



Offering a Sublingual Elixir Spray with No Second-Hand Smoke and Edible Cannabis Powders providing an alternative to smoking for Many Patients The Hydrothecary is bring Innovative Products to a Highly Regulated Market



Sébastien St. Louis
Co-Founder & Chief Executive Officer

The Hydrothecary Corporation
(TSX:HEXO)
www.thehydrothecary.com

Contact:
invest@thehydrothecary.ca

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine

“The market opportunity surrounding the legalization of a historically prohibited substance, that is supported by many good people, and that has a huge market demand, I saw as a potential billion dollar-opportunity.” - Sébastien St. Louis

CEOCFO: *Mr. St. Louis, what was the idea when you founded The Hydrothecary Corporation and where are you today?*

Mr. St. Louis: The market opportunity surrounding the legalization of a historically prohibited substance, that is supported by many good people, and that has a huge market demand, I saw as a potential billion dollar-opportunity. Today, we are publicly listed, and we just signed the largest sales order in cannabis history giving us revenue certainty with the government of Quebec. Depending on the day, we have crossed the billion-dollar market cap threshold. Today we look at the worldwide market as a \$350-billion opportunity.

CEOCFO: *What are you offering and why does the government of Quebec want to work with you?*

Mr. St. Louis: Hydrothecary's core focus is to be a marijuana products company. Although the agriculture of marijuana is a key part of the business, we have been able to bring innovative products to market that help broaden the appeal and lower the stigma surrounding the substance. For example, we have released a sublingual Elixir spray, which has the benefit of giving off no second-hand smoke; it actually gives you nice fresh breath and can hydrate you while you take your dosage. Every spray has about 2.5 milligrams of THC. We have also come out with edible cannabis powders, which is providing a better alternative to some patients like those who are looking for something they can ingest in a capsule. We have been able to bring all these innovative products to market under the regulated medical marijuana market at prices that are more competitive than the black market, which is why the government of Quebec has chosen us as their preferred supplier.

CEOCFO: *How do you know what might make a good product and how do potential buyers know what they should be trying?*

Mr. St. Louis: At Hydropothecary, we separate the market into value segments based on the needs and desires of patients and consumers. Above all, we are proposing both traditional and cannabis tourists a new way to approach cannabis that is more safe and healthy. What we have observed over the last five years working with thousands of medical patients across the country is that patients tend to fall into three value segments. Whether that is to escape and relax, whether it is to enhance an experience, or whether it is to feel better and for general wellness. We target our products within those value segments and strive to have multiple product categories in each segment to have different delivery mechanisms and different onset times. In our relaxed value segment for example, we offer a Decarb cannabis pill while in another, we offer a sublingual spray that, with a few sprays, can achieve an effect in under 20 minutes. We never know for certain what products will have the best endurance in the market, but we are able to run AB scenarios, we are able to test-case our products with thousands of consumers, and we also rely a lot on legal data out of the US.

CEOCFO: *What is special about Decarb?*

Mr. St. Louis: What is really exciting about Decarb is that it is a case where we managed to create a better product through regulatory innovation. The regulations contemplated originally included oil capsules with a limit of ten milligrams of THC in them. The issue with oil capsules is that they contain calories, they can cause stomach upsets, and generally, because of the ten milligram THC limit, patients have to consume a lot of them. What we managed to innovate with Decarb is we managed to create cannabis that you eat which is classified as a “derived cannabis” product. This allowed for a product that patients can consume and remove the limits of ten milligrams of THC per capsule. Patients can create a capsule that is up to 120 milligrams if they wish. They can create something that is a lot stronger and avoid the stomach pains associated with the oil while removing the calories, which is great for long term health.

CEOCFO: *Why are glass jars important?*

Mr. St. Louis: Glass jars are important for our apothecary because it is about product differentiation. It is about having less static in plastic jars. There is a potential for smell contamination or lack of freshness within plastic that you do not get in glass. Therefore, it is a better customer experience. It costs a little more, but it really drives better product quality and that is what we are all about.

CEOCFO: *Does the average customer understand that or is it something they are happy to find out when you point them to it?*

Mr. St. Louis: That is a challenging question because our market is split between two large segments, traditionalists and cannabis tourists. I think the traditionalists do appreciate and understand it, but we have to do more work around the new tourists. That is why we are going to be working very closely with Quebec’s cannabis retailer the SQDC to institute retail education programs, “train the trainers” programs if you will, to really be able to show the customers the added value. The theory is that the glass jar on the shelf will have a different look in an environment where we have very little differentiation opportunities around packaging, will be a nice value add for our customers.

CEOCFO: *Do physicians typically recommend a brand, or will they recommend The Hydrothecary?*

Mr. St. Louis: Physicians will typically recommend towards a company that they are familiar with. The prescription itself will usually not specify a brand. The prescription is usually generic, but the physician, through their relationships with the companies, will usually recommend to the client the people registered at a specific license producer.

CEOCFO: *Would you tell us about your new facility?*

Mr. St. Louis: The new facility is a 250,000 square-foot greenhouse and production facility. It is currently a month and a bit ahead of schedule, so we are very proud of the team's execution. We will be putting the first plants in there in the next few weeks and once we are fully operational, it will produce 25 metric tonnes annually. That will help us fulfill our contract with the Quebec government, which is a large 20 tonne contract for the first year of legalization. Our expansion beyond that is also well underway and we expect to be completed in December 2018, bringing our total production potential to 108 metric tonnes, which is 108 million grams per year.

CEOCFO: *What do you understand about the production process and quality control that perhaps other companies do not?*

Mr. St. Louis: I think as one of the first greenhouse manufacturers of cannabis in Canada, Hydrothecary has gone through a lot of the learning curve that a lot of new greenhouse manufacturers may need. We put in a top of the line quality management system. We have over 450 quality control points. We have seen the impact of various risks and we have mitigated them over time to continuously improve our standard operating procedures. We understand where the key risk happens. For example, if you have a glass pane that might break in the middle of the night and it is minus thirty outside, we have an emergency response team that goes to that glass pane in the greenhouse and immediately fixes it. If we have an infestation of new insects, we immediately have a response team with entomologists on site that can identify the pest and create an appropriate biological response plan to that problem. It is through all this attention to detail and these 450 different quality control points, that we are able to be very confident that our product goes above and beyond the regulations to truly be safe and consistent for our patients.

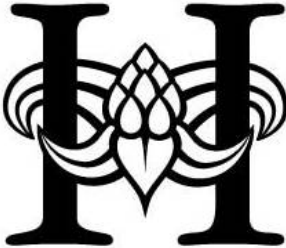
CEOCFO: *What surprised you going from vision to success?*

Mr. St. Louis: With the hyper growth and speed of success, we often use the analogy of a dog chasing a car on the highway who then catches the bumper. The question is, what to do now that you have the bumper? For us, a "now what?" has been a focus on developing systems and building those systems around people and processes so that we can have a robust company that can grow with a solid foundation.

CEOCFO: *Why pay attention to The Hydrothecary, on the product as well as the investment side?*

Mr. St. Louis: I think from a patient perspective, they come to Hydrothecary for our "smoke-free" products, innovative delivery systems in cannabis, and a good range of prices and quality. From a perspective of an investor, Hydrothecary is ideally positioned to be one of the potential merging global leaders in cannabis. I say that because we have the second highest revenue certainty in the entire industry with a 20 tonne forward contract next year. What is interesting

from an investor's perspective is that Canopy Growth trades at almost twelve times the value of Hydrothechary while only having 20 percent more in forward sales. We are really positioned to be the second largest company by sales next year and I think that revenue certainty ensuing cash flow will be attractive to investors.



HYDROTHECARY