The Hydropothecary Corporation

Management Discussion & Analysis

For the three and nine months ending April 30, 2017 and 2016

This management discussion and analysis ("MD&A") of the financial condition and results of operations of The Hydropothecary Corporation and its wholly-owned subsidiaries (collectively, the "Company" or "THCX" or the "Hydropothecary"), is for the three and nine months ending April 30, 2017. It is supplemental to, and should be read in conjunction with, the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended April 30, 2017, as well as the financial statements and MD&A for the year ended July 31, 2016. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts presented herein are stated in Canadian dollars, unless otherwise indicated.

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

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

This MD&A is prepared as of June 28, 2017.

Company Overview

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

On April 13, 2017, the Government of Canada introduced Bill C-45, legislation to legalize recreational marijuana across Canada by July 1, 2018. The Cannabis Act would restrict the legal sale of cannabis to people over the age of 18. Under the act, adults would be able to legally possess up to 30 grams of cannabis in public, and to grow up to 4 plants per household. While the act would legalize cannabis across the country, provinces and territories would authorize and oversee the distribution and sale of cannabis within their jurisdictions.

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

THCX obtained its initial license from Health Canada to produce, possess and destroy medical marijuana in March 2014. The license for the sale, production, possession, and destruction of medical marijuana was most recently renewed on June 21, 2017 and will be up for renewal on October 15, 2019. Hydropothecary's operations are based in Gatineau, Quebec in Canada's National Capital Region. The Gatineau facility houses the Company's corporate offices as well as the greenhouse and production facilities on approximately 65 acres of land. Hydropothecary's commercial license covers the Gatineau facility and currently includes approximately 42,000 square feet of licensed production space across 2 all-season climate controlled greenhouses.

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

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

Investor Highlights

- On March 9, 2017, the Company sold 415,493 (2,492,958 post-Qualifying Transaction) common shares for $4.50 per share. These shares were issued pursuant to an agent's option under the concurrent financing completed by the Company in December 2016 in connection with its previously announced business combination with BFK Capital Corp. ("BFK"), in which 2,900,000 (17,400,000 post-Qualifying Transaction) shares were offered, which allowed the agent to sell an additional number of shares equal to 15% of the number of offered shares. 19,507 (117,042 post-Qualifying Transaction) of the common shares issuable pursuant to the agent's option had been sold on closing of the base offering in December 2016 and the sale of these 415,493 (2,492,958 post-Qualifying Transaction) common shares represented the balance of the shares issuable pursuant to the agent's option.
- On March 14, 2017, the Company issued 714,286 (4,285,716 post-Qualifying Transaction) common shares at a price of $3.50 per share pursuant to a call option the Company granted to a group of private investors in connection with a private placement completed with those investors on November 4, 2016.
- On March 15, 2017, the Company closed its business combination with BFK. The transaction was completed by way of a three-cornered amalgamation under which each THCX shareholder received six post-consolidation common shares in the capital of BFK (following the completion of a 1 for 1.5 common share consolidation by BFK) for each THCX common share held and the Company completed the reverse take-over of BFK. Concurrently with the completion of the amalgamation, BFK changed its name to "The Hydropothecary Corporation" and the directors and management of BFK were replaced with the directors and management of THCX. References in this MD&A to the Company, THCX or Hydropothecary for periods following the completion of the business combination refer to the issuer resulting from the transaction (i.e. the former BFK on a post-consolidation, post-acquisition and post-name change basis). Following the completion of the transaction, the Company had a total of 70,266,594 common shares outstanding, as well as: (i) common share purchase warrants exercisable to purchase up to 12,342,822 common shares at exercise prices ranging from $0.67 to $1.04 per share; (ii) stock options exercisable to

purchase up to 5,051,673 common shares at exercise prices ranging from $0.16 to $0.90 per share; (iii) US$3,275,000 principal amount of secured convertible debentures convertible into common shares at a price of US$0.70 per share; and (iv) $345,000 principal amount of unsecured convertible debentures convertible into units of the Company at a price of $0.75 per unit, each unit consisting of one common share and one common share purchase warrant exercisable to acquire one common share at an exercise price of $0.83 per share.

- On March 15, 2017 and subsequent to the completion of the business combination with BFK, the Company converted $345,000 of unsecured convertible debentures resulting in the issuance of 459,990 units at a price of $0.75 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of $0.83 per share for a term of two years.
- On March 21, 2017, the Company began trading on the TSX Venture Exchange (the "TSXV") under the ticker symbol, THCX.
- On March 29, 2017, the Company received an amendment to its license from Health Canada to include the sale of cannabis oils. In anticipation of this approval, the Company has been producing cannabis oil and extracts. Sales are anticipated to begin in early Summer 2017.
- On April 11, 2017, US$3,275,000 of secured convertible debentures converted into 4,678,494 after the Company maintained a volume weighted average trading price exceeding the conversion price of the debentures for 15 days. This resulted in an increase to equity of $11,570,911. The related warrant liability were revalued on April 30, 2017 at $2,245,636.
- During the quarter, the Company established relationships with 5 new clinics, further diversifying its patient base and presence in the marketplace. The Company had relationships with 85 clinic locations at the end of the quarter.
- As the result of increased growth, the Company's head count increased by 50% from 46 full time employees at the end of the second quarter to 69 at the end of the third quarter, and to 81 at June 27, 2017.
- For the quarter ended April 30, 2017, revenue per gram was $8.62, a decrease from $10.10 in the prior quarter as anticipated with the increase in sales of the Company's mid-market product lines, H2 and Decarb.
- Shipments for the quarter ended April 30, 2017 are up 51% from 90,518 grams during the quarter ended January 31, 2017 to 137,123 grams for the quarter ended April 30, 2017.
- As at April 30, 2017, cash cost of inventory per gram was $1.32, decreased from $1.47 in the prior quarter.
- Biological assets increased 324% for the quarter ended April 30, 2017 over the prior quarter, as the Company's new 35,000 sq ft. production facility became fully operational.
- On May 2, 2017, the Company announced a voluntary stop-sale of all products after testing by Health Canada indicated the presence of trace amounts of Myclobutanil of 0.012 parts per million (ppm) and 0.023 ppm in leaf samples taken from mother plants on March 8, 2017. To determine the source of the contamination, the Company began one of the most in-depth investigations ever carried out in the Canadian cannabis industry.
- On May 16, 2017, the Company announced the reintroduction of its products, after the completion of additional screening showed no signs of contamination on specific lots. Additionally, the Company announced a voluntary recall of fourteen lots of medical cannabis which were supplied between February 1, 2016 and May 1, 2017 which had tested between 0.01 ppm and 0.08 ppm. Health Canada deemed this a Type III recall, defined as "a situation in which the use of, or exposure to a product is not likely to cause any adverse health consequences".
- On June 5, 2017, the Company announced the results of the investigation. During the course of the investigation, the Company tested 281 samples from derived from all harvests ever completed by the Company, all production inputs and the forensic sampling of equipment and key physical locations. As a result of this in-depth investigation the Company was able to determine how the contamination occurred, and implement new preventative measure to mitigate the risk of a similar event occurring again. Furthermore, the Company announced an expansion on its voluntary product recall, recalling nineteen additional lots of

medical cannabis, grown prior to September 16, 2016 which were supplied between July 15, 2015 and March 24, 2017.

- As a result of the Myclobutanil contamination and subsequent recalls, the Company recorded a write down of inventory in the amount of $474,512 in the quarter ending April 30, 2017. This write down represents all affected lots of inventory identified by the Company's investigation. The Company did not include a reserve for customer refunds as the amount proved to be insignificant. As part of the investigation the Company accrued $200,000 related to one time testing, shipping and other labour costs, which are included in general and administrative expenses for the quarter.
- The Company's growth has been impacted by the loss of revenue and patient growth during the 14 day stop sale and loss of inventory related to the Myclobutanil contamination. However, with Building 5 now in full production, the Company expects to resume its aggressive sales growth strategies and focus on profitability.
- The Company has changed auditors from UHY McGovern, Hurley, Cunningham LLP to MNP LLP effective May 25, 2017.
- On June 21, 2017, Health Canada granted the Company a license renewal that allows the Company to produce as much medical marijuana as it can store and removes all annual sales limits for dried marijuana, oils, plants and seeds. The renewed license is valid for two years, until October 15, 2019. Health Canada also granted the Company approval for two additional buildings within its Gatineau facility.
- On June 27, 2017, the Company announced a $25,000,000 bought deal private placement of 25,000 convertible debenture units at a price of $1,000 per unit. Each unit will consist of $1,000 principal amount of 8.0% senior unsecured convertible debentures and 313 common share purchase warrants, which will mature on June 30, 2019. The Company has also granted the underwriter the option to purchase up to an additional 5,000 units for $1,000 each, prior to the closing of the offer. Interest will be paid semi-annually in June and December. The convertible debentures will be convertible at the option of the holder at a conversion price of $1.60 per share. Beginning on the date that is four months following the closing date, the Company may force the conversion should the daily volume weighted average trading price of the common shares of the Company be greater than $2.25 for any 15 consecutive trading days subject to 30 day prior written notice. Each warrant has an exercise price of $2.00 per share and a maturity of two years following the closing date of the offering.

Financial Highlights

	Q1'17	Q2'17	Q3'17
Revenue	$ 1,138,702	$ 913,897	$ 1,182,497
Grams sold (g)	80,782	90,518	137,123
Revenue/gram	$ 14.10	$ 10.10	$ 8.62
Cash invetory cost/gram	$ 1.61	$ 1.47	$ 1.32

Inventory cost per gram is calculated as follows:

	Q1'17	Q2'17	Q3'17
Inventory	$ 807,564	$ 1,249,901	$ 1,252,289
LESS:			
Packaging inventory	28,132	32,025	53,040
Oil inventory	37,374	36,122	52,734
Cannabis inventory	$ 742,058	$ 1,181,754	$ 1,146,515
Fair value adjustment in inventory	(366,377)	(646,595)	(650,978)
Cash cost of inventory	$ 375,681	$ 535,159	$ 495,537
Total inventory (g)	233,444	363,829	375,779
Cash cost per gram of inventory	$ 1.61	$ 1.47	$ 1.32

Summary of Results

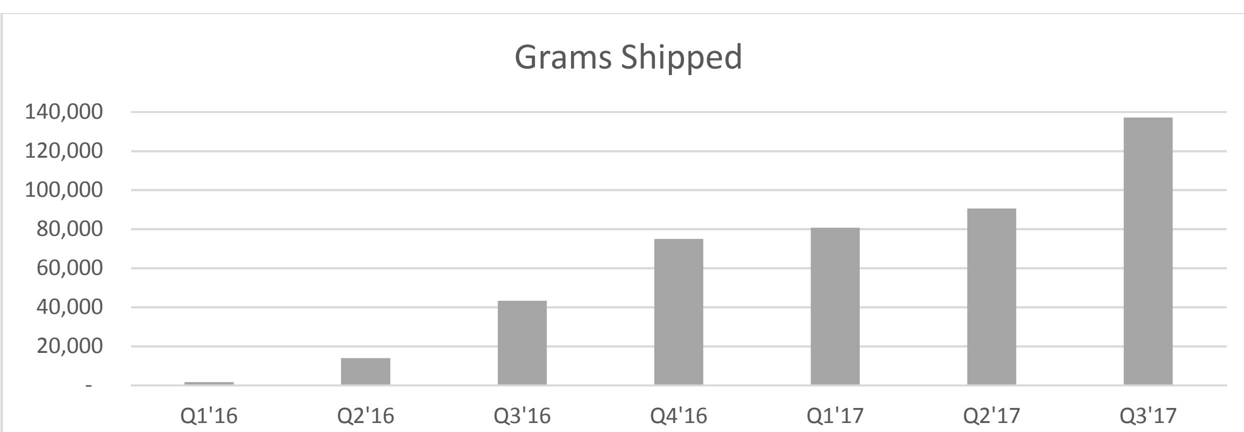
Summary of results for the three and nine month periods ending April 30, 2017 and April 30, 2016

Income Statement Snapshot	For the three months ended 30-Apr-17	For the three months ended 30-Apr-16	For the nine months ended 30-Apr-17	For the nine months ended 30-Apr-16
Revenue	$ 1,182,497	$ 617,239	$ 3,235,096	$ 818,459
Gross margin	$ 1,377,029	$ 648,437	$ 3,385,712	$ 892,683
Operating expenses	$ 2,385,018	$ 933,776	$ 5,584,910	$ 2,458,774
Loss from operations	$ (1,007,989)	$ (285,339)	$ (2,199,198)	$ (1,566,091)
Net other income/expenses	$ (10,800,275)	$ (115,660)	$ (11,152,913)	$ (417,215)
Net loss	$ (11,808,264)	$ (400,999)	$ (13,352,111)	$ (1,983,306)
Weighted average shares outstanding	67,563,381	30,054,630	52,723,599	29,667,306
Net loss per share	$ (0.17)	$ (0.01)	$ (0.25)	$ (0.07)

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

Revenue

Revenue represents the sale of medical cannabis to patients and is typically sold by the gram. For the nine months ending April 30, 2017 and April 30, 2016 the Company posted revenue of $3,235,096 and $818,459, respectively. For the quarters ending April 30, 2017 and April 30, 2016, the Company posted revenue of $1,182,497 and $617,239 respectively. The growth of revenue period-over-period is primarily driven by the fact that sales activity only commenced during the quarter ended October 31, 2015 and the number of patients increased significantly period-over-period. The average revenue per gram decreased as expected during the quarter from $10.10 to $8.62 as the Company saw the growth of the H2 line, a mid-market offering introduced during the second quarter, and the continued effects of the VAC cap on reimbursable of $8.50 per gram that was introduced in November 2016. The introduction of this line has appealed to a larger market segment, diversifying the Company's patient base, and resulting in an overall increase of revenues. For the nine months ending April 30, 2017 and April 30, 2016 total grams sold were 308,423 and 58,567, respectively. Total grams sold increased 51% from 90,518 in the quarter ended January 31, 2017 to 137,123 in the quarter ended April 30, 2017. The new production facilities that came online in December 2016 increased production capacity and will further the Company's ability to provide a reliable supply of quality product for its patients.



Cost of Sales

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

For the nine months ending April 30, 2017 and April 30, 2016 the Company's recovery to Cost of Sales were ($150,616) and ($74,224), respectively. Cost of Sales for the nine months ended April 30, 2017 was comprised of $407,359 in Production Costs, $1,850,626 in costs of goods, and a $2,408,601 increase in the fair value of biological assets. Cost of sales for the nine months ended April 30, 2016 was comprised of $123,697 in Production Costs, $272,485 costs of goods sold, and a $470,406 increase in the fair value of biological assets. The cost of goods sold for the nine months ended April 30, 2017 includes a write down of inventory of $474,512 related to the Company's voluntary recalls in May 2017. The remaining variance to the comparative period is primarily driven by an increase in sales and increases in both the utilization and capacity of total greenhouse space in the current period as a result of Building 5 becoming operational.

For the quarters ending April 30, 2017 and April 30, 2016 the Company's recovery to Cost of Sales were $194,532 and $31,198, respectively. Cost of Sales for the quarter ended April 30, 2017 consisted of $169,334 of Production Costs, $1,042,201 in costs of goods, and a $1,406,067 increase in the fair value of biological assets. Cost of Sales for the quarter ended April 30, 2016 consisted of $77,080 of Production Costs, $187,922 in costs of goods, $296,200 increase in the fair value of biological assets. The increase in Cost of Sales during the three-month period was largely related to the same factors as in the nine-month period.

The cash inventory cost per gram for the quarter ending April 30, 2017 and January 31, 2017 were $1.32 and $1.47 respectively. The cost per gram has been trending downward as a result of the Company improving its cultivation processes. The new production facility has allowed the Company to increase its production capacity and realize economies of scale, resulting in an overall decrease in price per gram. In addition, recent changes to growing and harvest methodology will allow us to further improve production efficiency.

Operating Expenses

Operating Expenses	*For the three months ended*		*For the nine months ended*	
	30-Apr-17	**30-Apr-16**	**30-Apr-17**	**30-Apr-16**
Marketing and promotion	835,240	471,987	2,252,891	921,201
General and administrative	1,160,763	306,217	2,402,646	1,072,703
Research and development	38,326	18,178	71,075	99,232
Stock-based compensation	184,059	62,294	465,532	167,609
Amortization of PPE	115,528	43,169	225,407	102,238
Amortization of intangibles	51,102	31,931	167,359	95,791
Total	**2,385,018**	**933,776**	**5,584,910**	**2,458,774**

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 and general corporate communication expenses. General and administrative expenses include salaries for administrative staff, quality assurance staff and executive salaries as well as general corporate expenditures including legal, insurance and professional fees. Research and development expenses include salaries for research and development employees as well as any material and contractor expenses related to research and development of THCX's product.

Marketing and promotion

For the three months ended April 30, 2017 the marketing and promotion expenses of the Company were $835,240 compared to $471,987 for the three months ended April 30, 2016. This overall increase in cost was due primarily to an increase in customer acquisition costs in relation to the growth in patient base. The focus on patient growth also resulted in an increase in marketing and promotion staff resulting in a corresponding increase in the related payroll expense.

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

General & Administrative

For the three months ending April 30, 2017 general & administrative expenses of the Company were $1,160,763 compared with $306,217 for the three months ended April 30, 2016. The increase in costs during the quarter is due primarily to the expansion of the production facilities and company personnel. This expansion resulted an increase in the overall head count, and an increase in the general & administrative payroll expense of $424,885. The expansion of the production facilities also resulted in the Company incurring a one-time cost of $46,000 related to the abandonment of a usufruct agreement so that the Company could expand its office space. The three months ended April 30, 2017 also include one time accrual of $200,000 for costs related to additional testing, shipping and labour related to the voluntary recall completed by the Company. The Company also saw an increase in costs related to compliance as a public company.

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

Loss from Operations

Loss from operations for the nine months ending April 30, 2017 and April 30, 2016 was $2,199,198 and $1,566,091, respectively. Loss from operations for the quarter ending April 30, 2017 and the quarter ended April 31, 2016 was $1,007,989 and $285,339, respectively. Though there has been a significant increase in revenue over the prior year, the increase in expenses related to the Company's expansion of its production facilities as well as the write off of $474,512 of inventory, has resulted in an increase in loss from operations. To support its long term growth strategy, the Company continues to invest significantly in human and capital resources. The Company increased to 69 full time staff as at April 30, 2017 and is continuing to increase as Building 5 becomes fully productive. With the appropriate resources in place the Company anticipates it will be able to leverage economies of scale and increase profitability to achieve break-even Adjusted EBITDA by the end of fiscal 2018. This revised estimate reflects the impact of the Company's voluntary recall in May. The voluntary recall resulted in a delay in expanding patient base while the issue was being addressed. In an effort to ensure the quality of the Company's product and safety of its patients, additional expenses are anticipated as the Company implements corrective actions and additional quality control procedures. Furthermore, the Company has added additional expenses to its original forecast to address the future recreational adult use market expected on July 1, 2018.

Other Income/Expenses

Other Income/Expenses the nine months ending April 30, 2017 and April 30, 2016 was $11,152,913 and $417,215, respectively. Other Income/Expenses for the quarter ending April 30, 2017 and the quarter ended April 31, 2016 was $10,800,275 and $115,660, respectively. The automatic conversion of $3,275,000 of USD convertible debentures issued by the company and their related embedded derivatives resulted in a revaluation of financial instrument expense of $10,148,196 during the quarter ended April 30, 2017. The RTO transaction which took place on March 15, 2017 resulted in a listing expense of $796,475 during the quarter ended April 30, 2017. This resulted in a non-cash charge to income of $10,944,671 in the quarter.

Adjusted EBITDA

	For the three months ended		*For the nine months ended*	
	30-Apr-17	**30-Apr-16**	**30-Apr-17**	**30-Apr-16**
Net loss and comprehensive loss attributable to shareholders	(11,808,264)	(400,999)	(13,352,111)	(1,983,306)
Interest expense	79,264	115,660	219,673	340,004
Interest income	(30,737)	-	(49,008)	-
Stock option expense	184,059	62,294	465,532	167,609
Amortization of property, plant and equip.	115,528	43,169	225,407	102,238
Amortization of intangible assets	51,102	31,931	167,359	95,791
Financing charges	-	-	228,578	77,211
Write-off of inventory	474,512	-	474,512	-
Recall testing expense	200,000	-	200,000	-
RTO listing expense	796,475	-	796,475	-
Revaluation of financial instruments	10,148,196	-	10,148,196	-
Fair value adjustment to biological assets	(1,406,067)	(296,200)	(2,408,601)	(470,406)
Adjusted EBITDA	**(1,195,932)**	**(444,145)**	**(2,883,988)**	**(1,670,859)**

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

Liquidity and Capital Resources

Liquidity

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

As at April 30, 2017 the Company had $19,314,942 of cash on hand and $1,365,942 of accounts receivable. As at July 31, 2016 the Company had $1,931,454 of cash on hand and $1,043,365 of accounts receivable.

Liquidity	*Nine months ending*	
	30-Apr-17	**30-Apr-16**
Operating Activities	($ 3,384,218)	($ 1,770,809)
Financing Activities	$ 23,617,819	$ 2,207,153
Investing Activities	($ 2,850,113)	($ 749,366)

Operating Activities

Net cash used in operating activities for the nine months ended April 30, 2017 was $3,384,218 as a result of the net loss during the period of $13,352,111, cash used for working capital of $557,577, and net non-cash expense of $9,410,316. In the prior year comparative period, cash used in operating activities was $1,770,809 which was a result of the net loss during the year of $1,983,306 and net non-cash expenses of $61,219, offset by increases in working capital of $151,279.

Financing Activities

Net cash received through financing activities for the nine months ended April 30, 2017 was $23,617,819. The financing cash flow was primarily made up of:

1) During the first quarter the Company collected subscriptions receivable from share issuances during previous quarters in the amount of $250,000.
2) During the first quarter, the Company issued an additional 56,379 units at $4.50 per unit generating gross proceeds of $253,706. One unit provided the holder with approximately 1.05 common shares and one common shares purchase warrants at a strike of $5.00 and a term of three years.
3) During the second quarter, the Company completed a non-brokered private placement of 714,286 common shares at a price of $3.50 per share for gross proceeds of $2,500,001.
4) During the second quarter, the Company completed a brokered private placement of US$3,275,000 (CDN$4,403,893) of 8% interest bearing secured convertible debentures and 389,868 common share purchase warrants. The principal amount of the debentures is convertible into common shares at a price of US$4.20 per share at any time prior to the maturity date. The warrants have an exercise price of US$4.60 per share and are exercisable for 3 years from the date of issuance.
5) During the second quarter, the Company completed a brokered private placement of 2,919,507 common shares at a price of $4.50 per share for gross proceeds of $13,137,782.
6) The Company incurred $1,124,153 of share issuance costs related to the above equity transactions and $437,836 of financing fees related to the secured convertible debentures.
7) During the third quarter, the Company issued 714,286 (4,285,716 post-Qualifying Transaction) Common Shares at a price of $3.50 ($0.58 post-Qualifying Transaction) per share pursuant to a call option the issued to a group of private investors on November 4, 2016, for gross proceeds of $2,500,001.
8) During the third quarter, the Company issued 415,493 (2,492,958 post-Qualifying Transaction) shares for $4.50 per share for gross proceeds of $1,869,719. These shares were issued pursuant to an agent's option under the concurrent financing completed in December 2016.
9) During the third quarter, the Company issued 1,837,770 post-Qualifying Transaction shares related to the reverse acquisition, and received cash of $581,857 related to the acquisition.
10) During the third quarter, the Company issued 63,336 post-Qualifying Transaction shares related to the exercise of warrants which generated $55,468.
11) During the third quarter the Company incurred $313,198 of share issuance costs related to equity transactions.

Investing Activities

For the nine months ending April 30, 2017 the Company spent $2,850,113 on investing activities. The majority of this investment was spent on the completion of construction of Building 5; see Note 7 in the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended April 30, 2017 for more information.

Capital Resources

As at April 30, 2017, total current assets less accounts payable was $21,599,254. The exercise of all the issued and outstanding warrants would result in an increase of cash of approximately $10.0M and the exercise of all stock options would increase cash by approximately $3.0M.

Management believes the current working capital provides sufficient funds for the Company to support the Company to profitability and fund current capital expansion plans for the next 18 months. The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves for growth and development of the business.

THCX's authorized share capital is an unlimited number of common shares. The table below outlines the number of issued and outstanding common shares, warrants and options as at July 31, 2016, April 30, 2017 and June 27, 2017.

	27-June-17*	**30-Apr-17***	**31-July-16**
Common Shares	76,159,426	75,468,414	6,550,972
Warrants	12,044,160	12,739,476	1,250,677
Options	5,105,169	5,117,673	580,316

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

Off-Balance Sheet Arrangements and Contractual Obligations

THCX has no off-balance sheet arrangements

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

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

Fiscal Year	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Amount	$86,492	$173,603	$156,163	$132,417	$69,417	$618,090

The Company has a commitment to finance $35,195 related to the purchase of a vehicle. The financing bears interest at 6.99%, matures August 15, 2019 and is secured by a vehicle. The Company pays principal and interest payments of $697. As at April 30, 2017, there was $17,975 included in accounts payable related to the financing commitment.

Biological Assets - Fair Value Measurements

As at April 30, 2017, the changes in the carrying value of biological assets are as follow:

	April 30, 2017	July 31, 2016
	$	$
Carrying amount, beginning of period	**120,667**	27,226
Net increase in fair value due to biological transformation less cost to sell	**2,408,601**	595,658
Transferred to inventory upon harvest	**(1,602,512)**	(502,217)
Carrying amount, end of period	**926,756**	120,667

The Company's biological assets consists of cannabis plants from seeds all the way through to mature plants. As of April 30, 2017, the carrying amount of biological assets consisted of $6,800 in seeds and $919,956 in cannabis plants ($7,200 in seeds and $113,467 in cannabis plants as at July 31, 2016). The significant increase in the carrying amount of biological assets is attributable with Company's new 35,000 square foot production facility becoming fully operational. The significant estimates used in determining the fair value of cannabis on plants are as follow:

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

The Company views its biological assets as Level 3 fair value estimate and estimates the probability of certain harvest rates at various stages of growth. As of April 30, 2017, it is expected that the Company's biological assets will yield approximately 840,124 grams (July 31, 2016 - 143,586 grams). The Company's estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair values of biological assets.

Transactions with Related Parties

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors, control approximately 30.54% of the outstanding shares of the Company as at April 30, 2017 (July 31, 2016 - 40.62%).

Compensation provided to key management for the three and nine months ending April 30, 2017 and April 30, 2016 was as follows:

	For the three months ended		*For the nine months ended*	
	April 30, 2017	April 30, 2016	April 30, 2017	April 30, 2016
	$	$	$	$
Salary and or Consulting Fees	253,993	202,678	831,787	660,826
Stock-based compensation	42,500	33,186	281,473	167,609
	296,493	235,864	1,113,260	828,435

On November 15, 2016 the Company granted certain directors and management of the Company a total of 204,500 (1,227,000 post-Qualifying Transaction) stock options with an exercise price of $4.50 ($0.75 post-Qualifying Transaction) which vest over a three year period. On September 30, 2015 a director exercised 25,000 options which had an exercise price of $1.00. In July 2016, certain directors and members of the executive management of the Company exercised 54,500 options for proceeds to the Company of $65,750.

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

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

Risk Factors

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

Interest risk

The Company's exposure to interest rate risk only relates to any investments of surplus cash. The Company may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at April 30, 2017, the Company did not have any short-term investments.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's amounts receivable. As at April 30, 2017, the Company is exposed to credit related losses in the event of non-performance by the counterparties.

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

The carrying amount of cash and accounts receivable represents the maximum exposure to credit risk and at April 30, 2017, this amounted to $20,680,884. The cash is held by the Company's bank which is one of the largest cooperative financial groups in Canada. Since the inception of the Company, no losses have been suffered in relation to cash held by the bank.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at April 30, 2017, the Company had $19,314,942 of cash.

The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $1,858,547 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.

Regulatory

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

Limited Operating History

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

Competition

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

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

Reliance on Management

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

Risks Inherent in an Agricultural Business

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

Risks Associated with Rising Energy Costs

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

Product Liability

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

Insurance Coverage

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

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

Critical Accounting Assumptions

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

Changes in Accounting Policies

New and revised IFRS in issue, but not yet effective

Amendments to IAS 12

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

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

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

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

Disclosure Initiative (Amendments to IAS 7)

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 9 Financial Instruments ("IFRS 9")

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

IFRS 16 Leases

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

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

Subsequent Events

Voluntary Recall

On May 2, 2017, the Company announced a voluntary stop-sale of all products after testing by Health Canada indicated the presence of trace amounts of Myclobutanil of 0.012 parts per million (ppm) and 0.023 ppm in leaf samples taken from mother plants on March 8, 2017. To determine the root cause of the contamination, the Company carried out an in-depth investigation.

On May 16, 2017, the Company announced the reintroduction of 13 of its 14 products, after the completion of additional screening showed no signs of contamination on specific lots. Additionally, the Company announced a voluntary recall of fourteen lots of medical cannabis which were supplied between February 1, 2016 and May 1, 2017 which had tested between 0.01 ppm and 0.08 ppm. Health Canada deemed this a Type III recall, defined as "a situation in which the use of, or exposure to a product is not likely to cause any adverse health consequences.

On June 5, 2017, the Company announced the results of the investigation. During the course of the investigation, the Company tested 281 samples from derived from all harvests ever completed by the Company, all production inputs and the forensic sampling of equipment and key physical locations. As a result of this in-depth investigation the Company was able to determine how the contamination occurred, and implement new preventative measure to mitigate the risk of a similar event occurring again. Furthermore, the Company announced an expansion on its voluntary product recall, recalling nineteen additional lots of medical cannabis, grown prior to September 16, 2016 which were supplied between July 15, 2015 and March 24, 2017.

As a result of the Myclobutanil contamination and subsequent recalls, the Company recorded a write down of inventory in the amount of $474,512 in the quarter ending April 30, 2017. This write down represents all affected lots of inventory identified by the Company's investigation. The Company did not include a reserve for customer refunds as the amount proved to be insignificant. As part of the investigation the Company accrued $200,000 related to one time testing, shipping and other labour costs, which are included in general and administrative expenses for the quarter.

Change of Auditor

The Company has changed auditors from UHY McGovern, Hurley, Cunningham LLP to MNP LLP effective May 25, 2017.

License Renewal & Additional Building Approval

On June 21, 2017, Health Canada granted the Company a license renewal that allows the Company to produce as much medical marijuana as it can store and removes all annual sales limits for dried marijuana, oils, plants and seeds. The renewed license is valid for two years, until October 15, 2019. Health Canada also granted the Company approval for two additional buildings within its Gatineau facility.

Private Placement

On June 27, 2017, the Company announced a $25,000,000 bought deal private placement of 25,000 convertible debenture units at a price of $1,000 per unit. Each unit will consist of $1,000 principal amount of 8.0% senior unsecured convertible debentures and 313 common share purchase warrants, which will mature on June 30, 2019. The Company has also granted the underwriter the option to purchase up to an additional 5,000 units for $1,000 each, prior to the closing of the offer. Interest will be paid semi-annually in June and December. The convertible debentures will be convertible at the option of the holder at a conversion price of $1.60 per share. Beginning on the date that is four months following the closing date, the Company may force the conversion should the daily volume weighted average trading price of the common shares of the Company be greater than $2.25 for any 15 consecutive trading days subject to 30 day prior written notice. Each warrant has an exercise price of $2.00 per share and a maturity of two years following the closing date of the offering.