

ORGANIGRAM HOLDINGS INC.

Interim Condensed Consolidated Financial Statements

As at February 28, 2017

	Page
<u>Consolidated Financial Statements</u>	
Management's Responsibility for the Financial Statements	1
Condensed Consolidated Interim Statements of Financial Position	2
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss	3
Condensed Consolidated Interim Statements of Changes in Equity	4
Condensed Consolidated Interim Statements of Cash Flows	5
Notes to the Condensed Consolidated Interim Financial Statements	6 - 17





April 27, 2017

Management's Responsibility for the Financial Statements

The accompanying condensed consolidated interim financial statements of OrganiGram Holdings Inc. have been prepared by the Company's management in accordance with International Financial Reporting Standards and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurance that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors. It meets with the Company's management and auditors and reviews internal controls and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

(signed) 'Greg Engel'
Chief Executive Officer
Moncton, New Brunswick

(signed) 'Peter R Hanson, CPA, CMA'
Chief Financial Officer (interim)
Moncton, New Brunswick

OrganiGram Holdings Inc.
Condensed Consolidated Interim Statements of Financial Position
As at February 28, 2017 and August 31, 2016
(Unaudited - in Canadian dollars)

Assets	February 28, <u>2017</u>	August 31, <u>2016</u>
Current Assets		
Cash	\$ 1,328,513	\$ 9,857,637
Short term investments (Note 4)	54,275,000	22,775,000
Accounts receivable (Note 5)	2,470,821	1,561,893
Biological assets (Note 6)	2,928,704	2,366,863
Inventories (Note 7)	2,660,278	3,940,820
Prepaid expenses (Note 10 and Note 18)	<u>473,580</u>	<u>149,740</u>
	64,136,896	40,651,953
Property, plant and equipment (Note 8)	26,550,140	13,215,012
Deferred charges (Note 10 and Note 18)	<u>531,066</u>	<u>-</u>
	<u>\$ 91,218,102</u>	<u>\$ 53,866,965</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 15)	\$ 4,856,729	\$ 2,115,193
Current portion of long term debt (Note 9)	<u>360,573</u>	<u>330,649</u>
	5,217,302	2,445,842
Long-term Debt		
Long-term debt (Note 9)	<u>3,283,186</u>	<u>7,160,831</u>
	<u>8,500,488</u>	<u>9,606,673</u>
Shareholders' Equity		
Share capital (Note 10)	95,737,403	50,958,174
Reserve for options and warrants (Notes 10)	2,355,982	2,167,127
Accumulated deficit	<u>(15,375,770)</u>	<u>(8,865,009)</u>
	<u>82,717,614</u>	<u>44,260,292</u>
	<u>\$ 91,218,102</u>	<u>\$ 53,866,965</u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

OrganiGram Holdings Inc.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three-months and six-months ended February 28, 2017 and 2016
(Unaudited - in Canadian dollars)

	3-Months Ended February 28		6-Months Ended February 28	
	2017	2016	2017	2016
Revenue				
Sales	\$ 1,445,180	\$ 1,425,466	\$ 3,675,851	\$ 2,454,842
Less: sales returns (Note 15)	<u>(2,026,349)</u>	<u>-</u>	<u>(2,026,349)</u>	<u>-</u>
Net sales	(581,169)	1,425,466	1,649,502	2,454,842
Cost of sales	941,939	565,252	1,629,200	998,373
Indirect production (Note 15)	<u>2,087,250</u>	<u>75,281</u>	<u>2,178,734</u>	<u>109,520</u>
	(3,610,358)	784,933	(2,158,432)	1,346,949
Fair value adjustment to biological assets and net realizable value adjustment to inventory	<u>(366,986)</u>	<u>297,715</u>	<u>(1,056,021)</u>	<u>376,533</u>
Gross margin	<u>(3,977,344)</u>	<u>1,082,648</u>	<u>(3,214,453)</u>	<u>1,723,482</u>
Expenses				
Sales and marketing	704,571	412,015	1,372,491	737,403
General and administrative (Note 16)	914,444	449,660	1,454,699	724,693
Share-based compensation	<u>291,395</u>	<u>46,699</u>	<u>565,114</u>	<u>211,466</u>
Total expenses	<u>1,910,410</u>	<u>908,374</u>	<u>3,392,304</u>	<u>1,673,562</u>
(Loss) income from operations	<u>(5,887,754)</u>	<u>174,274</u>	<u>(6,606,757)</u>	<u>49,920</u>
Financing costs	62,980	119,007	163,938	195,864
Investment income	<u>(195,519)</u>	<u>-</u>	<u>(259,933)</u>	<u>-</u>
Net (loss) income and comprehensive (loss) income	<u>\$ (5,755,215)</u>	<u>\$ 55,267</u>	<u>\$ (6,510,762)</u>	<u>\$ (145,944)</u>
Weighted-average number of shares, basic and diluted	<u>97,082,387</u>	<u>56,287,311</u>	<u>91,965,738</u>	<u>54,707,208</u>
Net (loss) income per common share, basic and diluted	<u>\$ (0.059)</u>	<u>\$ 0.001</u>	<u>\$ (0.071)</u>	<u>\$ (0.003)</u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

OrganiGram Holdings Inc.
Condensed Consolidated Interim Statements of Changes in Equity
For the six-months ended February 28, 2017 and 2016
(Unaudited - in Canadian dollars)

	Number of Shares	Share Capital	Reserve for Options and Warrants	Accumulated Deficit	Shareholders' Equity
	#	\$	\$	\$	\$
Balance - September 1, 2015	53,026,787	\$ 16,753,777	\$ 812,027	\$ (9,711,672)	\$ 7,854,132
Share - based compensation	-	-	211,467	-	211,467
Exercise of stock options	60,000	40,893	(17,393)	-	23,500
Equity financing - private placement	3,298,073	3,429,998	-	-	3,429,998
Equity financing - warrants private placement	-	(156,890)	156,890	-	-
Share issue costs	-	(151,072)	-	-	(151,072)
Net loss and comprehensive loss	-	-	-	(145,944)	(145,944)
Balance - February 29, 2016	56,384,860	\$ 19,916,706	\$ 1,162,991	\$ (9,857,616)	\$ 11,222,081
Balance - September 1, 2016	84,685,102	\$ 50,958,174	\$ 2,167,127	\$ (8,865,009)	\$ 44,260,292
Share - based compensation (Note 10)	-	-	544,760	-	544,760
Share - based payments (Note 10)	508,118	720,678	-	-	720,678
Exercise of stock options (Note 10)	196,113	266,799	(97,481)	-	169,318
Exercise of units (Note 10)	42,583	29,808	-	-	29,808
Exercise of warrants (Note 10)	2,245,914	3,220,115	(258,424)	-	2,961,692
Conversion of debentures (Note 10)	2,071,425	2,899,995	-	-	2,899,995
Equity financing - December 7, 2016 (Note 10)	11,339,000	40,253,450	-	-	40,253,450
Share issue costs	-	(2,611,617)	-	-	(2,611,617)
Net loss and comprehensive loss	-	-	-	(6,510,762)	(6,510,762)
Balance - February 28, 2017	101,088,255	\$ 95,737,403	\$ 2,355,982	\$ (15,375,770)	\$ 82,717,614

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

OrganiGram Holdings Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the six-months ended February 28, 2017 and 2016
(Unaudited - in Canadian dollars)

	February 28, <u>2017</u>	February 29, <u>2016</u>
Cash Provided (Used)		
Operating Activities		
Net loss	\$ (6,510,762)	\$ (145,944)
Items not affecting cash		
Share based compensation	565,114	211,467
Loss on disposal of manufacturing assets	442,958	-
Amortization of deferred financing	1,249	6,249
Fair value adjustment to biological assets	(99,456)	(351,274)
Depreciation	665,794	336,969
Financing costs	162,689	195,864
Investment income	(259,933)	-
Net change in accounts receivable	(908,928)	(683,547)
Net change in biological assets	(462,385)	(306,806)
Net change in inventories	1,280,542	(885,513)
Net change in accounts payable and accrued liabilities	2,741,536	301,208
Net change in prepaid expenses	<u>(154,582)</u>	<u>(363,645)</u>
	<u>(2,536,164)</u>	<u>(1,684,972)</u>
Financing Activities:		
Shares issued	40,253,450	3,429,999
Share issue costs	(2,611,617)	(151,072)
Payment of long-term debt	(1,153,370)	(116,844)
Proceeds from long-term debt	204,398	2,900,000
Stock options, warrants and units exercised	3,160,818	23,500
Financing costs	<u>(162,689)</u>	<u>(195,864)</u>
	<u>39,690,990</u>	<u>5,889,719</u>
Investing Activities:		
Increase in short-term investments	(36,000,000)	(4,000,000)
Decrease in short-term investments	4,500,000	-
Investment income	259,933	-
Proceeds on sale of manufacturing assets	254,157	-
Acquisition of property, plant and equipment	<u>(14,698,040)</u>	<u>(688,966)</u>
	<u>(45,683,950)</u>	<u>(4,688,966)</u>
Cash Used	(8,529,124)	(484,219)
Cash Position		
Beginning of period	<u>\$ 9,857,637</u>	<u>\$ 1,473,694</u>
End of period	<u>\$ 1,328,513</u>	<u>\$ 989,475</u>

The accompanying notes are an integral part of these Condensed Consolidated Interim Financial Statements

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

1. Nature of Operations

OrganiGram Holdings Inc. ("OHI" or the "Company"), through its wholly owned subsidiary Organigram Inc. ("OGI"), is a Licensed Medical Marijuana Producer as regulated by Health Canada under the Marihuana Medical Access Regulations ("MMAR") of the Government of Canada. OGI was incorporated, under the laws of the Province of New Brunswick, Canada, on March 1, 2013. OHI is a federally incorporated company under the Canada Business Corporations Act.

The address of the registered office of OHI is 35 English Drive, Moncton, New Brunswick, Canada, E1E 3X3. OHI is a Tier II issuer on the TSX-V with its common shares trading under the symbol "OGI-V".

2. Basis of Preparation

(i) Statement of Compliance

The condensed consolidated interim financial statements have been prepared in compliance with the International Financial Reporting Standard 34 Interim Financial Reporting ("IAS 34"). The consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended August 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies applied are consistent with those applied in the annual financial statements with the exception of those described in note 3.

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on April 27, 2017.

(ii) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for biological assets which are measured at fair value.

(iii) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency.

(iv) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its sole subsidiary, OGI, on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

3. Significant Accounting Policies

i) New standards and interpretations adopted

Amendments to IAS 41 – Agriculture and IAS 16 – Property, plant and equipment

This amendment provides guidance regarding the accounting for bearer plants by providing a definition of bearer plants and brings bearer plants within the scope of IAS 16 Property, plant and equipment from IAS 41 Agriculture. The amendment is effective for annual reporting periods beginning on or after January 1, 2016, and must be applied retrospectively. The Company has adopted these amendments in its financial statements for the year beginning on September 1, 2016. These amendments did not require any significant change to the Company's accounting practices.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

Disclosure Initiative (Amendments to IAS 1)

On December 18, 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1) as part of its major initiative to improve presentation and disclosure in financial reports. The amendments to IAS 1 relate to (i) materiality; (ii) order of the notes; (iii) subtotals; (iv) accounting policies; and (v) disaggregation and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The standard is effective for annual periods beginning on or after January 1, 2016. The Company has adopted these amendments in its financial statements for the year beginning on September 1, 2016. These amendments did not require any significant change to the Company's accounting practices.

ii) Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. The Company's critical accounting estimates and judgements are disclosed in note 3 to its annual consolidated financial statements for the year ended August 31, 2016.

iii) New and amended standards issued but not yet effective

Disclosure Initiative (Amendments to IAS 7)

This amendment was issued on December 18, 2014. The amendment will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including non-cash changes and changes arising from cash flows. The amendment is effective for annual reporting periods beginning on or after January 1, 2017. Early adoption is permitted.

Amendments to IAS 12 – Income Taxes

This amendment provides clarify on recognition of deferred tax assets for unrealized losses to address diversity in practice. The amendment is effective for annual reporting periods beginning on or after January 1, 2017. Early adoption is permitted.

IFRS 2 - Share-based Payments

The amendment clarifies how to account for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature and a modification to the terms and conditions that changes the classification of the transactions. The amendment is effective for annual periods beginning on or after January 1, 2018.

IFRS 9 – Financial Instruments

A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement has been issued and is effective for annual periods beginning on or after January 1, 2018. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and de-recognition. This new standard supersedes all prior versions of IFRS 9.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customer (“IFRS 15”), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 17, 2018, and must be applied retrospectively. Early adoption is permitted.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”), which establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019.

Management is currently evaluating the impact, if any, of these standards.

4. Short Term Investments

The Company’s short term investments included the following on February 28, 2017 and August 31, 2016:

<u>Description</u>	<u>Interest %</u>	<u>February 28, 2017</u>	<u>August 31, 2016</u>
Maturing November 30, 2016	0.80%	\$ -	\$ 300,000
Maturing June 9, 2017, redeemed	0.97%	-	500,000
Maturing June 22, 2017	1.01%	5,275,000	8,600,000
Maturing July 15, 2017, redeemed	0.95%	-	375,000
Maturing August 26, 2017	1.11%	6,500,000	6,500,000
Maturing August 26, 2017	1.11%	6,500,000	6,500,000
Maturing October 28, 2017	1.11%	1,000,000	-
Maturing December 22, 2017	1.19%	5,000,000	-
Maturing December 22, 2017	1.19%	5,000,000	-
Maturing December 27, 2017	1.20%	5,000,000	-
Maturing December 28, 2017	1.46%	20,000,000	-
		<u>\$ 54,275,000</u>	<u>\$ 22,775,000</u>

All short-term investments are guaranteed investment certificates which are redeemable prior to maturity.

5. Accounts Receivable

The Company’s accounts receivable included the following as of February 28, 2017 and August 31, 2016:

	<u>February 28, 2017</u>	<u>August 31, 2016</u>
Trade receivables	\$ 1,120,104	\$ 967,092
Harmonized sales taxes receivable	693,494	222,022
Accrued investment income	219,489	21,257
Government programs	84,032	48,032
Rental property	27,500	-
Other accounts receivable	326,202	303,490
	<u>\$ 2,470,821</u>	<u>\$ 1,561,893</u>

Included in other accounts receivable is a \$100,000 (2016 - \$150,000) promissory note bearing interest at 3% and repayable on demand and a \$200,000 (2016 - \$nil) promissory note bearing interest at 5% and maturing on August 29, 2017.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

6. Biological Assets

Biological assets consist of cannabis on plants and other biological assets. The change in the carrying value of biological assets is as follows:

	Other Biological assets	Cannabis on plants	Total
Carrying amount, August 31, 2016	\$ 9,761	\$ 2,357,102	\$ 2,366,863
Net change in fair value less costs to sell due to biological transformation	2,587	2,200,301	2,202,888
Transferred to inventory upon harvest	-	(1,641,047)	(1,641,047)
Carrying amount, February 28, 2017	\$ 12,348	\$ 2,916,356	\$ 2,928,704

All biological assets are current. The significant assumptions used in determining the fair value of cannabis on plants include:

- i. Wastage of plants based on their various stages;
- ii. Yield by plant;
- iii. Percentage of costs incurred to date compared to the total costs expected to be incurred are used to estimate the fair value of an in-process plant;
- iv. Percentage of costs incurred for each stage of plant growth was estimated.

The Company estimates the harvest yields for the cannabis on plants at various stages of growth. As of February 28, 2017, it is expected that the Company's biological assets will yield 988,701 grams (August 31, 2016 – 429,779 grams) of medical cannabis when harvested. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the fair value adjustment to biological assets in future periods.

7. Inventories

The Company's inventory assets include the following as of February 28, 2017 and August 31, 2016:

	February 28, 2017	August 31, 2016
Agricultural produce	\$ 1,946,111	\$ 3,496,541
Cannabis oil	523,251	272,422
Packaging and supplies	190,916	171,857
	<u>\$ 2,660,278</u>	<u>\$ 3,940,820</u>

During the six-month period ended February 28, 2017, the Company recorded a write-down of inventories in the amount of \$4,224,543, which included inventory recalled under the Company's voluntary recall (note 15), consisting of \$1,656,235 in inventory cost and a reversal of previously recognized fair value gains of \$2,568,308.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

8. Property, Plant and Equipment

During the three-month period ending February 28, 2017, there were additions of \$4,524,337 in property, plant and equipment (three months ended February 29, 2016 - \$543,091). Included in the additions is the acquisition of an adjacent property which was purchased for developing and producing edible cannabis products. The property is located at 91 English Drive in Moncton, New Brunswick and was purchased for \$609,545, including closing costs. The remaining additions during the three-month period relate to the expansion of the facility located at 35 English Drive and other ongoing projects.

During the six months ended February 28, 2017, there were additions of \$14,698,040 in property plant and equipment (six months ended February 29, 2016 - \$688,965). Included in the additions is the acquisition of an adjacent property for expanding operations located at 320 Edinburgh Drive in Moncton, New Brunswick for a purchase price of \$7,925,049, including closing costs, paid with \$6,900,000 in cash and the transfer of the building and property located at St. George Boulevard. Of the purchase price, \$600,000 was allocated to land and the remainder to the building.

9. Long-term debt

	February 28, <u>2017</u>	August 31, <u>2016</u>
Farm Credit Canada credit facility - with a 10 year amortization and a 5 year term variable rate plus 1.75% (currently 5.45%)	2,067,594	2,175,496
Non-brokered private placement maturing September 1, 2017, bearing interest at an interest rate of 9%, repaid	-	1,000,000
Farm Credit Canada - real property loan maturing December 1, 2020 with a 10 year amortization and 5 year term variable rate plus 2.15% (currently 5.936%)	1,378,850	1,424,318
Private placement convertible debentures maturing December 31, 2018 and bearing interest at an interest rate of 6.75% (Note 10)	-	2,900,000
Business Development Program - loan maturing September 1, 2024 with a 7 year amortization, bearing interest at an interest rate of 0%	204,398	-
<u>Deferred financing</u>	<u>(7,083)</u>	<u>(8,334)</u>
	3,643,759	7,491,480
<u>Less: current portion</u>	<u>(360,573)</u>	<u>(330,649)</u>
<u>Long-term portion</u>	<u>\$ 3,283,186</u>	<u>\$ 7,160,831</u>

The FCC loans are secured by a first charge on 35 English Drive and all of the Company's other assets. The company was in compliance with all covenants at February 28, 2017. Principal repayments required on the long-term debt in the next five fiscal years are as follows:

2017	\$	169,098
2018		390,314
2019		410,191
2020		428,411
<u>2021</u>		<u>452,377</u>
	\$	<u>1,850,391</u>

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

10. Share Capital

(i) Authorized share capital

The authorized share capital of the Company is an unlimited number of common shares without par value and an unlimited number of preferred shares without par value. All issued shares, consisting only of common shares, are fully paid.

(ii) Issued share capital

As at February 28, 2017, the Company's issued and outstanding share capital consisted of 101,088,255 (August 31, 2016 – 84,685,102) common shares with a stated value of \$95,737,403 (August 31, 2016 - \$50,958,174).

As at February 28, 2017, 2,845,610 (August 31, 2016 – 5,691,216) of the Company's issued common shares were held in escrow by the TSX-V or otherwise restricted from trading. These trading restrictions expire as follows:

August 22, 2017	2,845,610
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(iii) Issuances of share capital

On October 12, 2016, the Company issued 437,957 common shares at a share price of \$1.37 as share consideration to TGS International LLC ("TGS") in exchange for a trademark licensing agreement valued at \$600,001. As per the terms of the agreement, the shares will be released to TGS according to an escrow schedule that relates to certain calendar and operational milestones. The company has recorded the short-term portion of the fee of \$147,369 as a prepaid expense, and the long-term portion of the fee of \$452,632 as a deferred charge on the consolidated statement of financial position.

On October 25, 2016, the Company issued 2,071,425 common shares at a price per share of \$1.40 as conversion of convertible debentures.

On November 1, 2016, the Company also issued 70,161 common shares at a share price of \$1.72 as share consideration to XIB Consulting Inc. for consulting services performed and recognized an expense of \$120,677 as share-based compensation on the consolidated statement of net loss and comprehensive loss.

On December 7, 2016, the Company issued 11,339,000 common shares by way of a bought deal at \$3.55 per share for a total gross consideration of \$40,253,450.

During the quarter ending February 28, 2017, 76,083 stock options were exercised at an average price of \$0.98 for gross proceeds of \$74,382. For the six-month period ending February 28, 2017, 196,113 stock options were exercised for gross proceeds of \$169,318.

(iv) Warrants

During the quarter ending February 28, 2017, 123,500 warrants were exercised at an average price of \$1.38 for gross proceeds of \$170,425. For the six-month period ending February 28, 2017, 2,245,914 warrants were exercised for gross proceeds of \$2,961,692.

For the six-month period ending February 28, 2017, 42,583 units to acquire warrants and common shares, issued in connection with a private placement on December 22, 2014, were exercised at an average price of \$0.70 for gross proceeds of \$29,808.

OrganiGram Holdings Inc.**Notes to the Condensed Consolidated Interim Financial Statements**

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

The change in the number of warrants outstanding during the period is as follows:

	Number	Average Exercise Price
Balance - September 1, 2016	8,332,317	\$1.28
Granted	42,583	\$0.70
Exercised/Released	(2,122,414)	\$1.31
Balance - November 30, 2016	6,252,486	\$1.27
Exercised/Released	(123,500)	\$1.38
Expired	(84,595)	\$0.70
Balance - February 28, 2017	6,044,391	\$1.27

(v) 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.

The Company also issues stock options to third parties in exchange for services.

The change in the options outstanding during the period is as follows:

	Number	Average Exercise Price
Balance - September 1, 2016	2,742,862	\$0.67
Granted	1,993,100	\$1.49
Exercised	(120,030)	\$0.79
Cancelled / Forfeited	(6,000)	\$0.30
Balance - November 30, 2016	4,609,932	\$1.02
Granted	245,000	\$3.50
Exercised	(76,083)	\$0.98
Cancelled / Forfeited	(10,000)	\$2.54
Balance - February 28, 2017	4,768,849	\$1.14

Options outstanding have exercise prices that range from \$0.30 to \$3.55 with a weighted average remaining life of 8 years. Total share-based compensation expense for the three-month period ended February 28, 2017 was \$291,395 (2016 - \$46,699) of which, \$285,923 related to the Company's stock option plan. For the nine-month period ending February 28, 2017, share-based compensation was \$565,114 (2016 - \$211,466) of which, \$435,317 related to the Company's stock option plan. These options are measured at fair value at the date of grant and are expensed over the option's vesting period. In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

Risk free interest rate	0.55% - 2.00%
Expected life of options	0.5 - 8 years
Expected annualized volatility	53% - 128%
Expected dividend yield	-

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

(vi) Loss per share

Net loss per share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the years.

Diluted loss per share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

For all the periods presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of options and warrants. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share because to do so would have increased the loss per share (anti-dilutive) are as follows:

	February 28, 2017	August 31, 2016
Stock options	4,768,849	2,742,862
Warrants	6,044,391	8,332,317
	10,813,240	11,075,179

11. Related Party Transactions

(i) Transactions and balances with related entities

A debenture to Denaco Group Ltd, a company controlled by the previous Chief Executive Officer, issued in July 2015 for \$500,000 through a non-brokered private placement repayable on September 1, 2017, carrying a 9% interest rate, was re-paid in the quarter ended November 30, 2016.

Certain directors, management, and other related parties controlled by directors of the company were issued convertible debentures as part of the November 27, 2015 private placement. The convertible debentures carried a 6.75% interest rate and were to expire on December 31, 2018. During the quarter ended November 30, 2016, these debentures were converted into 110,713 common shares.

(ii) Management and Board compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. For the three and six-month period ended February 28, 2017, the Company's expenses included \$198,675 (2016 - \$134,236) and \$365,773 (2016 - \$238,111) respectively for salary and/or consulting fees paid to key management personnel. In addition, nil options (2016 - 40,000) and 835,600 (2016 - 160,000) options were issued for the three and six-month period respectively to key management personnel during the period at an average exercise price of \$nil (2016 - \$0.86) and \$1.42 (2016 - \$0.44) respectively.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

12. Capital Management

The Company considers its capital to consist of share capital, reserve for options and warrants, long-term debt, and accumulated deficit, which is disclosed in the February 28, 2017 statement of financial position as \$86,361,373 (August 31, 2016 - \$51,751,772).

The Company manages its capital structure and makes adjustments to it, based on funds available to the Company, in order to fund its start-up costs and the purchase and construction of its growing facility. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change in how the Company defines or manages capital in the year.

13. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants. The Company does not record any financial instruments at fair value. The Company's financial instruments include cash, short-term investments, accounts receivable, accounts payable and accrued liabilities and long-term debt. The carrying values of these financial instruments approximate fair value.

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

-) Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
-) Level 2 inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
-) Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, and long-term debt are classified as level 2 measurements. During the year, there were no transfers of amounts between level 1, 2 and 3.

14. Financial Risk Factors

The Company is exposed to various risks through its financial instruments, as follows:

- (i) **Credit risk** arises from deposits with banks, short-term investments and outstanding receivables. For trade 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. For other receivables, out of the normal course of business, management may obtain guarantees and general security agreements. The maximum exposure to credit risk approximates the \$58,074,334 of cash, short term investments and accounts receivable on the balance sheet.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

As of February 28, 2017, and August 31, 2016, the Company's aging of trade receivables (net of a provision for doubtful accounts) was approximately as follows:

	February 28, <u>2017</u>	August 31, <u>2016</u>
0-60 days	\$ 649,233	\$ 889,421
61-120 days	470,871	77,672
Total	<u>\$ 1,120,104</u>	<u>\$ 967,093</u>

Included in other accounts receivable is a secured promissory note receivable of \$100,000 bearing interest at 3% and payable on demand. Also, included in other accounts receivable is a \$200,000 promissory note bearing interest at 5% and maturing on August 29, 2017.

(ii) **Liquidity risk** - The Company's liquidity risk is the risk 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. At February 28, 2017, the Company had \$1,328,513 (August 31, 2016 - \$9,857,637) of cash and cash equivalents and working capital of \$58,919,594 (August 31, 2016- \$38,206,111).

The Company is obligated to the following contractual maturities relating to their undiscounted cash flows:

	<u>Carrying</u> <u>Amount</u>	<u>Contractual</u> <u>Cash Flows</u>	<u>Fiscal</u> <u>2017</u>	<u>Fiscal</u> <u>2018-2019</u>	<u>Fiscal</u> <u>2020-2021</u>
Accounts payable and accrued liabilities	\$ 4,856,729	\$ 4,856,729	\$ 4,856,729	\$ -	\$ -
Long-term debt	3,643,759	3,643,759	169,098	800,505	880,788
Interest	-	-	92,842	326,141	249,957
	<u>\$ 8,500,488</u>	<u>\$ 8,500,488</u>	<u>\$ 5,118,669</u>	<u>\$ 1,126,646</u>	<u>\$ 1,130,745</u>

(iii) **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 of:

(iv) **Interest 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 exposed to interest rate risk at February 28, 2017 pursuant to the variable rate loans described in Note 9. A 1% change in prime interest rates will increase or decrease the Company's interest expense by \$34,464 per year.

15. Voluntary recall

On December 30, 2016, the Company announced it was voluntarily recalling certain lots of medical marijuana which was supplied between August and December 2016. Following discussions with Health Canada, this was deemed a Type III recall, which is defined as "a situation in which the use of, or exposure to, dried marijuana, fresh marijuana or cannabis oil, marijuana plants or seeds is not likely to cause any adverse health consequences." On January 9, 2017, the Company announced that it had expanded its product recall to include additional product lots manufactured in 2016. Certain product lots of the expanded recall were deemed a Type II recall, a situation in which the use of, or exposure to, a product may cause temporary adverse health consequences or where the probability of serious adverse health consequences is remote.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

As a result of the voluntary recall, for the three month and six-month period ended February 28, 2017, the Company has recorded a sales return provision in accounts payable and accrued liabilities of \$2,026,349 to uninsured customers for credits issued through a client credit program. Credits for uninsured customers will remain on customer accounts for a twelve-month period ending March 2018.

Also as a result of the voluntary recall, for the three-month period ended February 28, 2017, the Company recorded a write-down of inventories of \$1,307,708 in indirect production and a loss of \$1,670,172 in change in fair value of biological assets and net realizable value adjustment to inventory for inventory that was voluntarily recalled, in addition to the write-down of \$499,857 expensed in the three-month period ended November 30, 2016. The voluntarily recalled inventory was destroyed in March 2017.

16. General and Administrative Expenses

	3-Months Ended		6-Months Ended	
	February 28		February 28	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Wages and benefits	\$ 412,025	\$ 108,907	\$ 708,467	\$ 211,334
Office and general	266,645	107,681	349,895	185,287
Professional fees	94,496	177,741	165,635	221,729
Depreciation and amortization	108,874	20,462	164,740	38,544
Travel and accommodation	23,766	19,856	45,744	44,368
Utilities	8,639	15,013	20,218	23,431
Total general and administrative expenses	<u>\$ 914,444</u>	<u>\$ 449,660</u>	<u>\$ 1,454,699</u>	<u>\$ 724,693</u>

17. Licensing and Endorsement Agreement

On October 4, 2016, the Company entered into a Licensing and Endorsement Agreement with Swear Net Inc. (the Trailer Park Boys "TPB") for an exclusive product and branding partnership. In exchange for services, OGI paid \$50,000 in cash with a further \$50,000 to be paid upon certain conditions being met; and issued 150,000 options at a strike price of \$1.52 per share. At February 28, 2017, the Company has recorded the current portion of the fee of \$71,889 as a prepaid expense and the long-term portion of the fee of \$78,434 in deferred charges on the consolidated statement of financial position. The fee will be recognized over the life of the agreement of five years as services are delivered. For the three and six-month period ending February 28, 2017, \$5,472 and \$9,120 has been amortized to share-based compensation respectively.

Under the agreement, OGI must issue an additional 350,000 in options at a price of \$1.52 in accordance with certain conditions being met and a royalty payment of 4% of gross revenues generated specifically from the sales and promotion of certain products as set out in the agreement.

OrganiGram Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six-months ended February 28, 2017 and 2016

(Unaudited - in Canadian dollars)

18. Subsequent Events

(i) Issuance of stock options

On March 1, 2017, the Company has issued 20,000 employee options to purchase 20,000 common shares of the Company, to employees of OGI, at an exercise price of \$2.88 per share. Options vest over a two-year period. Vested options may be exercised until 2027, subject to forfeiture provisions requiring the options to expire ninety days after termination of the individual's employment.

On March 14, 2017, the Company has issued an aggregate of 1,500,000 incentive stock options to Greg Engel, a director of the Company and the Company's Chief Executive Officer, at an exercise price of \$2.36 per share.

In accordance with Mr. Engel's employment contract, (i) 266,666 of the Options shall vest on March 13, 2018; (ii) 266,667 of the Options shall vest on March 13, 2019; and (iii) 266,667 of the Options shall vest on March 13, 2020.

Additionally, 350,000 stock options shall vest upon the common shares of the Company trading at a price at or greater than \$4.76/share; and, 350,000 stock options shall vest upon the common shares of the Company trading at a price at or greater than \$7.14/share. In each instance, the common shares of the Company must trade at or greater than the price set forth above for a period of not less than 20 consecutive trading days.

(ii) Legal – Class Action Suit

On March 3, 2017, a Notice of Action was filed with the Supreme Court of Nova Scotia seeking certification to commence a class action lawsuit against the Company and OGI seeking damages in respect of any profits earned by the Company in respect of product which was sold to clients and subsequently voluntarily recalled.

The Company will be opposing certification and defending any action. While the legal analysis is ongoing, the Company does not believe, at this time, that there is a high probability of a significant damages award being awarded to the class, in the event that the class is certified to proceed. The Company has recognized in the three and six-month periods ended February 28, 2017, \$2,026,349 in sales returns to uninsured customers for credits arising from the product recall which represents a divestiture of the profits earned through a client credit program.

(iii) Letter of Intent to acquire Trauma Healing Centers

On April 10, 2017, the Company entered into a letter of intent (the "LOI") to acquire all of the issued and outstanding shares of Trauma Healing Centers Incorporated ("THC").

Under the terms of the LOI, the purchase consideration consists of the issuance of 719,425 common shares of the Company at a deemed value of \$2.78 per share.

THC specializes in medical cannabis assessment and prescribing. THC sees patients on a referral basis and offers a multi-disciplinary approach to healing chronic conditions.