

ORGANIGRAM HOLDINGS INC.

Consolidated Financial Statements

As at August 31, 2016

	Page
<u>Consolidated Financial Statements</u>	
Management's Responsibility for the Financial Statements	1
Independent Auditor's report	2
Consolidated Statements of Financial Position	3
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	4
Consolidated Statements of Changes in Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 26





December 13, 2016

Management's Responsibility for the Financial Statements

The accompanying consolidated 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.

Deloitte LLP, appointed as the Company's auditors by the directors, has audited these consolidated financial statements for the year ended August 31, 2016. Their report follows.

A handwritten signature in blue ink, appearing to read "Arsenaault".

Denis Arsenaault

Chief Executive Officer

Moncton, New Brunswick

A handwritten signature in blue ink, appearing to read "Peter R. Hanson".

Peter R Hanson, CPA, CMA

Chief Financial Officer (interim)

Moncton, New Brunswick



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Independent Auditor's Report

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To the Shareholders of OrganiGram Holdings Inc.

We have audited the accompanying consolidated financial statements of OrganiGram Holdings Inc. (the Company), which comprise the consolidated statements of financial position as at August 31, 2016 and August 31, 2015, and the consolidated statements of net income (loss) and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OrganiGram Holdings Inc. as at August 31, 2016 and August 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
December 12, 2016
Moncton, New Brunswick, Canada

OrganiGram Holdings Inc.
Consolidated Statements of Financial Position
As at August 31, 2016 and August 31, 2015
(In Canadian dollars)

Assets	August 31, 2016	August 31, 2015
Current Assets		
Cash	\$ 9,857,637	\$ 1,473,694
Short term investments (Note 4)	22,775,000	-
Accounts receivable (Note 5)	1,561,893	766,788
Biological assets (Note 6)	2,366,863	1,309,814
Inventories (Note 7)	3,940,820	969,263
Prepaid expenses	<u>149,740</u>	<u>73,182</u>
	40,651,953	4,592,741
Property, plant and equipment (Note 8)	<u>13,215,012</u>	<u>9,583,376</u>
	<u>\$ 53,866,965</u>	<u>\$ 14,176,117</u>
 Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,115,193	\$ 1,463,119
Current portion of long term debt (Note 9)	<u>330,649</u>	<u>284,713</u>
	2,445,842	1,747,832
Long-term Debt		
Long-term debt (Note 9)	<u>7,160,831</u>	<u>4,574,153</u>
	<u>9,606,673</u>	<u>6,321,985</u>
 Shareholders' Equity		
Share capital (Note 10)	50,958,174	16,753,777
Reserve for options and warrants (Notes 10 (iv) to (vi))	2,167,127	812,027
Accumulated deficit	<u>(8,865,009)</u>	<u>(9,711,672)</u>
	<u>44,260,292</u>	<u>7,854,132</u>
	<u>\$ 53,866,965</u>	<u>\$ 14,176,117</u>

On Behalf of the Board:

s/Denis Arsenault Director

s/Peter Amirault Director

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

OrganiGram Holdings Inc.
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

	Year Ended August 31, 2016	Year Ended August 31, 2015
Revenue		
Sales	\$ 6,127,625	\$ 986,676
Cost of sales	2,505,776	361,637
Indirect production	<u>309,297</u>	<u>375,255</u>
	3,312,552	249,784
Add: Fair value adjustment to biological assets and inventory	<u>2,001,694</u>	<u>1,076,403</u>
Gross margin	<u><u>5,314,246</u></u>	<u><u>1,326,187</u></u>
Expenses		
Sales and marketing	1,757,812	720,968
General and administrative (Note 18)	1,868,455	1,507,435
Share-based compensation	442,349	256,743
Financing costs	436,372	115,405
Investment income	(37,398)	-
Loss (gain) on disposal of property, plant and equipment	<u>(7)</u>	<u>2,490</u>
Total expenses	<u><u>4,467,583</u></u>	<u><u>2,603,041</u></u>
Net income (loss) and comprehensive income (loss)	<u><u>\$ 846,663</u></u>	<u><u>\$ (1,276,854)</u></u>
Weighted-average number of shares, basic and diluted	<u><u>58,682,657</u></u>	<u><u>52,404,328</u></u>
Net income (loss) per common share, basic and diluted	<u><u>\$ 0.014</u></u>	<u><u>\$ (0.024)</u></u>

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

OrganiGram Holdings Inc.
Consolidated Statements of Changes in Equity
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

	Number of Shares	Share Capital	Reserve for Options and Warrants	Accumulated Deficit	Shareholders' Equity
	#	\$	\$	\$	\$
Balance - September 1, 2014	51,016,190	\$ 15,477,518	\$ 530,923	\$ (8,434,818)	\$ 7,573,623
Share - based compensation (Note 10 (vi))	-	-	256,743	-	256,743
Equity financing (Note 10 (iii (a)))	1,334,892	934,424	-	-	934,424
Equity financing (Note 10 (iii(a)))	675,705	472,994	-	-	472,994
Share issue costs (Note 10 (iii(a)))	-	(131,159)	24,361	-	(106,798)
Net income (loss)	-	-	-	(1,276,854)	(1,276,854)
Balance - August 31, 2015	53,026,787	\$ 16,753,777	\$ 812,027	\$ (9,711,672)	\$ 7,854,132
Share - based compensation (Note 10 (vi))	-	-	367,348	-	367,348
Share - based payments (Note 10 (iii(f)))	69,380	75,001	-	-	75,001
Exercise of stock options (Note 10 (iii(g)))	120,971	88,864	(35,914)	-	52,950
Exercise of warrants (Note 10 (v))	571,400	880,284	(101,685)	-	778,599
Exercise of units (Note 10 (v))	21,491	15,044	-	-	15,044
Equity financing - private placement (Note 10 (iii(b&c)))	3,298,073	3,429,998	-	-	3,429,998
Equity financing - warrants private placement (Note 10 (iv (b&c))	-	(156,890)	156,890	-	-
Equity financing - June 2nd bought deal (Note 10 (iii(d)))	9,867,000	10,360,350	-	-	10,360,350
Equity financing - warrants June 2nd bought deal (Note 10 (iv) (d))	-	(968,461)	968,461	-	-
Equity financing - August 23rd bought deal (Note 10 (iii(e)))	17,710,000	23,023,000	-	-	23,023,000
Share issue costs	-	(2,542,792)	-	-	(2,542,792)
Net income (loss)	-	-	-	846,663	846,663
Balance - August 31, 2016	84,685,102	\$ 50,958,174	\$ 2,167,127	\$ (8,865,009)	\$ 44,260,292

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

OrganiGram Holdings Inc.
Consolidated Statements of Cash Flows
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

	Year Ended August 31, 2016	Year Ended August 31, 2015
Cash Provided (Used)		
Operating Activities		
Net income (loss) for the year	\$ 846,663	\$ (1,276,854)
Changes not involving cash:		
Share based payments	75,001	-
Share based compensation	367,348	256,743
Loss (gain) on disposal of asset	(7)	2,490
Amortization of deferred financing	2,500	1,667
Fair value adjustment to biological assets	(284,679)	(693,983)
Depreciation	785,593	414,801
Financing costs	436,372	115,405
Investment income	(37,398)	-
Net change in accounts receivable	(795,105)	(521,587)
Net change in biological assets	(772,370)	(500,063)
Net change in inventories	(2,971,557)	(933,111)
Net change in accounts payable and accrued liabilities	652,074	371,163
Net change in other working capital balances	(76,558)	(8,884)
	<u>(1,772,123)</u>	<u>(2,772,213)</u>
Financing Activities:		
Shares issued in private placement	37,606,853	1,407,418
Share issue costs	(2,542,792)	(106,798)
Payment of long term loan	(274,885)	(120,301)
Proceeds of long term loan	2,900,000	5,000,000
Deferred financing costs	4,999	(22,500)
Employee stock options exercised	53,087	-
Financing costs	(436,372)	(115,405)
	<u>37,310,890</u>	<u>6,042,414</u>
Investing Activities:		
(Increase) decrease in short-term investments	(22,775,000)	-
Investment income	37,398	-
Proceeds on disposal of fixed asset	400	-
Acquisition of property, plant and equipment	(4,417,622)	(7,523,181)
	<u>(27,154,824)</u>	<u>(7,523,181)</u>
Cash Provided (Used)	8,383,943	(4,252,980)
Cash Position		
Cash, beginning of year	\$ <u>1,473,694</u>	\$ <u>5,726,674</u>
Cash, end of year	\$ <u>9,857,637</u>	\$ <u>1,473,694</u>

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

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(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 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”).

These consolidated financial statements were approved by the Board of Directors and authorized for issue by the Board of Directors on December 12, 2016.

(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, as explained in the accounting policies below.

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

(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) Cash and cash equivalents

Cash and cash equivalents includes cash-on-hand and deposits held with financing institution. The Company considers short-term investments to be investing activity.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

ii) Biological assets

The Company measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis of the cost of finished goods inventories after harvest. Mother plants are measured at fair market value.

Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year.

iii) Inventory

Inventories for finished goods and packaging and supplies are initially valued at cost, and subsequently at the lower of cost and net realizable value. Cost is determined using the weighted average costing method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventory for obsolete, redundant and slow moving goods and any such inventory identified are written down to net realizable value.

iv) Property, Plant and Equipment

Items of property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses.

In the carrying amount of an item of property, plant or equipment, the Company recognizes the cost of replacing part of such an item if the replacement cost can be measured reliably and it is probable that the Company's future economic benefits embodied with the item will exceed the resulting net book value thereof. All other costs are charged to profit or loss as incurred.

Depreciation of property, plant and equipment is provided on a straight-line basis over the assets' estimated useful lives, which management has determined to be: building as 25 years; growing equipment as 10 years; computer equipment and vehicles as 5 years; and, furniture and fixtures as 10 years.

v) Impairment of long-lived assets

Long-lived assets are reviewed for impairment at each consolidated statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of the assets (the cash generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment change is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

vi) Financial Instruments

Financial instruments consist of financial assets and liabilities and are initially measured at fair value. Financial assets and liabilities are recognized in the consolidated statements of financial position when the Company has become party to the contractual provision of the instruments. The accounting policies for financial instruments are described below and the composition of the Company's financial instruments and related risks are disclosed in Notes 14 and 15.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

(1) Financial Assets

The Company classifies each financial asset into one of four categories depending on the purpose for which the asset was acquired.

(a) At Fair Value Through Profit or Loss (“FVTPL”)

Assets in this category are derivatives or other assets classified as held-for-trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has no financial assets that are at FVTPL.

(b) Available For Sale

Assets in this category are non-derivative financial assets that are either designated as available-for-sale or do not fit into one of the other categories. After initial recognition, available-for-sale assets are measured at fair value with changes therein (excluding those attributable to impairment) being recognized directly in other comprehensive income (loss). The Company has no financial assets that are classified as available-for-sale.

(c) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. The Company has cash and accounts receivables which are classified as loans and receivables.

(d) Held-to-Maturity

Assets in this category are financial assets with known payments and a fixed maturity date. In addition, the Company has the positive intention and ability to hold the financial asset to maturity, other than those initially designated as held-for-trading, available-for-sale, or loans and receivables as explained above. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method. The Company’s short-term investments are classified as held-to-maturity financial assets.

(2) Financial Liabilities

The Company classifies each financial liability into one of two categories depending on the purpose for which the liability was incurred.

(a) At FVTPL

Financial liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has no financial liabilities at FVTPL.

(b) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as held-for-trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

accounts payable and accrued liabilities and long-term debt which are classified as other financial liabilities.

(3) Transaction Costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate – i.e. amortized through profit or loss over the term of the related instrument.

(4) Fair Value Hierarchy

The three levels of the fair value hierarchy are:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly (e.g. broker quotes); and
Level 3	Inputs for assets or liabilities that are not based on observable market data.

(5) Impairment of Financial Assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initially recognizing the financial asset, the present value of estimated future cash flows determined based on the instrument's original effective interest rate are lower than the asset's carrying amount. The financial asset's carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are adjusted against the allowance account. Changes in the carrying amount of the allowance account are recognized in earnings or loss.

(6) Component Instruments

The component parts of compound instruments (convertible debt) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreements and the definitions of a financial liability and equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or on the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the convertible debt, the balance recognized in equity will be transferred to accumulated deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

vii) Share-based Payments

The Company has a share option plan. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense in profit or loss over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is determined using the Black-Scholes pricing model.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

Expected forfeitures are estimated at the date of the grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expenses reflects the revised estimate.

For stock options granted to non-employees, the expense is measured at the fair value of the good and services received except when the fair value cannot be estimated in which case it is measured at the fair value of the equity instrument granted.

Consideration paid by employees or non-employees on the exercise of options is recorded as share capital and the related share-based expense is transferred from share-based reserve to share capital.

viii) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated in a similar manner, but with adjustments to give effect to all dilutive potential common shares outstanding during the period. The dilutive effect of warrants and options is calculated using the treasury stock method. Anti-dilutive effects of potential conversions of securities are ignored for this calculation. When there is a loss from continuing operations, warrants and options are considered to be anti-dilutive.

ix) Revenue Recognition

Revenue from the sale of cannabis recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be reliably measured and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Company's premises. Revenue is recognized at the fair value of the consideration received or receivable.

x) Income Taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Income tax expense (recovery) in profit or loss is the sum of current and deferred tax as explained below.

Current tax is the expected income tax payable (recoverable) on the taxable income (loss) for the period, using tax rates enacted, or substantively enacted, as at the end of the reporting period. Current tax expense (recovery) included in profit or loss reflects the current tax for the reporting period, plus adjustments to the current tax of prior periods, less current tax recorded directly in other comprehensive income (loss) or equity.

Deferred Taxes are accounted for under the liability method and are the taxes expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and unused tax losses and tax credits can be utilized. Deferred tax is calculated on a non-discounted basis, using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The carrying amounts of individual deferred tax assets are reviewed at the end of each reporting period but are only recognized for the proportion probable that sufficient taxable profits will be available for such assets to be recovered.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

Deferred tax is not recognized for temporary differences related to the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and, differences arising on the initial recognition of goodwill.

xi) 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.

(1) Biological Assets and Inventory

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.

(2) Estimated Useful Lives of Property, Plant and Equipment

Amortization of property, plant and equipment requires estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(3) Share-based Payments

In determining the fair value of options and related expense, the Company makes such estimates as the expected life of the option, the volatility of the Company's share price, the risk free interest rate, and the rate of forfeitures.

(4) Warrants

In determining the value of warrants, the Company estimates the value of the common shares, the volatility of the Company's share price and the risk free interest rate.

xii) New and amended standards issued but not yet effective

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. Earlier adoption is permitted.

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

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

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.

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. Early adoption is permitted.

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.

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.

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.

Management of the Company believes IAS1 will have no impact on the company and is currently evaluating the impact, if any, of the other standards.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

4. Short Term Investments

The Company's short term investments included the following on August 31, 2016 and August 31, 2015:

Description	Interest %	August 31 2016	August 31 2015
Maturing November 30, 2016	0.80%	\$ 300,000	\$ -
Maturing June 9, 2017	0.97%	500,000	-
Maturing June 22, 2017	1.01%	8,600,000	-
Maturing July 15, 2017	0.95%	375,000	-
Maturing August 26, 2017	1.11%	6,500,000	-
Maturing August 26, 2017	1.11%	<u>6,500,000</u>	<u>-</u>
		<u>\$ 22,775,000</u>	<u>\$ -</u>

All short term investments are redeemable prior to maturity.

5. Accounts Receivable

The Company's accounts receivable included the following as of August 31, 2016 and August 31, 2015:

	August 31 2016	August 31 2015
Trade receivables	\$ 967,092	\$ 402,816
Harmonized sales taxes receivable	\$ 222,022	\$ 168,054
Other accounts receivable	<u>372,779</u>	<u>195,918</u>
	<u>\$ 1,561,893</u>	<u>\$ 766,788</u>

Trade receivables include amounts due from customers which the Company has not recognized an allowance for doubtful accounts, because there has not been a significant change in the credit quality of the customers and amounts are considered fully recoverable. Harmonized sales taxes receivable are refundable taxes spent on purchases during the fourth quarter year which are receivable after the quarter-end. Included in other accounts receivable is a \$100,000 (2015 - \$150,000) promissory note bearing interest at 3% and repayable on demand and a \$200,000 (2015 - \$nil) promissory note bearing interest at 5% and maturing on August 29, 2017.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

6. Biological Assets

Biological assets consist of cannabis plants. The changes in the carrying value of biological assets are as follows:

	<u>Mother Plants</u>	<u>Harvest in Process</u>	<u>Total</u>
Carrying amount, September 1, 2014	\$ 5,104	\$ 110,664	\$ 115,768
			-
Net increase in fair value less costs to sell due to biological transformation	22,594	2,045,058	2,067,652
Transferred to inventory upon harvest	-	(873,606)	(873,606)
Carrying amount, August 31, 2015	\$ 27,698	\$ 1,282,116	\$ 1,309,814
Net change in fair value less costs to sell due to biological transformation	(17,937)	3,184,553	3,166,616
Transferred to inventory upon harvest	-	(2,109,567)	(2,109,567)
Carrying amount, August 31, 2016	\$ 9,761	\$ 2,357,102	\$ 2,366,863

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 August 31, 2016, it is expected that the Company's biological assets will yield 429,779 grams (2015 – 277,220 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 gain or loss on biological assets in future periods.

7. Inventories

The Company's inventory assets include the following as of August 31, 2016 and August 31, 2015:

	<u>August 31</u> <u>2016</u>	<u>August 31</u> <u>2015</u>
Agricultural produce	\$ 3,496,541	\$ 929,223
Cannabis Oil	272,422	-
Packaging and supplies	171,857	40,040
	<u>\$ 3,940,820</u>	<u>\$ 969,263</u>

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

8. Property, Plant and Equipment

	Land	Buildings	Leasehold Improvements	Growing Equipment	Other	Total
At September 1, 2014						
Net carrying value	\$ -	\$ -	\$ 1,737,313	\$ 669,956	\$ 70,217	\$ 2,477,486
Year ended August 31, 2015						
Transfer on property purchase		1,737,313	(1,737,313)			-
Acquisitions	327,500	3,071,328	-	2,969,871	1,154,482	7,523,181
Disposals	-	-	-	-	(2,490)	(2,490)
Depreciation	-	(164,432)	-	(146,221)	(104,148)	(414,801)
	<u>\$ 327,500</u>	<u>\$ 4,644,209</u>	<u>\$ -</u>	<u>\$ 3,493,606</u>	<u>\$ 1,118,061</u>	<u>\$ 9,583,376</u>
At August 31, 2015						
Cost	327,500	4,838,087	-	3,657,005	1,233,586	10,056,178
Accumulated depreciation	-	(193,878)	-	(163,399)	(115,525)	(472,802)
	<u>\$ 327,500</u>	<u>\$ 4,644,209</u>	<u>\$ -</u>	<u>\$ 3,493,606</u>	<u>\$ 1,118,061</u>	<u>\$ 9,583,376</u>
At September 1, 2015						
Net carrying value	\$ 327,500	\$ 4,644,209	\$ -	\$ 3,493,606	\$ 1,118,061	\$ 9,583,376
Year ended August 31, 2016						
Acquisitions	-	1,929,684	-	2,205,549	282,389	4,417,622
Depreciation	-	(202,226)	-	(357,776)	(225,591)	(785,593)
Disposals	-	-	-	-	(393)	(393)
	<u>\$ 327,500</u>	<u>\$ 6,371,667</u>	<u>\$ -</u>	<u>\$ 5,341,379</u>	<u>\$ 1,174,466</u>	<u>\$ 13,215,012</u>
At August 31, 2016						
Cost	327,500	6,767,771	-	5,862,554	1,515,582	14,473,407
Accumulated depreciation	-	(396,104)	-	(521,175)	(341,116)	(1,258,395)
	<u>\$ 327,500</u>	<u>\$ 6,371,667</u>	<u>\$ -</u>	<u>\$ 5,341,379</u>	<u>\$ 1,174,466</u>	<u>\$ 13,215,012</u>

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

9. Long-term debt

	August 31, 2016	August 31 2015
Farm Credit Canada credit facility - with a 10 year amortization and a 5 year term variable rate plus 1.75% (currently 5.45%)	2,175,496	2,374,699
Non-brokered private placement maturing September 1, 2017, bearing interest at an interest rate of 9%	1,000,000	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%)	1,424,318	1,500,000
Private placement convertible debentures maturing December 31, 2018 and bearing interest at an interest rate of 6.75%	2,900,000	-
<u>Deferred Financing</u>	<u>(8,334)</u>	<u>(15,833)</u>
	7,491,480	4,858,866
<u>Less: current portion</u>	<u>(330,649)</u>	<u>(284,713)</u>
<u>Long-term portion</u>	<u>\$ 7,160,831</u>	<u>\$ 4,574,153</u>

The FCC loans are secured by a first charge on 35 English Drive, 1299 St. George Boulevard and all of the Company's other assets. The company was in compliance with the covenants at August 31, 2016.

Principal repayments required on the long-term debt in the next five years are as follows:

2017	\$ 330,649
2018	1,349,257
2019	3,269,729
2020	389,715
<u>2021</u>	<u>414,440</u>
	<u>\$ 5,753,790</u>

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 August 31, 2016, the Company's issued and outstanding share capital consisted of 84,685,102 (August 31, 2015 – 53,026,787) common shares with a stated value of \$50,958,174 (August 31, 2015 - \$16,753,777).

As at August 31, 2016, 5,691,216 (August 31, 2015 – 17,651,568) 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:

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

February 22, 2017	2,845,606
August 22, 2017	<u>2,845,610</u>
	<u>5,691,216</u>

(iii) Issuances of share capital

- (a) On December 22, 2014, the Company issued 1,334,892 common shares by way of a brokered private placement, at \$0.70 per common share for a total consideration of \$934,424. Additionally, the Company issued 675,705 common shares by way of a non-brokered private placement, at \$0.70 per common share for a total consideration of \$472,994. Issue costs incurred in connection with these transactions totaled \$106,798, including \$24,361 of broker warrants and 4,500 finder's fee options.
- (b) On November 27, 2015, the Company issued 3,009,612 common shares by way of a brokered private placement, at \$1.04 per common share for a total gross consideration of \$3,129,999.
- (c) On December 15, 2015, the Company issued an aggregate of 288,461 common shares in relation to the November private placement at \$1.04 per common share for total gross consideration of \$299,999.41.
- (d) On June 2, 2016, the Company issued an aggregate of 9,867,000 common shares by way of a bought deal at \$1.05 per share for a total gross consideration of \$10,360,350.
- (e) On August 23rd, 2016, the Company issued an aggregate of 17,710,000 common shares by way of a bought deal at \$1.30 per share for a total gross consideration of \$23,023,000.
- (f) During the fourth quarter ending August 31, 2016, the Company issued 69,380 common shares at an average share price of \$1.08 as share consideration to XIB Consulting Inc. for an engagement agreement.
- (g) During the year ending August 31, 2016, 120,971 (August 31, 2015 – nil) share options were exercised for a value of \$88, 864 (August 31, 2015 – nil) to share capital.

(iv) Warrants

- (a) Pursuant to the December 22, 2014 private placements, subscribers thereto also received 2,010,597 investor warrants to acquire 2,010,597 common shares of the Company at an exercise price of \$1.00 per common share, exercisable over a three year period until December 22, 2017.

Included in the issue costs for the December 22, 2014 private placement are 84,595 agent warrants and 4,500 finders' fee options, exercisable for two years at a strike price of \$0.70 and \$0.85 respectively. The \$24,361 fair value of these warrants and options was estimated at \$0.273 per share and \$0.234 per share, respectively, using the Black-Scholes option pricing model with a market price of \$0.68; a risk-free interest rate of 2.0%; an expected annualized volatility of 74%; and, an expected dividend yield of 0.0%. These agent warrants and options expire on December 22, 2016.

- (b) Pursuant to the November 27, 2015 private placements, subscribers thereto also received 1,504,804 investor warrants to acquire 1,504,804 common shares of the Company at an exercise price of \$1.40 per common share, exercisable over an eighteen month period from the date of closing. The \$146,279 fair value of these options was estimated at \$0.097 per share using the Black-Scholes option pricing model with a market price of \$0.93; a risk-free interest rate of 0.63%; an expected annualized volatility of 48%; an expected dividend yield of 0.0%; and, an expected option life of 1.5 years. All 1,504,804 warrants expire on May 27, 2017.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

- (c) Pursuant to the December 15, 2015 private placement, subscribers thereto also received 144,231 investor warrants to acquire 144,231 common shares of the Company at an exercise price of \$1.40 per common share, exercisable over an eighteen month period from the date of closing. The \$10,611 fair value of these options was estimated at \$0.073 per share using the Black-Scholes option pricing model with a market price of \$0.85; a risk-free interest rate of 0.52%; an expected annualized volatility of 49%; an expected dividend yield of 0.0%; and, an expected option life of 1.5 years. All 144,231 warrants expire on June 15, 2017.
- (d) Pursuant to the June 2, 2016 bought deal, subscribers thereto also received 4,933,500 investor warrants to acquire 4,933,500 common shares of the Company at an exercise price of \$1.40 per common share, exercisable over an eighteen month period from the date of closing. The \$968,461 fair value of these options was estimated at \$0.196 per share using the Black-Scholes option pricing model with a market price of \$1.07; a risk-free interest rate of 0.57%; an expected annualized volatility of 57%; an expected dividend yield of 0.0%; and, an expected option life of 1.5 years. All 4,933,500 warrants expire on December 2, 2017.

(v) **Warrant continuity schedule**

Warrants:	Number	Average Exercise Price
Balance - September 1, 2014	317,356	\$1.00
Investor warrants granted December 22, 2014	2,010,597	\$1.00
Broker warrants granted December 22, 2014	84,595	\$0.70
Finder's fee warrants, December 22, 2014	4,500	\$0.85
Debenture warrants, August 22, 2015	200,000	\$0.45
Expired warrants, August 31, 2015	(317,356)	\$1.00
Balance - August 31, 2015	2,299,692	\$0.94
Granted	6,604,025	\$1.40
Exercised/Released	(571,400)	\$1.36
Balance - August 31, 2016	8,332,317	\$1.28

(vi) **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.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

Options:	Number	Average Exercise Price
Balance - September 1, 2014	1,565,000	\$0.85
Options Granted	842,500	\$0.60
Options Cancelled / Forfeited	(660,000)	\$0.86
Balance - August 31, 2015	1,747,500	\$0.73
Options Granted	1,434,165	\$0.57
Exercised / Forfeited	(120,971)	\$0.44
Options Cancelled / Forfeited	(317,832)	\$0.68
Balance - August 31, 2016	2,742,862	\$0.67

Options outstanding have exercise prices that range from \$0.30 to \$1.25 with a weighted average remaining life of 9 years. Total share-based compensation expense for the twelve month period ended August 31, 2016 was \$367,348 (2015 – \$256,743). 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	0.57% - 2.00%
Expected life of options	3 -7.5 years
Expected annualized volatility	53% -128%
Expected dividend yield	-

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.

(vii) 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 years.

Diluted earnings (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 year.

For all the years presented, diluted income (loss) per share equals basic income (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 income (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:

	August 31 2016	August 31 2015
Stock options	2,742,862	1,747,500
Warrants	8,332,317	2,299,692
	11,075,179	4,047,192

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

Net income (loss) per share calculations use the basic and diluted weighted-average number of common shares outstanding for the year ended August 31, 2016, which was 58,682,657 (2015- 52,404,328).

11. Income Taxes

There are no current income taxes payable or recoverable for the year ended August 31, 2016. The deferred tax recovery (expense) for the years ended August 31, 2016 and August 31, 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Income (loss) before income taxes	\$ 846,663	\$ (1,276,854)
Statutory rate	<u>29.00%</u>	<u>27.00%</u>
Tax calculated at statutory rate	245,532	(344,750)
Non-deductible (non-taxable) items		
Share-based compensation	128,281	69,321
Financing fees recorded in equity	(737,410)	(28,835)
Other	128,188	103,729
Benefit of deductible temporary differences not recognized	293,153	200,535
Change in tax rates	<u>(57,745)</u>	<u>-</u>
Income tax expense per financial statements	<u>\$ -</u>	<u>\$ -</u>

As at August 31, 2016, the Company had \$1,781,248 of non-capital tax loss carryforwards that expire as follows:

<u>Year</u>	<u>Amount</u>
2035	\$ 1,331,552
2034	449,696
2033	<u>-</u>
	<u>\$ 1,781,248</u>

Deferred tax assets are not recognized in these consolidated financial statements because the Company is in its start-up phase and the deferred tax assets are not probable to be recognized. The Company has \$3,698,990 (August 31, 2015 - \$2,887,239) of temporary differences that give rise to the following unrecorded deferred tax assets as at August 31, 2016 and August 31, 2015:

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

	<u>2016</u>	<u>2015</u>
Non-capital loss carryforwards	\$ 516,562	\$ 540,013
Long-term assets	(221,494)	14,165
Intangible assets	33,419	33,389
Long-term debt	<u>(2,417)</u>	<u>(4,275)</u>
Differences affecting income tax expense	326,070	583,292
Differences affecting share capital		
Share issuance costs	<u>746,637</u>	<u>196,262</u>
Total	<u>\$ 1,072,707</u>	<u>\$ 779,554</u>

12. Related Party Transactions

Transactions and balances with related entities

A debenture to Denaco Group Ltd, a company controlled by the Chief Executive Officer, was issued in July 2015 for \$500,000 through a non-brokered private placement repayable on September 1, 2017, carrying a 9% interest rate, and 100,000 warrants at \$0.45 which expire on June 15, 2017.

Certain directors and management of the company participated in the November 27, 2015 private placement completed during the year ending August 31, 2016. Proceeds received from the directors and management related to the private placement were \$98,000, which included 47,116 warrants. Proceeds received from other related parties controlled by directors related to the private placement were \$140,000, which included 67,307 warrants. All of the warrants expire May 27, 2017.

Convertible debentures issued as part of the November 27, 2015 private placement were issued to certain directors and management for \$45,000 and other related parties controlled by directors for \$110,000. The convertible debentures carried a 6.75% interest rate and expire on December 31, 2018.

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 year ended August 31, 2016, the Company's expenses included \$657,204 (2015 - \$403,672) respectively for salary and/or consulting fees paid to key management personnel. In addition, 300,000 options (2015 - 335,000) were issued to key management personnel during the year at an average exercise price of \$0.64 (2015 - \$0.56).

13. 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 August 31, 2016 statement of financial position as \$51,683,470 (August 31, 2015 - \$12,712,998).

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.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

14. 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:

- J Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- J Level 2 inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- J 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 a level 2 measurements. During the year, there was not transfers of amounts between level 1, 2 and 3.

15. 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 \$34,435,249 of cash, short term investments and accounts receivable on the balance sheet.

As of August 31, 2016 and August 31, 2015, the Company's aging of trade receivables was approximately as follows:

	August 31 2016	August 31 2015
0-60 days	\$ 889,421	\$ 276,168
61-120 days	<u>77,672</u>	<u>126,647</u>
Total	<u>\$ 967,093</u>	<u>\$ 402,816</u>

Included in other accounts receivable is a secured promissory note receivable of \$100,000 payable on demand by the principal in the contingency noted in Note 16. 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 August 31, 2016, the Company had \$9,857,637 (August 31, 2015 - \$1,473,694) of cash and cash equivalents and

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

working capital of \$38,137,809 (August 31, 2015 - \$2,844,909).

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

	Carrying	Contractual	Fiscal	Fiscal	Fiscal
	Amount	Cash Flows	2017	2018-2019	2020-2021
Accounts payable and accrued liabilities	\$ 2,115,193	\$ 2,115,193	\$ 2,115,193	\$ -	\$ -
Long-term debt	7,491,480	7,491,480	330,649	4,618,986	804,155
Interest	-	-	483,151	598,135	252,220
	<u>\$ 9,606,673</u>	<u>\$ 9,606,673</u>	<u>\$ 2,928,993</u>	<u>\$ 5,217,121</u>	<u>\$ 1,056,375</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 two types of risk: currency rate risk and interest rate risk.

- (1) **Currency risk** is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has minimal financial instruments denominated in a foreign currency.
- (2) **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 August 31, 2016 pursuant to the fixed rate loans described in Note 9. A 1% change in prime interest rates will increase or decrease the Company's interest expense by \$35,998 per year.

16. Contingencies

The Company recognizes loss contingency provisions for probable losses when management is able to 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 the prior year, the Company was named as a defendant in a law suit 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 law suit to be without merit though they will rigorously defend the action. A provision has been made in these consolidated financial statements for the claim.

17. Segmented Information

The company operates in one business segment and, accordingly, does not have any segmented information disclosures. All of the Company's assets are in Canada.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

18. General and Administrative Expenses

	August 31	August 31
	<u>2016</u>	<u>2015</u>
Wages and benefits	\$ 766,429	\$ 401,561
Office and general	458,058	323,869
Professional fees	497,349	633,910
Travel and accomodation	97,319	96,167
Utilities	<u>49,300</u>	<u>51,928</u>
Total general and administrative expenses	<u>\$ 1,868,455</u>	<u>\$ 1,507,435</u>

19. Subsequent Events

(i) Issuance of Stock Options

In September, 2016, the Company issued an aggregate of 850,600 employee options to purchase 850,600 common shares of the Company, to various employees and consultants of OGI, at an average exercise price of \$1.42 per share. In accordance with the Company's Stock Option Plan, the foregoing options shall vest over a three year period. Vested options may be exercised until September, 2026, subject to forfeiture provisions requiring the options to expire 90 days after termination of the individual's employment.

In October, 2016, the Company issued an aggregate of 535,000 employee options to purchase 535,000 common shares of the Company, to various employees and consultants of OGI, at an average exercise price of \$1.57 per share. In accordance with the Company's Stock Option Plan, the foregoing options shall vest over a three year period. Vested options may be exercised until October, 2026, subject to forfeiture provisions requiring the options to expire 90 days after termination of the individual's employment.

In November, 2016, the Company issued an aggregate of 607,500 employee options to purchase 607,500 common shares of the Company, to various employees and consultants of OGI, at an average exercise price of \$1.51 per share. In accordance with the Company's Stock Option Plan, the foregoing options shall vest over a three year period. Vested options may be exercised until November, 2026, subject to forfeiture provisions requiring the options to expire 90 days after termination of the individual's employment.

(ii) Purchase and sale agreement – 320 Edinburgh Drive

In October, 2016, the Company closed a transaction to acquire a 10-acre adjoining property, which includes a 136,000 square foot industrial building for approximately \$6.9 million in cash and other non-cash consideration, including real property, located at 1299 St. George Boulevard. The purchase facilitates the Company's phased expansion initiatives related to cannabis production and extracts processing.

(iii) Licensing agreement – TGS International

In October, 2016, the TSX Venture Exchange has approved the Company to issue 437,957 common shares to TGS International LLC at a deemed price of \$1.37. 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.

OrganiGram Holdings Inc.
Notes to the Consolidated Financial Statements
For the Years ended August 31, 2016 and 2015
(In Canadian dollars)

(iv) Financing – XIB Consulting

The Company entered into an engagement agreement in April, 2016, with XIB Consulting Inc. ("XIB"). In November of 2016, TSX Venture Exchange accepted the Company's proposal to issue 70,161 shares at a price of \$1.72 per share in consideration of services provided to date.

(v) Financing – Bought Deal

On December 7, 2016, the Company closed a bought deal. The offering was completed by a syndicate of underwriters led by Dundee Securities in which 11,339,000 common shares of the Company were sold at a price per share of \$3.55 for gross proceeds of \$40,253,450. The Company plans on using the proceeds for capital expenditures, working capital, and general corporate purposes.