The Hydropothecary Corporation

Management Discussion & Analysis

For the three months ended October 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 "Hydropothecary"), is for the three months ended October 31, 2017, the first quarter of the Company's 2018 fiscal year ("Fiscal 2018"). It is supplemental to, and should be read in conjunction with, the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three months ended October 31, 2017, as well as the financial statements and MD&A for the fiscal year ended July 31, 2017. 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 the Company is available on our websites at www.thehydropothecary.com or THCX.com or through the SEDAR website at www.sedar.com.

Certain information in this MD&A contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information, in general, can be identified by the use of forward-looking terminology such as "may", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "continue" or "objective", or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and the Company's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the Company'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. The Company 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 the Company'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 at December 20, 2017.

Company Overview

The Company is incorporated under the *Business Corporations Act (Ontari*o), and its common shares are 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 was replaced by the *Access to Cannabis for Medical Purposes Regulations* "(ACMPR") in August 2016. The Company'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., a publicly-listed company on the TSX-V. Concurrently, Predecessor THCX completed several brokered and non-brokered private placements to ensure that its business was adequately financed for operations and growth. References in this MD&A to the Company 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.

The Company'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. The Company's license under the ACMPR covers the Gatineau facility and currently includes approximately 42,000 sq. ft. of licensed production space across two all-season climate controlled greenhouses, and 8,000 sq. ft. of administration and warehouse space. The Company has commenced construction of a new 250,000 sq. ft. all-season greenhouse, expected to be completed by July 2018, subject to licensing from Health Canada. Subsequent to the end of the quarter, on December 12, 2017, the Company announced the acquisition of a 78-acre land parcel adjacent to its current 65-acre property and a further planned expansion that will increase its facility size to over 1,300,000 sq. ft.

The Company's first product offerings were premium dried cannabis bud products targeting symptoms that are universally reported by patients at different times of day. The Company has since expanded its product range with a mid-market offering and sublingual cannabis oil mouth spray, while also introducing innovative delivery methods for existing products. Among its key priorities, the Company is focused on growing its market share and continuing to build its reputation as a customer-focused premium brand providing marijuana in the Canadian legal marijuana market, while preparing for the opening of the adult use recreational cannabis market in Canada. In pursuit of its business strategy, the Company is investing to:

- achieve the highest levels of product quality, safety and social responsibility, and to maintain compliance with current and future government standards;
- significantly increase production capacity by building an additional 250,000 square feet of greenhouse space, anticipated to be completed by July 2018, and a further expansion to more than 1,300,000 sq. ft. by December 2018.
- expand and diversify its product offering by investing in the development of new and innovative products and new delivery methods;
- reduce the cost per gram of inventory;
- continue to achieve a best-in-class revenue per gram; and,
- leverage its first-mover advantage as the only licensed producer headquartered in Quebec- by working with the Government of Quebec to become a trusted partner as the government proceeds to legislate and regulate adult use recreational cannabis in Quebec.

Quarterly Highlights

Revenue and Shipments

The Company began Fiscal 2018 with higher revenue and shipments in the first quarter compared to the fourth quarter of Fiscal 2017. Revenues increased 28% sequentially from the last quarter of Fiscal 2017, driven by 26% volume growth to 120,844 gram and gram equivalents[1], compared to 95,735 gram and gram equivalents in the prior quarter.

Revenue per Gram

Revenue per gram for the first quarter ended October 31, 2017 was $9.12, an increase from $9.00 in the prior quarter. This sequential increase is due mainly to product mix, reflecting higher sales of Elixir No. 1, a higher price per gram equivalent product.

Cash Cost of inventory

Cash cost of finished goods inventory per gram as at October 31, 2017 declined 15% to $0.89, compared to $1.05 in the prior quarter, reflecting higher production efficiencies.

Biological Assets

Biological assets increased 3% compared to the prior quarter. The Company's new 35,000 sq. ft. greenhouse reached its production capacity during Fiscal 2017 and biological assets are expected to stabilize, assuming normal harvest cycles, until harvesting begins in the facility expansions currently underway.

Expanding Relationships

During the quarter, the Company established relationships with 16 additional clinics, further expanding and diversifying its client base and market presence. The Company had relationships with 122 clinic locations at the end of the quarter.

Head Count

As a result of the growing scale of operations, the Company's head count rose by 6% to 94 full-time employees on October 31, 2017 from 89 on July 31, 2017.

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-season greenhouse at its Gatineau property.

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

[1] Gram equivalents refers to cannabis oils were 3.75 ml is equivalent of approximately 1 grams of dried cannabis.

Appointment of Two Senior Executives

On September 4, 2017, the Company appointed Dr. Terry Lake to the position of Vice-President, Corporate Social Responsibility, and Pierre Killeen as Vice-President of Corporate Communications and Government Relations. Dr. Lake was formerly Minister of Health in the Government of British Columbia. Mr. Killeen previously served as an executive in the Ottawa, Ontario, offices of Hill+Knowlton Strategies, a global public relations agency.

Kosher Certification

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

Appointment of New Board Member

On October 5, 2017, the Company appointed Nathalie Bourque to its Board of Directors. Ms. Bourque provides consulting services in public relations, government relations and financial communications and currently sits on the boards of directors of Alimentation Couche-Tard, Héroux-Devtek and Maison Marie Vincent. She served previously as Vice-President, Public Affairs and Global Communications at CAE Inc. from 2005 until her retirement in February 2015. Prior to joining CAE, Ms. Bourque was a partner at NATIONAL Public Relations, Canada's largest public relations firm, where she was responsible for clients in the financial, biopharmaceutical, retail and entertainment industries. She is a former member of the Board of Financial Services of the Caisse de dépôt et placement du Québec and Horizon Science and Technology. She is also a past president of the Quebec MBA Association and Le Cercle Finance et Placement du Québec. Ms. Bourque holds a BA from Laval University and an MBA from McGill University.

Bought Deal Financing

On November 24, 2017, the Company closed a $69,000,000 bought deal financing of 69,000 convertible debenture units at a price of $1,000 per unit. Each unit consists of $1,000 principal amount of 7.0% unsecured convertible debentures and 227 common share purchase warrants. The convertible debentures mature on November 24, 2020 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 its common shares 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 November 24, 2019. The Company may accelerate the expiry of the warrants should the daily volume weighted average trading price of its common shares be greater than $4.50 for any 10 consecutive trading days subject to 30 days' prior written notice.

Financial Highlights

	Q1'18	Q1'17
Revenue	$ 1,101,502	$ 1,138,702
Grams sold (g)	120,844	80,782
Revenue/gram	$ 9.12	$ 14.10
Cash cost of finished goods inventory/g	$ 0.89	$ 1.79

Inventory cost per gram is calculated as follows:

	Q1'18	Q4'17
Inventory	$ 5,907,446	$ 3,689,239
LESS:		
Packaging inventory	84,733	64,737
Oil inventory	274,154	106,893
Cannabis inventory	$ 5,548,559	$ 3,517,609
Net fair value adjustment in inventory	(4,672,065)	(2,827,445)
Cash cost of inventory	$ 876,494	$ 690,164
Estimated cost to complete	181,968	93,479
Cash cost of finished goods inventory	$ 1,058,462	$ 783,643
Total inventory (g)	1,194,735	749,739
Cash cost per gram of finished goods inventory	$ 0.89	$ 1.05

Cash cost of finished goods inventory includes direct costs associated 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

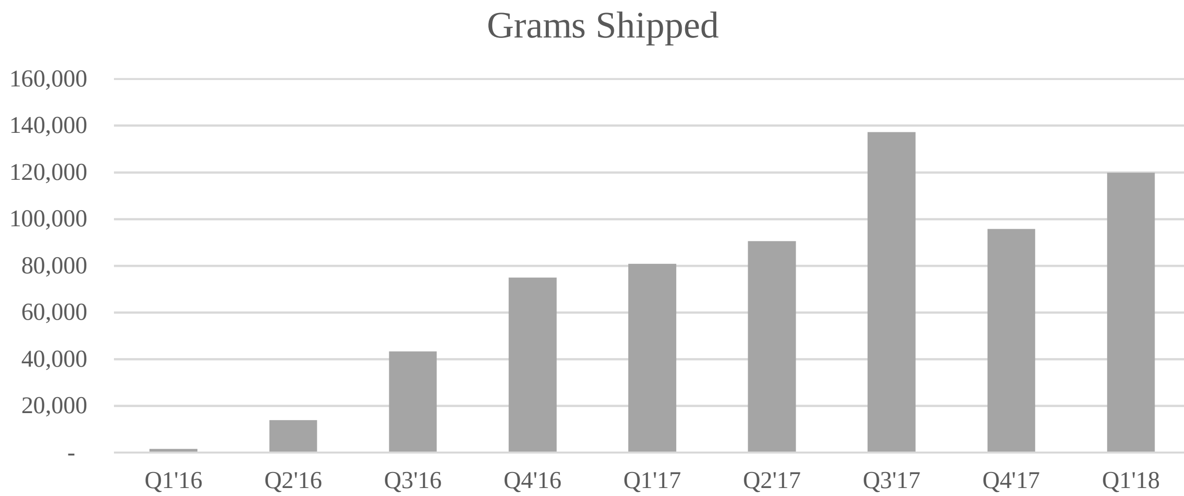
Summary of results for the three month periods ended October 31, 2017 and October 31, 2016

	For the three months ended	
Income Statement Snapshot	**31-Oct-17**	**31-Oct-16**
Revenue	$ 1,101,502	$ 1,138,702
Gross margin	$ 2,463,260	$ 1,069,377
Operating expenses	$ 2,844,374	$ 1,488,490
Loss from operations	$ (381,114)	$ (419,113)
Net other income/expenses	$ (1,537,088)	$ (11,191)
Net income (loss)	$ (1,918,202)	$ (430,304)
Weighted average shares outstanding	76,480,085	39,564,762
Net income (loss) per share	$ (0.03)	$ (0.01)

** 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 for the first quarter ended October 31, 2017 was $1,101,502, compared to $1,138,702 for the quarter ended October 31, 2016. Total grams sold increased 50% to 120,844 from 80,782 in the same prior year period, reflecting sales of new product lines such as H2, Decarb and Elixir No. 1 introduced in previous quarters. Revenue per gram declined to $9.12 from $14.10, mainly as a result of the growth of the H2 product line, introduced beginning in December 2017, which retails for $7.25 to $10 per gram. Lower average realized prices in the latest quarter also reflect the decision by Veterans Affairs Canada (VAC) to cap the reimbursable amount at $8.50 per gram, effective in the second quarter of Fiscal 2017.



Cost of Sales

Cost of Sales includes the revaluation of biological assets, production costs and cost of goods sold. Revaluation of biological assets represents the increase or decrease in fair value of plants during the growing process less expected cost to complete and selling costs. 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 inventory sold, and includes harvesting, processing, packaging and shipping costs as well as fair value of biological assets on the date of transfer to inventory.

	For the three months ended	
	31-Oct-17	31-Oct-16
Revaluation of biological assets	$ (2,827,285)	$ (410,095)
Production costs	$ 188,027	$ 79,486
Cost of goods sold	$ 1,277,500	$ 399,934
Cost of sales (Recovery)	$ (1,361,758)	$ 69,325

Cost of sales for the first quarter ended October 31, 2017 was ($1,361,758), compared to $69,325 for the same quarter ended October 31, 2016. This is due mainly to an increase in the value of biological assets on hand, reflecting full capacity utilization of a new greenhouse (Building 5) since the fourth quarter of Fiscal 2017.

Cash inventory cost per gram declined 50% year over year to $0.89 for the first quarter ended October 31, 2017, compared to $1.79 for the same prior year quarter. Cost per gram has been trending downward as a result of improvements in cultivation processes and economies of scale resulting from the full utilization of higher production capacity. The Company expects recent changes to growing and harvest methodology to drive further improvements in production efficiencies.

Operating Expenses

Operating Expenses	*For the three months ended* 31-Oct-17	31-Oct-16
Marketing and promotion	1,114,584	759,534
General and administrative	1,167,929	516,842
Research and development	61,400	18,176
Stock-based compensation	313,539	102,126
Amortization of property, plant and equipment	124,112	38,121
Amortization of intangibles	62,810	53,691
Total	2,844,374	1,488,490

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 communications expenses. General and administrative expenses include salaries for administrative 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 product-related research and development.

Marketing and promotion

Marketing and promotion expenses increased to $1,114,584 for the first quarter ended October 31, 2017, compared to $759,534 for the same three months ended October 31, 2016. This reflects mainly the addition of marketing and promotion staff and an increase in travel-related expenses, printing and promotional materials, in line with the Company's focus on client growth.

General & Administrative

General & administrative expenses increased to $1,167,929 for the first quarter ended October 31, 2017, compared to $516,842 for the same three months ended October 31, 2016. The increase is due primarily to the growing scale of the Company's operations, including higher production and head count, as well as increased compliance costs as a listed company.

Loss from Operations

Loss from operations for the first quarter ended October 31, 2017 was $381,114, compared to a loss from operations of $419,113 for the first quarter ended October 31, 2016. The lower loss from operations in the latest quarter is due mainly to the significant unrealized revaluation gain related to the Company's biological assets, which more than offset higher expenses in line with the expanding scale of operations.

Other Income/Expenses

Other Income/(Expenses) for the first quarters ended October 31, 2017 and October 31, 2016 was ($1,537,088) and ($11,191), respectively. Revaluation of financial instruments of ($1,282,436) in the latest quarter reflects the revaluation of an embedded derivative related to $3,275,000 of USD convertible debentures issued and converted in the prior year. Additionally, the Company incurred interest expense for the three months ended October 31, 2017 and October 31, 2016 of $432,908 and $14,493, respectively. This increase reflects the accrual of interest related to convertible debentures.

Adjusted EBITDA

	For the three months ended	
	31-Oct-17	**31-Oct-16**
Net loss and comprehensive loss attributable to shareholders	(1,918,202)	(430,304)
Interest expense	432,908	14,493
Interest income	(93,264)	(3,302)
Stock option expense	313,539	102,126
Amortization of property, plant and equipment	124,112	38,121
Amortization of intangible assets	62,810	53,691
Revaluation of financial instruments	1,282,436	-
Fair value adjustment to biological assets	(2,827,285)	(410,095)
Adjusted EBITDA	**(2,622,946)**	**(635,270)**

"Adjusted EBITDA" is a non-GAAP financial measure that does not have 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 operating and organic growth requirements, and to meet contractual obligations. The Company's ability to reach profitability is dependent on successful implementation of its business strategy. While management is confident in the future success of the business, there can be no assurance that the Company's products will gain adequate market acceptance or generate sufficient revenue to reach profitability.

As at October 31, 2017, the Company had $1,743,806 of cash on hand, $33,511,113 of short term investments and $295,737 of accounts receivable. The Company also had $25,100,000 in 8% unsecured convertible debentures which will convert on or before December 27, 2017 (see "*Subsequent Events*" for further details). As at July 31, 2017, the Company had $38,452,823 of cash on hand, $2,871,550 of short term investments, $351,207 of accounts receivable and $25,100,000 in 8% unsecured convertible debentures. On November 24, 2017, the Company closed a $69,000,000 bought deal financing (See "*Subsequent Events*" for further details).

Liquidity	*Three months ending*	
	31-Oct-17	**31-Oct-17**
Operating Activities	($ 1,173,960)	($ 436,674)
Financing Activities	$ 405,778)	$ 498,123
Investing Activities	($ 35,940,835)	($ 846,859)

Operating Activities

Net cash used in operating activities for the quarter ended October 31, 2017 was $1,173,960 as a result of the net loss for the quarter of $1,918,202, and non-cash expense of $550,407, offset by an increase in working capital of $1,294,649. In the same prior year period, cash used in operating activities was $436,674, reflecting the net loss of $430,304 and net non-cash income of $201,664, offset by an increase in working capital of $195,294. The change in cash flow reflects an increase in the unrealized gain on biological assets as the result of a change in estimate, offset by an increase in accounts payable due to the timing of payments as well as higher inventory related to an increase in dried cannabis and oil products.

Financing Activities

Net cash received from financing activities for the three months ended October 31, 2017 was $405,778, reflecting the issuance of 481,896 common shares related to the exercise of warrants.

Investing Activities

For the three months ended October 31, 2017, the Company used $35,940,835 for investing activities, mainly the acquisition of short term investments. The balance was used for the construction of a new greenhouse currently under way (Building 6 – see Note 7 to the unaudited condensed interim consolidated financial statements for the three months ended October 31, 2017 for more information).

Capital Resources

As at October 31, 2017, total current assets less accounts payable and convertible debentures totaled $20,646,720. The convertible debentures bear interest at 8% annually ($2,008,000), payable semi-annually. The exercise of all the issued and outstanding warrants, as at October 31, 2017, would result in an increase in cash of approximately $27.0 million, and the exercise of all stock options would increase cash by approximately $4.8 million.

Management believes that current working capital provides sufficient funds to fund current expansion projects and meet contractual obligations for the next 12 months. The Company periodically evaluates the opportunity to raise additional funds through 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.

The Company's authorized share capital is comprised of an unlimited number of common shares. The table below outlines the number of issued and outstanding common shares, warrants and options as at July 31, 2017, October 31, 2017 and December 8, 2017.

	08-Dec-17	**31-Oct-17**	**31-July-17**
Common Shares	89,606,586	76,674,886	76,192,990
Warrants	36,361,097	20,512,227	20,994,123
Options	8,166,784	6,399,169	5,748,169

Off-Balance Sheet Arrangements and Contractual Obligations

The Company 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 eight contractual obligations. 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	$6,966,203	$157,723	$133,977	$69,807	$16,765	$7,344,475

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 such vehicle. The Company pays monthly principal and interest of $697. As at October 31, 2017, $14,372 was included in accounts payable related to this financing commitment.

Biological Assets - Fair Value Measurements

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

	October 31, 2017	July 31, 2017
	$	$
Carrying amount, beginning of period	**1,504,186**	120,667
Net increase in fair value due to biological transformation less cost to sell	**2,827,285**	5,663,161
Transferred to inventory upon harvest	**(2,781,629)**	(4,279,642)
Carrying amount, end of period	**1,549,842**	1,504,186

The Company's biological assets consist of cannabis plants from seeds all the way through to mature plants. As at October 31, 2017, the carrying amount of biological assets consisted of $6,200 in seeds and $1,543,642 in cannabis plants ($7,200 in seeds and $1,497,986 in cannabis plants as at July 31, 2017). The increase in the carrying amount of biological assets is attributable to an increase in plants on hand. The significant estimates used in determining the fair value of cannabis on plants are as 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,
- fair value selling price per gram less cost to complete and cost to sell.

The Company views its biological assets as Level 3 fair value estimates and estimates the probability of certain harvest rates at various stages of growth. As at October 31, 2017, it is expected that the Company's biological assets will yield approximately 879,573 grams (July 31, 2017 – 700,169 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 the Company's operations, directly or indirectly. The key management personnel of the Company are the members of the executive management team and Board of Directors, who collectively control approximately 22.40% of the outstanding common shares as at October 31, 2017 (July 31, 2017 – 25.11%).

Compensation provided to key management for the three months ended October 31, 2017 and October 31, 2016 was as follows:

	For the three months ended	
	October 31, 2017	October 31, 2016
	$	$
Salary and or Consulting Fees	383,891	104,165
Stock-based compensation	261,209	61,999
	645,100	166,164

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

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

The Company leased a building to a related party for $700 per month as part of a usufruct agreement. The related party used this property as a personal residence. On December 2, 2016, the related party and the Company reached an agreement to terminate the usufruct. In exchange, 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 first quarter of Fiscal 2018, ended October 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 condensed interim consolidated financial statements for the three months ended October 31, 2017. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	Q2'17 31-Jan-17	Q3'17 30-Apr-17	Q4'17 31-Jul-17	Q1'18 31-Oct-17
Revenue	913,897	1,182,497	861,745	1,101,502
Net income (loss)	(1,113,543)	(11,808,264)	934,541	(1,918,202)
Income per share - basic	(0.78)	(0.17)	0.02	(0.03)
Income per share - fully diluted	(0.78)	(0.17)	0.01	(0.03)

	Q2'16 31-Jan-16	Q3'16 30-Apr-16	Q4'16 31-Jul-16	Q1'17 31-Oct-16
Revenue	180,537	617,239	1,053,322	1,138,702
Net income (loss)	(679,667)	(400,999)	(1,370,990)	(430,304)
Income per share - basic	(0.84)	(0.01)	(0.04)	(0.42)
Income per share - fully diluted	(0.84)	(0.01)	(0.04)	(0.42)

Risk Factors

The Company's overall performance and results of operations are subject to various risks and uncertainties which could cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements and forward-looking information, including without limitation, the factors set out below.

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 October 31, 2017, the Company had short term investments of $33,511,113.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. As at October 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 credit evaluation and monitoring processes to mitigate credit risk. Since the majority of the sales are transacted with clients covered under various insurance programs, the Company has limited credit risk.

The carrying amount of cash and cash equivalents, short term investments and accounts receivable represents the maximum exposure to credit risk and as at October 31, 2017, this amounted to $35,550,656. The cash is held by one of the largest cooperative financial groups in Canada. Since the inception of the Company, no losses have been incurred in relation to cash held by its financial institution. The accounts receivable balance is held with one of the largest medical insurance companies in Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at October 31, 2017, the Company had $35,254,919 of cash and short term investments.

The Company is obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to $2,179,357 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.

Reliance on Management and Key Persons

The Company 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, the Company 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 incentive for them to remain with the Company.

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

Sufficiency of Insurance

The Company maintains various types of insurance which may include errors and omissions insurance; directors' and officers' insurance; property coverage; and, general commercial insurance. There is no assurance that claims will not exceed the limits of available coverage; that any insurer will remain solvent or willing to continue providing insurance coverage with sufficient limits or at a reasonable cost; or, that any insurer will not dispute coverage of certain claims due to ambiguities in the policies. A judgment against any member of the Company in excess of available coverage could have a material adverse effect on the Company in terms of damages awarded and the impact on its reputation.

Competition

The Company faces intense competition from licensed producers and other companies, some of which may have greater financial resources, and more industry, manufacturing and marketing experience than the Company. Additionally, there is potential that the industry will undergo consolidation, creating even larger competitors that may have increased geographic scope. As a result, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Increased competition by larger, better-financed competitors with geographic advantages could materially and adversely affect the business, financial condition and results of operations of the Company.

To date, Health Canada has only granted licences and licensed producer status under the ACMPR to a small number of applicants. There are, however, several hundred applicants for licensed producer status. The number of licences granted, and the number of licensed producers ultimately authorized by Health Canada could have an impact on the operations of the Company. The Company expects to face additional competition from new market entrants that are granted licences under the ACMPR or existing licence holders which are not yet active in the industry. If a significant number of new licences are granted by Health Canada in the near future, the Company may experience increased competition for market share and downward price pressure on products as new entrants increase production. Any or all of these events could materially and adversely affect the business, financial condition and results of operations of the Company.

If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

In addition, the introduction of a recreational model for cannabis production and distribution is expected to impact the medical marijuana market. The impact of this potential development may be negative for the Company, and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates. There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

General Business Risk and Liability

Given the nature of the Company's business, it may from time to time be subject to claims or complaints from investors or others in the normal course of business. The legal risks facing the Company, its directors, officers, employees or agents in this respect include potential liability for violations of securities laws, breach of fiduciary duty and misuse of investors' funds. Some violations of securities laws and breach of fiduciary duty could result in civil liability, fines, sanctions, or the suspension or revocation of the Company's right to carry on its existing business. The Company may incur significant costs in connection with such potential liabilities.

Regulation of the Marijuana Industry

The Company is heavily regulated in all jurisdictions where it carries on business. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Company, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products and services.

Failure to adhere to these regulations may result in possible sanctions including the revocation or imposition of conditions on licenses to operate the Company's business; the suspension or expulsion from a particular market or jurisdiction or of its key personnel; and, the imposition of fines and censures. To the extent that existing or future regulations affect the sale or offering of the Company's products or services in any way, the Company's revenues may be adversely affected.

Regulatory Risks

The business and activities of the Company are heavily regulated in all jurisdictions where it carries on business. The Company's operations are subject to various laws, regulations and guidelines by governmental authorities, particularly Health Canada, relating to the manufacture, marketing, management, transportation, storage, sale and disposal of medical marijuana, and also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Company, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products and services.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the production and sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Failure to comply with the laws and regulations applicable to its operations may lead to possible sanctions including the revocation or imposition of additional conditions on licenses to operate the Company's business; the suspension or expulsion from a particular market or jurisdiction or of its key personnel; and, the imposition of fines and censures. To the extent that there are changes to the existing or the enactment of future laws and regulations that affect the sale or offering of the Company's products or services in any way, the Company's revenues may be adversely affected.

Change in Laws, Regulations and Guidelines

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

Reliance on License Renewal

The Company's business operations are dependent on its licence under the ACMPR. The licence must be renewed by Health Canada. The Company's current licence expires on October 15, 2019. Prior to the expiry of the licence, the Company must submit to Health Canada an application for renewal of the licence containing information prescribed by the ACMPR. Failure to comply with the requirements of the licence or any failure to renew the licence would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company believes it is complying in all material respects with the terms of the licence and it is not aware of any reason why it would not be able to renew the licence upon its expiry. However, there can be no assurance that Health Canada will renew the licence, or that such renewal will occur in a timely fashion or on terms similar to the Company's existing licence or otherwise acceptable to the Company and its business. Should Health Canada not renew the Company's licence, delay the renewal of the licence or renew the licence on different terms, the business, financial condition and results of operations of the Company would be materially adversely affected.

The Company is in the process of expanding its facilities. In order for the Company to include the new buildings under its licence, it must make an application to Health Canada to amend the licence to include the new buildings. Should Health Canada not grant the licence amendment, delay the amendment of the licence or amend the licence on different terms, the business, financial condition and results of operations of the Company would be materially adversely affected.

Reliance on a Single Facility

The Company's activities and resources are currently primarily focused on its Gatineau facility, and the Company 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 employees, 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 the Company's business, financial condition and prospects.

Limited Operating History

The Company commenced operations in August 2013, and as such is an early stage business and subject to the risks any early stage business faces. The Company 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.

Realization of Growth Targets

The Company's growth strategy contemplates outfitting the Gatineau facility with additional production resources. There is a risk that these additional resources will not be completed on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- failure to obtain anticipated license capacity increases;
- plant design errors, non-performance by third party contractors, increases in materials or labour costs; or, construction performance falling below expected levels of output or efficiency
- environmental pollution;
- contractor or operator errors; or, breakdowns, aging or failure of equipment or processes;
- labour disputes, disruptions or declines in productivity; or, inability to attract sufficient numbers of qualified employees;
- disruption or delay in acquiring incremental supply of energy and utilities as needed; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

As a result, there is a risk that the Company may not have product, or sufficient product, available for shipment to meet the expectations of its potential customers or in its business plan.

Risks Inherent in an Agricultural Business

A key aspect of the Company'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 this risk, the Company has trained personnel to carefully monitor growing conditions. Although the Company grows its products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

The Company's medical marijuana growing operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Publicity or Consumer Perception

The Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of the Company'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. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and business, results of operations, financial condition and cash flows. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or the Company'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 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.

Product Liability

As a manufacturer and distributor of products designed to be ingested or inhaled by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury, illness or loss, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

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 the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company 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 the Company 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 the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Reliance on Key Inputs

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Difficulties with Forecasts

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. If the Company is unable to deal with this growth; that may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Company's common shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Dividends

The Company has no earnings or dividend record and may not pay any dividends on its common shares in the foreseeable future. Dividends paid by the Company could be subject to tax and, potentially, withholdings.

Limited Market for Securities

The Company's common shares are listed on the TSX-V, however, there can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company.

Volatile Market Price of Common Shares

The market price for the Company'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 pre-emptive 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.

Exchange Restrictions on Business

The TSX-V's listing conditions for the Company required it to deliver an undertaking confirming that, while listed on the TSX-V, the Company will only conduct the business of production, acquisition, sale and distribution of medical marijuana in Canada as permitted under the Health Canada license. This undertaking could have an adverse effect on the Company's ability to export marijuana from Canada and on its ability to expand its business into other areas including the provision of non-medical marijuana in the event that the laws were to change to permit such sales and the Company is still listed on the TSX-V and still subject to such undertaking at the time. This undertaking may prevent the Company from expanding into new areas of business when the Company's competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of operations of the Company.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Constraints on Marketing Products

The development of the Company's business and operating results may be hindered by applicable restrictions 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 the Company 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 the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on its 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 operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

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 the Company's securities is speculative and involves a high degree of risk and uncertainty.

Critical Accounting Assumptions

The financial statements of the Company 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

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

Stock options

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

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

Conversion of convertible debentures

On November 22, 2017, the Company announced it had elected to exercise its right under the indenture dated July 18, 2017 governing the Company's 8.0% unsecured convertible debentures due June 30, 2019 to convert all of the outstanding principal amount of the convertible debentures and unpaid accrued interest thereon into common shares of the Company.

The Company has provided the holders of the convertible debentures with 30 days advance written notice of the conversion, and the effective date for the conversion will be December 27, 2017.

Pursuant to the conversion, holders of convertible debentures will receive 625 common shares for each $1,000 principal amount of convertible debentures held. In addition, the accrued and unpaid interest on the convertible debentures for the period from issuance on July 18, 2017 up to but excluding the conversion date will be equal to $36.00 and convertible debenture holders will receive an additional 22 common shares for each $1,000 principal amount of convertible debentures held on account of accrued and unpaid interest, for a total of 647 common shares for each $1,000 principal amount of convertible debentures held.

Closed bought deal financing

On November 24, 2017, the Company closed a $69,000,000 bought deal financing of 69,000 convertible debenture units at a price of $1,000 per unit. Each unit consists of $1,000 principal amount of 7.0% unsecured convertible debentures and 227 common share purchase warrants. Interest will be paid semi-annually in June and December. The convertible debentures mature November 24, 2020 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 its common shares 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 November 24, 2019. The Company may accelerate the expiry of the warrants should the daily volume weighted average trading price of its common shares be greater than $4.50 for any 10 consecutive trading days subject to 30 days' prior written notice.

Land acquisition

On December 11, 2017 the Company acquired 78 acres of land adjacent to its existing 65-acre Gatineau, Quebec property. The Company also announced that it will build a 1 million sq. ft. expansion on the property, expected to be completed by December 2018. The expansion will increase the Company's facilities to 1.3 million sq. ft. and annual production capacity of dried cannabis to 108,000 kg.

Conversion of convertible debentures

On December 15, 2017 the Company announced it had elected to exercise its right under the indenture dated November 24, 2017 governing the Company's 7.0% unsecured convertible debentures due November 24, 2020 to convert all of the outstanding principal amount of the convertible debentures and unpaid accrued interest thereon into common shares of the Company.

The Company has provided the holders of the convertible debentures with 30 days advance written notice of the conversion, and the effective date for the conversion will be January 15, 2018.

Pursuant to the conversion, holders of convertible debentures will receive 454.54 common shares for each $1,000 principal amount of convertible debentures held. In addition, the accrued and unpaid interest on the debentures for the period from December 31, 2017 (the interest payment scheduled for December 31, 2017 will be paid in cash) to but excluding the conversion date will be equal to $2.92 and debenture holders will receive an additional 1.33 common shares for each $1,000 principal amount of debentures held on account of accrued and unpaid interest, for a total of 455.87 common shares for each $1,000 principal amount of debentures held. No fractional common shares are to be issued on any conversion, and any common shares so issuable are to be rounded down to the nearest whole number.