the usufruct. 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.

17. Capital management

The Company's objective is to maintain sufficient capital 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. The Company has not paid any dividends to its shareholders. The Company is not subject to any externally imposed capital requirements.

As at January 31, 2018 total managed capital was comprised of shareholders' equity of $288,462,726 (July 31, 2017 – $32,439,490). There were no changes in the Company's approach to capital management during the period.

18. Commitments and contingencies

The Company has certain contractual financial obligations related to service agreements and construction contracts for the construction in progress show in Note 8.

Some of 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	2018	2019	2020	2021	2022	Total
Amount	$7,677,672	$101,845	$70,977	$69,807	$16,765	$7,937,066

19. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current presentation.

20. Subsequent events

SAQ Agreement

On February 14, 2018, the Company announced an letter of intent (LOI) with *Société des alcools du Québec* (SAQ), for the supply of cannabis for the Quebec market. Hydropothecary will supply 20,000 kg of cannabis products in the first year of adult-use recreational cannabis. Final terms are subject to the negotiation and execution of a definitive supply agreement.