The Hydropothecary Corporation

Management Discussion & Analysis

For the three and twelve months ending July 31, 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 twelve months ending July 31, 2017. It is supplemental to, and should be read in conjunction with, the Company's audited consolidated financial statements and the accompanying notes for the three and twelve months ended July 31, 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.

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

This MD&A is prepared as of November 1, 2017.

Company Overview

Hydropothecary is corporation incorporated under the *Business Corporations Act (Ontario*), which has its common shares listed on the TSX Venture exchange ("TSX-V") under the ticker symbol "THCX".

In August 2013, The Hydropothecary Corporation ("Predecessor THCX") was incorporated *under the Canada Business Corporations Act* with the strategic purpose of seeking a license under the regulatory regime for medical marijuana introduced by Health Canada in 2013, the *Marihuana for Medical Purposes Regulations* ("MMPR"), and developing a premium brand and offering a suite of products and services for this new market. In November

2014 Predecessor THCX acquired 167151 Canada Inc. ("167 Canada"), which had received a license under the MMPR in March 2014 to produce, possess and destroy medical marijuana. Through 167 Canada as its wholly-owned subsidiary, Predecessor THCX commenced commercial production and sales of legal medical marijuana in Canada. The MMPR were replaced by the *Access to Cannabis for Medical Purposes Regulations* "(ACMPR") in August 2016. THCX's license under the ACMPR, which now permits it to sell medical marijuana in addition to producing, possessing and destroying it, was most recently renewed on June 21, 2017 and will be up for renewal on October 15, 2019.

In March 2017, Predecessor THCX completed a reverse take-over transaction that resulted in it becoming the sole and wholly-owned subsidiary of Hydropothecary, formerly BFK Capital Corp., and a publicly-listed company on the TSX-V. Concurrently, THCX completed several brokered and non-brokered private placements in order to ensure that its business was adequately financed for operations and growth. References in this MD&A to the Company, THCX or Hydropothecary for periods following the completion of the reverse take-over transaction refer to the issuer resulting from the transaction (i.e. the former BFK on a post-consolidation, post-acquisition and post-name change basis) and its wholly-owned subsidiaries. See "*Annual Investor Highlights*".

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 its greenhouses and production facilities on approximately 65 acres of land. Hydropothecary's license under the ACMPR covers the Gatineau facility and currently includes approximately 42,000 sq. ft. of licensed production space across 2 all-season climate controlled greenhouses, and 8,000 sq. ft. of administration and warehouse space. The Company has commenced construction on the next phases of its expansion plans, a 250,000 sq. ft. all season greenhouse, expected to be completed by July 2018, subject to licensing from Health Canada.

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 its product offering to include a mid-market offering, sublingual cannabis oil mouth spray, and innovative delivery methods for existing products. The Company's primary focus is strengthening the its market share position and continuing to build on the reputation of its brand as a customer-focused premium brand providing marijuana in the Canadian legal marijuana market. In order to achieve this, the Company intends to continue to make investments to:

- Increase the Company's focus on the quality and safety of the its products;
- Significantly increase the Company's production capacity by expanding its existing facility with the construction of an additional 250,000 square feet, anticipated to be completed by July 2018;
- Increase the diversity of its product offering by investing in new and innovative products and new methods of product delivery;
- Further reduce the cost per gram of inventory;
- Continue to achieve a best in class revenue per gram; and,
- Focus on the Quebec market by working with the Quebec government, as the only Quebec based licensed producer, to become a trusted partner as it proceeds to legislate and regulate adult use recreational cannabis.

Quarterly Investor Highlights

Revenue per Gram

For the quarter ended July 31, 2017, revenue per gram was $9.00, an increase from $8.62 in the prior quarter. This increase is due to a change in product mix. The Company experienced an increase in revenue during the fourth quarter for of several of its higher priced products, which in turn resulted in a higher revenue per gram overall.

In November 2016, Veterans Affairs Canada ("VAC") announced some significant changes to its reimbursement policy on cannabis for medical purposes. In particular, VAC revised their previous limit for reimbursement of 10 grams per day to 3 grams per day, and placed a dollar limit for reimbursement of $8.50 per gram. As expected, these changes resulted in a decrease in revenue on a per client basis for clients who are veterans.

Shipments

Shipments for the quarter ended July 31, 2017 were down 30% from 137,123 grams for the prior quarter to 95,735 grams for the quarter. The decrease in grams shipped in the fourth quarter is related to a stop sale the Company had in place for 14 days in May 2017, as a result of the detection of trace amounts of Myclobutanil in the Company's plants. Subsequent to the stop sale, the Company successfully reintroduced all products and has added five new products to its offering. See "May 2017 Recall" below.

Cash Cost of inventory

As at July 31, 2017, cash cost of finished goods inventory per gram was $1.05, a decrease from $1.54 in the prior quarter.

Biological Assets

Biological assets increased 62% for the quarter ended July 31, 2017 over the prior quarter. This is the result of the Company's continued increasing production in the new 35,000 sq. ft. greenhouse, as well as a change in the fair value per gram used to calculated biological assets.

Expanding Relationships

During the quarter, the Company established relationships with 7 new clinics, further diversifying its client base and presence in the marketplace. The Company had relationships with 101 clinic locations at the end of the quarter.

May 2017 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 source of the contamination, the Company commenced an in-depth investigation.

On May 16, 2017, the Company announced the reintroduction of product sales, after the completion of additional screening showed no signs of contamination on specific lots. Additionally, the Company announced a voluntary product 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 of Myclobutanil. 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 its investigation. Over the course of the investigation, the Company tested 281 samples derived from all harvests ever completed by the Company and all production inputs. The Company also undertook a forensic sampling of equipment and key physical locations. As a result of the in-depth investigation, the Company determined how the contamination occurred, and implemented new preventative measures to mitigate the risk of a similar event occurring again. Furthermore, the Company announced an expansion of its voluntary product recall, recalling nineteen additional lots of medical cannabis, which were grown prior to September 16, 2016, and 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 $494,810 in the year ending July 31, 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 incurred an expense in the amount of $259,260 related to one-time testing, shipping and other labour costs, which are included in general and administrative expenses for the year.

The Company's growth has been impacted by the loss of revenue and client 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 has resumed its aggressive sales growth strategies.

Annual Investor Highlights

<u>Operations</u>

Completion of 35,000 sq. ft. Expansion

During the second quarter, the Company completed construction on a new 35,000 square foot four-season glass roof greenhouse ("Building 5"). Building 5 was licensed by Health Canada in December 2016. The completion of Building 5 has allowed the Company to increase its licensed production facility from 7,000 sq. ft. to 42,000 sq. ft. The total cost to construct and fit-up Building 5 was approximately $3.5M or $100 per sq. ft. As a result of this expansion, the Company's production capacity has increased from 600 to 3,600 kilograms per year.

New Product Launches

In December 2016, THCX unveiled its Decarb line and CannaCap product, a novel pre-activated cannabis product for consumption in capsule form. This innovative product provides patients with an alternative to smoking, vaping and oils.

In December 2016, the Company launched its H2 line, a mid-market offering that offers consumers access to the Company's high quality and premium service at more affordable cost.

In July 2017, THCX launched Elixir No.1, Canada's only legal sublingual oil-based medical cannabis mouth spray in a naturally-based peppermint oil. This latest innovation allows patients a discreet, smoke free alternative.

License Amendments

On December 23, 2016, the Company was granted a license amendment from Health Canada for the approval of its new 35,000 sq. ft. greenhouse, Building 5.

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 had been producing cannabis oil and extracts. Sales began in July 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.

Shipments

Shipments for the year are up 203% from 133,493 grams for the prior year ended July 31, 2016 to 404,158 for the year ended July 31, 2017, as the result of continued client growth. This was achieved through an increase in clinic relationships and an increase in the breadth of products offered, which appealed to a larger market segment.

Head Count

As the result of increased growth, the Company's head count increased by 197% from 30 full time employees on July 31, 2016 to 89 on July 31, 2017, and 98 on November 2, 2017.

Change of Auditors

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

Going Public Transactions and Financing

Announced and closed business combination with BFK

On November 17, 2016, the Company announced it had entered into a non-binding letter of intent to complete a reverse take-over business combination transaction with BFK Capital Corp. ("BFK"). BFK was then a Capital Pool Company listed on the TSXV. The Company subsequently signed a definitive agreement in respect of the transaction with BFK on December 22, 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.

$5.0 Million Private Placement

On November 4, 2016, the Company completed a non-brokered private placement with a group of private investors under which it issued 4,285,716 common shares at $0.58 per shares for gross proceeds of $2,500,001. The investors were also granted a call option to purchase another 4,285,716 common shares at $0.58 per share prior to May 31, 2017, which was exercised and closed on March 14, 2017 for additional gross proceeds of $2,500,001.

US$3.275 Million Private Placement and Subsequent Conversion of Secured Convertible Debentures

On November 14, 2016, the Company completed a brokered private placement through Axiom Capital Management in which it issued US $3,275,000 principal amount of secured debentures bearing 8% interest per annum, together with 2,339,208 warrants, each warrant being exercisable to acquire one common share at an exercise price of US$0.76 per share until November 14, 2019. The debentures were convertible into common shares at the option of the holder at a conversion price of US$0.70 per share. The debentures included a conversion feature to convert to common shares after the Company became a reporting issuer on a Canadian or United States stock exchange and maintained a volume weighted average trading price equal to or exceeding the conversion price of the debentures for 15 days.

On April 11, 2017, the US$3,275,000 principal amount of these secured convertible debentures converted into 4,678,494 common shares 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 was revalued as at July 31, 2017 to $1,355,587.

$13.1 Million Concurrent Private Placement

On December 22, 2016, the Company completed a concurrent brokered private placement financing in connection with the business combination with BFK, under which it issued 17,517,042 common shares at $0.75 per share for gross proceeds of $13,137,782. THCX paid the agent a cash commission of $803,487, representing 7% of the gross proceeds from the financing subject to a reduced commission of 3.5% for certain subscribers on a President's List, and issued warrants to the agent exercisable to acquire 1,071,318 common shares at an exercise price of $0.75 per share for a two year term. The Company also granted the agent an option to sell additional shares equal to 15% of the shares offered in the concurrent financing. The Company sold 117,042 common shares issuable pursuant to the agent's option on closing of the base offering on December 22, 2016. The balance of 2,492,958 common shares, issuable pursuant to the agent's option, were sold on March 9, 2017.

Conversion of Unsecured Convertible Debentures

On March 15, 2017,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 consisted 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.

Listing on the TSX-V

On March 21, 2017, and subsequent to the completion of the business combination with BFK, the Company began trading on the TSX-V under the ticker symbol, THCX.

$25.1 Million Private Placement

On July 18, 2017, the Company closed a $25,100,000 bought deal private placement of 25,100 convertible debenture units at a price of $1,000 per unit. Each unit consisted of $1,000 principal amount of 8.0% senior unsecured convertible debentures and 313 common share purchase warrants. The debentures mature on June 30, 2019 and interest is payable semi-annually in June and December of each year. The convertible debentures are convertible into common shares 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 days' prior written notice. Each warrant has an exercise price of $2.00 per share and a maturity of July 18, 2019.

Recalls

August 2016 Recall

On August 18, 2016, Health Canada implemented an administrative hold on several lots of dried cannabis produced by the Company. This administrative hold was the result of the Company erroneously using an incorrect brand of elemental sulphur that led to a Type III recall by Health Canada, defined as "a situation in which the use of, or exposure to a product is not likely to cause any adverse health consequences." Instead of using the brand of elemental sulphur that was approved for use with cannabis, the Company used one which was only approved for use as a natural pesticide in the production of organic fruits. The brand of elemental sulphur was not approved for use in the production of cannabis and is currently under review by Health Canada's Pest Management Regulatory Agency for use on cannabis. The cannabis product involved in the recall had passed all quality and safety tests required. As a result of this recall, during the year ended July 31, 2016, the Company recorded a $464,792 write down of inventory, in cost of goods sold, associated with approximately 209 kilograms of dried cannabis. The Company had 0.09 kilograms of product returned. The Company has since implemented new oversight systems and testing procedures above what Health Canada requires.

Financial Highlights

	Q1'17	Q2'17	Q3'17	Q4'17	Total
Revenue	$ 1,138,702	$ 913,897	$ 1,182,497	$ 861,745	$ 4,096,841
Grams sold (g)	80,782	90,518	137,123	95,735	404,158
Revenue/gram	$ 14.10	$ 10.10	$ 8.62	$ 9.00	$ 10.14
Cash cost of finished goods inventory/g	$ 1.79	$ 1.66	$ 1.54	$ 1.05	$ 1.05

Inventory cost per gram is calculated as follows:

	Q1'17	Q2'17	Q3'17	Q4'17
Inventory	$ 807,564	$ 1,249,901	$ 1,252,289	$ 3,689,239
LESS:				
Packaging inventory	28,132	32,025	53,040	64,737
Oil inventory	37,374	36,122	52,734	106,893
Cannabis inventory	$ 742,058	$ 1,181,754	$ 1,146,515	$ 3,517,609
Net fair value adjustment in inventory	(343,032)	(610,212)	(613,400)	(2,827,445)
Cash cost of inventory	$ 399,026	$ 571,542	$ 533,115	$ 690,164
Estimated cost to complete	17,877	31,155	45,488	93,479
Cash cost of finished goods inventory	$ 416,903	$ 602,697	$ 578,603	$ 783,643
Total inventory (g)	233,444	363,829	375,779	749,739
Cash cost per gram of finished goods inventory	$ 1.79	$ 1.66	$ 1.54	$ 1.05

Cash cost of finished goods inventory includes direct costs associate with the growing, harvesting and processing of finished goods inventory, such as labour, utilities, fertilizer costs, biological control costs, general supplies and materials, curing, milling, quality assurance and testing.

Summary of Results

Summary of results for the three and twelve month periods ending July 31, 2017 and July 31, 2016

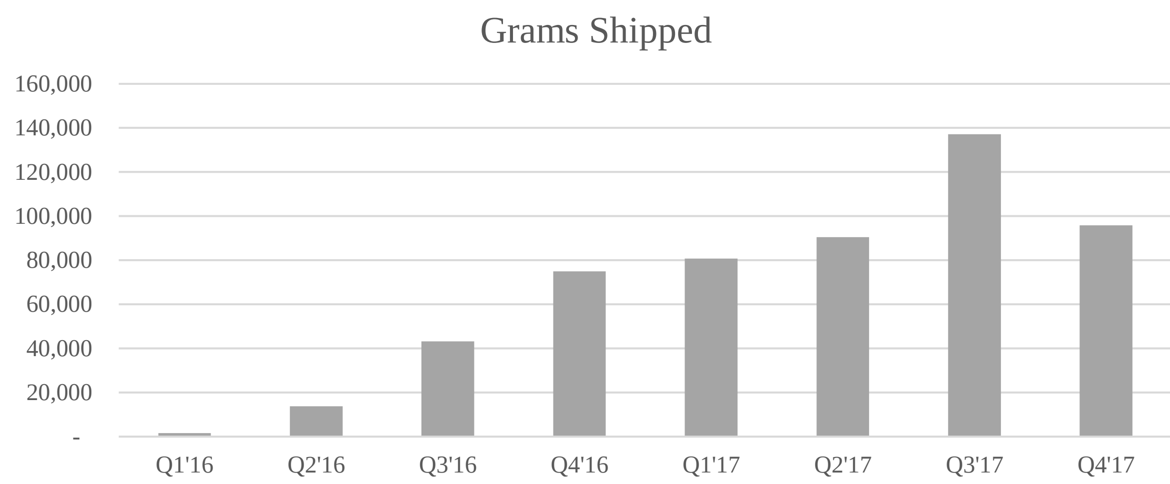
Income Statement Snapshot	For the three months ended 31-Jul-17	For the three months ended 31-Jul-16	For the twelve months ended 31-Jul-17	For the twelve months ended 31-Jul-16
Revenue	$ 861,745	$ 1,053,322	$ 4,096,841	$ 1,871,781
Gross margin	$ 3,062,483	$ 341,684	$ 6,448,195	$ 1,234,367
Operating expenses	$ 2,346,759	$ 1,489,782	$ 7,931,669	$ 3,948,556
Income (loss) from operatio	$ 715,724	$ (1,148,098)	$ (1,483,474)	$ (2,714,189)
Net other income/expenses	$ 218,817	$ (222,892)	$ (10,934,096)	$ (640,107)
Net income (loss)	$ 934,541	$ (1,370,990)	$ (12,417,570)	$ (3,354,296)
Weighted average shares outstanding	71,782,223	32,626,409	58,556,121	31,538,886
Net income (loss) per share	$ 0.01	$ (0.04)	$ (0.21)	$ (0.11)

** 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 clients and is typically sold by the gram. July 31, 2017 and July 31, 2016 the Company posted revenue of $4,096,841 and $1,871,781, respectively. The growth of revenue year-over-year is primarily driven by the fact that sales activity only commenced during the quarter ended October 31, 2015 and the growth in the number of registered clients. The average revenue per gram increased as expected during the quarter from $8.62 to $9.00 as the Company saw the growth of the Decarb product line, introduced during the second quarter, and the Time of Day products line, both of which retail for between $10 to $15 per gram. This increase was offset by the continued effects of the Veterans Affairs Canada (VAC) cap on reimbursable of $8.50 per gram that was introduced in November 2016. The expansion of the Company's products offerings has appealed to a larger market segment, diversifying the Company's client base, and resulting in an overall increase of revenues. For the twelve months ending July 31, 2017 and July 31, 2016 total grams sold were 404,158 and 133,493, respectively.

For the quarters ending July 31, 2017 and July 31, 2016, the Company posted revenue of $861,745 and $1,053,322 respectively. Total grams sold during the quarter decreased 30% from 137,123 in the quarter ended April 30, 2017 to 95,735 in the quarter ended July 31, 2017. This decrease was the result of 14 day voluntary stop sale the Company experienced during May 2017 as the result of the detection of trace amount of Myclobutanil. Subsequent to the stop sale, the Company successfully determined the cause of the contamination and successfully reintroduced all products.



Cost of Sales

Cost of Sales includes the revaluation of biological assets which represents the increase or decrease in fair value of plants during the growing process less expected cost to complete and selling costs. The fair value of biological assets is a result of management estimates.

Production costs include direct production costs related to cultivation of inventory sold such as labour, utilities, fertilizer costs, biological control costs and general supplies and materials required to grow and harvest the cannabis plants.

Cost of goods sold includes the direct costs of materials and labour related to the inventory sold, this includes harvesting, processing, packaging and shipping costs as well as fair value of biological assets on date of transfer to inventory.

	For the three months ended		*For the twelve months ended*	
	31-Jul-17	31-Jul-16	31-Jul-17	31-Jul-16
Revaluation of biological assets	$ (3,254,560)	$ (125,252)	$ (5,663,161)	$ (595,658)
Production costs	$ 251,980	$ 96,736	$ 659,339	$ 220,433
Cost of goods sold	$ 663,280	$ 275,362	$ 2,039,394	$ 547,847
Loss on write down of inventory	$ 138,562	$ 464,792	$ 613,074	$ 464,792
Cost of sales (Recovery)	$ (2,200,738)	$ 711,638	$ (2,351,354)	$ 637,414

For the twelve months ending July 31, 2017 and July 31, 2016 the Company's Cost of Sales were ($2,351,354) and $637,414, respectively. The cost of sales for the twelve months ended July 31, 2017 includes a write down of inventory of $494,810 related to the Company's voluntary recalls in May 2017 and $118,264 of inventory that was subject to accidental water damage. 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 July 31, 2017 and July 31, 2016 the Company's Cost of Sales were ($2,200,738) and $711,638, respectively. The increase in Cost of Sales during the three-month period was largely related to the same factors as in the twelve-month period.

The cash inventory cost per gram for the quarter ending July 31, 2017 and April 30, 2017 were $1.05 and $1.54 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 twelve months ended*	
	31-Jul-17	**31-Jul-16**	**31-Jul-17**	**31-Jul-16**
Marketing and promotion	733,533	704,878	2,986,424	1,626,079
General and administrative	1,205,949	541,402	3,608,595	1,614,105
Research and development	15,303	15,678	86,378	114,910
Stock-based compensation	193,088	125,955	658,620	293,564
Amortization of PPE	134,560	24,278	359,967	126,516
Amortization of intangibles	64,326	77,591	231,685	173,382
Total	2,346,759	1,489,782	7,931,669	3,948,556

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 July 31, 2017 the marketing and promotion expenses of the Company were $733,533 compared to $704,878 for the three months ended July 31, 2016. This overall increase in cost was due primarily to an increase in customer acquisition costs in relation to the growth in client base. The focus on client growth also resulted in an increase in marketing and promotion staff resulting in a corresponding increase in the related payroll expense and well as an increase in printing and promotional materials.

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

General & Administrative

For the three months ending July 31, 2017 general & administrative expenses of the Company were $1,205,949 compared with $541,402 for the three months ended July 31, 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. The Company also saw an increase in costs related to compliance as a public company.

The increase in general & administrative costs during the twelve-month period was largely related to the same factors as in the three-month period. The twelve months ended July 31, 2017 also include one-time expense of $259,260 for costs related to additional testing, shipping and labour related to the voluntary recall completed by the Company. 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.

Income (Loss) from Operations

Loss from operations for the twelve months ending July 31, 2017 and July 31, 2016 was $1,483,474 and $2,714,189, 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 $613,074 of inventory, has resulted in a 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 89 full time staff as at July 31, 2017, and 98 on November 1, 2017. With the appropriate resources in place the Company anticipates it will be able to leverage further economies of scale and increase profitability. This revised estimate reflects the impact of the Company's voluntary recall in May. The voluntary recall resulted in a delay in expanding client base while the issue was being addressed. To ensure the quality of the Company's products and safety of its clients, 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.

Income (loss) from operations for the quarter ending July 31, 2017 and the quarter ended July 31, 2016 was $715,724 and ($1,148,098) respectively.

Other Income/Expenses

Other Income/(Expenses) the twelve months ending July 31, 2017 and July 31, 2016 was ($10,934,096) and ($640,107), 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 $9,169,275 during the year. The business combination with BFK which took place on March 15, 2017 resulted in a listing expense of $951,024 during the year. This resulted in a non-cash charge to income of $10,120,299 in the year. Other Income/(Expenses) for the quarter ending July 31, 2017 and the quarter ended July 31, 2016 was $218,817 and ($222,892) respectively.

Adjusted EBITDA

	For the three months ended		*For the twelve months ended*	
	31-Jul-17	**31-Jul-16**	**31-Jul-17**	**31-Jul-16**
Net gain (loss) and comprehensive loss attributable to shareholders	934,541	(1,370,990)	(12,417,570)	(3,354,296)
Interest expense	74,367	300,503	522,618	640,507
Interest income	(43,150)	-	(92,158)	(400)
Stock option expense	193,088	125,955	658,620	293,564
Amortization of property, plant and equip.	134,560	24,278	359,967	126,516
Amortization of intangible assets	64,326	77,591	231,685	173,382
Write-off of inventory	138,562	464,792	613,074	464,792
Recall testing expense	59,260	-	259,260	-
RTO listing expense	154,549	-	951,024	-
Revaluation of financial instruments	(978,921)	-	9,169,275	-
Fair value adjustment to biological assets	(3,254,560)	(125,252)	(5,663,161)	(595,658)
Adjusted EBITDA	**(2,523,378)**	**(503,123)**	**(5,407,366)**	**(2,251,593)**

"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 July 31, 2017 the Company had $38,452,823 of cash on hand, $2,871,550 of short term investments and $351,207 of accounts receivable. The Company also had $25,100,000 in 8% unsecured convertible debentures with a maturity date of June 30, 2019. As at July 31, 2016 the Company had $1,931,454 of cash on hand and $1,043,365 of accounts receivable and $345,000 of non-interest bearing unsecured convertible debentures.

Liquidity	*Twelve months ending*	
	31-Jul-17	**31-Jul-16**
Operating Activities	($ 5,118,445)	($ 2,877,620)
Financing Activities	$ 47,978,966	$ 5,305,318
Investing Activities	($ 6,339,152)	($ 918,104)

Operating Activities

Net cash used in operating activities for the year ended July 31, 2017 was $5,118,445 as a result of the net loss during the year of $12,417,570, cash used for working capital of $1,216,756, and net non-cash expense of $6,082,369. In the prior year comparative period, cash used in operating activities was $2,877,620 which was a result of the net loss during the year of $3,354,296 offset by and net non-cash income of $349,601, offset by increases in working capital of $127,076. The change in cash flow is related to an increase in the unrealized gain on biological assets as the result of a change in estimate. This was offset by an increase in cash from account receivables, as the company increased collections on amounts owing. As well as, increased inventory, related to an increase in dried marijuana as well as oil products.

Financing Activities

Net cash received through financing activities for the year ended July 31, 2017 was $47,978,966. The financing cash flow was primarily made up of:

First Quarter

1) The Company collected subscriptions receivable from share issuances during previous quarters in the amount of $250,000.
2) The Company issued an additional 338,274 units at $0.75 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 $50.83 and a term of three years.

Second Quarter

1) The Company completed a non-brokered private placement of 4,285,716 common shares at a price of $0.58 per share for gross proceeds of $2,500,001.
2) The Company completed a brokered private placement of US$3,275,000 (CDN$4,403,893) of 8% interest bearing secured convertible debentures and 2,339,208 common share purchase warrants. The principal amount of the debentures is convertible into common shares at a price of US$0.70 per share at any time prior to the maturity date. The warrants have an exercise price of US$0.76 per share and are exercisable for three years from the date of issuance.
3) The Company completed a brokered private placement of 17,517,042 common shares at a price of $0.75 per share for gross proceeds of $13,137,782.
4) 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.

Third Quarter

1) The Company issued 4,285,716 common shares at a price of $0.58 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.
2) The Company issued 2,492,958 shares for $0.75 per share for gross proceeds of $1,869,719. These shares were issued pursuant to an agent's option under the concurrent financing completed in December 2016.
3) The Company issued 1,837,770 shares related to the reverse acquisition, and received cash of $581,857 related to the acquisition.
4) The Company issued 63,336 shares related to the exercise of warrants which generated $55,468.
5) The Company incurred $313,198 of share issuance costs related to equity transactions.

Fourth Quarter

1) The Company issued 712,072 common shares related to the exercise of warrants which generated $625,937.
2) The Company issued 12,504 common shares related to the exercise of stock options which generated $7,252.
3) The Company completed a private placement of $25,100,000 of 8% interest bearing unsecured convertible debentures and 7,856,300 common share purchase warrants. The principal amount of the debenture is convertible into common shares at a price of $1.60 per share at any time prior to the maturity date. The warrants have an exercise price of $2.00 per share and are exercisable for two years from the date of issuance.

Investing Activities

For the year July 31, 2017 the Company spent $6,339,152 on investing activities. The majority of this investment was spent on the completion of construction of Building 5 and the commencement of the Building 6 expansion; see Note 7 in the Company's audited consolidated financial statements for the year ended July 31, 2017 for more information.

Capital Resources

As at July 31, 2017, total current assets less accounts payable and convertible debentures was $25,181,618. The convertible debentures bear interest at 8% annually ($2,008,000), payable semi-annually. The exercise of all the issued and outstanding warrants would result in an increase of cash of approximately $27.0M and the exercise of all stock options would increase cash by approximately $3.1M.

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 12 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, July 31, 2017 and October 26, 2017.

	26-Oct-17*	**31-Jul-17***	**31-July-16**
Common Shares	76,674,886	76,192,990	6,550,972
Warrants	20,512,277	20,994,123	1,250,677
Options	6,399,169	5,748,169	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	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**
Amount	$ 173,603	$ 156,163	$ 132,417	$ 69,417	$ 16,765	$ 548,365

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 July 31, 2017, there was $16,188 included in accounts payable related to the financing commitment.

Biological Assets - Fair Value Measurements

As at July 31, 2017, the changes in the carrying value of biological assets are as follow:

	July 31, 2017	July 31, 2016
	$	$
Carrying amount, beginning of period	**120,667**	27,226
Net increase in fair value due to biological transformation less cost to sell	**5,663,161**	595,658
Transferred to inventory upon harvest	**(4,279,642)**	(502,217)
Carrying amount, end of period	**1,504,186**	120,667

The Company's biological assets consists of cannabis plants from seeds all the way through to mature plants. As of July 31, 2017, the carrying amount of biological assets consisted of $6,200 in seeds and $1,497,986 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 sq. ft. production facility becoming fully operational as well as a change in the estimate of the fair value of the plants during the year. 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; and,
- sales price.

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 July 31, 2017, it is expected that the Company's biological assets will yield approximately 700,169 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 25.11% of the outstanding shares of the Company as at July 31, 2017 (July 31, 2016 - 40.62%).

Compensation provided to key management for the years ending July 31, 2017 and July 31, 2016 was as follows:

	For the year July 31, 2017	July 31, 2016
	$	$
Salary and or Consulting Fees	1,269,825	500,000
Stock-based compensation	512,056	211,849
	1,781,881	711,849

On July 24, 2017, the Company granted certain directors and management of the Company a total of 125,000 stock options with an exercise price of $1.27 which vest over a three-year period. On November 15, 2016, the Company granted certain directors and management of the Company a total of 1,227,000 stock options with an exercise price of $0.75 which vest over a three-year period. In July 2016, certain directors and members of the executive management of the Company exercised 327,000 options for proceeds to the Company of $65,750. On September 30, 2015 a director exercised 150,000 options which had an exercise price of $0.16.

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.

Quarterly Results

The following table sets out certain unaudited financial information for each of the eight fiscal quarters up to and including the fourth quarter of fiscal 2017, ended July 31, 2017. The information has been derived from the Company's unaudited consolidated financial statements, which in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements ended July 31, 2017. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	Q1'17 31-Oct-16	Q2'17 31-Jan-17	Q3'17 30-Apr-17	Q4'17 31-Jul-17
Revenue	1,138,702	913,897	1,182,497	861,745
Net income (loss)	(430,304)	(1,113,543)	(11,808,264)	934,541
Income per share - basic	(0.42)	(0.78)	(0.17)	0.02
Income per share - fully diluted	(0.42)	(0.78)	(0.17)	0.01
	Q1'16 31-Oct-15	**Q2'16 31-Jan-16**	**Q3'16 30-Apr-16**	**Q4'16 31-Jul-16**
Revenue	20,683	180,537	617,239	1,053,322
Net income (loss)	(920,640)	(679,667)	(400,999)	(1,370,990)
Income per share - basic	(1.14)	(0.84)	(0.01)	(0.04)
Income per share - fully diluted	(1.14)	(0.84)	(0.01)	(0.04)

Risk Factors

THCX's overall performance and results of operations are subject to various risks and uncertainties which could cause the Company's actual performance, results performance and achievements to differ materially from those expressed or implied by forward-looking statements and forward-looking information, including without limitation, the factors set out below. 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 July 31, 2017, the Company had short term investments of $2,871,550.

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 July 31, 2017, the Company is exposed to credit related losses in the event of non-performance by the counterparties.

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

The carrying amount of cash and cash equivalents, short-term investments and accounts receivable represents the maximum exposure to credit risk and at July 31, 2017, this amounted to $41,675,580. 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. The accounts receivable balance is held with one of the largest medical insurance companies in Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at July 31, 2017, the Company had $41,324,373 of cash and cash equivalents and short-term investments.

The Company was obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $1,672,406 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 activities of the Company are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are dependent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. In particular, THC's ability to grow, store and sell medical marijuana is dependent on maintaining its licence with Health Canada. Failure to comply with the requirements of the licence or any failure to maintain its licence would have a material adverse impact on the business, financial condition and operating results of the Company. 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. Among other regulatory risks, there can be no guarantee that Health Canada will extend or renew the Company's licence or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the licence or should it renew the licence on different terms, the business, financial condition and results of the operation of the Company would be materially adversely affected.

Limited Operating History

THCX commenced operations in August 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 of the Company is dependent on, among other things, eventual 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.

The Canadian government has indicated that it intends to legalize cannabis (marijuana) not later than July 2018 rendering adult recreational use of cannabis lawful throughout Canada. Only cannabis cultivated by producers licensed by the federal government under the ACMPR will be lawful for consumption. The Company expects that the new Bill C-45, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts* (the "Cannabis Act") will be approved by parliament and that the adult recreational regime will become law by the July 2018 deadline. In addition, the federal government has indicated that regulation of the sale of adult recreational cannabis in retail environments will be the responsibility of the provinces and territories. The Company expects that Canadian consumers will not be permitted to buy cannabis products directly from licensed producers. Instead, the Company expects that licensed producers will be compelled to sell all cannabis products to provincial control boards who will sell through their own outlets or licensed private outlets to consumers, as well as over the internet. For instance, the Ontario government has announced that it will sell recreational cannabis through stores and on-line through the Cannabis Control Board of Ontario (the "CCBO"); however, the manner in which the CCBO will purchase product and interface with the Company and other licensed producers is uncertain. While the Company is currently undertaking an adult recreational market strategy review, it is unclear how these regulatory changes will affect the industry and the Company's business.

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.

Reliance on Key Personnel

The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of certain of its management team and board of directors. While employment agreements and incentive programs are designed for the retention of such key persons, these agreements and incentive programs cannot assure the continued services of such persons. Any loss of key persons could have a material adverse effect on the Company's business, operating results and/or financial condition.

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 similar agricultural risks that may create crop failures and supply interruptions for the Company's customers. To mitigate the risk, THCX has trained personnel to carefully monitor the growing conditions. Although THCX grows its products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance the natural elements will not have a material adverse effect on the production of its products.

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 products, which are designed to be ingested by humans, we are subject to risks of recalls, returns and complaints in relation to our products, including product liability claims, regulatory action and litigation if our products are alleged to have caused significant loss or injury, which, if realized, may cause increased costs for the Company, adversely affect THCX's reputation with its clients and consumers generally, require a significant time investment from our management, and have a material adverse effect on our results of operations and financial condition.

Insurance Coverage

To protect the Company, THCX has insurance coverage to mitigate many unexpected costly situations, including product liability insurance. That being said, there can be no assurances that the Company will be able to maintain its insurance on acceptable terms or with adequate coverage against potential liabilities and insurance is subject to certain caps and restrictions, and hence cannot be relied upon to mitigate all risks facing the business. Moreover, such insurance is expensive and may not be available in the future on acceptable terms, or at all.

Volatile Market Price of Common Shares

The market price for THCX's common shares may be volatile and subject to wide fluctuations in response to numerous factors, including governmental and regulatory regimes, community support for the medical marijuana industry, variations in the operating results of the Company, changes in the business prospects for the Company, as well as many other factors that are beyond the Company's control, including the following:

(a) actual or anticipated fluctuations in the Company's results of operations;

(b) changes in estimates of future results of operations by the Company or securities research analysts;

(c) changes in the economic performance or market valuations of other companies that investors deem comparable to the Company;

(d) addition or departure of the Company's executive officers and other key personnel;

(e) release or other transfer restrictions on outstanding Company common shares;

(f) sales or perceived sales of additional securities by the Company;

(g) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; and

(h) news reports relating to trends, concerns or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

The results of these activities will inevitably affect the Company's decisions related to future operations and will likely trigger major changes in the trading price of the Company's common shares.

In general, financial markets have, from time to time, experienced extreme price and volume fluctuations, that have been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Company's common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Company's common shares may be adversely affected.

Risk Factors Related to Dilution

The Company may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company. The Company's articles permit the issuance of an unlimited number of common shares, and shareholders will have no-preemptive rights in connection with such further issuance. The directors of the Company have the discretion to determine the price and the terms of issue of further issuances. Moreover, additional common shares will be issued by the Company on the exercise of options under the Company's stock option plan and upon the exercise of outstanding warrants.

Reliance on a Single Facility

THCX's activities and resources are currently primarily focused on its facility in Gatineau, Québec, and THCX will continue to be focused on this facility for the foreseeable future. Adverse changes or developments affecting the Gatineau facility including but not limited to changes to municipal laws regarding zoning, facility design errors, environmental pollution, non-performance by third party contractors, increases in materials or labour costs, labour disputes or disruptions, inability to attract sufficient numbers of qualified workers, productivity inefficiencies, equipment or process failures, production errors, disruption in the supply of energy and utilities and major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms, would have a material and adverse effect on THCX's business, financial condition and prospects.

Third Party Transportation

In order for customers of THCX to receive their product, the Company relies on third party mail and courier services. This can cause logistical problems with and delays in clients obtaining their orders and cannot be directly controlled by THCX. Moreover, due to the perishable and premium nature of THCX's products, THCX depends on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of THCX. Rising costs associated with the courier services used by THCX to ship its products may also adversely impact the business of THCX and its ability to operate profitably.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of THCX's products are recalled due to an alleged product defect or for any other reason, THCX could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. THCX may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although THCX has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of THCX's significant brands were subject to recall, the image of that brand and THCX could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for THCX's products and could have a material adverse effect on the results of operations and financial condition of THCX. Additionally, product recalls may lead to increased scrutiny of THCX's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Constraints on Marketing Products

The development of THCX's business and operating results may be hindered by applicable restriction on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If THCX is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through the selling price for its products, the Company's sales and operating results could be adversely affected.

Fraudulent or Illegal Activities by Employees, Contractors or Consultants

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against THCX, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Consumer Perception

THCX believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana distributed to such consumers. Consumer perception of THCX's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity. Those that are perceived as less favourable than, or that question, whether or not are accurate or with merit, earlier research reports, findings or publicity could have a material adverse effect on the demand for THCX's products and the business, results of operations, financial condition and cash flows of THCX. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or THCX's products specifically, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

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; and,
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

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

Construction contract

In August 2017 the Company entered into a contract with Havecon Projects BV for the delivery and installation of a new 250,000 sq. ft. all seasons greenhouse at the Company's Gatineau facility.

The Company subsequently broke ground on the greenhouse expansion on October 12, 2017. The facility is expected to be completed in July 2018, pending Health Canada approval. Once completed the expansion will increase the Company's facility size to 300,000 sq. ft. and increase annual production capacity to 25,000 kilograms.

Appointment of two new Vice-Presidents

On September 4, 2017 the Company appointed Dr. Terry Lake Vice-President of Corporate Social Responsibility, and Pierre Killeen Vice-President of Corporate Communications and Government Relations. Dr. Lake was the former Minister of Health for British Columbia. Mr. Killeen was a former Vice President at Hill+Knowlton Strategies.

Issue stock options

On September 8, 2017 the Company granted stock options under its stock option plan to certain of its officers to acquire a total of 650,000 common shares of the Company. In addition, the Company granted options to acquire an aggregate of 1,000 common shares of the Company to certain non-executive employees. These options have an exercise price of $1.37 per share. One-third of the options will vest on the one-year anniversary of the date of grant and the balance will vest quarterly over two years thereafter. The options have a term of 10 years.

Kosher certification

On September 19, 2017 the Company announced that it was granted kosher certification by the Ottawa Vaad HaKashrut. It is the only kosher certification currently granted to cannabis products in Canada. The certification included the Company's Decarb, Elixir and H2 line of milled products.

Appointment of Board Member

On October 5, 2017 the Company appointed Nathalie Bourque to its Board of Directors. Ms. Bourque is currently a member of the boards of directors at Alimentation Couche-Tard, Héroux-Devtek and McGill University. During her career, she has worked at CAE, as the Vice President, Public Affairs and Global Communications for a decade, and as a partner at NATIONAL Public Relations. Presently, she is the Quebec Chair of Hill+Knowlton Strategies.

Bought deal financing

On October 30, 2017, the Company announced a $60,000,000 bought deal of 60,000 convertible debenture units at a price of $1,000 per unit. Each unit will consist of $1,000 principal amount of 7.0% unsecured convertible debentures and 227 common share purchase warrants, which will mature two years after the closing date of the offering. The Company has also granted the underwriter the option to purchase up to an additional 9,000 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 mature in three years from the closing date and may be convertible at the option of the holder at a conversion price of $2.20 per share. The Company may force the conversion should the daily volume weighted average trading price of the common shares of the Company be greater than $3.15 for any 10 consecutive trading days subject to 30 days' prior written notice. Each warrant has an exercise price of $3.00 per share and a maturity of two years following the closing date of the offering. The Company may accelerate the expiry of the warrants should the daily volume weighted average trading price of the common shares of the Company be greater than $4.50 for any 10 consecutive trading days subject to 30 days' prior written notice.