



Organigram Holdings Inc.

Condensed Consolidated  
Interim Financial Statements  
(Unaudited)

For the three and six months ended  
February 29, 2020 and February 28, 2019



ORGANIGRAM

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ORGANIGRAM

April 9, 2020

#### Management's Responsibility for the Financial Statements

The accompanying condensed consolidated interim financial statements of Organigram Holdings Inc. (the "Company") have been prepared by the Company's management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board 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) 'Derrick West'**  
**Chief Financial Officer**  
**Moncton, New Brunswick**

# ORGANIGRAM HOLDINGS INC.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at February 29, 2020 and August 31, 2019

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

	FEBRUARY 29, 2020	AUGUST 31, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 41,086	\$ 47,555
Short-term investments	153	380
Accounts receivable (Note 4)	20,612	16,541
Current portion of loan receivable (Note 5)	722	909
Biological assets (Note 6)	27,443	20,652
Inventories (Note 7)	113,388	93,144
Prepaid expenses and deposits (Note 11 and Note 22)	4,930	17,100
	208,334	196,281
Loan receivable (Note 5)	1,459	-
Property, plant and equipment (Note 8)	279,109	218,470
Intangible assets (Note 9)	3,274	2,074
Deferred charges (Note 11 and Note 22)	1,210	592
Investments in associates (Note 13)	8,890	11,108
	\$ 502,276	\$ 428,525
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 26,674	\$ 40,355
Current portion of long term debt (Note 10 and Note 24(i))	84,908	3,509
	111,582	43,864
Long-term debt (Note 10)	295	46,067
Other liabilities (Note 12)	2,323	1,117
Deferred tax liability	9,975	10,471
	124,175	101,519
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	372,742	318,125
Equity reserves (Note 11)	21,949	17,707
Accumulated other comprehensive loss	(111)	(43)
Accumulated deficit	(16,479)	(8,783)
	378,101	327,006
	\$ 502,276	\$ 428,525

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 (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME

For the three and six months ended February 29, 2020 and February 28, 2019

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
<b>REVENUES</b>				
Gross revenue (Note 17)	\$ 27,309	\$ 33,473	\$ 55,757	\$ 47,952
Excise taxes	(4,088)	(6,539)	(7,383)	(8,579)
Net revenue	23,221	26,934	48,374	39,373
Cost of sales (Note 18)	15,811	10,890	31,622	14,507
Gross margin before fair value adjustments	7,410	16,044	16,752	24,866
Fair value changes to biological assets and changes in inventory sold (Note 6)	3,878	(8,086)	5,729	34,839
Gross margin	11,288	7,958	22,481	59,705
<b>OPERATING EXPENSES</b>				
General and administrative (Note 21)	8,537	2,603	14,425	4,774
Sales and marketing	5,481	3,138	9,011	5,495
Share-based compensation (Note 11)	1,296	3,985	2,917	4,957
Total operating expenses	15,314	9,726	26,353	15,226
<b>(LOSS) INCOME FROM OPERATIONS</b>				
	(4,026)	(1,768)	(3,872)	44,479
Financing costs	1,966	4,314	2,830	8,504
Investment income	(162)	(229)	(89)	(475)
Share of loss from investments in associates (Note 13)	294	507	550	507
Impairment of investments in associates (Note 14)	1,600	-	1,600	-
Unrealized (gain) on changes in fair value of contingent consideration (Note 13)	(193)	646	(571)	646
(Loss) income from continuing operations before tax	(7,531)	(7,006)	(8,192)	35,297
Income tax (recovery) expense				
Deferred, net	(698)	(620)	(496)	12,166
Net (loss) income from continuing operations	\$ (6,833)	\$ (6,386)	\$ (7,696)	\$ 23,131
Loss from discontinued operations (Note 23)	-	-	-	(38)
<b>NET (LOSS) INCOME</b>	\$ (6,833)	\$ (6,386)	\$ (7,696)	\$ 23,093
<b>Other comprehensive gain (loss)</b>				
Foreign currency translation gain (loss), net of tax	33	54	(68)	54
<b>COMPREHENSIVE (LOSS) INCOME</b>	\$ (6,800)	\$ (6,332)	\$ (7,764)	\$ 23,147
Net (loss) income from continuing operations per common share, basic (Note 11 (vi))	\$ (0.041)	\$ (0.049)	\$ (0.048)	\$ 0.179
Net (loss) income from continuing operations per common share, diluted (Note 11 (vi))	\$ (0.041)	\$ (0.049)	\$ (0.048)	\$ 0.168
Net loss from discontinued operations per common share, basic (Note 11 (vi))	\$ -	\$ -	\$ -	\$ (0.000)
Net loss from discontinued operations per common share, diluted (Note 11 (vi))	\$ -	\$ -	\$ -	\$ (0.000)
Net (loss) income per common share, basic (Note 11 (vi))	\$ (0.041)	\$ (0.006)	\$ (0.048)	\$ 0.179
Net (loss) income per common share, diluted (Note 11 (vi))	\$ (0.041)	\$ (0.006)	\$ (0.048)	\$ 0.168

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

## ORGANIGRAM HOLDINGS INC.

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

For the six months ended February 29, 2020 and February 28, 2019

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

	NUMBER OF SHARES	SHARE CAPITAL	EQUITY RESERVES	ACCUMULATED OTHER COMPREHENSIVE LOSS	RETAINED EARNINGS/ (ACCUMULATED DEFICIT)	SHAREHOLDERS' EQUITY
Balance - September 1, 2018	125,207,938	\$ 157,790	\$ 26,045	\$ -	\$ 759	\$ 184,594
Share-based compensation (Note 11 (v))	-	-	7,000	-	-	7,000
Exercise of stock options (Note 11 (iii))	1,163,567	2,703	(1,046)	-	-	1,657
Exercise of warrants (Note 11 (iv))	2,251,043	11,367	(2,395)	-	-	8,972
Conversion of debentures (Note 11 (iii))	10,946,301	57,385	(5,802)	-	-	51,583
Tax impact of equity issue costs	-	(437)	368	-	-	(69)
Foreign currency translation gain, net of tax	-	-	-	54	-	54
Net income	-	-	-	-	23,093	23,093
Balance - February 28, 2019	139,568,849	\$ 228,808	\$ 24,170	\$ 54	\$ 23,852	\$ 276,884
Balance - September 1, 2019	156,196,347	\$ 318,125	\$ 17,707	\$ (43)	\$ (8,783)	\$ 327,006
At-the-market equity financing, net of issue costs of \$2,081 (Note 11 (iii))	16,201,183	52,885	-	-	-	52,885
Share-based compensation (Note 11 (v))	-	-	5,066	-	-	5,066
Exercise of stock options (Note 11 (iii))	639,490	1,518	(610)	-	-	908
Exercise of restricted share units (Note 11 (v))	41,839	214	(214)	-	-	-
Foreign currency translation loss, net of tax	-	-	-	(68)	-	(68)
Net loss	-	-	-	-	(7,696)	(7,696)
Balance - February 29, 2020	173,078,859	\$ 372,742	\$ 21,949	\$ (111)	\$ (16,479)	\$ 378,101

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

# ORGANIGRAM HOLDINGS INC.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

For the six months ended February 29, 2020 and February 28, 2019

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

	FEBRUARY 29, 2020	FEBRUARY 28, 2019
<b>CASH PROVIDED (USED)</b>		
<b>OPERATING ACTIVITIES</b>		
Net (loss) income from continuing operations	\$ (7,696)	\$ 23,131
Items not affecting cash:		
Share-based compensation (Note 11)	5,205	6,983
Depreciation and amortization (Note 8 and Note 9)	7,674	3,490
Loss on disposal of property, plant and equipment (Note 8)	492	(17)
Impairment losses (Note 13)	1,600	-
Fair value adjustment to biological assets	4,318	(2,434)
Financing costs	2,830	8,504
Investment loss (income)	(89)	(475)
Share of loss from investments in associates (Note 13)	550	507
Unrealized gain on changes in fair value of contingent consideration (Note 12(i))	(571)	646
Deferred tax expense	(496)	12,166
Changes in non-cash working capital:		
Net change in accounts receivable	(4,071)	(24,150)
Net change in biological assets	(11,109)	2,457
Net change in inventories	(19,445)	(50,165)
Net change in accounts payable and accrued liabilities	(15,458)	(5,199)
Net change in prepaid expenses and deferred charges	11,255	2,226
Net cash used in continuing operations	(25,011)	(22,330)
Net cash used in operating activities related to discontinued operations (Note 23)	-	(35)
Net cash used in operating activities	(25,011)	(22,365)
<b>FINANCING ACTIVITIES</b>		
Proceeds from equity financing, net of issue costs of \$2,081 (Note 11 (iii))	52,885	-
Payment of lease liabilities (Note 12(ii))	(217)	-
Payment of long-term debt (Note 10)	(40)	(206)
Proceeds from long-term debt, net of issue costs of \$140 (2018 - \$149) (Note 10)	34,860	9,851
Stock options, warrants and units exercised (Note 11)	908	10,629
Interest paid	(1,802)	(3,369)
Net cash provided by financing activities	86,594	16,905
<b>INVESTING ACTIVITIES</b>		
Proceeds from short-term investments	135	25,000
Investment income	182	554
Investments in associates (Note 13)	-	(12,708)
Loan advance (Note 5)	(2,071)	-
Proceeds on sale of property, plant and equipment (Note 8)	-	180
Purchase of property, plant and equipment (Note 8)	(64,973)	(48,745)
Purchase of intangible assets (Note 9)	(1,325)	(1,530)
Net cash used in investing activities	(68,052)	(37,127)
<b>DECREASE IN CASH</b>	<b>\$ (6,469)</b>	<b>\$ (42,587)</b>
<b>CASH POSITION</b>		
Beginning of period	\$ 47,555	\$ 55,064
End of period	\$ 41,086	\$ 12,477

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

# ORGANIGRAM HOLDINGS INC.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended February 29, 2020 and February 28, 2019

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

### 1. NATURE OF OPERATIONS

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

The Company's major subsidiaries are Organigram Inc., a licensed producer ("LP" or "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., a holding company.

Organigram Inc. was incorporated under the laws of the Province of New Brunswick, Canada, on March 1, 2013. 10870277 Canada Inc. and Organigram Holdings Inc. were incorporated under the Canada Business Corporations Act.

### 2. BASIS OF PREPARATION

#### i) Statement of compliance

The condensed consolidated interim financial statements have been prepared in compliance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

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 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, 2019, which have been prepared in accordance with IFRS. The accounting policies applied are consistent with those applied in the annual consolidated financial statements with the exception of those described in Note 3.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on April 9, 2020.

#### 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, share-based compensation, 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 of the consideration given in exchange for assets at the time of the transaction.

#### iii) 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.

#### iv) 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 its associate, 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 condensed consolidated interim statements of (loss) income and comprehensive (loss) income.



## 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 accumulated other comprehensive loss 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### NEW STANDARDS AND INTERPRETATIONS ADOPTED

#### New or amended standards effective September 1, 2019

The Company has adopted the following new or amended IFRS standard for the annual period beginning on September 1, 2019:

#### IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases, which replaced IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard was effective for annual periods beginning on or after January 1, 2019 and has been adopted by the Company effective September 1, 2019 using the modified retrospective approach where comparative figures were not restated.

As a result of adopting IFRS 16, the Company recognized right-of use (“ROU”) assets of \$2,244 recorded under property, plant and equipment (Note 8), lease liabilities of \$2,219 recorded under other liabilities (Note 12), and a reduction to prepaid expenses of \$25 as a result of the leasing arrangements in place at September 1, 2019 and entered into during the six months ended February 29, 2020 by the Company.

The right to use the leased asset was measured at the amount of the lease liability, using the Company’s incremental borrowing rate on September 1, 2019 that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The weighted average interest rate as of September 1, 2019 to measure the lease liabilities was 5.70%.

The Company elected to use the following practical expedients on adoption of IFRS 16 on all of its leases:

- (a) In accordance with IFRS 16.C3, an election is being taken to not reassess whether a contract is or contains a lease at the date of initial application, and instead to only apply IFRS 16 to contracts that were in the scope of IAS 17;
- (b) In accordance with IFRS 16.C8(b)(ii), an election is being taken to measure the ROU asset on September 1, 2019 as an amount equal to the lease liability, adjusted for prepaid or accrued lease payments;
- (c) In accordance with IFRS 16.C10(a), an election is being taken to apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (d) In accordance with IFRS 16.C10(b), an election is being taken to rely on the IAS 37 assessment of whether leases are onerous instead of performing an impairment review;
- (e) In accordance with IFRS 16.C10(c), an election is being taken to exclude leases for which the term ends within 12 months from September 1, 2019;
- (f) In accordance with IFRS 16.C10(d), an election is being taken to exclude initial direct costs from the measurement of the ROU asset on September 1, 2019;
- (g) In accordance with IFRS 16.15, an election is being taken, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component where the non-lease components are not significant compared to the lease components;
- (h) In accordance with IFRS 16.5(a), an election is being taken to not recognize an ROU asset and lease liability for leases for which the lease has a term less than 12 months; and

- (i) In accordance with IFRS 16.5(b), an election is being taken to not recognize an ROU asset and lease liability for leases for which the underlying asset is of low value, which is defined to mean less than \$5,000 USD when new.

The following is a reconciliation between the Company's operating lease commitments disclosed applying IAS 17 as at August 31, 2019 and the lease liabilities as at September 1, 2019 after adopting IFRS 16:

**Reconciliation - IAS 17 to IFRS 16**

Operating lease obligations as at August 31, 2019	\$	3,049
Minimum Future payments not related to lease payments		(411)
Lease payments for renewal options reasonably expected to be exercised but not contractually obligated		655
Relief option for short-term leases		(539)
Relief option for leases of low-value assets		(76)
Gross lease liabilities at September 1, 2019		2,678
Discounting		(459)
Present value of lease liabilities at September 1, 2019	\$	2,219

#### 4. ACCOUNTS RECEIVABLE

The Company's accounts receivable included the following balances as of February 29, 2020 and August 31, 2019:

	FEBRUARY 29, 2020	AUGUST 31, 2019
Trade receivables	\$ 14,672	\$ 11,900
Sales taxes receivable	5,700	4,741
Government programs	252	168
Less: Provision for doubtful accounts	(12)	(268)
	\$ 20,612	\$ 16,541

#### 5. LOAN RECEIVABLE

On July 26, 2019, the Company entered into an advance payment and support agreement ("Payment Agreement") with 703454 N.B. Inc. (carrying on business as 1812 Hemp) ("1812 Hemp"). Under the terms of the agreement, the Company agreed to advance up to \$3,000 until October 31, 2019 to 1812 Hemp in the form of a secured loan. These amounts may be applied against future purchases of hemp under the license and supply agreement described in Note 9. The aggregate amount of advances outstanding as of January 1, 2020 accrue interest of 9.0% per annum, calculated monthly, until the entire balance of advances is paid. Repayment of the advances is due June 30, 2021 however any purchases of hemp from time to time will reduce the outstanding balance of the advances. As at February 29, 2020, 1812 had offered the Company hemp for purchase in amounts that may be sufficient to retire in full the outstanding balance of advances. The Company has agreed to purchase \$751 of hemp from 1812 Hemp to date and is currently assessing any further purchase requirements.

At February 29, 2020, \$2,181 was outstanding with respect to the Payment Agreement, which has been split between the current portion of the loan receivable of \$722 and the long-term portion of the loan receivable of \$1,459 based on the Company's estimated purchases of hemp and expected repayment rate.

## 6. BIOLOGICAL ASSETS

The Company measures biological assets, which consist 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 incurred 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 February 29, 2020 are as follows:

	OTHER BIOLOGICAL ASSETS	CANNABIS ON PLANTS	TOTAL
Carrying amount, August 31, 2019	\$ 3	\$ 20,649	\$ 20,652
Add net production costs	-	24,904	24,904
Net change in fair value less costs to sell due to biological transformation	-	4,318	4,318
Transferred to inventory upon harvest	-	(22,431)	(22,431)
Carrying amount, February 29, 2020	\$ 3	\$ 27,440	\$ 27,443

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 16), 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 packaging.

The Company estimates the harvest yields for the cannabis on plants at various stages of growth. As of February 29, 2020, it is expected that the Company's biological assets will yield 22,735 kg (August 31, 2019 – 16,595 kg) 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	
	FEB. 29, 2020	AUG. 31, 2019		FEB. 29, 2020	AUG. 31, 2019
Average net selling price per gram	\$ 4.59	\$ 5.65	Increase or decrease by \$1.00 per gram	\$ 5,975	\$ 3,657
Average yield per plant	155 grams	151 grams	Increase or decrease by 10 grams	\$ 1,770	\$ 1,367

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Realized fair value amounts included in inventory sold	\$ (9,403)	\$ (16,738)	\$ (23,241)	\$ (26,198)
Increase (decrease) in fair value on growth of biological assets	33,671	9,508	59,569	61,893
Adjustment to net realizable value	(20,390)	(856)	(30,599)	(856)
Fair value adjustment to biological assets	\$ 3,878	\$ (8,086)	\$ 5,729	\$ 34,839

The adjustment to net realizable value is primarily related to flower and trim available for extraction and concentrated extract due to the decrease in the estimated net realizable value of these inventories based on the evolving nature of the adult-use market.

## 7. INVENTORIES

The Company's inventories are comprised of the following balances as of February 29, 2020 and August 31, 2019:

	FEBRUARY 29, 2020		
	CAPITALIZED COST	FAIR VALUE	
		ADJUSTMENT	CARRYING VALUE
Plants in drying stage	\$ 3,014	\$ 7,575	\$ 10,589
Dry cannabis			
Available for packaging	7,175	16,704	23,879
Packaged inventory	3,361	3,075	6,436
Flower and trim available for extraction	9,650	4,099	13,749
Concentrated extract	21,017	21,938	42,955
Formulated extracts			
Available for packaging	3,010	1,893	4,903
Packaged inventory	1,599	963	2,562
Packaging and supplies	8,315	-	8,315
	\$ 57,141	\$ 56,247	\$ 113,388

	AUGUST 31, 2019		
	CAPITALIZED COST	FAIR VALUE	
		ADJUSTMENT	CARRYING VALUE
Plants in drying stage	\$ 1,945	\$ 4,256	\$ 6,201
Dry cannabis			
Available for packaging	5,261	12,718	17,979
Packaged inventory	4,205	2,549	6,754
Flower and trim available for extraction	4,433	12,193	16,626
Concentrated extract	15,393	21,573	36,966
Formulated extracts			
Available for packaging	754	1,121	1,875
Packaged inventory	728	425	1,153
Packaging and supplies	5,590	-	5,590
	\$ 38,309	\$ 54,835	\$ 93,144

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, and beverage and vaporizable products.

The amount of inventory expensed in cost of sales for the three and six months ended February 29, 2020 was \$10,330 and \$21,649 (February 28, 2019 - \$9,980 and \$12,462). The amount of inventory write-downs and provisions included in indirect production for the three and six months ended February 29, 2020 was \$2,638 and \$4,543 (February 28, 2019 - \$516 and \$1,013).

## 8. PROPERTY, PLANT AND EQUIPMENT

	LAND	BUILDINGS	CONSTRUCTION IN PROCESS	GROWING & PROCESSING EQUIPMENT	OTHER (NOTE A)	RIGHT-OF-USE LEASE ASSETS (NOTE B)	TOTAL
<b>Cost</b>							
Balance, August 31, 2019	\$ 2,211	\$ 70,774	\$ 65,515	\$ 87,931	\$ 6,697	\$ -	\$ 233,128
Transition to IFRS 16	-	-	-	-	-	2,244	2,244
Additions (Note C)	-	7,741	54,801	2,532	1,314	48	66,436
Construction completed	-	34,314	(67,469)	32,779	376	-	-
Disposals	-	(517)	-	(53)	(40)	-	(610)
<b>Balance, February 29, 2020</b>	<b>\$ 2,211</b>	<b>\$ 112,312</b>	<b>\$ 52,847</b>	<b>\$ 123,189</b>	<b>\$ 8,347</b>	<b>\$ 2,292</b>	<b>\$ 301,198</b>
<b>Accumulated depreciation</b>							
Balance, August 31, 2019	\$ -	\$ (4,237)	\$ -	\$ (8,618)	\$ (1,803)	\$ -	\$ (14,658)
Depreciation	-	(1,613)	-	(5,075)	(675)	(186)	(7,549)
Disposals	-	108	-	1	9	-	118
<b>Balance, February 29, 2020</b>	<b>\$ -</b>	<b>\$ (5,742)</b>	<b>\$ -</b>	<b>\$ (13,692)</b>	<b>\$ (2,469)</b>	<b>\$ (186)</b>	<b>\$ (22,089)</b>
<b>Net book value</b>							
August 31, 2019	\$ 2,211	\$ 66,537	\$ 65,515	\$ 79,313	\$ 4,894	\$ -	\$ 218,470
February 29, 2020	\$ 2,211	\$ 106,570	\$ 52,847	\$ 109,497	\$ 5,878	\$ 2,106	\$ 279,109

Most of the additions during the six months ended February 29, 2020 were related to the expansion of the Company's facility located in Moncton.

### A) Other – Computer Software

During the three months ended November 30, 2019, the Company determined that due to the increasing value of its computer software, it should be reclassified from property, plant and equipment to intangible assets. Computer software has historically been included in the "other" category within property, plant and equipment due to its relatively insignificant value. The August 31, 2019 cost of \$841 and accumulated amortization of \$265 relating to computer software have been reclassified from property, plant and equipment to intangible assets (Note 9) as a result.

### B) Right-of-Use Assets and Transition to IFRS 16

As described in Note 3, the Company adopted IFRS 16 effective September 1, 2019. As a result, certain lease obligations were capitalized as ROU assets on the transition date and depreciated for the six months ended February 29, 2020. ROU assets mostly comprise of office and warehouse space.

### C) Reconciliation of property, plant and equipment additions to the statements of cash flows

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:

	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Additions	\$ 66,436	\$ 58,296
Additions related to IFRS 16 Leases	(48)	-
Net change in accounts payable and accrued liabilities related to purchases of property, plant and equipment	(1,415)	(9,551)
<b>Purchase of property, plant and equipment</b>	<b>\$ 64,973</b>	<b>\$ 48,745</b>

## 9. INTANGIBLE ASSETS

	SUPPLY AGREEMENT	LICENSE AGREEMENT	COMPUTER SOFTWARE	TOTAL
<b>Cost</b>				
Balance, August 31, 2019	\$ 1,530	\$ -	\$ 841	\$ 2,371
Additions	-	198	1,127	1,325
Balance, February 29, 2020	\$ 1,530	\$ 198	\$ 1,968	\$ 3,696
<b>Accumulated amortization</b>				
Balance, August 31, 2019	\$ (32)	\$ -	\$ (265)	\$ (297)
Amortization	-	-	(125)	(125)
Balance, February 29, 2020	\$ (32)	\$ -	\$ (390)	\$ (422)
<b>Net book value</b>				
August 31, 2019	\$ 1,498	\$ -	\$ 576	\$ 2,074
February 29, 2020	\$ 1,498	\$ 198	\$ 1,578	\$ 3,274

On January 18, 2019, the Company entered into an agreement with 1812 Hemp 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.

During the three months ended November 30, 2019, the Company determined that due to the increasing value of its computer software, it should be reclassified from property, plant and equipment to intangible assets. Computer software has historically been included in the "other" category within property, plant and equipment due to its relatively insignificant value. The August 31, 2019 cost of \$841 and accumulated amortization of \$265 relating to computer software have been reclassified from property, plant and equipment to intangible assets as a result.

## 10. LONG-TERM DEBT

	FEBRUARY 29, 2020	AUGUST 31, 2019
Bank of Montreal ("BMO") senior secured term loan ("Term Loan") maturing May 31, 2022 with principal repayments starting May 31, 2020 based on a 10 year amortization	\$ 85,000	\$ 50,000
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%	316	346
Vehicle loans - five year term maturing June 17, 2024	88	98
Deferred financing costs, net of loan modification loss on BMO Term Loan	(201)	(868)
	85,203	49,576
Less: current portion of long term debt	(84,908)	(3,509)
<b>Long-term portion</b>	<b>\$ 295</b>	<b>\$ 46,067</b>

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 the syndicate lenders and satisfaction of certain legal and business conditions.

The Facilities are secured by assets of the Company and its subsidiaries. The proceeds of the Term Loan are being 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 Revolver may be used for general corporate and working capital purposes. Availability under the Revolver is based on a percentage of the Company's trade receivables at the end of each month and remains undrawn at February 29, 2020.

On November 15, 2019, the Company amended its Facilities ("Amended Facilities") with BMO to: i) extend the final draw deadline of the Term Loan ("Amended Term Loan") from November 30, 2019 to March 31, 2020; ii) postpone the commencement of scheduled principal repayments on the Term Loan from February 28, 2020 to May 31, 2020; and iii) realign the financial covenants structure, effective November 30, 2019, to be more consistent with industry norms up to and including May 31, 2020. The financial covenants will revert to the original structure on August 31, 2020. The interest rate margin will be fixed during this period. The Company incurred an amendment fee of \$140 plus customary legal expenses in connection with the amendment.

The Amended Facilities were further amended on February 28, 2020 to extend the final draw deadline of the Amended Term Loan from March 31, 2020 to May 31, 2020.

In accordance with IFRS 9, such modification to the Facilities as outlined above is not an extinguishment of debt either qualitatively or quantitatively, rather it is a non-substantial modification. Therefore, as per the provisions of IFRS 9 the Company recorded a loss on debt restructuring based on the difference in the present value of the restructured net cash flows discounted at the original effective interest rate ("EIR") versus the present value of the original net cash flows discounted at the original EIR. This loss of \$831 has been recorded under financing costs in the statement of loss (income) and comprehensive (loss) income.

Pursuant to the agreed upon conditions of the Amended Facilities, the Company can continue to draw down additional funds as required up to the \$115,000 Term Loan commitment through to May 31, 2020, subject to customary terms and conditions. Principal repayments on the Amended Term Loan will commence on May 31, 2020 at a rate of 2.5% per quarter of the total Amended Term Loan balance. The Company may, at its discretion, repay the balance of the Amended Facilities without penalty, at any time.

Under the terms of the Amended Facilities, the Company can elect, at its sole discretion, to receive advances under the Amended Term Loan through certain availment options, which includes prime rate loans and bankers' acceptances with maturity dates between 28 and 182 days. The Company, therefore, has the choice to continuously roll over the bankers' acceptances upon their maturities or to convert the then outstanding principal and interest into prime rate loans at any time before May 31, 2022. The interest rate of the Amended Facilities is a set margin over the above-noted availment options, which shall remain fixed until August 31, 2020, at which point it may subsequently increase or decrease based on a pricing grid linked to the Company's debt to EBITDA coverage at each quarter-end.

During the year ended August 31, 2019, the Company converted its \$50,000 outstanding principal amount under the Term Loan to bankers' acceptances, which reduced the cash interest rate from 5.70% (EIR of 6.39%) as at May 31, 2019 to 4.46% (EIR of 5.18%) as at August 31, 2019. In accordance with IFRS 9, the loan conversion was determined to not be a modification of the loan terms.

During the six months ended February 29, 2020, the Company drew an additional \$35,000 under the Term Loan, in two tranches, and similar to the initial draw noted above, converted the balances from prime rate loans to bankers' acceptances. During the three months ended February 29, 2020, the Company rolled over \$85,000 of the Term Loan balance on a monthly basis through bankers' acceptances with an average cash interest rate of approximately 5.26%. Based on the current availment option of bankers acceptances' the applicable margin rate is 3.25% above the applicable bankers acceptances' rate.

Transaction costs incurred with respect to the Amended Facilities totaled \$1,241, which have been allocated against the Term Loan (\$1,055) and Revolver (\$186 split between prepaid assets and deferred charges) based on the relative balance of the fully drawn facilities. The weighted-average effective interest rate for the Term Loan based on these capitalized transaction costs, the loan modification loss, and the current cash interest rate is approximately 5.0% at February 29, 2020.

The Facilities contain customary financial and restrictive covenants. At February 29, 2020, the Company was in violation of its fixed charge coverage financial covenant, which is a ratio of the Company's trailing twelve month EBITDA less certain amounts as calculated by the Amended Facilities agreement divided by its fixed charges, which is currently comprised of interest and principal payments for the next twelve months plus other fixed charges. On April 7, 2020, prior to the approval of these financial statements, the Company obtained a covenant waiver from its lenders that waives compliance by the Company with its fixed charge coverage ratio for the period from February 29, 2020 and until May 30, 2020. However, in accordance with IAS 1 *Presentation of Financial Statements*, the Company has presented the entire balance of debt outstanding as a current liability at February 29, 2020. The Company is currently negotiating an amendment to the Amended Facilities to address this financial

covenant matter. While the Company believes it will be successful in negotiating the amendment, there is no guarantee that it will obtain the amendment, or that the terms of the amendment will not impose more onerous obligations on the Company. Any such result could have a material adverse effect on the financial position, operations, business and prospects of the Company.

Principal repayments required on the long-term debt for the next five years, which excludes consideration of the receipt of the financial covenant waiver as described above, as at February 29, 2020 are as follows:

Less than 1 year	\$	85,080
1 to 2 years		80
2 to 3 years		80
3 to 4 years		80
4 to 5 years		80
Thereafter		4
<b>Total</b>	<b>\$</b>	<b>85,404</b>

## 11. SHARE CAPITAL

### (i) Authorized share capital

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

### (ii) Issued share capital

As at February 29, 2020, the Company's issued and outstanding share capital consisted of 173,078,859 (August 31, 2019 – 156,196,347) common shares with a stated value of \$372,742 (August 31, 2019 - \$318,125).

### (iii) Issuances of share capital

#### At-the-market (ATM) equity financing

On December 4, 2019, the Company established an at-the-market equity program (the "ATM Program") that allowed the Company to issue up to \$55,000 (or its U.S. dollar equivalent) of common shares from treasury to the public, at the Company's discretion. Any common shares sold in the ATM Program were sold through the TSX or the NASDAQ at the prevailing market price at the time of sale.

Subject to securities laws and stock exchange requirements, the volume and timing of distributions under the ATM Program were determined in the Company's sole discretion. All of the common shares issuable pursuant to the ATM Program, were issued as of February 13, 2020. The Company has used, and intends to continue to use, the net proceeds of the ATM Program to fund capital projects, for general corporate purposes and to repay indebtedness. As common shares distributed in the ATM Program were issued and sold at the prevailing market price at the time of the sale, prices varied among purchasers during the period of the distribution.

Distributions of the common shares through the ATM Program were made pursuant to the terms of an equity distribution agreement dated December 4, 2019 among the Company, BMO Nesbitt Burns Inc., as Canadian agent, and BMO Capital Markets Corp., as U.S. agent (collectively, the "agents").

The Company issued 16,201,183 common shares during the three months ended February 29, 2020 for gross proceeds of \$54,966 at a weighted average price of \$3.39 per common share. Net proceeds realized were \$52,885 after agents' commissions of \$1,100, regulatory fees of \$12, and legal and professional fees of \$969. Proceeds were raised in both USD (for shares sold through the NASDAQ) and CAD (for shares sold through the TSX) and the weighted average share price was calculated using the spot rate on the day of settlement.

#### Share-based payments

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 year ended August 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 settled the Company's obligations relating to this agreement.



### Exercise of stock options

During the three months ended February 29, 2020, 592,390 (February 28, 2019 – 460,917) share options were exercised at an average exercise price of \$1.46 (February 28, 2019 - \$1.61) for an increase of \$1,452 (February 28, 2019 - \$1,133) to share capital and a decrease to the reserve for options and warrants of \$588 (February 28, 2019 - \$389). During the six months ended February 29, 2020, 639,490 (February 28, 2019 – 1,163,567) share options were exercised at an average exercise price of \$1.42 (February 28, 2019 - \$1.42) for an increase of \$1,518 (February 28, 2019 - \$2,703) to share capital and a decrease to the reserve for options and warrants of \$610 (February 28, 2019 - \$1,046).

### Equity 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 consisted of one common share and one-half common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitled 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. 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.

During the prior fiscal year, all except for 347,432 Warrants were exercised prior to expiry on June 18, 2019 on a one for one basis. The 347,432 Warrants that remained unexercised at the expiry time expired as a result. The Warrants were delisted from the TSX Venture Exchange on June 18, 2019.

### 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. 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 and six months ended February 28, 2019, the Company issued 8,195,571 and 10,946,301 common shares at a price per share of \$5.42 on the conversion of convertible debentures for an increase of \$43,355 and \$57,385 to share capital and a decrease of \$4,344 and \$5,802 to the reserve for options and warrants, respectively. 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. 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 and six months ended February 28, 2019, 1,360,920 and 2,251,043 Warrants were exercised at an average price of \$4.00 for a value of \$6,854 and \$11,367 to share capital and a decrease to the reserve for options and warrants of \$1,443 and \$2,395, respectively. All the outstanding Warrants at June 18, 2019 that were not exercised into common shares prior to expiry on June 18, 2019 lapsed and therefore no further Warrants remain outstanding.

#### (v) Share-based compensation

On February 25, 2020, the Company's shareholders approved a new omnibus equity incentive plan (the "New Equity Incentive Plan") that will govern all equity incentive grants made, including stock options, on or after February 25, 2020. Existing grants will continue to be governed under the terms of the plan under which they were granted, however, no new grants may be made under such plans. As at the date of these financial statements, there have been no grants made under the New Equity Incentive Plan.

#### Stock options

Under the Company's previous stock option plan, options could 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 was determined based on market price calculated in accordance with TSX rules at the time of grant.

The maximum exercise period after the grant of an option under the Company's previous stock option plan was 10 years. When an employee's service ends, the expiry date of their options would generally be 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 three months ended February 29, 2020:

	NUMBER		WEIGHTED AVERAGE EXERCISE PRICE
Balance - August 31, 2019	8,833,194	\$	4.23
Granted	420,000	\$	4.89
Exercised	(47,100)	\$	0.93
Cancelled / Forfeited	(120,100)	\$	8.35
Balance - November 30, 2019	9,085,994	\$	4.23
Granted	920,000	\$	3.31
Exercised	(592,390)	\$	1.46
Cancelled / Forfeited	(160,283)	\$	7.11
Balance - February 29, 2020	9,253,321	\$	4.26

The following is a summary of the outstanding stock options as at February 29, 2020:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Quantity Outstanding	Weighted Average Remaining Contractual Life (years)		Range of Exercise Prices	Quantity Exercisable
1,699,682	5.37		\$0.30 - \$1.97	1,589,266
1,625,754	7.07		\$1.98 - \$3.13	1,357,087
2,049,367	8.66		\$3.14 - \$3.82	1,052,634
1,999,668	8.78		\$3.83 - \$6.32	1,226,294
1,878,850	9.15		\$6.33 - \$11.27	736,800
9,253,321	7.9			5,962,081

Options outstanding have exercise prices that range from \$0.30 to \$11.27 with a weighted average remaining life of 7.9 years. Total share-based compensation charges, including related to production employees that are charged to biological assets and inventory, for the three and six months ended February 29, 2020 was \$2,400 and \$5,205 (February 28, 2019 – \$5,136 and \$6,983) of which \$1,870 and \$3,993 (February 28, 2019 - \$2,552 and \$3,967) related to the Company's stock option plan. The fair value of options granted during the three and six months ended February 29, 2020 was \$1,629 and \$2,716 (February 28, 2019 - \$3,674

and \$5,494). These options are measured at fair value at the date of grant and are expensed over the option's vesting period, which typically range from two to three-year terms with options vesting in annual tranches evenly over this time 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 six months ended February 29, 2020 and February 28, 2019:

	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Risk free interest rate	1.27% - 1.65%	1.83% - 2.42%
Expected life of options	5.0 - 6.5 years	5.0 - 6.5 years
Expected annualized volatility	72% - 75%	64% - 68%
Expected dividend yield	-	-
Forfeiture Rate	8.0% - 8.7%	7.4% - 7.9%

Volatility was estimated by using the weighted average historical volatility of the Company and other companies that the Company considers comparable. 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 2017 Equity Incentive Plan (the "Equity Plan"), the maximum number of common shares that may be issued upon exercise of share units could not exceed 2,500,000 common shares and could not exceed 10% of the issued and outstanding equity securities of the Company from time to time, combined with any equity securities granted under all other compensation arrangements adopted by the Company. As of February 29, 2020, the Company has granted both restricted share units ("RSUs") and performance share units ("PSUs") under the Equity Plan. The grant price of any RSU or PSU was determined based on market price calculated in accordance with TSX rules at the time of grant and with respect to PSUs, adjusted for any non-market and market performance vesting conditions in accordance with IFRS 2.

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

	NUMBER
Balance - August 31, 2019	842,362
Granted	218,370
Balance - November 30, 2019	1,060,732
Exercised	(41,839)
Cancelled/Forfeited	(19,611)
Balance - February 29, 2020	999,282

The estimated fair value of the equity settled RSUs granted during the three and six months ended February 29, 2020 was \$nil and \$937 (February 28, 2019 - \$3,774 and \$3,774), 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-third each year recognized over three years. For the three and six months ended February 29, 2020, \$445 and \$944 (February 28, 2019 - \$2,129 and \$2,275) has been recognized as share-based compensation expense.

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

	NUMBER
Balance - August 31, 2019	-
Granted	142,187
Balance - November 30, 2019	142,187
Exercised	(10,459)
Balance - February 29, 2020	131,728

The estimated fair value of the equity settled PSUs granted during the three and six months ended February 29, 2020 was \$nil and \$305 (February 28, 2019 - \$nil and \$nil), which was based on the Company's share price at the grant date, adjusted for an estimate of likelihood of achievement, and will be recognized as an expense over the vesting period of the PSUs, which is during the fiscal year-ended August 31, 2020. For the three and six months ended February 29, 2020, \$74 and \$125 (February 28, 2019 - \$nil and \$nil) has been recognized as share-based compensation expense.

#### (vi) Earnings (Loss) per share

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

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

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		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Weighted average number of shares used in basic earnings per share	164,877,122	129,953,255	160,556,804	128,874,906
Options	1,899,297	4,497,007	3,450,060	4,726,830
Warrants	-	3,445,759	-	3,759,230
Restricted share units	683,542	584,815	712,818	582,081
Performance share units	86,970	-	91,120	-
Weighted average number of shares used in diluted earnings per share	167,546,931	138,480,836	164,810,802	137,943,047

The outstanding number and type of securities that could potentially dilute basic net (loss) income 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 (loss) income per share (anti-dilutive) are as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Stock options	4,979,518	345,000	3,878,518	345,000
Convertible debentures	-	9,899,077	-	9,899,077
	4,979,518	10,244,077	3,878,518	10,244,077

## 12. OTHER LIABILITIES

The carrying value of other liabilities consists of:

	FEBRUARY 29, 2020	AUGUST 31, 2019
Contingent share consideration	546	1,117
Lease liabilities	1,777	-
	2,323	1,117

### (i) Contingent share consideration

In connection with the Company's investment in alpha-cannabis® Pharma GmbH as described in Note 13, the Company has a commitment to deliver additional consideration of up to €875 in the form of the Company's common shares contingent on the achievement of certain gross margin-based milestones. At February 29, 2020, the Company revalued the contingent liability and recorded a corresponding gain in the statement of operations of \$193 and \$571 for the three and six months ended February 29, 2020 (February 28, 2019 – loss of \$646 and \$646), respectively.

### (ii) Lease liabilities

In connection with the Company's adoption of IFRS 16 effective September 1, 2019, lease liabilities were recorded as described in Note 3.

The following is a continuity schedule of lease liabilities for the six months ended February 29, 2020:

Balance, August 31, 2019	\$	-
IFRS 16 transition		2,219
Lease additions		48
Lease payments		(217)
Interest expense on lease liabilities		59
Balance, February 29, 2020		2,109
Current portion		(332)
Long-term portion	\$	1,777

The undiscounted contractual payments relating to these lease liabilities at February 29, 2020 is:

Less than 1 year	\$	436
1 to 2 years		432
2 to 3 years		420
3 to 4 years		420
4 to 5 years		241
Thereafter		131
Total	\$	2,080

### 13. 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 <sup>(1)</sup>	25.0%	19.9%	43.4%	
Balance, August 31, 2019	\$ 3,496	\$ 3,000	\$ 4,612	\$ 11,108
Share of net income (loss)	47	-	(597)	(550)
Impairment loss	-	(1,600)	-	(1,600)
Foreign currency translation gain (loss)	(68)	-	-	(68)
Balance, February 29, 2020 <sup>(2)</sup>	\$ 3,475	\$ 1,400	\$ 4,015	\$ 8,890

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

Note 2: The Company utilizes the most recently issued quarterly financial statements of its associates in its results with a two months lag since the Company does not have the same reporting date as its associates (for the period ended February 29, 2020, the Company utilized its associates' December 31, 2019 results)

#### a) alpha-cannabis Pharma GmbH

On October 10, 2018, the Company 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 the Company's common 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 under other liabilities in the statement of financial position. Refer to Note 12 for further information.

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 the Company may supply ACG with dried cannabis flowers.

#### b) Eviana Health Corporation

On October 2, 2018, the Company 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 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 rights 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.

On October 28, 2019, Eviana provided a default announcement in accordance with National Policy 12-203 Management Cease Trade Orders (“NP 12-203”). Eviana made an application to the British Columbia Securities Commission, as its principal regulator, for a management cease trade order (“MCTO”) under NP 12-203 in respect of an anticipated default regarding its annual filings. On November 1, 2019, a cease trade order (CTO) was issued by the British Columbia Securities Commission and the Ontario Securities Commission. On November 5, 2019, Eviana was suspended from the CSE in accordance with CSE Policy 3 which is considered a regulatory halt as defined in National Instrument 23-101 – Trading Rules.

At February 29, 2020, the Company identified indicators of impairment with respect to its investment in Eviana. The Company determined the recoverable amount of Eviana to approximate \$1,400 based on the higher of fair value less costs to sell (“FVLCS”) and value-in-use (“VIU”). An impairment loss of \$1,600 has been included in the statement of (loss) income and comprehensive (loss) income.

As of the date of these financial statements, the Company has not yet received its December 31, 2019 interest payment on the Eviana convertible debenture.

### c) Hyasynth Biologicals Inc.

On September 12, 2018, the Company 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 that 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 has a face value of \$5,000, bears 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 commits \$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.

## 14. 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 six months ended February 29, 2020 and February 28, 2019, the Company’s expenses included the following management and board compensation:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Salaries and consulting fees	\$ 746	\$ 489	\$ 1,322	\$ 936
Share-based compensation	656	2,918	1,427	3,311
Total key management compensation	\$ 1,402	\$ 3,407	\$ 2,749	\$ 4,247

During the three and six months ended February 29, 2020, 250,000 and 250,000 stock options (February 28, 2019 – 685,000 and 685,000), respectively, were granted to key management personnel at an average exercise price of \$3.15 and \$3.15 (February 28,

2019 - \$4.75 and \$4.75) and aggregate fair value of \$421 and \$421 (February 28, 2019 - \$1,736 and \$1,736). In addition, during the three and six months ended February 29, 2020, nil and 165,093 RSU's (February 28, 2019 - 631,949 and 631,949), were granted to key management personnel with an aggregate fair value of \$nil and \$708 (February 28, 2019 - \$3,001 and \$3,001), respectively. For the three and six months ended February 29, 2020, nil and 88,910 PSU's (February 28, 2019 - nil and nil) were issued to key management personnel with an aggregate fair value of \$nil and \$190,712 (February 28, 2019 - \$nil and \$nil), respectively.

#### (ii) Significant transactions with associates

For the three and six months ended February 29, 2020, the Company received no interest income (February 28, 2019 - \$nil and \$122) on its convertible debenture investment in Eviana disclosed in Note 13, which is being recorded as distributions under the equity accounting method. The Company had no other transactions nor any balances outstanding with its associates.

## 15. CAPITAL MANAGEMENT

The Company considers its capital to consist of share capital, reserve for options and warrants, long-term debt, accumulated other comprehensive income, and retained earnings, which is disclosed in the February 29, 2020 condensed consolidated interim statements of financial position as \$463,304 (August 31, 2019 - \$376,582).

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.

## 16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

### i) 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, loan 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, short-term investments, accounts receivable, loan 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 \$85,404 based on the face value of debt outstanding, which carries a floating interest rate.

The fair value of the contingent share consideration is primarily 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 February 29, 2020, 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 \$43. If the discount rates increased or decreased by 5%, the estimated fair value of contingent consideration would decrease or increase, respectively, by approximately \$31.



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

## ii) 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 (excluding investments in equity securities), and outstanding trade and loan 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 such as the loan receivable, management generally obtains guarantees and general security agreements. The maximum exposure to credit risk approximates the \$64,032 of cash, short-term investments, accounts receivable, and loans receivable on the statement of financial position at February 29, 2020 (August 31, 2019 - \$65,385).

As of February 29, 2020, the Company's aging of trade receivables was as follows:

	FEBRUARY 29, 2020	AUGUST 31, 2019
0-60 days	\$ 13,586	\$ 11,748
61-120 days	1,086	152
Gross trade receivables	\$ 14,672	\$ 11,900
Less: Provision for doubtful accounts	(12)	(268)
	\$ 14,660	\$ 11,632

(ii) **Liquidity risk** - The Company's liquidity risk is the risk the Company will not be able to meet its financial obligations as they become due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. At February 29, 2020, the Company had \$41,086 (August 31, 2019 - \$47,555) of cash and working capital of \$96,752 (August 31, 2019 - \$152,417). Further, the Company has access to additional liquidity by way of its Facilities as described in Note 10, subject to compliance with its financial covenants, and may further consider accessing equity capital through the capital markets.

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

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 26,674	\$ 26,674	\$ 26,674	-	-	-
Long-term debt	85,203	85,395	85,080	160	140	15
Interest payments	-	-	-	-	-	-
	\$ 111,877	\$ 112,069	\$ 111,754	\$ 160	\$ 140	\$ 15

The contractual maturities noted above are based on contractual due dates of the respective financial liabilities. The contractual maturities for long-term debt assume that the Term Loan is due and payable immediately as described in Note 10 even though the Company has obtained a waiver from its lenders prior to the approval of these financial statements, as described in Note 10. To be consistent with this presentation, interest payments for the Term Loan are assumed to be \$nil.

In connection with the Company's Moncton Campus expansion plans, the Company is contractually committed to approximately \$8,463 of capital expenditures. An incremental \$4,537 of uncommitted capital expenditures are estimated to be required to meet the Company's planned growth and activities, most of which pertains to the Phase 4 and Phase 5 expansion plans.

(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 for the Company comprises of:

**Interest rate risk** is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk at February 29, 2020 pursuant to the variable rate loans described in Note 10. A 1% change in benchmark interest rates will increase or decrease the Company's interest expense by \$850 (August 31, 2019 - \$500) per year.

## 17. REVENUE

Net revenue for the Company is defined as gross revenue, which is net of any customer discounts, rebates, and sales returns and recoveries, less excise taxes.

Revenues for the three and six months ended February 29, 2020 and February 28, 2019 are disaggregated as follows:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Adult-use recreational revenue (Canadian)	\$ 18,868	\$ 30,746	\$ 34,778	\$ 41,858
Direct to patient medical revenue (Canadian)	2,612	2,629	5,532	5,862
Wholesale to Licensed Producers revenue (Canadian)	5,565	-	14,778	-
International (business to business)	226	-	546	-
Other revenue	38	98	123	232
Gross revenue	\$ 27,309	\$ 33,473	\$ 55,757	\$ 47,952
Excise taxes	(4,088)	(6,539)	(7,383)	(8,579)
Net revenue	\$ 23,221	\$ 26,934	\$ 48,374	\$ 39,373

Recreational revenue is primarily comprised of provincial government bodies and large retailers that sell cannabis through their respective distribution models, whereas wholesale revenue is comprised of wholesale shipments to other cannabis companies, including licensed producers, for further processing and sales onto their end customers.

During the three and six months ended February 29, 2020, the Company had 3 customers (February 28, 2019 – 3 customers) that individually represented more than 10% of the Company's net revenue.

## 18. COST OF SALES

Cost of sales is comprised of the cost of inventories sold during the period, shipping expenses, the production cost of late-stage biological assets that are disposed of, provisions and write-downs for inventory that does not pass the Company's quality assurance standards and obsolete products and packaging, and other production overhead. For the three months ended November 30, 2019, the Company determined that the classification of indirect production is more accurately reflected as and most comparable to industry peers as a component of cost of sales rather than a separate line in the statement of operations. As a result, indirect production of \$299 and \$1,013 have been reclassified from indirect production to cost of sales for the three and six months ended February 28, 2019, respectively, to conform to the current period presentation. This change in presentation has no impact on gross margin before fair value adjustments.

## 19. 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 mid-point of the range is used. 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 condensed consolidated interim 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 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 amended Claim also contained a request for an order certifying the proceeding as a class proceeding.

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 was heard on October 15, 2019. The decision from the appeal hearing is pending.

The Company is contesting the litigation. The Company reported the Claim to its insurance provider which appointed counsel to defend the Claim. Insurance may be available to cover all or a portion of the fees or damages which may be associated with the Claim although the Company's coverage may be subject to varying limits and exclusions. The litigation process will continue into the foreseeable future unless settled out of court. No amount has been recorded in the condensed consolidated interim financial statements since the amount cannot be reliably measured at this point.

## 20. OPERATING SEGMENTS

The Company previously operated in two operating segments – production and sale of cannabis and patient counselling, operating as Trauma Healing Centers, Incorporated (“THC”). THC was disposed of on October 16, 2018 (see Note 23). 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, except those revenues disclosed in Note 17.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	FEBRUARY 29, 2020	FEBRUARY 28, 2019	FEBRUARY 29, 2020	FEBRUARY 28, 2019
Office and general	\$ 3,423	\$ 795	\$ 5,919	\$ 1,781
Wages and benefits	2,041	911	3,423	1,518
Professional fees	2,011	649	3,414	1,024
Research and development	478	-	725	-
Depreciation and amortization	389	133	629	214
Travel and accommodation	184	101	299	210
Utilities	11	14	16	27
Total general and administrative expenses	\$ 8,537	\$ 2,603	\$ 14,425	\$ 4,774

## 22. 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 six months ended February 29, 2020, \$5 and \$11 (February 28, 2019 - \$5 and \$11) has been amortized to share-based compensation and \$8 and \$16 (February 28, 2019 - \$8 and \$16) has been amortized to selling and marketing expenses, respectively. At February 29, 2020, the Company has recorded the current portion of the cash payment and stock options fee of \$73 (August 31, 2019 - \$89) as a prepaid expense and the long-term portion of the fee of \$13 (August 31, 2019 - \$24) in deferred charges on the condensed consolidated interim 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 February 29, 2020, these conditions have been met. For the three and six months ended February 29, 2020, \$13 and \$26 has been expensed (February 28, 2019 – \$13 and \$26) to share-based compensation, respectively. At February 29, 2020, the Company has recorded the current portion of the stock options fee of \$51 (August 31, 2019 - \$51) as a prepaid expense and the long-term portion of the fee of \$30 (August 31, 2019 - \$55) in deferred charges on the condensed consolidated interim statements of financial position.

## 23. OPERATIONS OF TRAUMA HEALING CENTERS

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 the 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 (loss) income and comprehensive (loss) 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	
<b>Revenue</b>		
Sales	\$	138
Cost of sales		54
Gross margin from discontinued operations		84
<b>Expenses</b>		
General and administrative		75
Sales and marketing		-
Impairment of goodwill		-
<b>Total expenses</b>		75
Investment income (expense)		-
<b>Income (loss) from operations</b>	\$	9
<b>Loss on remeasurement to fair value less costs to sell</b>		(47)
<b>Loss on discontinued operations</b>	\$	(38)

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

	FOR THE PERIOD SEPTEMBER 1, 2018 TO OCTOBER 16, 2018	
Operating activities	\$	(35)
Investing activities		-
Cash used by discontinued operations	\$	(35)

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		-

## 24. SUBSEQUENT EVENTS

### i) BMO Term Loan Waiver

At February 29, 2020, the Company was in violation of its fixed charge coverage financial covenant, which is a ratio of the Company’s trailing twelve month EBITDA less certain amounts as calculated by the Amended Facilities agreement divided by its fixed charges, which is currently comprised of interest and principal payments for the next twelve months plus other fixed charges. On April 7, 2020, prior to the approval of these financial statements, the Company obtained a covenant waiver from its lenders that waives compliance by the Company with its fixed charge coverage ratio for the period from February 29, 2020 until May 30, 2020. However, as a result of the guidance in IAS 1 *Presentation of Financial Statements*, the Company has presented the entire balance of debt outstanding as a current liability at February 29, 2020. The Company is currently negotiating an amendment to the Amended Facilities to address this financial covenant matter. While the Company believes it will be successful in negotiating the amendment, there is no guarantee that it will obtain the amendment, or that the terms of the amendment will not impose more onerous obligations on the Company. Any such result could have a material adverse effect on the financial position, operations, business and prospects of the Company.

### ii) Global Impact of the COVID-19 Virus and Temporary Layoffs

In December 2019, a novel strain of coronavirus (“COVID-19”) emerged in China. Since then, it has spread to over a hundred other countries and infections have been reported around the world. Canada confirmed its first case of COVID-19 on January 25, 2020 and its first death related to COVID-19 on March 9, 2020. On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. The number of confirmed cases of COVID-19 in Canada as of the date these financial statements were approved is estimated to be in excess of 17,000 individuals and the global number of confirmed cases is estimated to be in excess of 1.4 million.

In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The COVID-19 outbreak and the response of governmental authorities to try to limit it are having a significant impact on the private sector and individuals, including unprecedented business, employment and economic disruptions. The continued spread of COVID-19 nationally and globally could have an adverse impact on Organigram’s business, operations and financial results and position, including through disruptions to the Company’s cultivation and processing activities, supply chains and sales channels, as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on Organigram’s business, operations or financial results and position, other than as described below. Further impacts could include an impact on our ability to maintain operations, to obtain and maintain debt and obtain equity financing on attractive commercial terms or at all, impairment of investments, impairments in the value of our non-current assets, or potential future decreases in revenue or the profitability of our ongoing operations, any of which could be material.

As of April 5, 2020, Ontario removed cannabis retail stores from the essential workplace list and ordered store closures for at least two weeks. On April 7, 2020, Ontario reversed the April 5th order in part by authorizing cannabis retail stores to offer delivery and curbside pick-up services. This temporary order will last 14 days with the possibility of an extension if the government's emergency order on business closures is extended. The Ontario Cannabis Store (OCS) continues to offer online sales with delivery to Canada Post offices. Cannabis stores in Newfoundland and Labrador and Prince Edward Island (PEI) temporarily closed their doors until further notice on March 19 and 20, 2020, respectively. PEI's e-commerce site, which is owned and operated by the province, will continue to process orders and private retailers in Newfoundland Labrador are permitted to offer online ordering.

In December 2019, Ontario announced that new store authorizations are expected to be issued beginning in April 2020, at an initial rate of approximately 20 per month. During this period of store closure (as described above), the government is placing a temporary pause on the issuing of retail store authorizations until the government's emergency order has been lifted. Société québécoise du cannabis also previously announced plans to double its number of stores, however this may be delayed as well due to impact of COVID-19. Licensed Producers, including the Company, may be adversely impacted as a result of these government initiatives.

On April 7, 2020, Organigram announced the temporary layoff of approximately 45 per cent of its workforce primarily to help boost COVID-19 containment efforts. The Company offered voluntary layoffs to certain staff and those that accepted made up the majority of the layoffs. In some cases, due to the impacts of COVID-19, some administrative, support and other functions were deemed non-essential to the short-term needs of the business and were temporarily laid off. The temporary layoffs were initiated on March 24, 2020 and the Company will continuously monitor the evolving situation.

Lump-sum payments (equating to approximately two weeks of work) will be paid to the affected employees to help bridge the gap to available government programs. In addition, the Company will absorb the employee paid portion of health, dental and short-term disability premiums for all employees during this difficult time. The impact of these temporary layoffs will result in a charge of approximately \$560 during the month of April 2020, which is primarily associated with the lump sum payments provided to these employees. In the event that these employees are not recalled and/or the employment relationship is otherwise terminated the Company would remain liable for termination or severance payments. These numbers are subject to change as additional employees elect to take a temporary layoff in response to COVID-19.

Management's measurement of biological assets is based on a FVLCS model and the measurement of inventory is based on a lower of cost and net realizable value model. Since both of these models rely on observable company-specific and market inputs and expectations thereof as at February 29, 2020, management has not taken into consideration any changes to these inputs resulting from these subsequent event conditions. Management continues to work on revisions to the Company's forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in their biological assets and inventory valuation models in prospective periods.

Management's impairment testing for property, plant, equipment and investments in associates is generally based on a FVLCS model. Management has not considered these subsequent conditions in the impairment assessment of these assets as at February 29, 2020. Management continues to work on revisions to the Company's forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in their impairment indicator analysis and for impairment tests when quantifiable, if such tests are required in prospective periods.

### iii) Lease Amendment and Sub-lease

On March 13, 2020, the Company entered into a lease amending agreement for its Toronto corporate office: i) extending the lease of its existing 5,007 square feet of office space (the "Existing Premises") originally expiring on August 31, 2020; and ii) leasing an additional 6,572 square feet of office space adjacent to the Existing Premises (the "Additional Premises"). The term of the lease for existing premises will be extended for a period of five years and two months commencing on September 1, 2020 and expiring on October 31, 2025. The minimum and estimated additional rent for the Existing Premises is \$34 per month for an aggregate obligation over the term of the lease of \$2,094. The term of the lease for the Additional Premises will also be five years commencing on November 1, 2020 and ending on October 31, 2025 with a fixturing period commencing September 1, 2020. The minimum and estimated additional rent for the Additional Premises is \$44 per month for an aggregate obligation over the term of the lease of \$2,660. The Company has the option to extend the lease term by another five years subject to certain conditions.

On March 23, 2020, the Company, as sublandlord, entered into an offer to sublease agreement with a subtenant, as amended on March 26, 2020 pursuant to which the Company agreed to sublease 3,099 square feet of its Additional Premises noted above for a period of five years and two months commencing on September 1, 2020 and expiring on October 30, 2025 for a total of \$251 per annum for an aggregate rental income of \$1,296 over the term of the sublease. Under the currently contemplated terms, both parties have the mutual right to terminate the sublease upon six months' written notice to either party, which shall not occur prior to August 31, 2023.



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