

# **OrganiGram Holdings Inc.**

## **Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)**

*Second Quarter Fiscal 2015*

**ORGANIGRAM HOLDINGS INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
SECOND QUARTER FISCAL 2015**

## **1.1 Introduction**

This **Management Discussion and Analysis (“MD&A”)** document, prepared on April 28, 2015, should be read in conjunction with the interim condensed consolidated financial statements of OrganiGram Holdings Inc., formerly Inform Exploration Corp. (“Inform”), for the six-month period ended February 28, 2015.

This MD&A and the consolidated financial statements are expressed in Canadian dollars and prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The information in this MD&A is presented in Canadian dollars on a consolidated basis.

The offices of OrganiGram Holdings Inc. (the “Company” or “OHI”) are at 35 English Drive, Moncton, New Brunswick, E1E 3X3 and further inquiries regarding the Company may be directed to its Chief Executive Officer, Denis Arsenault, at (506) 384-1571 or by fax at (506) 384-4266 or by email to [denis@organigram.ca](mailto:denis@organigram.ca).

## **1.2 Forward-Looking Statements**

Certain information herein 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 “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, or “continue”, 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 our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our 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. We have based these forward-looking statements on our current expectations about future events.

Although the forward-looking statements contained in this MD&A are based on what we 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; dependence on senior management; sufficiency of insurance; industry competition; general economic conditions and global events; product development, facility and technological risks; changes to government laws, regulations or policy, including environmental or tax, or the enforcement thereof; agricultural risks; supply risks; product risks; 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 “**7.1 Risks and Uncertainties**”.

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. Additional information about these assumptions, risks and uncertainties is contained in our filings with securities regulators. Certain filings are also available on our web site at [www.organigram.ca](http://www.organigram.ca).

### 1.3 Business Environment

In 2001, the Government of Canada introduced a regulatory regime, the *Medical Marijuana Access Regulations* (“MMAR”), governing access of patients to marihuana for medical purposes. Since this time, the number of patients prescribed medical marihuana has grown and continued growth is predicted. Meanwhile, the medical marihuana regulatory regime has continued to evolve until, in June 2013, Health Canada announced the current regulatory regime, the *Marihuana for Medical Purposes Regulations* (“MMPR”) to replace the MMAR. Pursuant to the MMPR, companies are eligible to apply as a Licensed Producer (a “license”) of medical marihuana. This license permits a company to lawfully cultivate, possess and sell medical marihuana in conformance with the MMPR. Due to the regulatory barrier to entry, the anticipated growth in demand in the consumption of medical marihuana and the potential return on investment, a license is highly coveted by many companies.

The MMPR came into effect on April 1, 2014 and the Company received its initial license to operate as a Licensed Producer of medical marihuana on April 14, 2014.

### 1.4 Risks and Uncertainties

The Company’s business is subject to risks inherent in an early-stage enterprise and the Company has identified certain risks pertinent to its business, as further described under “7.1 Risk Management”. Management attempts to assess and mitigate these risks by retaining experienced professional staff and assuring that the Board of Directors and senior management are monitoring these risks on a continual basis.

### 2.1 Nature and History of the Company’s Business

On March 1, 2013, in anticipation of the introduction of the MMPR, OrganiGram Inc. (“OGI”), was incorporated under the *Business Corporations Act* (New Brunswick) for the purpose of seeking a license. In the spring of 2014, OGI was advised that it has received its license under the MMPR. Pursuant to its license, OGI is permitted to produce, sell, possess and ship medical marihuana, in conformity with the MMPR, and made its first shipment of medical marihuana to registered patients in September 2014. OGI has one of only 17 licensees to produce and sell medical marijuana under the MMPR, as at the date hereof, and is one of only two organic licensed producers of medical marihuana in Canada. Moreover, the Company’s management believes that OGI benefits from a number of competitive advantages which will permit it to be strategically positioned for future eventualities in the industry.

OGI completed a reverse take-over transaction that resulted in it becoming the sole and wholly-owned subsidiary of OHI, formerly Inform Acquisition Corp., and a publicly-listed company on the TSX Venture Exchange (“TSX-V”). Concurrently, OHI completed several brokered and non-brokered private placements in order to ensure that its business is adequately financed for operations and growth. See “3.1 Acquisition of Inform Exploration Corp.”

In previous quarters, the Company’s operations was exclusively geared at securing its license and otherwise establishing a viable business, including; human resource recruitment; expansion of facilities; product development; investor relations; implementing sound corporate governance practices; and, creating awareness in the Medical Community and of potential patients using marijuana. However, as of the date of this report, the company is now in full production and is harvesting saleable product on a regular basis. In March 2015, OGI was granted a renewal of its license and an increase in its approved capacity. OGI continues to execute its business plan through the growth of its production capacity and registered clients.

## 2.2 Selected Information

The following are financial highlights for the six month periods ended February 28, 2015 and 2014, and the year ended August 31, 2014; or as at those ending dates:

	<u>February '15</u>	<u>February'14</u>	<u>August'14</u>
Total revenue for the period	\$ 81,093	\$ -	\$ -
Net Loss before listing expenses	\$ 1,453,475	\$ 155,530	\$ 1,487,551
Listing expenses	\$ -	\$ -	\$ 6,781,730
Net loss per share			
Before listing expenses	\$0.028	\$0.020	\$0.047
Net loss and comprehensive loss	\$0.028	\$0.020	\$0.261
Total assets	\$ 12,046,324	\$ 1,546,241	\$ 8,665,579
Total shareholders' equity (deficit)	\$ 7,596,892	\$ 570,446	\$ 7,573,623

## 2.3 Business Outlook

The Company is continuing to expand its growing facility, is increasing its production output and is positioned to rapidly accelerate its sales growth. Therefore, OGI's primary focus for the remaining fiscal year, ending August 31, 2015, is on the availability of saleable product and the continuing growth of its customer base. The Company's key short-term goals continue to include:

- Establish internal controls and governance excellence, within the highly regulated medical marijuana industry, that are coveted by the Company's competitors.
- Establish the Company's high quality organic brand, as an enviable standard in the industry.
- Work diligently to inform the Medical Community and Patient Groups of the Company's superiority in the supply of medical marijuana to Canadians.
- Complete the construction of the Company's facility and development of its product strains, to support the production and sale of 6,000 to 9,000 kilograms per year, within 2 to 3 years. Current capacity will be approximately 2,300 kilograms on approval of the additional four growing rooms.
- Actively pursue the product research necessary to meet the complex and growing needs of patients in Canada.

The Company's annual license was renewed by Health Canada on March 26, 2015. Subsequently, OGI was granted an increase in license capacity to sell 600kg of medical marijuana over the next 12-month period.

In addition to the 3 growing rooms approved this Quarter, Organigram recently completed the construction of 4 additional growing rooms and is currently awaiting their inspection by Health Canada. Once these growing rooms are inspected and approved, the Company will submit amendments to Health Canada to further increase its licensed capacity. Management is hopeful that the rooms will be approved and integrated into the production cycle by the middle of June 2015. The completion of the 4 rooms will be a significant milestone in the companies' execution its business plan.

The Company has received Letters of Intent for additional financing which will enable them to continue the acceleration of their client acquisition strategy. The financing is a \$5 million non-dilutive debt-instrument.

### 3.1 Acquisition of Inform Exploration Corp.

On August 22, 2014 the shareholders of OrganiGram Inc. exchanged each common share they held in that company for common shares of Inform Exploration Corp. (“Inform”) on the basis of receiving 1.847043788 common shares of Inform for each common share of OGI. The RTO was conditional on the terms of a Binding Term Sheet dated May 13, 2014, between Inform, OGI and certain shareholders of OGI representing not less than 67% of OGI’s issued and outstanding common shares, which required that:

- a. the shareholders of Inform consolidate their holdings in that company, by receiving 0.883604747 common shares for each common share previously held; and,
- b. all outstanding options of Inform be cancelled;
- c. a concurrent financing of Inform be completed, for not less than \$3,000,000 in exchange for a total of 3,529,411 common shares of Inform at \$0.85 per common share;
- d. a bridge loan of \$1,000,000 to OGI be arranged by Inform, to be funded by May 23, 2014 and bear interest at a rate of 8% per annum, repayable in 180 days except that, on completion of the transaction it was to be converted into common shares of Inform at an issue price of \$0.85 per common share; and,
- e. a finder fee of 225,000 common shares of Inform be paid, in connection with the transaction.

Subsequently, the finder fee was increased to 325,000 common shares.

As a result of the RTO transaction, OGI’s shareholders controlled the Company and Inform’s name was changed to OrganiGram Holdings Inc. Since the mining exploration business of Inform had been suspended and Inform had become a dormant public shell, the transaction was accounted for as the purchase of Inform’s net assets, by OGI. The net asset purchase price was determined as an equity settled share-based payment, under “**IFRS-2, Share-based Payment**”, at the fair value of the equity instruments of the Company retained by the shareholders of Inform, based on the market value of the Company’s common shares on the date of closing the RTO.

The transaction costs relating to the RTO plus the aggregate of the fair value of the consideration paid and the net liabilities acquired has been recognized as listing expenses, in the consolidated statement of loss and comprehensive loss. There are no costs pertaining to the former operations of Inform after the date of the RTO and there are no prior operating revenues or costs, of Inform, included in these consolidated financial statements.

Immediately following the RTO, the company:

- a. completed a private placement of 8,863,968 of its common shares, for gross subscription proceeds of \$7,534,390.
- b. issued 317,356 broker warrants, as partial settlement for the issue costs of the private placement shares.
- c. issued 1,565,000 employee options, to acquire common shares of the company for \$0.85 per share.

The breakdown of listing expenses, in the consolidated statement of loss and comprehensive loss, is as follows:

Purchase price of equity acquired	
7,327,203 common shares at \$0.85 per share	\$ 6,228,122
325,000 commons shares issued as finder fees	<u>276,250</u>
Total of share-based payments	6,504,372
Cash acquired	(15,171)
Other working capital deficit acquired	23,489
Other transaction costs	<u>269,040</u>
Listing expenses	<u>\$ 6,781,730</u>

The fair value of the 7,327,203 common shares, retained by the former Inform shareholders, was determined to be \$6,228,122 based on the fair value of the common shares issued through the private placement on August 22, 2014.

Management of Inform had previously abandoned Inform’s mineral assets and the Company has no interest in exploring or developing these assets. As a result, the fair value of mineral assets has been determined to be nil.

## **3.2 Subsequent Events**

### **(i) Issuance of Stock Options**

On March 5, 2015, the Company issued 100,000 employee options to purchase 100,000 common shares of the Company, to employees of Organigram Inc., at an exercise price of \$0.67 per share. Fifty percent of such options vest on issuance and ten percent on each annual anniversary thereafter. Vested options may be exercised until March 5, 2025, subject to forfeiture provisions requiring the options to expire 90 days after termination of the individual's employment.

On March 26, 2015, the Company issued 40,000 employee options to purchase 40,000 common shares of the Company, to an Employee, at an exercise price of \$0.58 per share. Fifty percent of such options vest on issuance and ten percent on each annual anniversary thereafter. Vested options may be exercised until March 26, 2025, subject to forfeiture provisions requiring the options to expire 90 days after termination of the individual's employment.

### **(ii) Financing**

In April, 2015, the Company has received Letters of Intent for additional financing. The financing is a \$5 million non-dilutive debt-instrument.

## **4.1 Changes in Accounting Policies**

On March 1, 2014 the Company adopted the following new IFRS accounting standards or amendments thereto retrospectively:

- (1) IAS 16 and 41– Bearer Plants Amendments to Property, Plant and Equipment
- (2) IAS 36 – Impairment of Assets amendments
- (3) IFRIC 21 - Levies

IAS 16 and 41 amendments require an entity to classify bearer plant assets as property, plant and equipment, rather than inventory. Prior to March 1, 2014 the Company did not have any biological assets.

The implementation of the amendments to IAS 36 which relate to the circumstances where the disclosure of recoverable amount is required and IFRIC 21 which relates to the timing of recognition of levies imposed by governments had no material impact on the Company's consolidated financial statements.

## **5.1 Quarterly Operating Highlights**

At the end of the Second Quarter, the Company harvested its first large crop from one of the recently approved growing rooms. This finished product, along with future harvests, enables the company to have sufficient inventories for customer demand and thus significantly increase sales in future reporting periods. Associated with this production achievement, the Company continues to rapidly increase its number of registered clients and consequently is experiencing correlated growth in its sales.

## 5.2 Pre -Tax Operating Earnings

The following are the statements of loss for the three-month and six-month periods ended February 28, 2015 and 2014 and the six-month period ended August 31, 2014:

	Three Months Ended February 28th		Six Months Ended February 28th		Six Months Ended August 31st
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
<b>Revenue</b>					
Sales	\$ 67,971	-	\$ 81,093	\$ -	\$ -
Cost of sales	34,091	-	40,886	-	-
Sales gross margin	33,880	-	40,207	-	-
Fair value adjustment to biological assets	110,574	-	110,574	-	-
Adjusted gross margin	144,454	-	150,781	-	-
<b>Expenses</b>					
Indirect production	19,349	-	196,588	-	274,905
Sales and marketing	152,211	11,892	317,274	11,892	169,551
General and administrative	453,810	139,781	808,282	143,638	549,131
Public company costs	8,351	-	77,414	-	-
Share-based compensation	117,095	-	176,124	-	473,222
Financing costs	28,574	-	28,574	-	21,600
Gain on disposal of vehicle	-	-	-	-	(858)
<b>Total expenses</b>	<b>779,390</b>	<b>151,673</b>	<b>1,604,256</b>	<b>155,530</b>	<b>1,487,551</b>
<b>Net loss before listing expenses</b>	<b>(634,936)</b>	<b>(151,673)</b>	<b>(1,453,475)</b>	<b>(155,530)</b>	<b>(1,487,551)</b>
<b>Listing expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,781,730</b>
<b>Net loss and comprehensive loss for the period</b>	<b>\$ (634,936)</b>	<b>(151,673)</b>	<b>\$ (1,453,475)</b>	<b>\$ (155,530)</b>	<b>\$ (8,269,281)</b>
<b>Weighted-average number of common shares</b>	<b>52,557,648</b>	<b>10,328,254</b>	<b>51,782,661</b>	<b>7,900,790</b>	<b>31,716,488</b>
<b>Loss per common share, basic and diluted</b>	<b>\$ (0.012)</b>	<b>\$ (0.015)</b>	<b>\$ (0.028)</b>	<b>\$ (0.020)</b>	<b>\$ (0.261)</b>

## 5.3 Operations for Three-Month Period Ended February 28, 2015 Compared to the Three-month Period Ended November 30, 2014

The Company's operating loss was \$634,936 for the Second Quarter (Q2) ended February 28, 2015 compared to an operating loss of \$818,538 for the First Quarter (Q1) ended November 30, 2014:

- Revenue for the Q2 increased to \$67,971 compared to \$13,122 in Q1, due to increased product being made available for sale. In Q2, as per IAS4 that requires biological assets to be valued at fair value less selling costs, inventories were adjusted by \$110,574, increasing gross margin by the same amount.
- Indirect production costs include \$17,415 of inventory write-offs in the Q2 compared to \$175,841 in Q1.
- Sales and Marketing expenses for Q2 were approximately at the same level as Q1, as expected.
- General and Admin expenses increased to \$453,810 in Q2, compared to \$354,471 in Q1. This was on target as employee levels increased to allow the Company to continue executing its growth strategy.
- Public company costs were 8,351 for Q2 compared to \$69,063 Q1, as expected.
- The \$117,095 in Q2 share-based-compensation expense is non-cash and related to the options issued in August 2014 (\$17,458) and Q2 (\$99,637).

## 5.4 Operations during the Three-Month and Six-Month Periods Ended February 28, 2014

During the three-month and six-month periods ended February 28, 2014 the company was in the preliminary start-up phase and only incurred incidental operating expenses.

## 5.5 Operations during the Six-Month Period Ended February 28, 2014 Compared to the Six-Month Period Ended August 31, 2014

The six-month period ended February 28, 2015 was the beginning of product being available for sale, and continuation of increasing the Company's growing capacity:

- a) The Company had revenue of \$81,093 for the recent six-month period compared to no revenue from its start-up phase in the previous six-month period.
- b) Indirect production expenses were \$196,588 for the recent six-month period, compared to \$274,905 in the previous six-month period. This was due to less inventory write-offs.
- c) Sales and Marketing increased to \$317,274 compared to \$169,551 the previous six months. This is as planned as the Company increases its brand awareness in Canada.
- d) General and administrative expenses increased to \$808,282 compared to \$549,131 the previous six-months. This was on target as employee levels increased to allow the Company to continue executing its growth strategy.
- e) Public company costs were \$77,414 compared to none in prior six-months. The Company only went public August 25 and therefore none were incurred until this six-month period.
- f) Non-cash share-based compensation decreased to \$176,124 from \$473,222 the prior six-months. The majority of the options were granted August, 22, 2014 during the RTO of Inform Exploration Corp., hence the larger amount in that period.
- g) Financing costs of \$28,574 are as expected for the recent six-month period due to the long-term loan from Farm Credit Canada, compared to \$20,742 of interest expense in the prior period, primarily from the short-term loan that was utilized.
- h) The prior six-month period incurred \$6,781,730 of listing expense – arising mostly from the market value of the Company's shares (on closing date) paid to acquire Inform's listing status and including only \$269,040 of direct expenditures.

## 5.5 Related Party Transactions

### (i) Transactions and balances with related entities

As of February 28, 2015, the Company had accounts payable of \$12,029 (August 31<sup>st</sup>, 2014 - \$26,181 and February 28, 2014 - \$nil) due to officers of the Company.

### (ii) Management compensation

In the three-month period ended February 28, 2015, the Company's expenses included \$115,726 (three-month period February 28, 2014 -\$50,482) of salary or consulting fees paid to officers and directors, plus \$82,089 (three-month period February 28, 2014 -\$nil) of share-based compensation related to directors and officers.

In the six-month period ended February 28, 2015, the Company's expenses included 209,677 (six-month period ended August 31<sup>st</sup>, 2014 -\$131,785 and six-month period February 28, 2014 -\$50,482) of salary or consulting fees paid to officers and directors, plus \$96,685 (six-month period ended August 31<sup>st</sup>, 2014 - \$133,046 and six-month period ended February 28, 2014 -\$nil) of share-based compensation related to directors and officers.

## 6.1 Liquidity and Capital Resources

The following is a statement of the cash flows of the Company for the three-month and six-month periods ended February 28, 2015 and 2014 and the six-month period ended August 31, 2014:

	Three Months Ended February 28th		Six Months Ended February 28th		6 Months Ended August 31st
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
<b>Cash Provided (Used)</b>					
<b>Operating Activities</b>					
Net loss for the period	\$ (634,936)	\$ (151,673)	\$ (1,453,475)	\$ (155,530)	\$ (8,269,281)
Changes not involving cash					
Listing expenses	-	-	-	-	6,512,690
Share based compensation	117,094	-	176,123	-	473,222
Gain on disposal of vehicle	-	-	-	-	(858)
Amortization of Deferred Financing	416	-	416	-	-
Depreciation	<u>85,475</u>	<u>8,932</u>	<u>154,812</u>	<u>8,932</u>	<u>51,997</u>
	(431,951)	(142,741)	(1,122,124)	(146,598)	(1,232,230)
Financing costs to financing activities	28,547	-	28,547	-	21,600
Net change in accounts receivable	(93,211)	(141,672)	(223,811)	(142,052)	(75,900)
Net change in biological assets and inventories	(406,649)	-	(523,601)	-	(151,920)
Net change in accounts payable and accrued liabilities	1,052,211	963,482	909,844	954,282	296,776
Net change in other working capital balances	<u>(51,186)</u>	<u>(8,883)</u>	<u>(102,260)</u>	<u>(8,883)</u>	<u>(55,415)</u>
	<u>97,761</u>	<u>670,186</u>	<u>(1,033,405)</u>	<u>656,749</u>	<u>(1,197,089)</u>
<b>Financing activities:</b>					
Shares issued in private company	-	754,600	-	754,600	1,484,850
Shares issued in private placement	1,407,418	-	1,407,418	-	7,534,391
Share issue costs	(106,798)	(22,017)	(106,798)	(22,017)	(724,377)
Payment of long term loan	(30,282)	-	(30,282)	-	-
Proceeds of long term loan	-	-	2,500,000	-	-
Debt Issue Costs	-	-	(22,500)	-	-
Financing costs	<u>(28,547)</u>	<u>-</u>	<u>(28,547)</u>	<u>-</u>	<u>(21,600)</u>
	<u>1,241,791</u>	<u>732,583</u>	<u>3,719,291</u>	<u>732,583</u>	<u>8,273,264</u>
<b>Investing activities:</b>					
Cash acquired in RTO	-	-	-	-	15,171
(Increase) decrease in short term investments	500,000	-	(1,500,000)	-	-
Proceeds on disposal of vehicle	-	-	-	-	9,000
Acquisition of property, plant and equipment	<u>(2,421,584)</u>	<u>(1,325,100)</u>	<u>(6,188,560)</u>	<u>(1,325,100)</u>	<u>(1,451,686)</u>
	<u>(1,921,584)</u>	<u>(1,325,100)</u>	<u>(7,688,560)</u>	<u>(1,325,100)</u>	<u>(1,427,515)</u>
<b>CASH (USED) PROVIDED</b>	(582,032)	77,669	(5,002,674)	64,232	5,648,660
<b>CASH POSITION</b>					
Beginning of Period	<u>1,306,032</u>	<u>345</u>	<u>5,726,674</u>	<u>13,782</u>	<u>78,014</u>
End of Period	<u>724,000</u>	<u>78,014</u>	<u>724,000</u>	<u>78,014</u>	<u>5,726,674</u>

On February 28 2015, the Company had cash and short-term investments of \$2,224,000 (Aug 2014 - \$5,726,674). In Q2, \$2,421,583 was spent on property plant and equipment as part of the growth strategy of increasing production capacity.

On December 22, 2014, the Company raised \$1,300,620, net of issue costs, in its second private placement. See “6.2 Share Data” for information pertaining to the funds raised since August 31, 2014 and for prior periods.

For the six-month period ending February 28, 2015, \$2,477,500 was received as a loan from Farm Credit Canada, net of debt issue costs, and a total of \$6,188,560 has spent on capital purchases, primarily for the expansion of growing capacity.

## 6.2 Share Data

Since incorporation, the Company's cash requirements have been funded by new equity from shareholders. Its authorized share capital includes an unlimited number of common shares or preferred shares. Restated for the share restructuring on August 22, 2014, the following shares have been issued in the Company, since inception:

### (i) Share transactions

The following is a description of the share transactions that have occurred since inception:

- (a) In the year ended February 28, 2014, the Company issued 11,041,600 common shares at an average issue price of \$0.069 per share to private investors who were supporting the start-up of OrganiGram Inc. The aggregate consideration for the issuance of the shares and warrants was \$758,000 in cash and \$22,017 of issue costs were incurred in relation thereto.
- (b) In the period between February 28, 2014 and May 24, 2014, the Company issued 7,636,896 common shares at an average issue price of \$0.194 per share to private investors who were supporting phase two of the start-up of OrganiGram Inc. The aggregate consideration for the issuance of the shares and warrants was \$1,484,850 in cash and \$19,994 of issue costs were incurred in relation thereto.
- (c) To effect the August 22, 2014 acquisition of Inform, the Company implemented a share restructuring whereby the former 18,678,496 common shares of OGI were exchanged for 34,499,998 common shares of OHI, which created a 15,821,502 increase in the number of common shares.
- (d) On August 22, 2014, Inform consolidated the existing 8,292,400 common shares of Inform into 7,327,203 common shares of OHI. The 7,327,203 shares were estimated to have a total fair value of \$6,228,122, at \$0.85 per common share, and the difference between this share-based payment and the fair value of the assets and liabilities of Inform has been recorded as listing expense and included in public company expenses in the consolidated statement of loss and comprehensive loss.
- (e) Pursuant to the transaction to acquire Inform, the Company issued 325,000 common shares as consideration for the finder fee (Note 2). The total \$276,250 fair value of these shares, estimated at \$0.85 per common share, was recorded as transaction costs for the RTO.
- (f) On August 31<sup>st</sup>, 2014, the Company issued 8,863,989 common shares by way of a private placement, at \$0.85 per common share for a total consideration of \$7,534,391. Issue costs incurred in connection with this transaction totaled \$762,084.
- (g) On December 22, 2014, the Company issued 1,334,892 common shares by way of a brokered private placement, at \$0.70 per common share for a total consideration of \$934,424. Additionally, the Company issued 675,705 common shares by way of a non-brokered private placement, at \$0.70 per common share for a total consideration of \$472,994. Issue costs incurred in connection with these transactions totaled \$106,798, including \$24,361 of broker warrants and 4,500 finder's fee options.

### (ii) Investor warrants

Pursuant to the December 22, 2014 private placements, subscribers thereto also received 2,010,597 investor warrants to acquire 2,010,597 common shares of the Company at an exercise price of \$1.00 per common share, exercisable over a three year period until December 22, 2017. The company does not bifurcate the accounting of investor warrants issued contemporaneous with the issuance of common shares and, accordingly no value has been assigned to the 2,010,597 investor warrants and the entire proceeds of the private placements have been allocated to share capital.

### (iii) Broker Warrants

As part of the share-based payment to acquire Inform the Company issued 317,356 broker warrants, exercisable at \$1.00 per share, to acquire up to 317,356 common shares of the Company. The \$57,701 fair value of these options

was estimated at \$0.182 per share using the Black-Scholes option pricing model with a market price of \$0.85; a risk-free interest rate of 1.09%; an expected annualized volatility of 68%; an expected dividend yield of 0.0%; and, an expected option life of one year. These broker warrants expire on August 22, 2015.

Included in the issue costs for the December 22, 2014 private placement are 85,365 agent warrants and 4,500 finders' fee options, exercisable for two years at a strike price of \$0.70 and \$0.85 respectively. The \$24,361 fair value of these warrants and options was estimated at \$0.273 per share and \$0.234 per share, respectively, using the Black-Scholes option pricing model with a market price of \$0.68; a risk-free interest rate of 2.0%; an expected annualized volatility of 74%; and, an expected dividend yield of 0.0%. These agent warrants and options expire on December 22, 2016.

The Company issued no broker warrants on any prior date, no broker warrants expired since the RTO and the 402,721 broker warrants and 4,500 finder fee options are the only agent warrants or options outstanding and exercisable as of February 28, 2015.

***(iv) Share-based compensation***

Under the Company's stock option plan, options may be granted for up to 10% of the issued and outstanding common shares, as approved by the Company's Board of Directors. The exercise price of any option may not be less than the Company's closing market price on the day prior to the grant of the options less the applicable discount permitted by the TSX-V.

The maximum exercise period after the grant of an option is 10 years. When an employee's service ends, the expiry date of his/her options is accelerated to 90 days thereafter, or less, depending on the terms of the related option agreement.

On August 22, 2014, the Company issued 1,565,000 options that vested 50% on issuance and 10% each year thereafter, exercisable at \$0.85 per share for up to 10 years from the grant date, to acquire up to 1,500,000 common shares of the Company. The average fair value of these options was estimated at \$0.645 per share using the Black-Scholes option pricing model with a market price of \$0.85; a risk-free interest rate of 2.0%; an expected annualized volatility of 84% to 128%; an expected dividend yield of 0.0%; and, an expected option life of 5.0 to 7.5 years, for a total expected cost, subject to vesting thereof, of \$1,009,760. 270,000 of these options have expired and the remaining 1,295,000 options expire on August 22, 2024.

On December 19, 2014, the Company issued 50,000 options that vested 100% on issuance and exercisable at \$1.00 per share for up to 3 years from the grant date, to acquire up to 50,000 common shares of the Company. The average fair value of these options was estimated at \$0.261 per share using the Black-Scholes option pricing model with a market price of \$0.71; a risk-free interest rate of 2.0%; an expected annualized volatility of 68%; and, an expected dividend yield of 0.0%, for a total expected cost, subject to vesting thereof, of \$13,064. These options expire on December 19, 2017.

On January 14, 2015, the Company issued 225,000 options that vested 50% on issuance and 10% each year thereafter, exercisable at \$0.50 per share for up to 10 years from the grant date, to acquire up to 225,000 common shares of the Company. The average fair value of these options was estimated at \$0.311 per share using the Black-Scholes option pricing model with a market price of \$0.48; a risk-free interest rate of 2.0%; an expected annualized volatility of 68% to 128%; for a total expected cost, subject to vesting thereof, of \$70,032. These options expire on January 14, 2025.

On January 28, 2015, the Company issued 277,500 options that vested 50% on issuance and 10% each year thereafter, exercisable at \$0.67 per share for up to 10 years from the grant date, to acquire up to 277,500 common shares of the Company. The average fair value of these options was estimated at \$0.414 per share using the Black-Scholes option pricing model with a market price of \$0.64; a risk-free interest rate of 2.0%; an expected annualized volatility of 68% to 128%; for a total expected cost, subject to vesting thereof, of \$115,005. These options expire on January 28, 2025.

Total share-based compensation expense for the three-month period ended February 28, 2015 was \$117,095 (three-month period ended February 28, 2014 – \$nil). Total share-based compensation expense for the six-month period ended February 28, 2015 was \$176,124 (six-month period ended February 28, 2014 – \$nil), based on the proportion

of employee options vested or vesting over time. For the three-month period ended February 28, 2015, 270,000 options have expired or been forfeited totaling \$11,122.

The Company issued no options on any date prior to August 22, 2014. The remaining 1,295,000 options from August 22, 2014 have an exercise price of \$0.85; and, expire on August 22, 2024. The 50,000 options from December 19, 2014 have an exercise price of \$1.00; and, expire on December 19, 2017. The 225,000 options from January 14, 2015 have an exercise price of \$0.50; and, expire on January 14, 2025. The 277,500 options from January 28, 2015 have an exercise price of \$0.67; and, expire on January 28, 2025.

**(v) Outstanding shares, warrants and options**

The following table sets out the number of shares, warrants and options outstanding as at February 28, 2015 and April 28, 2015:

	<b><u>February 28</u></b>	<b><u>April 28</u></b>
Common shares issued and outstanding	53,026,787	53,026,787
Investor warrants	2,010,597	2,010,597
Agent Warrants	402,721	402,721
Finders' warrants	4,500	4,500
Compensation options	<u>1,847,500</u>	<u>1,927,500</u>
Total fully diluted shares	<u><u>57,292,105</u></u>	<u><u>57,372,105</u></u>

### 6.3 Balance Sheet

The following is the financial position of the Company as at February 28, 2015, August 31, 2014 and February 28, 2014:

	<u>February 28th,</u> <u>2015</u>	<u>August 31st,</u> <u>2014</u>	<u>February 28th,</u> <u>2014</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 724,000	\$ 5,726,674	\$ 78,014
Short term investments	1,500,000	-	-
Accounts receivable	469,013	245,201	143,176
Biological assets	564,787	115,768	-
Inventories	110,734	36,152	-
Other current assets	166,558	64,298	8,883
	<u>3,535,092</u>	<u>6,188,093</u>	<u>230,073</u>
<b>Property, plant and equipment</b>	<u>8,511,234</u>	<u>2,477,486</u>	<u>1,316,168</u>
	<u>\$ 12,046,326</u>	<u>\$ 8,665,579</u>	<u>\$ 1,546,241</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 2,001,800	\$ 1,091,956	\$ 975,795
Current portion of long term debt	193,500	-	-
	<u>2,195,300</u>	<u>1,091,956</u>	<u>975,795</u>
<b>Long term Debt</b>			
Secured indebtedness	2,254,134	-	-
	<u>4,449,434</u>	<u>1,091,956</u>	<u>-</u>
<b>Shareholders' Equity</b>			
Share capital	16,753,777	15,477,518	735,983
Reserve for options and warrants	720,286	530,923	-
Accumulated deficit	(9,877,171)	(8,434,818)	(165,537)
	<u>7,596,892</u>	<u>7,573,623</u>	<u>570,446</u>
	<u>\$ 12,046,326</u>	<u>\$ 8,665,579</u>	<u>\$ 1,546,241</u>

As at the date hereof, the Company has no off-balance sheet arrangements.

### 6.4 Financial Instruments

The Company's financial instruments consist of cash; short term investments; accounts receivable; accounts payable and accrued liabilities; and, long-term debt. As at February 28, 2015 and 2014 and August 31, 2014, the carrying values and fair values of the Company's financial instruments are approximately the same. The Company has not used any hedging or financial derivatives.

## 7.1 Risk Management

The Company has implemented Risk Management Governance Processes that are led by the Board of Directors, with the active participation of management, and updates its assessment of its business risk on an annual basis. Notwithstanding, it is possible that the Company may not be able to foresee all of the risks that it may have to face. The market in which OrganiGram currently competes is complex, competitive and changes rapidly. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. Readers of this MD&A should not rely upon forward-looking statements as a prediction of future results.

The risks presented below may not be all of the risks that the Company may face, although they are management's current assessment of the risk factors that may cause actual results to be different from expected and historical results:

### **(i) Credit Risk**

Credit risk arises from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance. The maximum exposure to credit risk approximates the amount recognized on the balance sheet.

### **(ii) Liquidity risk**

The Company's exposure to liquidity risk is dependent on the collection of accounts receivable and the raising of funds to meet commitments and sustain operations. The Company controls liquidity risk by management of working capital, cash flows and the issuance of share capital.

### **(iii) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency rate risk, interest rate risk and other price risk.

1. **Currency risk** is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is not currently exposed to foreign currency exchange risk as it has negligible financial instruments denominated in a foreign currency.
2. **Interest rate risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is to interest rate risk as at February 28, 2015 with respect to its long term debt. A 1% change in prime interest rates will increase or decrease the Company's interest expense by approximately \$24,000 per year.
3. **Other price risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company has no exposure to other price risk.

### **(iv) Concentration risk**

The Company's accounts receivable is primarily due from the Federal Government, legal trusts, an employee, and, thus, the Company believes that the entire accounts receivable balance is collectible. Accordingly, management has not provided for an allowance for doubtful accounts as at February 28, 2015.

**(v) Dependence on Senior Management**

The success of the Company and its strategic focus is dependent to a significant degree upon the contributions of senior management. The loss of any of these individuals, or an inability to attract, retain and motivate sufficient numbers of qualified senior management personnel could adversely affect its business. This risk is partially mitigated by the fact that the senior management team are significant shareholders in the Company. Further mitigation has been attained by the addition of a President position, in September 2014, and through the implementation of employee compensation packages, composed of monetary short-term compensation and long term stock based compensation, designed for the retention of key employees.

**(vi) Sufficiency of Insurance**

The Company maintains various types of insurance which may include financial institution bonds; errors and omissions insurance; directors', trustees' and officers' insurance; property coverage; and, general commercial insurance. The Insurers' appetite for marijuana industry coverage is low, given the newness of these businesses, so the Company has found barriers to obtaining the levels of liability coverage that it is seeking, but management continues to pursue this matter. 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 the reputation of the Company.

**(vii) Competition**

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.

Because of the early stage of the industry in which OHI operates, the Company expects to face additional competition from new entrants. If the number of users of medical marijuana in Canada increases, the demand for products will increase and OHI expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products and pricing strategies. To remain competitive, OHI 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.

**(viii) General Business Risk and Liability**

Given the nature of 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 OHI, 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 Bellwether's right to carry on their existing business. The Company may incur significant costs in connection with such potential liabilities.

**(ix) Regulation of the Marijuana Industry**

OHI 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.

Possible sanctions include 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 product or services in any way, the Company's revenues may be adversely affected.

**(x) Regulatory Risks**

The activities of OGI are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, 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. OHI 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.

**(xi) 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 marihuana 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 OHI may cause adverse effects to the Company's operations.

**(xii) Reliance on License Renewal**

OGI's ability to grow, store and sell medical marihuana in Canada is dependent on the license from Health Canada. Failure to comply with the requirements of the license or any failure to maintain this license would have a material adverse impact on the business, financial condition and operating results of the Company. The license was renewed March 26, 2015 and expires March 26, 2016. Although management believes it will meet the requirements of the MMPR annually for extension of the license, there can be no guarantee that Health Canada will extend or renew the license 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 license, or should it renew the license on different terms or not allow for anticipated capacity increases, the business, financial condition and results of the operations of the Company will be materially adversely affected.

**(xiii) Reliance on a Single Facility**

To date, OGI's activities and resources have been primarily focused on its facility in Moncton, New Brunswick and OGI will continue to rely on this facility for the foreseeable future. Adverse changes or developments affecting the facility could have a material and adverse effect on the Company's business, financial condition and prospects.

**(xiv) Limited Operating History**

The Company began its business in 2013 and has generated minimal revenue from the sale of products, as of February 28, 2015. OHI is therefore subject to many of the risks common to early-stage enterprises, including limitations with respect to personnel and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

**(xv) Factors which may Prevent Realization of Growth Targets**

The Company's growth strategy contemplates outfitting the Moncton facility with additional production resources. There is a risk that these additional resources will not be achieved 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 workers;
- disruption in the supply of energy and utilities; 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.

**(xvi) Risks Inherent in an Agricultural Business**

The Company's business involves the growing of medical marihuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks that may create crop failures and supply interruptions for the Company's customers. Although OGI 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.

**(xvii) Vulnerability to Rising Energy Costs**

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

**(xviii) Unfavourable Publicity or Consumer Perception**

The Company believes the medical marihuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marihuana produced. Consumer perception of OGI's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marihuana 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 marihuana 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 OGI's products and the business, results of operations, financial condition and the Company's cash flows. OGI'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 OGI'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 marihuana in general, or OGI's products specifically, or associating the consumption of medical marihuana 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.

***(xix) Product Liability***

As a manufacturer and distributor of products designed to be ingested by humans, OGI 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 OGI's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of OGI's products alone or in combination with other medications or substances could occur. OGI may be subject to various product liability claims, including, among others, that OGI's products caused injury or illness, 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 OGI could result in increased costs, could adversely affect OGI's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company.

There can be no assurances that OGI 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 OGI's potential products. As of the current date, the Company has a small amount of insurance coverage for product liabilities.

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

***(xxii) Reliance on Key Inputs***

OGI'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 OGI. 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, OGI 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 OGI 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.

***(xxiii) Difficulties with Forecasts***

OGI 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 marihuana 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.

**(xxiv) 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 Exchange, the Company will only conduct the business of production, acquisition, sale and distribution of medical marihuana in Canada as permitted under the Health Canada license. This undertaking could have an adverse effect on the Company's ability to export marihuana from Canada and on its ability to expand its business into other areas including the provision of non-medical marihuana in the event that the laws were to change to permit such sales and the Company is still listed on the Exchange and still subject to such undertaking at the time. This undertaking may prevent the Company from expanding into new areas of business when the OGI'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.

**(xxv) 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. The inability of OGI to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

**(xxvi) Conflicts of Interest**

Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

**(xxvii) 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 OHI becomes involved be determined against the Company, such a decision could adversely affect OHI'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.

**(xxviii) Dividends**

The Company has no earnings or dividend record and may, or 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.

**(xxix) 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 Resulting Issuer.

**(xxx) Environmental and Employee Health and Safety Regulations**

OGI'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. OGI 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 OGI'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.

## 7.2 Commitments and Contingent Liabilities

### (i) Contingent Liabilities

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as letter agreements, service agreements and purchase and sale agreements. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

As of the date hereof, management of OrganiGram Holdings Inc. is not aware of any claims or potential claims made or pending against the Company.

## 8.1 Future Changes in Accounting Policies

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published and may impact the Company but are only effective for its future accounting periods. The potentially relevant new standards that may impact the Company include:

### (i) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (IFRS 9) replaces IAS 39 regarding the recognition and measurement of financial assets and financial liabilities. The effective date for IFRS 9 is January 1, 2018, applied retrospectively.

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. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities and includes new requirements related to hedge accounting. Management is currently evaluating the potential impact that the adoption of IFRS 9 will have on the Company's consolidated financial statements.

### (ii) IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, which covers principles for the reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of reviewing the amendments to determine the impact on the consolidated financial statements.

## 9.1 Directors and Officers

The Company's directors and officers, as of the current date, are:

Larry Rogers	Independent Director and Chair of the Board and the Audit Committee
Dr. Kenneth Mitton	Independent Director and Chair of the Compensation Committee
Michel J. Bourque <sup>1</sup>	Independent Director and Chair of the Governance Committee
David Doherty <sup>1</sup>	Director
Denis Arsénault	Director and CEO
Roger Rogers	Director and President
Scott Franklin	Chief Financial Officer and Secretary

Note: <sup>1</sup>Subject to Health Canada regulatory approval.