



Organigram Holdings Inc.

Condensed Consolidated
Interim Financial Statements
(Unaudited)

For the three and nine months ended
May 31, 2019 and 2018

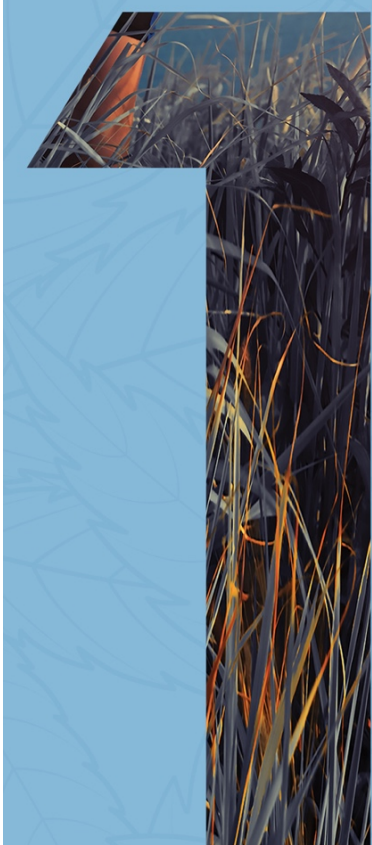


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ORGANIGRAM

July 12, 2019

Management's Responsibility for the Financial Statements

The accompanying condensed consolidated interim financial statements of Organigram Holdings Inc. ("OHI" or the "Company") 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 safe-guarded 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 of Directors 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) 'Paolo De Luca, CPA, CA'
Chief Financial Officer
Moncton, New Brunswick

ORGANIGRAM HOLDINGS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at May 31, 2019 and August 31, 2018

(Unaudited - expressed in CDN \$000's)

	MAY 31, 2019	AUGUST 31, 2018
ASSETS		
Current assets		
Cash	\$ 47,190	\$ 55,064
Short term investments (Note 5)	40,562	75,000
Accounts receivable (Note 6)	18,538	3,736
Biological assets (Note 7)	20,055	19,858
Inventories (Note 8)	94,183	44,969
Prepaid expenses (Note 13 and Note 23)	11,943	3,372
Assets classified as held for sale (Note 24)	-	1,215
	232,471	203,214
Property, plant and equipment (Note 9)	180,595	98,639
Intangible assets (Note 10)	1,530	-
Deferred charges (Note 13 and Note 23)	677	714
Investments in associates (Note 14)	12,716	-
	\$ 427,989	\$ 302,567
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 23,401	\$ 10,764
Current portion of long term debt (Note 11)	2,273	421
Liabilities classified as held for sale (Note 24)	-	65
	25,674	11,250
Long-term debt (Note 11)	47,196	2,877
Unsecured convertible debentures (Note 12)	-	95,866
Contingent share consideration (Note 14)	1,981	-
Deferred tax liability	16,759	7,980
	91,610	117,973
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	305,950	157,790
Reserve for options and warrants (Note 13)	16,724	26,045
Accumulated other comprehensive income	34	-
Retained earnings	13,671	759
	336,379	184,594
	\$ 427,989	\$ 302,567

On Behalf of the Board:
s/Greg Engel, Director
s/Peter Amirault, Director

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

ORGANIGRAM HOLDINGS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended May 31, 2019 and 2018

(Unaudited - expressed in CDN \$000's except share amounts)

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2019	2018	2019	2018
REVENUES				
Gross revenue (Note 18)	\$ 30,361	\$ 3,435	\$ 78,313	\$ 9,231
Excise taxes	(5,611)	-	(14,190)	-
Net revenue	24,750	3,435	64,123	9,231
Cost of sales (Note 25)	11,422	1,431	24,916	4,217
Indirect production (Note 19)	1,051	360	2,064	1,002
Gross margin before fair value adjustments	12,277	1,644	37,143	4,012
Fair value changes to biological assets and changes in inventory sold (Note 7)	(12,456)	10,066	22,383	15,172
Gross margin	(179)	11,710	59,526	19,184
EXPENSES				
General and administrative (Note 22)	4,622	1,297	9,428	3,952
Sales and marketing (Note 25)	4,441	1,492	9,905	3,349
Share-based compensation (Note 13)	2,046	1,156	7,003	3,056
Total expenses	11,109	3,945	26,336	10,357
INCOME (LOSS) FROM OPERATIONS	(11,288)	7,765	33,190	8,827
Financing costs	379	4,257	8,883	5,737
Investment income	(17)	(578)	(492)	(959)
Share of loss from investments in associates (Note 14)	415	-	922	-
Unrealized loss on changes in fair value of contingent consideration (Note 14)	363	-	1,009	-
Income (loss) from continuing operations before tax	(12,428)	4,086	22,868	4,049
Income tax (recovery) expense				
Deferred, net	(2,248)	-	9,918	-
Net income (loss) from continuing operations	\$ (10,180)	\$ 4,086	\$ 12,950	\$ 4,049
Loss from discontinued operations (Note 24)	-	(1,266)	(38)	(1,553)
NET INCOME (LOSS)	\$ (10,180)	\$ 2,820	\$ 12,912	\$ 2,496
Other comprehensive gain (loss)				
Foreign currency translation (loss) gain, net of tax	(23)	-	31	-
COMPREHENSIVE INCOME (LOSS)	\$ (10,203)	\$ 2,820	\$ 12,943	\$ 2,496
Net income (loss) from continuing operations per common share, basic (Note 13(vi))	\$ (0.068)	\$ 0.033	\$ 0.095	\$ 0.035
Net income (loss) from continuing operations per common share, diluted (Note 13(vi))	\$ (0.068)	\$ 0.030	\$ 0.089	\$ 0.031
Net loss from discontinued operations per common share, basic (Note 13(vi))	\$ -	\$ (0.010)	\$ -	\$ (0.013)
Net loss from discontinued operations per common share, diluted (Note 13(vi))	\$ -	\$ (0.010)	\$ -	\$ (0.013)

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 nine months ended May 31, 2019 and 2018

(Unaudited - expressed in CDN \$000's except share amounts)

	NUMBER OF SHARES	SHARE CAPITAL	RESERVE FOR OPTIONS AND WARRANTS	ACCUMULATED OTHER COMPREHENSIVE INCOME	RETAINED EARNINGS/ (ACCUMULATED DEFICIT)	SHAREHOLDERS' EQUITY
Balance - September 1, 2017	103,521,404	\$ 99,532	\$ 3,081	\$ -	\$ (19,755)	\$ 82,858
Share-based compensation (Note 13 (v))	-	-	3,217	-	-	3,217
Share-based payments (Note 13 (iii))	50,000	143	-	-	-	143
Exercise of stock options (Note 13 (iii))	288,333	765	(265)	-	-	500
Exercise of warrants (Note 13 (iv))	4,313,837	6,608	(722)	-	-	5,886
Equity financing (Note 13 (iii))	16,428,572	48,711	8,789	-	-	57,500
Equity financing issue costs (Note 13 (iii))	-	(3,117)	(562)	-	-	(3,679)
Convertible debenture allocation of discount (Note 13 (iii))	-	-	16,905	-	-	16,905
Convertible debenture issue costs (Note 13 (iii))	-	-	(1,061)	-	-	(1,061)
Net loss and comprehensive loss	-	-	-	-	2,496	2,496
Balance - May 31, 2018	124,602,146	\$ 152,642	\$ 29,382	\$ -	\$ (17,259)	\$ 164,765
Balance - September 1, 2018	125,207,938	\$ 157,790	\$ 26,045	\$ -	\$ 759	\$ 184,594
Exercise of stock options (Note 13 (iii))	2,082,216	6,119	(2,253)	-	-	3,866
Exercise of warrants (Note 13 (iv))	5,516,807	27,924	(5,889)	-	-	22,035
Exercise of restricted share units (Note 13 (v))	179,138	463	(463)	-	-	-
Conversion of debentures (Note 13 (iii))	20,845,372	112,166	(11,247)	-	-	100,919
Share-based compensation (Note 13 (v))	41,000	181	10,694	-	-	10,875
Tax impact of equity and convertible debentures	-	1,307	(163)	-	-	1,144
Foreign currency translation gain, net of tax	-	-	-	34	-	34
Net income	-	-	-	-	12,912	12,912
Balance - May 31, 2019	153,872,471	\$ 305,950	\$ 16,724	\$ 34	\$ 13,671	\$ 336,379

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

ORGANIGRAM HOLDINGS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

For the nine months ended May 31, 2019 and 2018

(Unaudited - expressed in CDN \$000's except share amounts)

CASH PROVIDED (USED)

OPERATING ACTIVITIES

	MAY 31, 2019	MAY 31, 2018
Net income from continuing operations	\$ 12,950	\$ 4,049
Items not affecting cash:		
Share-based compensation (Note 13)	10,858	3,056
Depreciation (Note 9)	5,688	1,996
Loss on disposal of property, plant and equipment (Note 9)	5	19
Fair value adjustment to biological assets	(4,337)	2,679
Financing costs	8,883	5,737
Investment income	(492)	(959)
Share of loss from investments in associates (Note 14)	922	-
Unrealized loss on changes in fair value of contingent consideration (Note 14)	1,009	-
Deferred tax expense	9,923	-
Changes in non-cash working capital:		
Net change in accounts receivable	(14,522)	549
Net change in biological assets	4,140	(9,218)
Net change in inventories	(49,214)	(14,944)
Net change in accounts payable and accrued liabilities (Note 2)	3,203	1,719
Net change in prepaid expenses and deferred charges	(8,340)	(163)
Net cash used in continuing operations	(19,324)	(5,480)
Net cash used in operating activities related to discontinued operations (Note 24)	(35)	(470)
Net cash used in operating activities	(19,359)	(5,950)

FINANCING ACTIVITIES

Proceeds from share issuance (Note 13)	-	57,500
Proceeds from convertible debenture issuance (Note 12)	-	115,000
Payment of share issue costs (Note 13)	-	(4,740)
Payment of convertible debenture issue costs (Note 12)	-	(6,094)
Payment of long-term debt (Note 11)	(12,671)	(286)
Proceeds from long-term debt, net of issue costs of \$1,193 (2018 - nil) (Note 11)	58,807	159
Stock options, warrants and units exercised (Note 13)	25,901	6,386
Interest paid	(6,281)	(2,443)
Net cash provided by financing activities	65,756	165,482

INVESTING ACTIVITIES

Purchase of short-term investments (Note 5)	-	(124,200)
Proceeds from short-term investments	35,000	32,000
Investment income	703	959
Investments in associates (Note 14)	(12,748)	-
Distributions received from investments in associates	122	-
Proceeds on sale of property, plant and equipment (Note 9)	180	15
Purchase of property, plant and equipment (Note 2 and 9)	(76,024)	(38,620)
Purchase of intangible assets (Note 10)	(1,530)	-
Net cash used in investing activities related to continuing operations	(54,297)	(129,846)
Net cash used in investing activities related to discontinued operations (Note 24)	-	(32)
Net cash used in investing activities	(54,297)	(129,878)

Effects of foreign exchange on cash

	26	-
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INCREASE (DECREASE) IN CASH

CASH POSITION

Beginning of period	\$ 55,064	\$ 1,957
End of period	\$ 47,190	\$ 31,611

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 nine months ended May 31, 2019 and 2018

(Unaudited - expressed in CDN \$000's except share amounts)

1. NATURE OF OPERATIONS

Organigram Holdings Inc. ("OHI" or the "Company") is a publicly traded corporation, a Tier II issuer, on the TSX Venture Exchange ("TSX-V") with its common shares trading under the symbol "OGI-V" and on the Nasdaq Global Select Market under the symbol "OGI". The address of the registered office of OHI is 35 English Drive, Moncton, New Brunswick, Canada, E1E 3X3.

The Company's major subsidiaries are Organigram Inc. ("OGI"), a Licensed Producer of cannabis and cannabis derived products in Canada regulated by Health Canada under the Cannabis Act and the Cannabis Regulations of Canada, and 10870277 Canada Inc. ("108"), a holding company for OHI.

OGI was incorporated, under the laws of the Province of New Brunswick, Canada, on March 1, 2013. 108 is a federal company under the Canada Business Corporations Act. OHI is a federal company under the Canada Business Corporations Act.

2. CORRECTION OF RECLASSIFICATION ERROR TO PRESENTATION OF PRIOR PERIOD CONSOLIDATED STATEMENT OF CASH FLOW

For the nine months ended May 31, 2018, net change in accounts payable and accrued liabilities (shown in the operating activities section of the statement of cash flow) and net cash used in operating activities were understated by \$767 and purchase of property, plant and equipment (shown in the investment activities of the statement of cash flow) and net cash used in investing activities were overstated by \$767. The amounts relate to timing differences between when construction services were rendered and equipment was received and ultimately paid for.

This classification error that was corrected for the nine months ended May 31, 2018 as presented below:

	AS REPORTED	DISCONTINUED OPERATIONS	ADJUSTMENT	AS CORRECTED
OPERATING ACTIVITIES				
Net change in accounts payable and accrued liabilities	\$ 2,434	\$ 52	\$ (767)	\$ 1,719
Net cash used in operating activities	\$ (5,183)	\$ -	\$ (767)	\$ (5,950)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	\$ (39,419)	\$ 32	\$ 767	\$ (38,620)
Net cash used in investing activities	\$ (130,645)	\$ -	\$ 767	\$ (129,878)

3. BASIS OF PREPARATION

(i) Statement of compliance

The condensed consolidated interim financial statements have been prepared in compliance with the International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended August 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The accounting policies applied are consistent with those applied in the annual consolidated financial statements except for those described in note 3(iii) and note 4.

These condensed consolidated interim financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on July 12, 2019.

(ii) Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for biological assets, short-term investments, and contingent share consideration, which are measured at fair value.

Historical cost is the fair value of the consideration given in exchange for goods and services, which is generally based upon the fair value at the time of the transaction of the consideration given in exchange for assets.

(iii) Foreign currency translation

Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries' functional currency, except for the Company's investment in associate in alpha-cannabis Pharma GmbH, for which the functional currency has been determined to be Euros.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of income (loss) and comprehensive income (loss).

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian Dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian Dollars using average exchange rates for the month during which the transactions occurred. Foreign currency differences are recognized in other comprehensive income (loss) in the cumulative translation account.

When the Company disposes of its entire interest in a foreign operation, or loses control over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation that remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income (loss) related to the subsidiary is reallocated between controlling and non-controlling interests.

(iv) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries 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.

4. SIGNIFICANT ACCOUNTING POLICIES

New policies adopted as a result of relevant transactions entered into:

(i) Investments in associates

Associates are companies over which OHI has significant influence over and are accounted for under the equity method. Significant influence is presumed when the Company has an ownership interest greater than 20%, unless certain qualitative factors overcome this assumption. Conversely, where the Company has an ownership interest less than 20%, it is presumed that the Company does not have significant influence, unless certain qualitative factors overcome this assumption. In assessing significant influence and the ownership interest, potential voting rights that are currently exercisable are taken into consideration.

Investments in associates are accounted for using the equity method and are initially recognized at cost, inclusive of transaction costs. The consolidated financial statements include the Company's share of the income or loss and equity movement of equity accounted associates. In accordance with IFRS, the associate's most recent available financial statements are used in the application of the equity method. Where the associate's reporting period differs from the Company's, the associate prepares financial information as of the same period end as the Company, unless it is impracticable to do so. Otherwise, the Company will adjust for its share of income and expenses and equity movement based on the associate's most recently completed financial statements, adjusted for the effects of significant transactions. The Company does not recognize losses exceeding the carrying value of its interest in the associate.

(ii) Intangible assets

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, except for off-market supply agreements, where amortization is provided based on the actual output received versus the estimated output forecast to be received over the life of the agreement.

The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization.

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as general and administrative expenses on the consolidated statement of income (loss) and comprehensive income (loss) as incurred.

NEW STANDARDS AND INTERPRETATIONS ADOPTED

(i) New or amended standards effective September 1, 2018

The Company has adopted the following new or amended IFRS standards for the annual period beginning on September 1, 2018.

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. This was effective for the Company beginning September 1, 2018.

Based on the Company's assessment, the adoption of the new standard did not have a significant impact on its consolidated financial statements.

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 was issued in November 2009 and October 2010. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and de-recognition.

Under IFRS 9, financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit and loss ("FVTPL"), transaction costs.

Financial assets are subsequently measured at:

- i) FVTPL;
- ii) amortized cost;
- iii) debt measured at fair value through other comprehensive income ("FVOCI");
- iv) equity investments designated at FVOCI; or
- v) financial instruments designated at FVTPL.

The classification is based on whether the contractual cash flow characteristics represent "solely payment of principal and interest" (the "SPPI test") as well as the business model under which the financial assets are managed. Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

Debt investments are recorded at amortized cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI test.

The assessment of the Company's business models for managing the financial assets was made as of the date of initial application of September 1, 2018. The assessment of whether contractual cash flows on debt instruments meet the SPPI test was made based on the facts and circumstances as at the initial recognition of the financial assets.

Consistent with IAS 39, all financial liabilities held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

Financial assets	IAS 39 CLASSIFICATION	IFRS 9 CLASSIFICATION
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments excluding marketable securities	Held to maturity	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Investment in VIVO Cannabis Inc. in short-term investments	N/A	FVTPL
Accounts payable and accrued liabilities	Other liabilities	Other liabilities
Long-term debt	Other liabilities	Other liabilities
Unsecured convertible debentures	Other liabilities	Other liabilities

Impairment

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses that are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and general economic conditions. The Company has assessed the impairment of its amounts receivable using the ECL model, and no difference was noted. As a result, no impairment loss has been recognized upon transition and at September 1, 2018.

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.

The Company has applied IFRS 15 retrospectively but determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied

Revenue from the direct sale of cannabis and cannabis oil for a fixed price is recognized when the Company transfers control of the good to the customer, which is at point of shipment for medical cannabis and at point of delivery for recreational cannabis.

Revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Revenue also includes the net consideration to which the Company expects to be entitled. Revenue is recognised to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

Net revenue is revenue less excise taxes. Excise taxes are effectively a production tax which becomes payable when the product is removed from the Company's premises and may or may not be directly related to the value of revenue depending on the province of sale. It is generally not included as a separate item on external invoices; increases in excise tax are not always passed on to the customer and where a customer fails to pay for product received the Company cannot reclaim the excise tax. The Company therefore recognizes excise tax, unless it regards itself as an agent of the regulatory authorities, as a cost to the Company.

(ii) New or amended standards issued but not yet effective

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. This will be effective for the Company beginning September 1, 2019.

The Company reviewed its current and past leases. Reclassification of leases for office space, manufacturing equipment, and certain computer hardware will result in the establishment of additional right-of-use assets and lease liabilities on the statement of financial position, as well as changes in the timing and presentation of lease-related expenses on the statement of income. The Company is still evaluating the effect of this standard on the consolidated financial statements but expects there will be no material impact.

5. SHORT TERM INVESTMENTS

The Company’s short-term investments included the following on May 31, 2019 and August 31, 2018:

DESCRIPTION	INTEREST %	MAY 31, 2019	AUGUST 31, 2018
GIC - matured December 21, 2018	1.55%	\$ -	\$ 25,000
GIC - maturing August 27, 2019	2.00%	40,000	50,000
Equity securities in VIVO Cannabis Inc.		562	-
		<u>\$ 40,562</u>	<u>\$ 75,000</u>

The guaranteed investment certificates are redeemable prior to maturity. On October 16, 2018, the Company sold its wholly-owned subsidiary, THC, for consideration consisting of shares in the purchaser (an unaffiliated publicly-traded company), VIVO Cannabis Inc. These securities are carried at fair value through profit and loss. At May 31, 2019, the shares in this company had a fair value of \$0.65 per share.

6. ACCOUNTS RECEIVABLE

The Company’s accounts receivable included the following balances as of May 31, 2019 and August 31, 2018:

	MAY 31, 2019	AUGUST 31, 2018
Trade receivables	\$ 14,579	\$ 817
Harmonized sales taxes receivable	3,425	2,526
Accrued investment income	715	241
Government programs	105	80
Other accounts receivable	25	96
Less: Provision for doubtful accounts	(311)	(24)
	<u>\$ 18,538</u>	<u>\$ 3,736</u>

Included in other accounts receivable is a \$25 (August 31, 2018 - \$75) promissory note bearing interest at 3% and redeemable on demand.

7. BIOLOGICAL ASSETS

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Subsequent expenditures on these finished goods inventories after harvest are capitalized based on IAS 2 *Inventories*.

The changes in the carrying value of biological assets as of May 31, 2019 are as follows:

	OTHER BIOLOGICAL ASSETS	CANNABIS ON PLANTS	TOTAL
Carrying amount, August 31, 2017	\$ 6	\$ 2,774	\$ 2,780
Add (less) net production costs	593	14,357	14,950
Net change in fair value less costs to sell due to biological transformation	-	10,736	10,736
Transferred to inventory upon harvest	-	(8,608)	(8,608)
Carrying amount, August 31, 2018	<u>\$ 599</u>	<u>\$ 19,259</u>	<u>\$ 19,858</u>
Add (less) net production costs	(596)	25,255	24,659
Net change in fair value less costs to sell due to biological transformation	-	(4,337)	(4,337)
Transferred to inventory upon harvest	-	(20,125)	(20,125)
Carrying amount, May 31, 2019	<u>\$ 3</u>	<u>\$ 20,052</u>	<u>\$ 20,055</u>

The fair value less costs to sell of biological assets is determined using a model which estimates the expected harvest yield in grams for plants currently being cultivated, and then adjusts that amount for the expected selling price per gram and also for any additional costs to be incurred, such as post-harvest costs. The following unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy (see Note 17), are used in determining the fair value of biological assets:

- i. Average selling price per gram – calculated as the weighted average historical selling price of cannabis sold by the Company, adjusted for expectations about future pricing;
- ii. Yield by plant – represents the number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant;
- iii. Wastage of plants based on their various stages of growth – represents the weighted average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested;
- iv. Post-harvest costs – calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of direct and indirect materials and labour related to drying, labelling and packing.

The Company estimates the harvest yields for the cannabis on plants at various stages of growth. As of May 31, 2019, it is expected that the Company's biological assets will yield 11,347 kilograms (August 31, 2018 – 11,036 kilograms) of cannabis when eventually 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. The Company accretes fair value on a straight-line basis according to stage of growth. As a result, a cannabis plant that is 50% through its 19-week growing cycle would be ascribed approximately 50% of its harvest date expected fair value less costs to sell (subject to wastage adjustments).

Management believes the most significant unobservable inputs and their impact on fair value are as follows:

SIGNIFICANT INPUTS & ASSUMPTIONS	WEIGHTED AVERAGE INPUT		SENSITIVITY	EFFECT ON FAIR VALUE	
	MAY 31, 2019	AUG. 31, 2018		MAY 31, 2019	AUG. 31, 2018
Average net selling price per gram	\$ 5.50	\$ 5.65	Increase or decrease by \$1.00 per gram	\$ 4,651	\$ 4,275
Average yield per plant	148 grams	149 grams	Increase or decrease by 10 grams	\$ 1,312	\$ 1,292

The fair value adjustment to biological assets consists of the following:

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2019	2018	2019	2018
Realized fair value amounts included in inventory sold	\$ (13,423)	\$ (2,299)	\$ (38,765)	\$ (4,451)
Increase (decrease) in fair value on growth of biological assets	967	12,365	62,004	19,623
Adjustment to net realizable value	-	-	(856)	-
Fair value adjustment to biological assets	\$ (12,456)	\$ 10,066	\$ 22,383	\$ 15,172

8. INVENTORIES

The Company's inventories are comprised of the following balances as of May 31, 2019 and August 31, 2018:

	MAY 31, 2019			
	QUANTITY	CAPITALIZED COST	FAIR VALUE ADJUSTMENT	CARRYING VALUE
Plants in drying stage	7,097 plants	\$ 998	\$ 2,771	\$ 3,769
Dry cannabis				
Available for packaging	5,231 kg	5,774	11,581	17,355
Packaged inventory	1,827 kg	4,681	4,648	9,329
Flower and trim available for extraction	7,671 kg	6,977	27,044	34,021
Concentrated extract	312 kg	5,182	12,449	17,631
Cannabis oil				
Bulk formulated oil	4,531 L	1,170	3,017	4,187
Bottled and packaged oil	2,221 L	1,024	1,409	2,433
Packaging and supplies		5,458	-	5,458
		\$ 31,264	\$ 62,919	\$ 94,183

	AUGUST 31, 2018			
	QUANTITY	CAPITALIZED COST	FAIR VALUE ADJUSTMENT	CARRYING VALUE
Plants in drying stage	8,142 plants	\$ 873	\$ 4,985	\$ 5,858
Dry cannabis				
Available for packaging	5,032 kg	4,152	16,384	20,536
Packaged inventory	71 kg	90	309	399
Flower and trim available for extraction	1,918 kg	1,570	10,327	11,897
Concentrated extract	40 kg	529	1,922	2,451
Cannabis oil				
Bulk formulated oil	2,632 L	600	2,116	2,716
Bottled and packaged oil	168 L	88	159	247
Packaging and supplies		865	-	865
		\$ 8,767	\$ 36,202	\$ 44,969

Flower and trim available for extraction are converted into concentrated extract, which can then be used for oil formulation (combining with a carrier oil) or other products such as edibles, beverages, and vaporizable products. Concentrated extract consists of a high percentage cannabinoid (~70%) compound that is typically diluted into an end product. Bottled and bulk formulated oil contains either 1% (recreational formulation) or 2% (medical formulation) cannabinoid levels by mixing concentrated extract with a carried oil such as sunflower seed oil.

The amount of inventory expensed in cost of sales for the three and nine months ended May 31, 2019 was \$10,602 and \$23,064 (May 31, 2018 - \$1,181 and \$3,590), respectively.

9. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS	CONSTRUCTION IN PROCESS	GROWING & PROCESSING EQUIPMENT	OTHER	TOTAL
Cost						
Balance, August 31, 2018	\$ 2,205	\$ 47,101	\$ 11,993	\$ 40,493	\$ 2,922	\$ 104,714
Additions	4	2,199	79,409	3,252	2,965	87,829
Construction completed	-	8,049	(41,206)	31,982	1,175	-
Disposals	-	-	-	(203)	-	(203)
Balance, May 31, 2019	\$ 2,209	\$ 57,349	\$ 50,196	\$ 75,524	\$ 7,062	\$ 192,340
Accumulated depreciation						
Balance, August 31, 2018	\$ -	\$ (1,997)	\$ -	\$ (2,956)	\$ (1,122)	\$ (6,075)
Depreciation	-	(1,571)	-	(3,483)	(634)	(5,688)
Disposals	-	-	-	18	-	18
Balance, May 31, 2019	\$ -	\$ (3,568)	\$ -	\$ (6,421)	\$ (1,756)	\$ (11,745)
Net book value						
August 31, 2018	\$ 2,205	\$ 45,104	\$ 11,993	\$ 37,537	\$ 1,800	\$ 98,639
May 31, 2019	\$ 2,209	\$ 53,781	\$ 50,196	\$ 69,103	\$ 5,306	\$ 180,595

During the nine months ended May 31, 2019, there were additions of \$87,829 in property, plant and equipment. Most of additions were related to the Company's expansion located at 35 English Drive, while the remainder were related to purchases of packaging equipment and IT system upgrades to facilitate recreational cannabis sales. During the period, the Company's electrical substation became operational at a cost of \$4,052.

The following table reconciles additions of property, plant and equipment per the above table to the purchases of property, plant and equipment per the statements of cash flows:

	MAY 31, 2019	MAY 31, 2018 (Note 2)
Additions	\$ 87,829	\$ 39,387
Net change in accounts payable and accrued liabilities related to purchases of PP&E	(11,805)	(767)
Purchase of property, plant and equipment	\$ 76,024	\$ 38,620

10. INTANGIBLE ASSETS

	SUPPLY AGREEMENT	
Cost		
Balance, August 31, 2018	\$	-
Additions		1,530
Balance, May 31, 2019	\$	1,530
Accumulated amortization		
Balance, August 31, 2018	\$	-
Additions		-
Balance, May 31, 2019	\$	-
Net book value		
August 31, 2018	\$	-
May 31, 2019	\$	1,530

On January 18, 2019, the Company entered into an agreement with 703454 N.B. Inc. ("1812 Hemp" or "1812"), a New Brunswick based industrial hemp research company, to secure supply and support research and development on the genetic improvement of hemp through traditional plant breeding methods. As part of the agreement, the Company will receive a 25% discount to the price per kilogram of dried hemp flower harvested that is purchased. The term of the agreement is from December 17, 2018 to December 16, 2023 and the Company has the option to renew it for another 5 years within six months' notice. In addition, the Company has a right-of-first refusal on the future procurement of high CBD hemp from 1812. The Company paid \$1,500 to 1812 plus transaction costs of \$30 in connection with this transaction, which it has recorded as an intangible asset with a finite useful life that will be amortized based on the actual volume of dried hemp flower purchased as a proportion of its forecast purchase volumes.

11. LONG-TERM DEBT

	MAY 31, 2019	AUGUST 31, 2018
Bank of Montreal ("BMO") senior secured term loan ("Term Loan") maturing May 31, 2022 at prime + 1.75% (5.70%) with principal repayments starting February 28, 2020 based on a 10 year amortization	\$ 50,000	\$ -
Farm Credit Canada ("FCC") credit facility refinanced with BMO Term Loan	-	1,740
Farm Credit Canada ("FCC") real property loan refinanced with BMO Term Loan	-	1,194
Farm Credit Canada ("FCC") real property loan maturing refinanced with BMO Term Loan	-	-
Atlantic Canada Opportunities Agency ("ACOA") Business Development Program loan maturing September 1, 2024 with a 7 year amortization, bearing interest at an interest rate of 0%	327	406
Deferred financing costs	(858)	(42)
	49,469	3,298
Less: current portion of long term debt	(2,273)	(421)
Long-term portion	\$ 47,196	\$ 2,877

On November 30, 2018, the Company closed its third loan with FCC for \$10,000. Transaction costs of \$149 were incurred in connection with this loan, which had been capitalized against the loan balance. This loan, along with the other two FCC loans noted in the above table, were refinanced with the BMO Term Loan described below. Since the third loan was only outstanding during the current fiscal year, it has not been disclosed in the above table.

On May 31, 2019, the Company closed a credit facility with Bank of Montreal ("BMO") as lead arranger and agent as well as a syndicate including three other lenders. The facility consists of a \$115,000 term loan ("Term Loan") and a \$25,000 revolving credit

facility (“Revolver”, or together, the “Facilities”), both of which mature on May 31, 2022. Included in the facility is an uncommitted option to increase the Facilities by an incremental \$35,000 to a total of \$175,000, subject to agreement by BMO and satisfaction of certain legal and business conditions.

The Facilities are secured by assets of Organigram and its subsidiaries. The proceeds of the term loan will be used to fund the Phase 4 and 5 expansions of the Moncton campus and were also used to refinance the Company’s long-term debt with Farm Credit Canada. The revolving credit facility may be used for general corporate and working capital purposes.

Pursuant to the agreed upon conditions of the Facilities, Organigram has initially drawn \$50,000 of the Term Loan on closing and can continue to draw down additional funds as required up to the \$115,000 Term Loan commitment through to November 30, 2019. Principal repayments on the Term Loan will commence on February 28, 2020 at a rate of 2.5% per quarter of the total Term Loan balance. The Company may, at its discretion, repay the balance of the Facilities without penalty, at any time.

The interest rate of the Facilities is a set margin over the BMO’s CAD Prime Rate or a Bankers’ Acceptance rate based on the applicable term, which may increase or decrease based on a pricing grid linked to the Company’s debt to EBITDA coverage at each quarter-end. As at May 31, 2019 the CAD Prime Rate option was selected resulting in a cash interest rate of 5.70% at May 31, 2019. Subsequent to the period end, the Company converted the term loan to Bankers’ Acceptances resulting in a cash interest rate of approximately 5.0%. The revolving credit facility was undrawn at May 31, 2019.

Transaction costs incurred with respect to the Facilities totaled \$1,044, which have been allocated against the Term Loan (\$868) and Revolver (\$186 split between prepaid assets and deferred charges) based on the relative balance of the fully drawn facilities. The effective interest rate based on these capitalized transaction costs is approximately 6.39%. The Facilities contain customary financial and restrictive covenants. The Company was in compliance with all covenants at May 31, 2019.

The FCC loans previously outstanding for the Company were extinguished and refinanced as part of the above noted Facilities. Previously capitalized transaction costs were recorded as a loss on the extinguishment of the FCC loans and have been included in financing costs for the three months ended May 31, 2019. Principal repayments required on the long-term debt in the next five fiscal years are as follows:

2019	\$	15
2020		3,810
2021		5,060
2022		41,310
2023		60
Thereafter		105
Total	\$	50,360

12. UNSECURED CONVERTIBLE DEBENTURES

On January 31, 2018, \$115,000 of unsecured convertible debentures were issued. Each convertible debenture had a maturity date of January 31, 2020 (the “maturity date”) and bore interest from the date of closing at 6.00% per annum, payable semi-annually on June 30 and December 31 of each year commencing on June 30, 2018. Each convertible debenture was convertible, at the option of the holder, into common shares of the Company (“common shares”) at any time prior to the close of business on the earlier of: (i) the business day immediately preceding the maturity date, and (ii) if subject to redemption in the event of a change of control, the business day immediately preceding the payment date, at a conversion price of \$5.42 per common share (the “conversion price”), subject to adjustment in certain events and to forced conversion by the Company in accordance with the indenture governing the convertible debentures. The Company may force conversion of the aggregate principal amount of the then outstanding convertible debentures at the conversion price on not less than 30 days’ notice should the daily volume weighted average trading price (“VWAP”) of the common shares be greater than \$7.05 for any 10 consecutive trading days. The Company is also required to redeem the debentures at the holder’s option in the event of a change in control at a price equal to 104% of the principal amount plus accrued and unpaid interest.

The Company had allocated the gross proceeds from issuance between the estimated fair value of the debt and equity components using the residual method. The Company used an effective annualized discount rate of 15.3% to arrive at the valuation of the debt component before issue costs at \$98,095 and the equity component at \$16,905. The effective interest rate on the debt component, inclusive of the equity discount and issue costs, was 18.0%.

On February 27, 2019, the Company elected to exercise its right under the indenture governing the convertible unsecured debentures to convert all of the principal amount outstanding of the remaining debentures on April 1, 2019 into common shares of the Company on the basis of the daily VWAP of the common shares having exceeded \$7.05 for 10 consecutive trading days. As of close of markets on February 26, 2019, the VWAP of the common shares for 10 consecutive trading days exceeded \$7.05. The conversion was completed on April 1, 2019. It should be noted that although the Company exercised its right to force conversion, holders of the debentures still had the right to convert their debentures at their discretion prior to April 1, 2019 and therefore approximately \$37,738 (face value) of debentures were converted into 6,962,725 common shares during the month of March 2019. The Company did not issue fractional common shares on the conversion. Instead, the Company, in lieu of delivering a certificate representing such fractional interest, made a cash payment to the holder of an amount equal to the fractional interest in accordance with the indenture. As of April 1, 2019, no further liability or obligation exists with respect to the convertible unsecured debentures.

The debt component was measured at amortized cost. The conversion of debentures to common shares represents a non-cash financing activity, which has been excluded from the Company's statement of cash flows as these transactions do not provide or use any cash. The balance of the debt component as at May 31, 2019 and August 31, 2018 consists of the following:

	MAY 31, 2019	AUGUST 31, 2018
Debentures - maturing January 31, 2020 bearing interest at an interest rate of 6.00% - face value	\$ 115,000	\$ 115,000
Less: conversion of debentures, cumulative (Note 13(iii))	(115,000)	(2,018)
Debentures - outstanding face value	-	112,982
Less: allocation to reserve for options and warrants for debenture discount	(16,905)	(16,905)
Amortization of debenture discount	8,312	4,324
Less: issue costs	(7,155)	(7,155)
Issue costs allocated to equity	1,061	1,061
Amortization of issue costs	2,913	1,559
Unamortized discount and issue costs transferred to equity upon conversion of debentures	11,774	-
Debentures - carrying value	-	95,866
Less: current portion of debentures	-	-
Long-term portion	\$ -	\$ 95,866

13. 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 May 31, 2019, the Company's issued and outstanding share capital consisted of 153,872,471 (August 31, 2018 – 125,207,938) common shares with a stated value of \$305,950 (August 31, 2018 - \$157,790).

(iii) Issuances of share capital

Share-based payments

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. As per the terms of the agreement, the shares were released to TGS according to an escrow schedule related to certain calendar and operational milestones. At May 31, 2019, the Company has recorded the current portion of the fee of \$133 (May 31, 2018 - \$133) as a prepaid expense, and the long-term portion of the fee of \$167 (May 31, 2018 - \$467) as a deferred charge on the consolidated statements of financial position. For the three and nine months ended May 31, 2019, \$33 and \$100 (May 31, 2018 - \$33 and \$100), respectively, has been amortized to share-based compensation.

On July 14, 2017, the Company entered into an advisory services agreement with a cannabis consultant that resulted in the grant of 125,000 common shares that vested over various service periods up to and including October 14, 2018. The fair value of the grant was measured based on the average monthly share price of the Company over the various tranches and vesting periods

resulting in a cumulative expense of \$539. On October 23, 2017, the Company issued 50,000 common shares, of which 20,000 related to the advisory services agreement, as share consideration to the consultant and recognized \$144 to share capital. During the three months ended May 31, 2019, the Company settled the remaining balance of 105,000 common shares due to the consultant in the form of 41,000 common shares of the Company and 84,000 restricted stock units, which vest immediately, to purchase 84,000 common shares of the Company, which fully settles the Company's obligations relating to this agreement.

Exercise of stock options

During the three months ended May 31, 2019, 918,649 (May 31, 2018 – 52,450) share options were exercised at an average exercise price of \$2.40 (May 31, 2018 - \$2.96) for an increase of \$3,416 (May 31, 2018 - \$244) to share capital and a decrease to the reserve for options and warrants of \$1,207 (May 31, 2018 - \$89). During the nine months ended May 31, 2019, 2,082,216 (May 31, 2018 – 288,33) share options were exercised at an average exercise price of \$1.86 (May 31, 2018 - \$1.73) for an increase of \$6,119 (May 31, 2018 - \$765) to share capital and a decrease to the reserve for options and warrants of \$2,253 (May 31, 2018 - \$265).

Unit financing

On December 18, 2017, the Company issued 16,428,572 units by way of a bought deal at \$3.50 per unit share for total gross consideration of \$48,711 recorded to share capital and an increase of \$8,789 to the reserve for options and warrants. Each unit consists of one common share and one-half common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share of the Company at a price of \$4.00 until June 18, 2019. Total issue costs were \$3,678, with \$3,116 charged to share capital and the remaining \$562 charged to the reserve for options and warrants. These warrants are measured at fair value at the date of grant. In determining the amount of reserve for the warrants, the Company used the Black-Scholes option pricing model to establish the fair value of warrants granted using the following assumptions:

Risk free interest rate %	1.6%
Expected life of warrants (years)	1.5
Expected annualized volatility %	64.6%
Expected dividend yield %	-

Volatility was estimated by using the weighted average historical volatility of the Company and other companies, that the Company considers comparable that have trading and volatility history. The expected life in years represents the period of time that the warrants granted are expected to be outstanding. The risk-free rate is based on government of Canada bonds with a remaining term equal to the expected life of the warrants. A forfeiture rate of zero percent was used as the Company anticipated all warrants will be exercised. Refer to Note 26 regarding the exercise and expiration of the share purchase warrants subsequent to the period end date.

Convertible debenture financing

On January 31, 2018, 115,000 convertible debentures were sold at a price of \$1,000 per convertible debenture, for aggregate gross proceeds of \$115,000 resulting in an increase to the reserve for options and warrants of \$12,003, net of deferred tax of \$4,902, related to the embedded conversion feature in the convertible debenture (see Note 12). Total issue cost was \$7,155 with \$6,094 charged to the debenture liability and the remaining \$756, net of deferred tax of \$305, charged to the reserve for options and warrants.

Conversion of debentures

For the three months ended May 31, 2019, the Company issued 9,899,071 (May 31, 2018 – nil) common shares at a price per share of \$5.42 on the conversion of convertible debentures (Note 12) for an increase of \$54,781 to share capital and a decrease of \$5,445 to the reserve for options and warrants. For the nine months ended May 31, 2019, the Company issued 20,845,372 (May 31, 2018 – nil) common shares at a price per share of \$5.42 on the conversion of convertible debentures (Note 12) for an increase of \$112,166 to share capital and a decrease of \$11,247 to the reserve for options and warrants. This non-cash financing activity has been excluded from the Company's statement of cash flows as it did not provide or use any cash.

On February 27, 2019, the Company elected to exercise its right under the indenture governing the convertible unsecured debentures to convert all of the principal amount outstanding of the remaining debentures on April 1, 2019 into common shares of the Company on the basis of the daily VWAP of the common shares exceeding \$7.05 for any 10 consecutive trading days (see Note 12). As of April 1, 2019, all of the convertible unsecured debentures issued were converted to common shares of the Company and no further liability or obligation exists with respect to the convertible unsecured debentures.

(iv) Warrants

During the three months ended May 31, 2019, 3,265,764 warrants (May 31, 2018 – nil) were exercised at an average price of \$4.00 (May 31, 2018 - \$nil) for a value of \$16,557 (May 31, 2018 - \$nil) to share capital and a decrease to the reserve for options and warrants of \$3,494 (May 31, 2018 - \$nil). During the nine months ended May 31, 2019, 5,516,807 warrants (May 31, 2018 – 4,313,837) were exercised at an average price of \$4.00 (May 31, 2018 - \$1.37) for a value of \$27,924 (May 31, 2018 - \$6,608) to share capital and a decrease to the reserve for options and warrants of \$5,889 (May 31, 2018 - \$722). Refer to Note 26 regarding the exercise and expiration of the share purchase warrants subsequent to the period end date.

The following table summarizes the movements in the Company's warrants for the nine months ended May 31, 2019:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance - August 31, 2018	8,086,637	\$ 4.00
Exercised/Released	(2,251,043)	\$ 4.00
Balance - February 28, 2019	5,835,594	\$ 4.00
Exercised/Released	(3,265,764)	\$ 4.00
Balance - May 31, 2019	2,569,830	\$ 4.00

(v) Share-based compensation

Stock options

Under the Company's stock option plan, options may be granted for up to 10% of the issued and outstanding common shares together with any other equity compensation plan of the Company, 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 their 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 following table summarizes the movements in the Company's outstanding stock options for the nine months ended May 31, 2019:

	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance - August 31, 2018	7,709,746	\$ 2.10
Granted	1,832,500	\$ 5.73
Exercised	(1,163,567)	\$ 1.42
Cancelled / Forfeited	(86,550)	\$ 5.16
Balance - February 28, 2019	8,292,129	\$ 2.97
Granted	792,000	\$ 9.66
Exercised	(918,649)	\$ 2.40
Cancelled / Forfeited	(114,138)	\$ 5.58
Balance - May 31, 2019	8,051,342	\$ 3.65

The following is a summary of the outstanding stock options as at May 31, 2019:

OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
Quantity Outstanding at May 31, 2019	Weighted Average Remaining Contractual Life (years)	Range of Exercise Prices	Quantity Exercisable at May 31, 2019
1,559,599	6.09	\$0.30-\$1.41	1,276,115
2,285,833	7.62	\$1.42-\$2.38	1,596,499
1,403,742	8.43	\$2.39-\$4.33	685,082
1,331,567	9.32	\$4.34-\$6.04	461,484
1,470,601	9.67	\$6.05-\$10.16	471,134
8,051,342	8.12		4,490,314

Options outstanding have exercise prices that range from \$0.30 to \$10.16 with a weighted average remaining life of 8.12 years. Total share-based compensation charges, including those related to production employees that are charged to biological assets and inventory, for the three and nine months ended May 31, 2019 was \$3,927 and \$10,910 (May 31, 2018 – \$1,156 and \$3,056) of which \$2,923 and \$6,890 (May 31, 2018 - \$1,022 and \$2,661), respectively, related to the Company's stock option plan. The fair value of options granted during the three and nine months ended May 31, 2019 was \$4,054 and \$9,547 (May 31, 2018 - \$348 and \$3,590). 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 related to the options, the Company used the Black-Scholes option pricing model to establish the fair value of options granted.

The following is the range of assumptions for the nine months ended May 31, 2019 and 2018:

	MAY 31, 2019	MAY 31, 2018
Risk free interest rate	1.54% - 2.42%	1.58% - 2.22%
Expected life of options	5.0 - 6.5 years	5.0 - 6.5 years
Expected annualized volatility	64% - 70%	62% - 66%
Expected dividend yield	-	-
Forfeiture Rate	7.3% - 7.9%	8.6% - 15.0%

Volatility was estimated by using the weighted average historical volatility of the Company and 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 government of Canada bonds with a remaining term equal to the expected life of the options. The forfeiture rate is calculated based on historical experience.

Equity incentive plan

Under the Company's Equity Incentive Plan (the "Equity Plan"), 2,500,000 restricted share units ("RSUs") or performance share units ("PSUs") may be granted for up to 10% of the issued and outstanding common shares including options issued under the stock option plan noted above, as approved by the Company's Board of Directors. To date, the Company has only granted RSUs under the Equity Plan. The grant price of any RSU may not be less than the Company's closing market price on the day prior to the grant of the RSU less the applicable discount permitted by the TSX-V.

The following table summarizes the movements in the Company's outstanding RSUs:

	NUMBER
Balance - August 31, 2018	145,200
Granted	794,449
Balance - February 28, 2019	939,649
Granted	84,000
Exercised	(179,138)
Balance - May 31, 2019	844,511

The estimated fair value of the equity settled RSUs granted during the three months ended May 31, 2019 was \$362, which had been expensed previously (May 31, 2018 - \$nil), which was based on the Company's average share price during the period over which services were rendered by a consultant. The estimated fair of the equity settled RSUs granted during the nine months ended May 31, 2019 was \$4,533 (May 31, 2018 - \$nil), which was based on the Company's share price at the grant date and will be recognized as an expense over the vesting period of the RSUs, which is one-half upfront with the balance recognized over two years. For the three and nine months ended May 31, 2019, \$720 and \$2,994 (May 31, 2018 - \$nil and \$nil), respectively, has been recognized as share-based compensation expense.

(vi) Earnings (Loss) per share

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

Diluted income (loss) per share is calculated by dividing the applicable net income (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 period.

The reconciliation of the weighted average number of shares, for the purposes of diluted earnings per share, to the weighted average number of ordinary shares, used in the calculation of basic earnings per share, is as follows:

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2019	2018	2019	2018
Weighted average number of shares used in basic earnings per share	149,764,778	124,572,748	135,914,716	116,951,695
Options	4,938,538	6,314,956	4,534,193	6,698,852
Warrants	3,003,191	6,180,269	4,841,091	5,770,512
Restricted shares units	666,702	-	624,493	-
Weighted average number of shares used in diluted earnings per share	158,373,209	137,067,973	145,914,493	129,421,059

The outstanding number and type of securities that could potentially dilute basic net income (loss) per share in the future but that were not included in the computation of diluted net income (loss) per share because to do so would have increased (decreased) the net income (loss) per share (anti-dilutive) are as follows:

	MAY 31,		MAY 31,	
	2019	2018	2019	2018
Stock options	500,100	1,405,000	952,100	1,850,000
Convertible debentures	-	21,217,712	-	21,217,712
	500,100	22,622,712	952,100	23,067,712

14. INVESTMENTS IN ASSOCIATES

The carrying value of investments in associates consist of:

	ALPHA-CANNABIS PHARMA GMBH (A)	EVIANA HEALTH CORPORATION (B)	HYASYNTH BIOLOGICALS INC. (C)	TOTAL
Participating share ⁽¹⁾	25.0%	19.9%	43.4%	
Balance, September 1, 2018	\$ -	\$ -	\$ -	\$ -
Additions	3,408	5,000	5,000	13,408
Transaction costs	160	73	79	312
Distributions	-	(122)	-	(122)
Share of net income (loss)	(25)	(435)	(462)	(922)
Foreign currency translation gain (loss)	(10)	50	-	40
Balance, May 31, 2019	\$ 3,533	\$ 4,566	\$ 4,617	\$ 12,716

Note 1: % Interest includes the potential ownership interest that could result from the conversion of debentures and exercise of warrants

a) alpha-cannabis Pharma GmbH

On October 10, 2018, OHI executed an investment agreement with alpha-cannabis® Pharma GmbH ("ACG") pursuant to which the Company acquired 8,333 common shares of ACG, representing a 25% stake in the capital of ACG, for aggregate proceeds of €1,625 (\$2,436). Established in 2016, ACG is a privately-held company that is strategically positioned to serve the German medical cannabis market.

The Company has a commitment to deliver additional consideration of up to €875 in the form of OHI shares contingent on the achievement of certain gross margin-based milestones. The Company has estimated the fair value of these contingent shares as €649 (\$972) as of the investment date and has included a corresponding long-term liability as a contingent share consideration in the statement of financial position. At May 31, 2019, the Company revalued the contingent liability and recorded a corresponding loss in the statement of operations of \$1,009 for the nine months ended.

Concurrent with the Company's investment in ACG, the parties entered into a CBD supply agreement, whereby ACG may supply the Company with synthetic CBD, as well as a cannabis supply agreement, whereby OHI may supply ACG with dried cannabis flowers.

b) Eviana Health Corporation

On October 2, 2018, OHI participated in the debenture offering of Eviana Health Corporation ("Eviana") by way of private placement. Eviana is a Canadian Securities Exchange (CSE) listed company that was established with the aim of delivering customized consumer health care products using natural hemp strains of cannabis sativa for cannabinoid-based topical creams and products. The Company's investment is in the form of convertible debentures and share purchase warrants, which together provide a potential ownership interest of up to 21.4%, which is capped at 19.9% based on certain Canadian securities regulations and contractual obligations. In addition to this ownership interest, the Company also considered various qualitative factors in arriving at the determination that significant influence exists, including representation on Eviana's board of directors, and thereby concluding that the equity method of accounting is appropriate.

The convertible debentures have a face value of \$5,000, bear interest at 10% per annum, are non-redeemable, and mature on October 2, 2020. The convertible debentures are convertible at the option of the holder at any time at a price of \$1.15 per share, or into 4,347,826 common shares. Conversion of the debentures may be forced by Eviana in the event that the volume weighted average price of the common shares of Eviana for ten consecutive days is greater than \$2.15, subject to a minimum volume of 100,000 shares in each of those 10 days.

The share purchase warrants were acquired for no additional consideration, concurrent with the debenture offering, are transferrable, and are exercisable until October 2, 2020. 2,500 share purchase warrant units were acquired, each of which is convertible into 870 common shares per unit, or 2,175,000 common shares in aggregate, at an exercise price of \$1.30 per share.

Concurrent with the Company's investment in Eviana, the parties entered into a CBD oil supply agreement, whereby the Company has the right, but not obligation, to purchase up to 25% of Eviana's annual CBD oil at 95% of the agreed raw CBD oil wholesale market price for a period of 5 years from the date on which the CBD oil is first made commercially available by Eviana for wholesale.

c) Hyasynth Biologicals Inc.

On September 12, 2018, OHI invested in Hyasynth Biologicals Inc. ("Hyasynth") by way of convertible secured debentures, to be purchased in three tranches and valued in the aggregate at \$10,000. Tranche 1 was issued on this date and there are two additional Tranches that may be issued based on the achievement of specific milestones. Hyasynth is a privately-held biotechnology company based in Montreal and leader in the field of cannabinoid science and biosynthesis. The Company's investment is in the form of convertible debentures, which provide a potential ownership interest of up to 43.4% based on Tranche 1. In addition to the ownership interest, the Company also considered various qualitative factors in arriving at the determination that significant influence exists, including representation on Hyasynth's board of directors, and thereby concluded that the equity method of accounting is appropriate.

Tranche 1 of the convertible debentures have a face value of \$5,000, bear interest at 8.0% per annum, are secured, and mature on the earlier of August 31, 2023 or the closing date of a qualified sale transaction, unless an automatic or optional conversion has occurred. Tranche 1 of the convertible debentures are convertible at the option of the holder at any time at a price of \$40 per share, or into 125,000 common shares. Conversion of the debentures may be automatically triggered based on the completion of a qualified transaction or Hyasynth's facility reaching a pre-defined production capacity. Tranche 2 and 3 of the convertible debentures, each of which commit \$2.5 million for an aggregate of \$5 million, have certain production-related milestones that must be achieved within a 24- and 36-month period, respectively, for issuance to occur.

Concurrent with the Company's investment in Hyasynth, the parties entered into a CBD supply agreement, whereby the Company has the ability to purchase up to 100% of Hyasynth's annual cannabinoid or cannabinoid-related production at a 10% discount to the agreed upon wholesale market price for a period of 10 years from the date Hyasynth commences commercial production of the products.

15. RELATED PARTY TRANSACTIONS

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. The transactions are conducted at arm's length and in the normal course of operations.

(i) Management and Board compensation

For the three and nine months ended May 31, 2019, the Company's expenses included the following management and board compensation:

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2019	2018	2019	2018
Salaries and consulting fees	\$ 644	\$ 436	\$ 1,580	\$ 1,244
Share-based compensation	1,056	1,071	4,367	2,861
Total key management compensation	\$ 1,700	\$ 1,507	\$ 5,947	\$ 4,105

During the three and nine months ended May 31, 2019, nil and 685,000 stock options (May 31, 2018 – nil and 1,461,648), respectively, were granted to key management personnel at an average exercise price of \$nil and \$4.75 (May 31, 2018 - \$nil and \$2.40) and aggregate fair value of \$nil and \$1,736 (May 31, 2018 - \$nil and \$2,417). In addition, during the three and nine months ended May 31, 2019, nil and 631,949 RSU's (May 31, 2018 – nil and nil), were granted to key management personnel with an aggregate fair value of \$nil and \$3,002 (May 31, 2018 – \$nil and \$nil), respectively.

During the three and nine months ended May 31, 2019, 37,500 and 37,500 share purchase warrants (May 31, 2018 – nil and nil) were exercised by key management personnel and directors at an exercise price of \$4.00 per share.

16. CAPITAL MANAGEMENT

The Company considers its capital to consist of share capital, reserve for options and warrants, long-term debt, unsecured convertible debentures, accumulated other comprehensive income, and retained earnings, which is disclosed in the May 31, 2019 consolidated statement of financial position as \$385,848 (August 31, 2018 - \$283,758).

The Company manages its capital structure and adjusts it based on funds available to the Company, in order to fund its expansion 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 stage of the Company, is reasonable. There has been no change in how the Company defines or manages capital during the period.

17. 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 records certain financial instruments at fair value. The Company's financial instruments include cash, short-term investments (including marketable securities), accounts receivable, accounts payable and accrued liabilities, long-term debt, unsecured convertible debentures, and contingent share consideration.

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 approximate their carrying amounts due to their short-term nature. The fair value of marketable securities is based on quoted prices in active markets and is reflected in the carrying value of these financial assets. The fair value of long-term debt approximates its carrying value.

The fair value of the contingent share consideration is based on Level 3 unobservable inputs. The determination of the fair value of this liability is primarily driven by the Company's expectations of the investment in associate achieving certain milestones. The expected milestones were assigned probabilities and the expected related cash flows were discounted to derive the fair value of the contingent consideration. At May 31, 2019, the probability of achieving the milestones was estimated to be 100% and the discount rate was estimated to be 20%. If the probabilities of achieving the milestones decreased by 10%, the estimated fair value of the contingent share consideration would decrease by approximately \$191. If the discount rates increased or decreased by 5%, the estimated fair value of contingent consideration would decrease or increase, respectively, by approximately \$97.

During the period, there were no transfers of amounts between Levels 1, 2 and 3.

18. GROSS REVENUE

During the three months ended May 31, 2019, the Company determined that the classification of sales returns and recoveries is more accurately reflected as and most comparable to industry peers as a component of gross revenue rather than a separate line in the statement of operations. As a result, sales recoveries of \$21 and \$490 have been reclassified from sales returns to gross revenue for the three and nine months ended May 31, 2018, respectively, to conform to the current year presentation. The net recovery for the prior year comparative period was due to unused credits previously issued through a client credit program, which expired on March 6, 2018. Gross revenue is inclusive of all sales discounts, rebates, and sales returns and recoveries.

19. INDIRECT PRODUCTION

The production cost of late-stage biological assets that are disposed of, inventory that does not pass the Company's quality assurance standards, and obsolete packaging are expensed to indirect production. For the three and nine months ended May 31, 2019, \$1,051 and \$2,064 (May 31, 2018 – \$360 and \$1,002) was recorded as indirect production.

20. CONTINGENCIES

The Company recognizes loss contingency provisions for probable losses when management can reasonably estimate the loss. When the estimated loss lies within a range, the Company records a loss contingency provision based on its best estimate of the probable loss. If no particular amount within that range is a better estimate than any other amount, the minimum amount is recorded. As information becomes known a loss contingency provision is recorded when a reasonable estimate can be made. The estimates are reviewed at each reporting date and the estimates are changed when expectations are revised. An outcome that deviates from the Company's estimate may result in an additional expense or release in a future accounting period.

During 2015, the Company was named as a defendant in a lawsuit in New Brunswick for breach of confidence, conversion, breach of contract, conspiracy and breach of trust, breach of fiduciary duty, and negligent misrepresentation. The Company believes the lawsuit to be without merit though it will rigorously defend the action. No amount has been accrued in relation to the consolidated financial statements for the claim.

On March 3, 2017, a claim in connection with a proposed class-action lawsuit (the "Claim") was filed with the Supreme Court of Nova Scotia seeking to represent a class who purchased medical marijuana that was the subject of the Company's product recalls in December 2016 and January 2017 as it may have contained trace elements of the pesticides myclobutanil and bifentazate which are not approved for use by licensed producers. The Claim identifies several causes of action including, among others: (i) negligent design, development and testing, (ii) negligent manufacturing, (iii) negligent distribution, marketing and sale, (iv) breach of contract, and (v) breach of the Competition Act, the Consumer Protection Act, and the Sale of Goods Act, and is seeking remedy in the form of, among other things, the disgorgement of profits accrued to the Company for the sale of contaminated products, exemplary or punitive damages and certain costs. The Claim also contains a request for an order certifying the proceeding as a class proceeding.

The March 3, 2017 Claim was amended on November 16, 2017, to include a claim for alleged adverse health consequences caused as a result of using the recalled product. As at the date hereof, the Company has not received any medical information demonstrating adverse health effects caused as a result of using the recalled product.

The Company and its insurers are contesting the litigation. The litigation process will continue into the foreseeable future unless settled out of court. No amount has been recorded in the consolidated financial statements since a reliable estimate cannot be made of the amount of the potential obligation.

During late June 2018, certification hearings were heard before the Court in Halifax, Nova Scotia. On January 18, 2019, the Court issued its decision granting certification. On March 4, 2019, the Company filed a notice for leave to appeal the certification of the class action brought against it. Leave to appeal was granted and the appeal is scheduled to be heard on October 15, 2019.

21. SEGMENTED INFORMATION

The Company previously operated in two operating segments – production and sale of cannabis and patient counselling, operating as THC. THC was disposed of during the three months ended November 30, 2018 (see Note 24). As a result, the Company currently operates in only one operating segment, the production and sale of cannabis. All assets for the production and sale of cannabis segment are domiciled within Canada and effectively all revenues are generated in Canada.

22. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE (EXCLUDING DISCONTINUED OPERATIONS)

	THREE MONTHS ENDED MAY 31,		NINE MONTHS ENDED MAY 31,	
	2019	2018	2019	2018
Office and general	\$ 1,347	\$ 144	\$ 3,129	\$ 1,092
Wages and benefits	1,264	704	2,782	1,746
Professional fees	1,484	224	2,508	461
Travel and accommodation	124	147	334	243
Depreciation and amortization	212	81	426	397
Utilities	9	(3)	36	13
Research and development	182	-	213	-
Total general and administrative expenses	<u>\$ 4,622</u>	<u>\$ 1,297</u>	<u>\$ 9,428</u>	<u>\$ 3,952</u>

23. 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, the Company paid \$100 in cash and issued 150,000 options at a strike price of \$1.52 per share. The fee is being recognized over the life of the agreement of five years as services are delivered. For the three and nine months ended May 31, 2019, \$5 and \$16 (May 31, 2018 - \$5 and \$16), respectively, has been amortized to share-based compensation and \$8 and \$24 (2018 - \$nil) has been amortized to selling and marketing expenses. At May 31, 2019, the Company has recorded the current portion of the cash payment and stock options fee of \$98 (August 31, 2018 - \$122) as a prepaid expense and the long-term portion of the fee of \$29 (August 31, 2018 - \$51) in deferred charges on the consolidated statements of financial position.

Under the agreement, the Company issued an additional 350,000 in options at a price of \$1.52 which vest 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. As of May 31, 2019, these conditions have been met. For the three and nine months ended May 31, 2019, \$13 and \$38 has been expensed (May 31, 2018 - \$13 and \$85), respectively, to share-based compensation. At May 31, 2019, the Company has recorded the current portion of the stock options fee of \$51 (August 31, 2018 - \$51) as a prepaid expense and the long-term portion of the fee of \$68 (August 31, 2018 - \$119) in deferred charges on the consolidated statements of financial position.

24. OPERATIONS OF TRAUMA HEALING CENTERS

Trauma Healing Centers, Incorporated ("THC") offered a multi-disciplinary approach to post traumatic stress disorder treatment, chronic pain, trauma therapy, and medical cannabis as an alternative medicine.

During the fourth quarter of fiscal year 2018, management decided to divest of operations of THC. Consequently, assets and liabilities allocable to THC were classified as a disposal group. Revenue and expenses, gains and losses relating to the discontinuation of THC have been eliminated from profit or loss from the Company's continuing operations and are shown as a single line item in the statements of income and comprehensive income.

Operating income (loss) of THC and the loss from re-measurement of assets and liabilities classified as held for sale are summarized as follows up to the date of disposal (see below):

	FOR THE PERIOD SEPTEMBER 1, 2018 TO OCTOBER 16, 2018	FOR THE NINE MONTHS ENDED MAY 31, 2018
Revenue		
Sales	\$ 138	\$ 871
Cost of sales	54	420
Gross margin from discontinued operations	84	451
Expenses		
General and administrative	75	791
Sales and marketing	-	57
Impairment of goodwill	-	1,156
Total expenses	75	2,004
Investment income (expense)	-	-
Income (loss) from operations	\$ 9	\$ (1,553)
Loss on remeasurement to fair value less costs to sell	(47)	-
Loss on discontinued operations	\$ (38)	\$ (1,553)

The carrying amounts of assets and liabilities in this disposal group are summarized as follows:

	AUGUST 31, 2018
Current Assets	
Cash	\$ 102
Accounts receivable	88
Other current assets	9
	199
Property, plant and equipment	89
Goodwill	927
Assets classified as held for sale	\$ 1,215
Current liabilities	
Accounts payable and accrued liabilities	\$ 65

Cash flows generated by THC for the reporting periods are summarized as follows:

	FOR THE PERIOD SEPTEMBER 1, 2018 TO OCTOBER 16, 2018	FOR THE NINE MONTHS ENDED MAY 31, 2018
Operating activities	\$ (35)	\$ (470)
Investing activities	-	(32)
Cash used by discounted operations	\$ (35)	\$ (502)

On October 16, 2018, the Company sold THC to Harvest Medicine (HMED). HMED is a wholly-owned subsidiary of VIVO Cannabis Inc. (VIVO). The transaction resulted in HMED acquiring 100% of the issued and outstanding shares of THC from the Company. The total purchase price for the shares was \$1,141 which was satisfied by the issuance of 864,678 common shares in the capital of VIVO at a share price of \$1.32. This non-cash investing activity has been excluded from the statement of cash flows as it did not use or provide any cash. The derecognized assets and liabilities on October 16, 2018 were as follows:

Derecognized assets and liabilities	
Cash	\$ 96
Accounts receivable	140
Other current assets	9
Property, plant and equipment	86
Goodwill	880
Trade and other payables	(70)
Net assets disposed	\$ 1,141
Fair value of consideration received	\$ 1,141
Gain/(loss) on disposal	-

25. PRIOR PERIOD RECLASSIFICATION

At the beginning of the current fiscal year, the first fiscal year in which the Company completed sales to the adult-use recreational cannabis market, it was determined that the classification of shipping expenses is more accurately reflected as a component of cost of sales rather than sales and marketing expenses. As a result, shipping expenses of \$247 and \$627 have been reclassified from sales and marketing expenses to cost of sales for the three and nine months ended May 31, 2018, respectively, to conform to the current year presentation.

26. SUBSEQUENT EVENTS

(i) Issuance of stock options

On June 1, 2019, the Company has issued 285,000 employee options to purchase 285,000 common shares of the Company, to employees of OGI, at an exercise price of \$11.27 per share. The options vest over a two-year period. Vested options may be exercised until 2029, subject to forfeiture provisions requiring the options to expire ninety days after termination of the individual's employment.

On July 1, 2019, the Company has issued 150,000 employee options to purchase 150,000 common shares of the Company, to employees of OGI, at an exercise price of \$8.43 per share. The options vest over a three-year period. Vested options may be exercised until 2029, subject to forfeiture provisions requiring the options to expire ninety days after termination of the individual's employment. In addition, the Company issued 1,186 restricted stock units to key management and employees of OGI. Please refer to Note 13(v) for further details regarding the plan.

(ii) Expiration of share purchase warrants

All the outstanding warrants at May 31, 2019 that were not exercised into common shares prior to expiry on June 18, 2019 lapsed. Subsequent to the period end, an incremental 2,222,398 warrants were exercised into common shares on a one for one basis at an exercise price of \$4.00. 347,432 warrants remained unexercised at the expiry time and expired as a result. The warrants were delisted from the TSX Venture Exchange on June 18, 2019.



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