Condensed interim consolidated financial statements of

The Hydropothecary Corporation

for the three and nine months ended April 30, 2017 and 2016

(Unaudited, in Canadian dollars)

The Hydropothecary Corporation

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The Hydropothecary Corporation

Condensed interim consolidated statements of comprehensive loss for the three and nine months ended April 30, 2017 and 2016

(In Canadian dollars)
(Unaudited)

	For the three month period ended		For the nine month period ended	
	April 30, 2017	April 30, 2016	**April 30, 2017**	April 30, 2016
	$	$	**$**	$
Revenue	**1,182,497**	617,239	**3,235,096**	818,459
Cost of sales				
Revaluation of biological assets (Note 6)	**(1,406,067)**	(296,200)	**(2,408,601)**	(470,406)
Production costs	**169,334**	77,080	**407,359**	123,697
Cost of goods sold (Note 5 and Note 17)	**1,042,201**	187,922	**1,850,626**	272,485
Gross margin including unrealized revaluation of biological assets	**1,377,029**	648,437	**3,385,712**	892,683
Operating Expenses				
Marketing and promotion	**835,240**	471,987	**2,252,891**	921,201
General and administrative (Note 17)	**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 (Note 10 and 14)	**184,059**	62,294	**465,532**	167,609
Amortization of property, plant and equipment (Note 7)	**115,528**	43,169	**225,407**	102,238
Amortization of intangible assets (Note 8)	**51,102**	31,931	**167,359**	95,791
	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)
Revaluation of financial instruments (Note 9)	**(10,148,196)**	-	**(10,148,196)**	-
RTO listing expense (Note 4)	**(796,475)**	-	**(796,475)**	-
Financing charges (Note 9 & 10)	**-**	-	**(228,578)**	(77,211)
Foreign exchange gain (Note 9)	**192,923**	-	**191,001**	-
Interest expense	**(79,264)**	(115,660)	**(219,673)**	(340,004)
Interest income	**30,737**	-	**49,008**	-
Net loss and comprehensive loss attributable to shareholders	**(11,808,264)**	(400,999)	**(13,352,111)**	(1,983,306)
Net loss per share, basic and diluted	**(0.17)**	(0.01)	(0.25)	(0.07)
Weighted average number of outstanding shares				
Basic and diluted (Note 11)	**67,563,381**	30,054,630	52,723,599	29,667,306

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

The Hydropothecary Corporation

Condensed interim consolidated statements of financial position as at April 30, 2017 and July 31, 2016

(In Canadian dollars)
(Unaudited)

	April 30, 2017	July 31, 2016
	$	$
Assets		
Current assets		
Cash	**19,314,942**	1,931,454
Share subscriptions receivable	**-**	250,011
Accounts receivable	**1,365,942**	1,043,365
Commodity taxes recoverable	**313,707**	27,425
Prepaid expenses	**284,165**	35,737
Inventory (Note 5)	**1,252,289**	531,425
Biological assets (Note 6)	**926,756**	120,667
	23,457,801	3,940,084
Property, plant and equipment (Note 7)	**5,324,156**	2,936,226
Intangible assets (Note 8)	**2,616,049**	2,633,766
	31,398,006	9,510,076
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 16 and 17)	**1,858,547**	1,373,499
Commodity taxes payable	**-**	43,863
Unsecured convertible debentures (Note 9)	**-**	306,205
Warrant liability (Note 9)	**2,245,636**	-
	4,104,183	1,723,567
Shareholders' equity		
Share capital (Note 10)	**44,261,437**	12,756,262
Share-based payment reserve (Note 10)	**1,431,850**	937,065
Contributed surplus	**32,101**	89,601
Warrants (Note 10)	**2,287,544**	1,370,579
Deficit	**(20,719,109)**	(7,366,998)
	27,293,823	7,786,509
	31,398,006	9,510,076

Approved by the Board

/s/ Sébastien St-Louis Director

/s/ Adam Miron Director

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

The Hydropothecary Corporation

Condensed interim consolidated statements of changes in shareholders' equity
for the three and nine month periods ended April 30, 2017 and 2016

(Unaudited)

	Number common shares	Share capital	Share-based payment reserve	Warrants	Contributed surplus	Deficit	Shareholders' equity
	#	$	$	$	$	$	$
Balance, July 31, 2016	39,305,832	12,756,262	937,065	1,370,579	89,601	(7,366,998)	7,786,509
Issuance of Units (Note 10)	338,274	192,253	-	61,453	-	-	253,706
Share issuance costs (Note 10)	-	(6,308)	-	-	-	-	(6,308)
Broker/Finder warrants (Note 10)	-	-	-	714	-	-	714
Stock-based compensation (Note 10)	-	-	102,126	-	-	-	102,126
Net loss	-	-	-	-	-	(430,304)	(430,304)
Balance at October 31, 2016	39,644,106	12,942,207	1,039,191	1,432,746	89,601	(7,797,302)	7,706,443
Private placement (Note 10)	4,285,716	2,500,001	-	-	-	-	2,500,001
Concurrent financing (Note 10)	17,517,042	13,137,782	-	-	-		13,137,782
Share issuance costs	-	(1,638,863)	-	-	-	-	(1,638,863)
Broker / Finder warrants	-	-	-	520,304	-	-	520,304
Exercise of stock options	150,000	66,000	(41,000)	-	-	-	25,000
Exercise of warrants	53,286	48,250	-	(12,726)	-	-	35,524
Stock-based compensation (Note 10)	-	-	179,347	-	-	-	179,347
Net loss	-	-	-	-	-	(1,113,543)	(1,113,543)
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
Private placement (Note 10)	4,285,716	2,500,001	-	-	-	-	2,500,001
Concurrent financing (Note 10)	2,492,958	1,869,719	-	-	-	-	1,869,719
Shares issued for reverse acquisition	1,837,770	1,378,332	70,253	-	-		1,448,585
Share issuance costs	-	(504,831)	-	-	-	-	(504,831)
Broker / Finder warrants	-	-	-	191,633	-	-	191,633
Exercise of warrants	63,336	61,524	-	(6,056)	-	-	55,468
Conversion of secured convertible debentures (Note 8)	4,678,494	11,570,911	-	92,423	-	-	11,663,334
Conversion of unsecured convertible debentures (Note 8)	459,990	330,404	-	69,220	(57,500)	-	342,124
Stock-based compensation (Note 10)	-	-	184,059	-	-	-	184,059
Net loss	-	-	-	-	-	(11,808,264)	(11,808,264)
Balance at April 30, 2017	**75,468,414**	**44,261,437**	**1,431,850**	**2,287,544**	**32,101**	**(20,719,109)**	**27,293,823**
Balance, July 31, 2015	28,930,086	6,707,250	775,051	22,929	109,394	(4,012,702)	3,601,922
Issuance of common shares (Note 10)	150,000	100,000	-	-	-	-	100,000
Stock-based compensation (Note 10)	-	-	92,083	-	-	-	92,083
Exercise of stock options (Note 10)	150,000	66,000	(41,000)	-	-	-	25,000
Net loss	-	-	-	-	-	(902,640)	(902,640)
Balance at October 31, 2015	29,230,086	6,873,250	826,134	22,929	109,394	(4,915,342)	2,916,365
Issuance of common shares (Note 10)	631,332	473,500	-	-	-	-	473,500
Stock-based compensation (Note 10)	-	-	13,232	-	-	-	13,232
Net loss	-	-	-	-	-	(679,667)	(679,667)
Balance at January 31, 2016	29,861,418	7,346,750	839,366	22,929	109,394	(5,595,009)	2,723,431
Issuance of common shares from deposit related proposed acquisition (Note 10)	1,500,000	1,000,000	-	-	-	-	1,000,000
Issuance of common shares	742,872	557,154	-	-	-	-	557,154
Issuance of Units	139,332	104,499	-	-	-	-	104,499
Share issuance costs	-	(103,500)	-	-	-	-	(103,500)
Issuance of 2016 unsecured convertible debentures	-	-	-	-	70,000	-	70,000
Secured convertible debenture amendment warrants	-	-	-	40,135	-	-	40,135
Unsecured convertible debenture amendment warrants	-	-	-	6,603	-	-	6,603
Stock-based compensation	-	-	62,294	-	-	-	62,294
Net loss	-	-	-	-	-	(400,999)	(400,999)
Balance at April 30, 2016	**32,243,622**	**8,904,903**	**901,660**	**69,667**	**179,394**	**(5,996,008)**	**4,059,617**

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 share of The Hydropothecary Corp., which was effected in March 2017.

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

The Hydropothecary Corporation

Condensed interim consolidated statements of cash flows
for the nine-month period ended April 30, 2017 and 2016

(In Canadian dollars)
(Unaudited)

	April 30, 2017	April 30, 2016
	$	$
Operating activities		
Net loss and comprehensive loss	**(13,352,111)**	(1,983,306)
Items not affecting cash		
Amortization of property, plant and equipment	**225,407**	173,737
Amortization of intangible assets	**167,359**	95,791
Unrealized revaluation gain on biological assets	**(2,408,601)**	(470,406)
Foreign exchange	**(165,598)**	-
Stock-based compensation (Note 10)	**465,532**	167,609
Accretion of convertible debt (Note 9)	**181,546**	94,488
RTO listing expense	**796,475**	-
Revaluation of financial instruments	**10,148,196**	-
Changes in non-cash operating working capital items		
Accounts receivable	**(322,577)**	(601,093)
Commodity taxes payable (recoverable)	**(330,145)**	51,137
Prepaid expenses	**(243,531)**	82,562
Investment tax credit receivable	**-**	40,183
Inventory	**881,648**	27,568
Accounts payable and accrued liabilities	**572,182**	550,922
	(3,384,218)	(1,770,808)
Financing activities		
Issuance of common shares	**-**	1,086,154
Issuance of units (Note 10)	**503,717**	104,499
Issuance of common shares - Private Placement (Note 10)	**5,000,002**	-
Issuance of common shares - Concurrent Financing (Note 10)	**15,007,501**	-
Issuance of common shares - RTO (Note 10)	**647,213**	-
Secured convertible debentures (Note 9)	**3,780,745**	-
Deposit on potential M&A transaction	**-**	1,000,000
Exercise of stock options	**25,000**	25,000
Exercise of warrants	**90,992**	-
Share issuance costs (Note 10)	**(1,437,351)**	(103,500)
Issuance of unsecured convertible debentures	**-**	320,000
Repayment of unsecured convertible debentures	**-**	(225,000)
	23,617,819	2,207,153
Investing activities		
Acquisition of property, plant and equipment (Note 7)	**(2,700,471)**	(749,366)
Purchase of intangible assets	**(149,642)**	-
	(2,850,113)	**(749,366)**
Increase (decrease) in cash	**17,383,488**	(313,021)
Cash, beginning of period	**1,931,454**	421,860
Cash, end of period	**19,314,942**	108,839

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

1. Description of business

The Hydropothecary Corporation, formerly BFK Capital Corp. ("THCX" or "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. THCX is a publicly traded corporation, incorporated in Ontario. The Company's common shares are listed on the TSX Venture Exchange ("TSXV"), 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 TSXV on November 17, 2014, it was classified as a Capital Pool Corporation as defined in policy 2.4 of the TSXV. The principal business of the Company at that time was to identify and evaluate business or assets with a view to completing a qualifying transaction (a "Qualifying Transaction") under relevant policies of the TSXV. 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 forming a new entity, 100074241 Canada Incorporated (THC). In connection with that amalgamation, THC acquired all of the issued and outstanding shares of THCX and the former shareholders of Hydropothecary issued a total of 68,428,824 post-consolidation common shares of THCX. In addition, 22,992,969 common shares of THCX have been reserved for options, warrants, and the conversion of secured and unsecured debentures issued to the holders of THC options, warrants, secured and unsecured debentures. Immediately following closing THCX 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 THCX is considered the acquiree. Accordingly, the condensed interim consolidated financial statements are in the name of The Hydropothecary Corporation (formerly BFK Capital Corp. or THCX), 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 financial statements of the Company for the year ended July 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on June 28, 2017.

Basis of measurement and consolidation

The condensed interim consolidated financial statements have been prepared on an historical cost basis except for biological assets, the warrant and conversion liability, which are measured at fair value on a recurring basis and include the accounts of the Company and its wholly-owned subsidiary 10074241 Canada Inc. They also include 167151 Canada Inc., Banta Health Group and Coral Health Group, three

2. Basis of presentation (continued)

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 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2.

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

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

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

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

The preparation of these unaudited condensed interim consolidated financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates, which requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these unaudited condensed interim consolidated financial statements have been set out in Note 3 of the audited consolidated financial statements for the year ended July 31, 2016.

Basis of consolidation

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

3. Changes to accounting standards and interpretations

New and revised IFRS in issue but not yet effective

Amendments to IAS 12

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

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

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

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

3. Changes to Accounting Standards and Interpretations (continued)

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

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 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.

(Unaudited, In Canadian dollars)

4. Reverse Acquisition (continued)

The transaction was a reverse acquisition of BFK Capital Corp. and has been accounted for under IFRS 2, *Share -based payments*. 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 of 796,475 between the fair value of the consideration paid of $1,378,332 (based on the fair value of Hydropothecary shares just prior to the reverse acquisition), and the BFK Capital net assets acquired of $652,110 and $70,253 related to outstanding options, has been recognized as a listing expense in the condensed interim consolidated statements of comprehensive loss for the three and nine months ended April 30, 2017.

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

The following represents managements' estimate of the fair value of the net assets acquired at March 15, 2017 as a result of the reverse acquisition.

Fair value of BFK shares prior to transaction (306,296 at $4.50 per share)	$ 1,378,332
Net assets acquired	(652,110)
Options	70,253
RTO listing expense	$ 796,475

5. Inventory

	April 30, 2017	July 31, 2016
	$	$
Dried cannabis	**1,146,514**	451,351
Oils	**52,735**	34,665
Packaging and supplies	**53,040**	45,409
	1,252,289	531,425

The inventory expensed to cost of sales in the three and nine months ended April 30, 2017 amounted to $888,446 and $1,553,489, respectively ($209,895 and $884,007 for the three and nine months ended April 30, 2016). During the nine month period ended April 30, 2017, the Company recorded a write-down of inventories in the amount of $474,512, which included inventory recalled under the Company's voluntary recall (Note 17).

(Unaudited, In Canadian dollars)

6. Biological assets

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 estimates used in determining the fair value of cannabis on plants are as follows:

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

The Company views its biological assets as Level 3 fair value estimate and estimates the probability of certain harvest rates at various stages of growth. As of 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.

(Unaudited, In Canadian dollars)

7. Property, plant and equipment

	Balance at July 31, 2016	Additions	Transfers	**Balance at April 30, 2017**
	$	$		**$**
Cost				
Land	105,000	253,405	-	**358,405**
Buildings	917,087	1,205,283	1,640,274	**3,762,644**
Furniture and equipment	320,586	877,819	6,743	**1,205,148**
Vehicles	37,537	-	-	**37,537**
Computers	91,298	111,864	-	**203,162**
Construction in progress	1,647,017	164,966	(1,647,017)	**164,966**
	3,118,525	2,613,337	-	**5,731,862**

	Balance at July 31, 2016	Amortization	Transfers	**Balance at April 30, 2017**
	$	$		**$**
Accumulated amortization				
Buildings	54,095	99,483	(2,902)	**150,676**
Furniture and equipment	67,224	91,985	2,820	**162,029**
Vehicles	15,535	5,631	-	**21,166**
Computers	45,445	28,308	82	**73,835**
	182,299	225,407	-	**407,706**

As at April 30, 2017, there was $125,763 (July 31, 2016 - $38,629) of property, plant and equipment in accounts payable and accrued liabilities.

8. Intangible assets

	Balance at July 31, 2016	Additions	Disposals/ adjustments	**Balance at April 30, 2017**
	$	$	$	**$**
Cost				
ACMPR License	2,544,696	-	-	**2,544,696**
Software	289,564	149,642	-	**439,206**
Domain names	6,596	-	6,596	**-**
	2,840,856	149,642	6,596	**2,983,902**

	Balance at July 31, 2016	Amortization	Disposals/ adjustments	**Balance at April 30, 2017**
	$	$	$	**$**
Accumulated amortization				
ACMPR License	149,008	95,792	-	**244,800**
Software	51,486	71,567	-	**123,053**
Domain name	6,596	-	6,596	**-**
	207,090	167,359	6,596	**367,853**
Net carrying value	2,633,766			**2,616,049**

9. Convertible debentures

2016 Unsecured Convertible Debentures

Between March and May of 2016, the Company issued $420,000 of non-interest bearing unsecured convertible debentures "2016 Unsecured Debentures". The principal amount of the 2016 Unsecured Debentures is convertible into units at $4.50 ($0.75 post-Qualifying Transaction) per Unit. A Unit consists of one Common Share and one Common Share purchase warrant. The warrant has an exercise price of $5.00 ($0.83 post-Qualifying Transaction) and is valid for a period of two years from the date of issuance.

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

In July 2016, two debenture holders with a book value of $66,426 ($75,000 face value) of debentures, converted their debentures into 16,666 units. The 16,666 warrants were valued at $15,047 using the Black-Scholes option pricing model and the following variables: stock price of $3.60; expected life of two years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.56%.

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

In March 2017, the debenture holders converted the remaining unsecured debentures with a book value of $324,142 ($345,000 face value) of non-interest bearing unsecured convertible debentures to equity resulting in the issuance of 459,990 Units at a price of $0.75 per Unit. The accreted interest for the three-month period ending April 30, 2017 was $6,932 ($35,918 for the nine-month period ending April 30, 2017). Each Unit consists of one post consolidation common share and one common share purchase warrants.

Each warrant entitles the holder thereof to purchase one post consolidation additional common share at a price of $0.83 per share for a term of two years. The 459,990 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%.

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 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$4.20 (US$0.70 post-Qualifying Transaction) at the option of the holder. The debentures will automatically convert to common shares after the Company becomes a reporting issuer on a Canadian or United States exchange and maintains a volume weighted average trading price of equal to or exceeding the conversion price of the debentures for 15 days. The obligations of the Company under the debentures are secured by a first priority security interest against all of the assets of the Company and mature on December 31, 2019. The debenture holders received 389,868 warrants (2,339,386 post-Qualifying Transaction), one for every two common shares that would be issued assuming full conversion of the debentures. The warrants have a three year term, expiring November 13, 2019 and have an exercise price of US$4.60 (US$0.76 post-Qualifying Transaction).

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

The Company allocated proceeds based on the relative fair values of the debt, warrants, and conversion option, to the warrant and debt conversion provision liabilities to discount the convertible debenture. The fair values of the embedded derivatives were determined using the Black-Scholes option pricing model. The warrant liability was valued with a fair value $550,955 (US$409,723) using the following assumptions: stock price of $4.50 (US$3.35); exchange rate of 1.3447; expected life of three years; $Nil dividends; 60%

9. Convertible debentures (continued)

volatility; and risk free interest rate of 1.25%. The conversion option was initially valued with a fair value of $665,632 (US$495,004) using the following assumptions: stock price of $4.50 (US$3.35); expected life of 15 months; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%.

In connection with the closing of the debentures, the Company paid a placement agent fee of $560,152 (US$416,563) from the gross proceeds of the financing and incurred an additional $62,995 of financing costs. The Company also issued broker warrants exercisable to acquire 62,381 common shares at an exercise price of US$4.20 per share. The broker warrants were attributed a fair value of $95,513 (US$71,029) based on the Black-Scholes option pricing model with the following assumptions: with a stock price of $4.50 (US$3.35); expected life of three years; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%.

Pursuant to the debenture agreement, 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 became a reporting issuer on TSXV and maintained a volume weighted average trading price equal to or exceeding the conversion price of the debentures for 15 days. The conversion of the debentures and the corresponding conversion liability (“Conversion Liability”), resulted in an increase to share capital of $11,570,911. The debenture at the date of conversion was valued at $2,763,624, which consisted of an accreted value of $3,213,505 less unamortized financing fees of $449,881. The accreted interest on the debenture for the three-month ending period April 30, 2017 was $72,015 (US$52,659) and the nine-month ending period balance was $145,628 (US$109,232). The interest accrual on the debenture for the three-month ending period April 30, 2017 was $68,233 (US$49,863) and the nine-month ending period balance was $139,602 (US$ 104,712). Both the accreted and accrued interest are recorded as interest expense on the comprehensive statements of loss. The Conversion Liability was revalued on April 11, 2017 using the Black-Scholes option pricing model. The Conversion Liability was revalued to $8,807,287 (US$6,606,126); with a stock price of $2.79 (US$2.09); expected life of 12.6 months; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%; USD/CAD exchange rate of 1.3332. The loss on the revaluation for the conversion liability in the three-month reporting date ending April 30, 2017 was $8,163,188, the loss on the revaluation for the conversion liability in the nine-month reporting date ending April 30, 2017 was $8,141,655. The loss on the revaluation is recorded to the revaluation of financial instruments, financing charges and the foreign exchange accounts in the statement of comprehensive loss.

The warrant liability was revalued on April 30, 2017 using the Black-Scholes option pricing model. The warrant liability was revalued to $2,245,636 (US$1,645,155); with a stock price of $1.93 (US$1.41); expected life of 12 months; $Nil dividends; 60% volatility; and risk free interest rate of 1.25%; USD/CAD exchange rate of 1.3650. The loss on the revaluation of the warrant liability in the three-month period ending was $1,712,504. The loss on the revaluation of the warrant liability in the nine-month period ending was $1,694,681. The loss on the revaluation is recorded to the revaluation of financial instruments and financing charges in the statements of comprehensive loss.

10. Share capital

Authorized

An unlimited number of Common Shares

In the first quarter of fiscal 2016, the Company completed a private placement of 25,000 Common Shares (150,000 post-Qualifying Transaction common shares of the Company) at a price of $4.00 per share for gross cash proceeds of $100,000.

On April 30, 2016, the Company converted a non-refundable $1,000,000 deposit that was previously provided by a prospective investor. Under the terms set out in the letter of interest with this investor, the deposit was converted into 250,000 (1,500,000 post-Qualifying Transaction common shares of the Company) Common Shares at a price of $4.00 per share. The Company did not incur significant transaction costs for the issuance of these equities.

During the second and third quarters of fiscal 2016, the Company completed private placements of

10. Share capital (continued)

205,311 Common Shares (1,231,866 post-Qualifying Transaction common shares of the Company) at a price of $4.50 per share for gross cash proceeds of $923,903. The Company did not incur significant transaction costs for the issuance of these equities.

During the third and fourth quarters of fiscal 2016, the Company began a private placement that resulted in 696,705 units (4,180,230 post-Qualifying Transaction units of the Company) at $4.50 per unit generating gross proceeds of $3,135,173. One unit provided the holder with one Common share and one Common Share Purchase Warrant. The Warrant entitled the holder the option to buy a Share at the price of $5.00 ($0.83 post-Qualifying transaction) for three years from date of issuance. The value of the warrants was estimated using the Black-Scholes option pricing model with the following variables: stock price of $3.41; expected life of three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. The value of the warrants was estimated to be $759,409. As a result, the residual value of the Common Shares was calculated to be $2,375,764.

During the fourth quarter of fiscal 2016, the Company issued 82,115 units (492,690 post-Qualifying Transaction) at $4.50 per unit generating gross proceeds of $369,517. One unit provided the holder with approximately 1.05 Common Shares (6.3 post-Qualifying Transactions) and one Common Share Purchase Warrant (6 post-Qualifying Transaction). The total number of Common Shares and Warrants issued, was 86,217 (517,302 post-Qualifying Transaction) and 82,115 (492,690 post-Qualifying Transaction), respectively. The Warrant entitled the holder the option to buy a Share at the price of $5.00 ($0.83 post-Qualifying Transaction) for three years from the date of issuance. The value of the warrants is estimated using the Black-Scholes option pricing model with the following variables: stock price of $3.41; expected life of three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. The value of the warrants was estimated to be $89,505. As a result, the residual value of the Common Shares was calculated to be $280,012.

Share issue costs relating to the above equity financings amounted to $46,518:

- $8,868 of the costs are related to 6,569 (39,414 post-Qualifying Transaction units of the Company) warrants issued that have a $4.50 ($0.75 post-Qualifying Transaction) exercise price and expire in July 2021. These warrants were issued to a broker in relation to the sale of 82,115 (492,690 post-Qualifying Transaction units of the Company) units. The warrants were valued using the Black-Scholes option pricing model with the following variables: stock price of $3.15; expected life of five years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.69%.
- $3,635 of the costs related to 4999 (30,792 post-Qualifying Transaction) warrants issued that have a $4.50 ($0.75 post-Qualifying Transaction) exercise price and a one year expiry. These warrants were issued to a financing consultant in relation to a Finders fee for the sale of 83,312 (499,872 post-Qualifying Transaction) units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.77; expected life of one year; Nil dividends; 64.5% volatility; and risk free interest rate of 0.69%. In both cases, the warrants issued provide the holders with the option to purchase one Common Share.

As previously described in Note 8 of the July 31, 2016, Financial Statements, "*Secured convertible debentures - 2015*", the Company converted debentures into 368,392 (2,210,352 post-Qualifying Transaction) units at a price of $4.00 per unit. The gross value of the conversion was $1,473,576. Each unit consisted of one Common Share and one Common Share purchase warrant. Upon conversion the debenture was extinguished and the security has been released. The warrants were valued at $424,448 using the Black-Scholes option pricing model and the following variables: stock price of $3.35; expected life three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.59%. The residual value of the value converted of $1,126,421 including $77,293 of related contributed surplus was attributed to the common shares. The following warrants are also related to the "*Secured convertible debentures - 2015*":

- *Broker warrants valued at issue date (fiscal 2015)* - There were also 8,881 broker warrants issued to the broker. Each warrant entitles the broker to acquire one Unit for $4.00 and expire in two years. The value of the warrants was estimated to be $12,726 using the Black-Scholes option pricing model and the following variables: underlying security value price of $4.00; expected life of two years; $Nil

10. Share capital (continued)

dividends; 65% volatility; and risk free interest rate of 1.01%. These warrants were exercised in December 2016.

- *Amendment warrants (fiscal 2016)* - On February 19, 2016, prior to the debentures being converted, the Company negotiated an amendment with the holders of the Secured Convertible Debentures to delay the maturity date to December 17, 2016. 60,000 warrants were issued with an exercise price of $4.50 and expire 10 months from the effective date of the amendment. The Warrants were valued at $40,135 using the Black-Scholes option pricing model and the following variables: stock price of $3.83; expected life 10 months; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.44%.

As previously described in Note 9 of the July 31, 2016, Financial Statements, "*Unsecured convertible debentures – 2015*", the Company repaid and extinguished the debentures after the initial due date. In exchange for the late payment, the Company issued 6,358 Penalty Warrants priced at $4.00 a share exercisable up to December 31, 2017. The Warrants were valued at $6,603 using the Black-Scholes option pricing model and the following variables: stock price of $3.46; expected life of 23 months; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.39%.

As described in Note 9, Convertible debentures, the Company issued unsecured debentures in the third and fourth quarters of fiscal 2016. On July 15, 2016, $66,426 of the debentures held by two individuals were converted into 16,666 (99,996 post-Qualifying Transaction) Common shares at a price of $4.50 per unit.

In April 2016, the Company agreed to issue common shares in exchange for services rendered by two contractors. The Company issued 1,500 (9,000 post-Qualifying Transaction) common shares and the gross value of the share issued totaled $3,250. The fair value of the services provided approximated the value of the shares issued.

During the first quarter of 2017, the Company issued 56,379 (338,274 post-Qualifying Transaction) Units in a private placement at $4.50 ($0.75 post-Qualifying Transaction) per unit generating gross proceeds of $253,706. A Unit provides the holder with one Common share (6 post-Qualifying Transaction) and one Common Share Purchase Warrant (6 post-Qualifying Transaction). The Warrant entitles the holder the option to buy a Share at the price of $5.00 ($0.83 post-Qualifying Transaction) for three years from date of issuance. The value of the warrants was estimated using the Black-Scholes option pricing model with the following variables: stock price of $3.41; expected life of three years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. The value of the warrants was estimated to be $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 financings in the first quarter of fiscal 2017 amounted to $6,308. $617 of the costs were related to 444 (2,664 post-Qualifying Transaction) warrants issued that have a $4.50 ($0.83 post-Qualifying Transaction) exercise price and expire in five years. These warrants were issued to a broker in relation to the sale of 56,379 units (338,274 post-Qualifying Transaction). The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.11; expected life of five years; Nil dividends; 64.5% volatility; and risk free interest rate of 0.60%. $97 of the costs related to 133 (798 post-Qualifying Transaction) warrants issued that have a $4.50 ($0.75 post-Qualifying Transaction) 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 2,222 (13,332 post-Qualifying Transaction) units. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $3.77; expected life of one year; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.69%. In both cases, the warrants issued provide the holders with the option to purchase one Common Share (6 post-Qualifying Transaction Common Shares).

During the second quarter of 2017, the Company issued 714,286 (4,285,716 post-Qualifying Transaction) Common Shares at $3.50 per Common Share for total proceeds of $2,500,001 from a group of private investors ("Investors"). As part of the Private Placement the Investors have the right to nominate up to two Directors supported by an agreement between certain shareholders. The Investors have a call option to purchase another 714,286 (4,285,716 post-Qualifying Transaction) Common Shares at a price of $3.50

10. Share capital (continued)

($0.58 post-Qualifying Transaction) prior to May 31, 2017. The Company also has a put option to purchase another 714,286 (4,285,716 post-Qualifying Transaction) Common Shares at a subscription price of $3.50 ($0.58 post-Qualifying Transaction) prior June 30, 2017, so long the Company attains revenues of $3,500,000 between January 1, 2017 and May 31, 2017.

In connection with the closing of this placement, THC incurred share issuance costs of $147,014 and issued 57,142 (342,852 post-Qualifying Transaction) broker warrants with an exercise price of $4.50 ($0.75 post-Qualifying Transaction) and a five-year term. The warrants were valued using the Black-Scholes option pricing model and the following variables: stock price of $4.50; expected life of five years; $Nil dividends; 73.2% volatility; and risk free interest rate of 0.75%.

During the second quarter of 2017, THC completed a concurrent financing through Canaccord Genuity ("Agent") pursuant to which it issued 2,919,507 (17,517,042 post-Qualifying Transaction) Common Shares at a price of $4.50 per shares for gross proceeds of $13,137,782 ("Concurrent Financing"). In connection with the closing of the Concurrent Financing, THC paid the Agent a cash commission of $803,487, equal to 7% of the gross proceeds from the Concurrent Financing, subject to a reduced commission of 3.5% for certain subscribers on a President's List of THC, and issued to the Agent warrants exercisable to acquire 178,553 (1,071,318 post-Qualifying Transaction) 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 of THC, at an exercise price of $4.50 ($0.75 post-Qualifying Transaction) 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 $4.50; 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.

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

- 33,867 (203,202 post-Qualifying Transaction) warrants in exchange for services rendered by two service providers:
  - The Company issued 20,000 (120,000 post-Qualifying Transaction) warrants that have a strike price of $4.20 USD ($0.70 USD) and expire 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 $4.50; expected life of 18 months; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%. 30,000 post-Qualifying Transaction 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 13,867 (83,202 post-Qualifying Transaction) warrants that have a strike price of $4.50 ($0.75 post-Qualifying Transaction) and expire 3 years. The warrants were valued at $30,184 using the Black-Scholes option pricing model and the following variables: stock price of $4.50; expected life of three years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%. These warrants were expensed to Financing charges in the statements of comprehensive loss.

- 7,490 (44,940 post-Qualifying Transaction) broker agent warrants with an exercise price of $4.50 ($0.75 post-Qualifying Transaction) and a two year term. The warrants were valued at $13,576 using the Black-Scholes option pricing model and the following variables: stock price of $4.50; expected life of two years; $Nil dividends; 73.2% volatility; and risk free interest rate of 1.25%. These warrants were recorded as a share issuance cost in the statements of shareholders equity.

During the third quarter of 2017, the Company issued 415,493 (2,492,958 post-Qualifying Transaction) shares for $4.50 ($0.75 post-Qualifying Transaction) per share for gross proceeds of $1,869,719. These shares were issued pursuant to an agent's option under the Concurrent Financing

10. Share capital (continued)

completed in December 2016, in which 2,900,000 shares were offered, which allowed the Agent to sell an additional number of shares equal to 15% of the number of offered shares. The Company paid share issuance costs of $146,792 and issued 29,084 (174,504 post-Qualifying Transaction) warrants to the broker. The warrants have an exercise price of $4.50 ($0.75 post-Qualifying Transaction) and expire in 2 years. The warrants were valued at $167,222 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 statements of shareholders equity.

During the third quarter of 2017, 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.

As described in Note 8, 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 post-Qualifying Transaction common shares at a price of $0.75 per unit.

As described in Note 8, 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 TSXV and maintained a volume weighted average trading price equal to or exceeding the conversion price of the debentures for 15 days.

During the third quarter of 2017, the Company issued the following warrants:

- *Unsecured convertible debentures (fiscal 2016)*: 459,990 warrants issued in relation to the conversion of convertible debt. The warrants were valued at $69,219 using the Black-Scholes option pricing model and the following variables: stock price of $3.60; expected life of two years; $Nil dividends; 64.5% volatility; and risk free interest rate of 0.59%.
- *Broker warrants (fiscal 2017):* 29,084 (174,504 post-Qualifying Transaction) broker agent warrants with an exercise price of $4.50 ($0.75 post-Qualifying Transaction) and a two year term from the date of listing. 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%

As at April 30, 2017, there were 75,468,414 Common Shares outstanding and 12,739,476 warrants outstanding.

(Unaudited, In Canadian dollars)

10. Share capital (continued)

	July 31, 2016 balance	**Issued**	**Exercised**	**April 30, 2017 balance**
Warrants issued with $4.50 Units	4,672,920	**338,274**	**(33,336)**	**4,977,858**
2015 secured convertible debenture warrants	2,210,358	**-**	**-**	**2,210,358**
2016 unsecured convertible debenture warrants	100,002	**459,990**	**-**	**559,992**
2016 secured convertible debenture warrants		**2,339,208**		**2,339,208**
2015 secured convertible debenture amendment warrants	359,988	**-**	**-**	**359,988**
2015 unsecured convertible debenture amendment warrants	38,100	**-**	**-**	**38,100**
Broker / Consultant warrants	122,694	**2,214,564**	**(83,286)**	**2,253,972**
April 30, 2017 balance	7,504,062	**5,352,036**	**(116,622)**	**12,739,476**

The Company has a service agreement under which it may be required to issue up to $178,000 in Common Shares based on the achievement of certain objectives. The Common Shares will be issued at the last price at which they were sold from treasury to arm's length investors if still a private company, or the volume weighted average price for the Common Shares for the preceding three months if then a public company. As of April 30, 2017, the Company has not accrued anything in relation to the contract.

Stock option plan

The Company has a share option plan (the "Plan") that is administered by the Board of Directors of the Company who establish exercise prices and expiry dates, which are up to 10 years from issuance as determined by the Board at the time of issuance. Unless otherwise determined by the Board, options issued under the Plan vest over a three-year period except for options granted to consultants or persons employed in Investor Relations Activities (as defined in the policies of the Exchange) which vest in stages over 12 months with no more than ¼ of the options vesting in any three-month period. The maximum number of Common Shares reserved for issuance for options that may be granted under the Plan is 5,400,000 Common Shares as at April 30, 2017.

	Options issued	**Weighted average exercise price**
		$
Opening balance July 31, 2016	**3,481,896**	**0.38**
Granted	**1,785,777**	**0.28**
Expired	**-**	**-**
Forfeited	**-**	**-**
Exercised	**(150,000)**	**0.16**
Closing balance - April 30, 2017	**5,117,673**	**0.60**

(Unaudited, In Canadian dollars)

10. Share capital (continued)

The following table summarizes information concerning stock options outstanding as at April 30, 2017.

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Weighted average remaining contractual life (years)
$	#		#	
0.16	1,020,000	0.41	1,020,000	0.85
0.58	1,468,896	2.20	1,157,687	3.55
0.75	2,385,000	1.48	135,192	0.49
0.90	177,777	0.34	177,777	0.70
1.55	66,000	0.13	-	-
	5,117,673	4.56	2,490,656	5.59

Stock-based compensation

For the nine months ended April 30, 2017, the Company recorded $465,532 (April 30, 2016 - $167,609) in stock-based compensation expense related to employee options, which are measured at fair value at the date of grant and are expensed over the option's vesting period. For the three months ended April 30, 2017, the Company recorded $184,059 (April 30, 2016 – $62,294) in stock-based compensation expense related to employee options.

11. Net loss per share

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants.

12. Segmented information

The Company operates in one operating segment.

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

13. 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 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 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 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

(Unaudited, In Canadian dollars)

13. Financial instruments (continued)

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 $19,314,547 of cash.

The Company was 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.

14. Related party disclosure

Key management personnel compensation

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

Compensation provided to key management 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

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

On November 15, 2016, the Company granted certain directors and management of the Company a total of 204,500 (pre-Qualifying Transaction) stock options with an exercise price of $4.50 which vest over a three-year period. On September 30, 2015, a Director exercised 25,000 (pre-Qualifying Transaction) 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.

(Unaudited, In Canadian dollars)

15. Capital management

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

As at April 30, 2017, total managed capital was comprised of shareholders' equity of $27,293,823 (July 31, 2016 – $7,786,509). There were no changes in the Company's approach to capital management during the period.

16. Commitments and contingencies

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

The Company has 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.

Litigation

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

The Company is currently disputing the claim, and the litigation process will continue into the foreseeable future unless a settlement can be reached between the two parties. A hearing took place during the first week of May 2017, the Company is currently awaiting a ruling. No amount has been recorded in the condensed interim consolidated financial statements due to the fact that the amount is neither determinable nor estimable at this point.

17. 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".

17. Subsequent events (continued)

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 included in cost of goods sold. 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.