ZENABIS GLOBAL INC.

(FORMERLY KNOWN AS BEVO AGRO INC.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Financial Position

As at September 30, 2019 and December 31, 2018

(Unaudited)

	Notes	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 27,932,645	$ 16,966,803
Short-term investments	9	413,098	2,912,088
Accounts receivable	3	12,155,566	4,994,271
Inventory	4	28,344,946	4,932,935
Biological assets	5	13,814,139	3,721,751
Prepaid and other current assets	11	7,244,074	2,836,737
		89,904,468	36,364,585
Property, plant and equipment	6	220,218,639	67,855,776
Right-of-use assets	14	5,815,229	—
Investments	9	160,000	559,988
Intangible assets	7	22,180,634	—
Goodwill	7	40,162,695	6,688,711
Total assets		**$ 378,441,665**	**$ 111,469,060**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	$ 26,088,670	$ 13,200,699
Customer deposits	11	37,689,681	11,500
Derivative liabilities	13	22,993	17,769,562
Due to related parties	10	31,858	923,229
Loans and borrowings	12	49,944,859	51,788
Convertible loans	13	16,617,878	43,485,222
Lease obligations	14	604,090	—
		131,000,029	75,442,000
Customer deposits	11	2,437,500	—
Loans and borrowings	12	43,697,413	2,119,158
Convertible loans	13	22,573,970	—
Deferred income tax liability		14,600,925	—
Lease obligations	14	5,482,737	—
Total liabilities		**219,792,574**	**77,561,158**
Equity			
Share capital		206,803,669	72,122,342
Reserve for equity settled share-based transactions		9,847,893	4,004,401
Reserve for equity instruments	13	6,773,264	—
Accumulated other comprehensive loss		(51,645)	—
Deficit		(65,247,152)	(42,218,841)
Total equity attributable to shareholders		158,126,029	33,907,902
Non-controlling interests	8	523,062	—
Total equity		**158,649,091**	**33,907,902**
Total liabilities and equity		**$ 378,441,665**	**$ 111,469,060**

Going concern (**Note 2(b)**)

Subsequent events (**Note 21**)

(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three and nine months ended September 30, 2019 and 2018
(Unaudited)

	Notes	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue					
Gross revenue		$ 13,423,175	$ 3,663,817	$ 52,177,149	$ 3,664,779
Excise taxes		(1,421,483)	(82,112)	(3,568,531)	(82,112)
Net revenue		**12,001,692**	**3,581,705**	**48,608,618**	**3,582,667**
Cost of sales		(6,940,983)	(2,787,610)	(31,287,269)	(2,838,903)
Gross margin before fair value adjustments		**5,060,709**	**794,095**	**17,321,349**	**743,764**
Changes in fair value of inventory sold		(6,760,956)	(748,576)	(20,177,022)	(748,576)
Unrealized gain on changes in fair value of biological assets	5	19,712,364	2,330,053	40,358,763	3,180,299
Gross margin		**18,012,117**	**2,375,572**	**37,503,090**	**3,175,487**
Operating expenses					
Acquisition costs		—	—	4,919,978	—
Salaries and benefits		7,421,432	1,024,343	17,361,880	3,095,550
General and administrative		3,210,424	1,293,974	10,688,547	2,943,635
Professional fees		2,691,913	989,504	8,338,097	1,636,373
Share-based compensation	16	2,004,544	662,205	6,225,613	1,402,386
Depreciation and amortization		2,726,639	299,808	6,291,703	796,224
Sales and marketing		938,132	458,152	2,856,068	878,491
		18,993,084	**4,727,986**	**56,681,886**	**10,752,659**
Loss from operations		**(980,967)**	**(2,352,414)**	**(19,178,796)**	**(7,577,172)**
Other income (expense)					
Gain on revaluation of derivative liabilities	13	497,789	—	3,837,433	188,295
Finance and investment (expense) income	9	(173,986)	277,565	569,904	298,360
Interest expense		(4,689,124)	(69,617)	(12,993,578)	(549,608)
(Loss) gain on sale of assets		(21,675)	2,850	60,547	2,850
Loss due to event	6	(1,186,692)	—	(4,270,485)	—
Insurance proceeds	6	492,995	—	3,176,536	—
Foreign exchange gain (loss)		61,994	—	(288)	—
Loss before income taxes		**(5,999,666)**	**(2,141,616)**	**(28,798,727)**	**(7,637,275)**
Current income tax expense		(342,758)	—	(925,606)	—
Deferred income tax recovery		511,145	—	1,388,851	—
Net loss		**$ (5,831,279)**	**$ (2,141,616)**	**$ (28,335,482)**	**$ (7,637,275)**
Other comprehensive loss					
Realized and unrealized loss on investments		(138,080)	—	(51,645)	—
Comprehensive loss		**$ (5,969,359)**	**$ (2,141,616)**	**$ (28,387,127)**	**$ (7,637,275)**

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (continued)

For the three and nine months ended September 30, 2019 and 2018

(Unaudited)

	Notes	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net loss attributable to:					
Zenabis Global Inc.		$ (5,856,872)	$ (2,141,616)	$ (28,380,677)	$ (7,637,275)
Non-controlling interests	8	$ 25,593	$ —	$ 45,195	$ —
Comprehensive loss attributable to:					
Zenabis Global Inc.		$ (5,994,952)	$ (2,141,616)	$ (28,432,322)	$ (7,637,275)
Non-controlling interests	8	$ 25,593	$ —	$ 45,195	$ —
		$ —	**$ —**	**$ —**	**$ —**
Loss per share, basic and diluted		**$ (0.03)**	**$ (0.01)**	**$ (0.14)**	**$ (0.05)**
Weighted average number of shares outstanding, basic and diluted		**205,813,289**	**150,948,786**	**197,905,859**	**146,280,680**

(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended September 30, 2019 and 2018

(Unaudited)

	Notes	Common Shares	Preferred Shares	Share Capital	Reserve for Equity Settled Share-based Transactions	Reserve for Equity Instruments	AOCI	Deficit	Non-controlling Interest	Total
Balance, December 31, 2017		**139,674,680**	**—**	**$ 39,178,113**	**$ 275,036**	**$ —**	**$ —**	**$ (9,697,081)**	**$ —**	**$ 29,756,068**
Issuance of share capital		6,712,890	—	12,369,979	—	—	—	—	—	12,369,979
Issuance of share capital on debt conversion		5,631,704	—	7,846,181	—	—	—	—	—	7,846,181
Share-based compensation	16	—	—	—	1,402,386	—	—	—	—	1,402,386
Net loss		—	—	—	—	—	—	(7,637,275)	—	(7,637,275)
Balance, September 30, 2018		**152,019,274**	**—**	**$ 59,394,273**	**$ 1,677,422**	**$ —**	**$ —**	**$ (17,334,356)**	**$ —**	**$ 43,737,339**
Balance, December 31, 2018		**158,499,731**	**—**	**$ 72,122,342**	**$ 4,004,401**	**$ —**	**$ —**	**$ (42,218,841)**	**$ —**	**$ 33,907,902**
Issuance of share capital on debt conversion		2,078,045	—	7,869,960	—	—	—	—	—	7,869,960
Issuance of share capital on exercise of warrants		667,160	—	3,337,940	—	—	—	—	—	3,337,940
Balance, January 7, 2019		**161,244,936**	**—**	**83,330,242**	**4,004,401**	**—**	**—**	**(42,218,841)**	**—**	**45,115,802**
Shares exchanged on reverse takeover		(161,244,936)	—	(83,330,242)	—	—	—	—	—	(83,330,242)
Existing shares of Bevo Agro Inc. prior to reverse takeover		27,768,073	17,860	78,354,188	—	—	—	—	—	78,354,188
Shares issued to shareholders of Sun Pharm Investments Ltd.		159,746,237	—	83,330,242	—	—	—	—	—	83,330,242
Issuance of share capital for business combinations	8	455,947	—	2,048,001	—	—	—	—	477,867	2,525,868
Issuance of share capital on debt conversion	13(d)	5,482,381	—	9,360,168	—	(348,935)	—	—	—	9,011,233
Issuance of share capital on exercise of options		380,465	—	766,858	(382,121)	—	—	—	—	384,737
Issuance of share capital on exercise of warrants		1,685,443	—	8,519,105	—	—	—	—	—	8,519,105
Issuance of share capital on conversion of preferred shares		14,466	(17,860)	—	—	—	—	—	—	—
Issuance of share capital pursuant to offering	13(d)	12,777,777	—	26,088,700	—	—	—	—	—	26,088,700
Issuance of share capital		319,148	—	526,594	—	—	—	—	—	526,594
Issuance of convertible notes	13	—	—	—	—	8,378,477	—	—	—	8,378,477
Extinguishment of convertible debt		—	—	—	—	(5,798,451)	—	5,352,366	—	(446,085)
Share issuance costs		—	—	(2,190,187)	—	(230,003)	—	—	—	(2,420,190)
Issuance of warrants	12,13	—	—	—	—	4,772,176	—	—	—	4,772,176
Realized and unrealized loss on investment		—	—	—	—	—	(51,645)	—	—	(51,645)
Share-based compensation	16	—	—	—	6,225,613	—	—	—	—	6,225,613
Net loss		—	—	—	—	—	—	(28,380,677)	45,195	(28,335,482)
Balance, September 30, 2019		**208,629,937**	**—**	**$ 206,803,669**	**$ 9,847,893**	**$ 6,773,264**	**$ (51,645)**	**$ (65,247,152)**	**$ 523,062**	**$ 158,649,091**

(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended September 30, 2019 and 2018

(Unaudited)

	Notes	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Operating Activities			
Net loss		$ (28,335,482)	$ (7,637,275)
Items not involving cash:			
Changes in fair value of inventory sold		20,177,022	748,576
Unrealized gain on changes in fair value of biological assets	5	(40,358,763)	(3,180,299)
Depreciation and amortization		6,291,703	796,224
Loss on sale of assets		(60,547)	(2,850)
Share-based compensation	16	6,225,613	1,402,386
Unrealized gain on investments	9	(552,288)	(295,291)
Write-offs of property, plant and equipment	6	1,946,804	—
Gain on revaluation of derivative liabilities	12,13	(3,837,433)	(188,296)
Accrued interest		339,334	—
Implied lease obligation interest	14	420,874	—
Accretion expense		6,140,406	153,351
Current income tax expense		925,606	—
Deferred income tax recovery		(1,388,851)	—
Changes in non-cash operating working capital items and other	18	(13,203,302)	(5,082,731)
Net cash used in operating activities		**(45,269,304)**	**(13,286,205)**
Investing Activities			
Purchase of property, plant and equipment		(88,052,236)	(8,303,986)
Proceeds from disposal of property, plant and equipment		17,625	2,850
Proceeds from sale of investments		3,648,294	2,538,881
Cash acquired from business combinations	8	1,498,610	—
Acquisition of Topgro, net of cash acquired	8	(9,382,631)	(399,988)
Net cash used in investing activities		**(92,270,338)**	**(6,162,243)**
Financing Activities			
Proceeds from secured loans and borrowings	12	90,676,980	300,838
Proceeds from issue of secured convertible debt	13	13,593,950	373,226
Repayment of secured loans and borrowings	12	(26,582,911)	—
Repayment of lease obligations	14	(618,197)	—
Share Issuance Costs		(32,237)	—
Restricted cash allocated for debt repayment		—	165,870
Advances from (repayments to) related parties		(891,371)	303,671
Stock options exercised		384,737	—
Warrants exercised		6,212,485	—
Proceeds from issuance of share capital		26,362,048	12,369,979
Customer deposits, net of finder's fee	11	39,400,000	—
Net cash provided by financing activities		**148,505,484**	**13,513,584**
Increase (decrease) in cash and cash equivalents		**10,965,842**	**(5,934,864)**
Cash and cash equivalents, beginning of period		16,966,803	5,934,864
Cash and cash equivalents, end of period		**27,932,645**	**—**
Supplemental cash flow information:			
Property, plant and equipment purchased and unpaid for at period end		$ 7,865,228	$ 1,625,953

(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

1. Nature of Operations

On January 8, 2019, Bevo Agro Inc. (a Canadian company previously listed on the TSX Venture Exchange under the symbol "BVO") ("Bevo") acquired all of the outstanding shares of Sun Pharm Investments Ltd. ("Sun Pharm") by way of a three-cornered amalgamation with Bevo changing its name to Zenabis Global Inc. (the "Company"). Upon completion, the shareholders of Bevo held approximately 14% of the issued and outstanding shares of the Company and as a result, Sun Pharm shareholders controlled the Company resulting in a reverse take-over. The resulting financial statements are presented as a continuance of Sun Pharm (accounting acquirer), and comparative figures presented in the financial statements are those of Sun Pharm (**Note 8(a)**).

Sun Pharm was incorporated under the laws of Canada, on November 6, 2017, while the predecessor entity, Zenabis Limited Partnership was originally formed on April 5, 2014 as a limited partnership registered in Manitoba. The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "ZENA".

The Company operates in three distinct industries: the production, distribution and sale of medical and adult-use recreational cannabis products in Canada pursuant to the Cannabis Act; the propagation of vegetable plants such as tomatoes, peppers, cucumbers and other plants such as bedding plants flowers and grasses; and the production and sale of kombucha products.

The registered corporate head office of the Company is at 3100 – 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2X8. The Company's operating subsidiaries have facilities in the provinces of Alberta, British Columbia, Nova Scotia and New Brunswick.

2. Significant Accounting Policies and Significant Judgments

(a) Basis of Presentation and Measurement

The condensed consolidated interim financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS") in accordance and in compliance with the International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The condensed consolidated interim financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual audited consolidated financial statements, except for updates to existing policies identified in **Note 2(e)** as a result of business combinations and the adoption of new accounting standards identified in **Note 2(f)**, and should be read in conjunction with the annual audited consolidated financial statements of Sun Pharm for the year ended December 31, 2018, including the accompanying notes thereto.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on November 14, 2019.

(b) Going Concern

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

For the nine months ended September 30, 2019, the Company reports a comprehensive loss of $28,387,127, negative cash flow from operations at $45,269,304, negative working capital of $41,095,561, and an accumulated deficit of $65,247,152. Further, $66,562,737 of the Company's debt is due within the next 12 months. These conditions cast a material uncertainty on the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. Significant Accounting Policies and Significant Judgments (continued)

(b) Going Concern (continued)

Management acknowledges that there is material uncertainty over the Company's ability to meet its funding requirements as they fall due. The Company's ability to continue in the normal course of operations is dependent on its ability to raise additional capital through debt and equity financings. While the Company has been successful in raising capital in the past, there is no assurance that it will be successful in closing further financing in the future.

To buttress its working capital position in the short-term, the Company is seeking financing through a rights offering. To address the upcoming maturities of short-term financing in June 2020, the Company is working to pursue refinancing alternatives. The outcome of these matters cannot be predicted at this time.

(c) Basis of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. As at September 30, 2019, the subsidiaries of the Company are as follows:

Subsidiaries	Percentage Ownership
Zenabis Investments Ltd.	100%
Zenabis Real Estate Holdings Ltd.	100%
Zenabis Annacis Ltd.	100%
Zenabis Atholville Ltd.	100%
Zenabis Stellarton Ltd.	100%
Zenabis Housing Ltd.	100%
Zenabis IP Holdings Ltd.	100%
Zenabis Retail Holdings Ltd.	100%
Zenabis Ventures Ltd.	100%
Zenabis Operations Ltd.	100%
Zenabis Ltd.	100%
Vida Cannabis (Canada) Ltd.	100%
Zenabis Hemp Company Ltd.	100%
Bevo Farms Ltd.	100%
Topgro Holdings Ltd.	100%
Topgro Greenhouses Ltd.	100%
Bevo Agro Inc.	100%
Bevo Farms Inc.	100%
Zen Craft Grow Ltd.	100%
Hillsboro Corporation Inc. ("True Büch")	51%

(d) Significant Accounting Judgments and Estimates

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

2. Significant Accounting Policies and Significant Judgments (continued)

(d) Significant Accounting Judgments and Estimates (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if revision affects current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are consistent with those applied in the annual audited consolidated financial statements, except for those described in **Notes 2(e)** and **2(f)** and below.

Going concern

Each reporting period, management exercises judgment in assessing whether going concern assumption is appropriate. This requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period.

(e) Property, Plant and Equipment and Intangible Assets

Property, plant and equipment

Property, plant and equipment acquired in a business combination are measured at fair value at the acquisition date and are depreciated over their estimated useful lives using the following methods and rates:

Asset	Method	Rate
Buildings and improvements	Straight-line	13 – 40 years
Production equipment	Straight-line	5 – 10 years
Other equipment	Straight-line	3 – 5 years

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, and any changes in estimates are accounted for prospectively.

Intangible assets

Intangible assets acquired in a business combination are measured at fair value at the acquisition date and are amortized over their estimated useful lives using the following methods and rates:

Asset	Method	Rate
Customer list	Straight-line	5 – 20 years
Brand name	N/A	Indefinite
Trademark	Straight-line	5 – 20 years

The estimated useful lives, residual values and amortization methods are reviewed at each reporting date, and any changes in estimates are accounted for prospectively.

Intangible assets with an indefinite life or not yet available for use are tested for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Intangible assets with finite life are tested when there is an indication of impairment. Intangible assets are tested for impairment by comparing the carrying value of each cash generating unit containing the assets to its recoverable amount. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value-in-use.

2. Significant Accounting Policies and Significant Judgments (continued)

(f) New Standard Effective January 1, 2019

IFRS 16 – Leases ("IFRS 16") introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12-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 right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

IFRS 16 was adopted by the Company effective January 1, 2019. For lease contracts entered into before the adoption of IFRS 16, the Company has elected to use the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 – Leases ("IAS 17") and IFRIC 4 – Determining Whether an Arrangement Contains a Lease.

Under the modified retrospective approach, the right-of-use asset is initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application. The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

In applying the modified retrospective approach, the Company has elected to use the following practical expedients:

- A single discount rate has been applied to portfolios of leases with reasonably similar characteristics; and
- Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases even though the initial term of the leases from lease commencement date may have been more than twelve months.

The adoption of IFRS 16 has resulted in the Company recognizing a right-of-use asset and lease liability on the condensed consolidated interim statements of financial position for equipment and office space leases with firm periods of greater than one year. The Company recognized its right-of-use asset and lease liability for these leases based on the present value of future minimum lease payments, whereas previously no right-of-use asset or lease liability was recognized. The right-of-use asset recognized as at January 1, 2019 and September 30, 2019 was $53,317 and $5,815,229, respectively. The lease obligation recognized as at January 1, 2019 and September 30, 2019 was $51,327 and $6,086,827, respectively (**Note 14**). The comparative figures as at December 31, 2018 are presented under IAS 17, and not under IFRS 16 as in the current period.

3. Accounts Receivable

	September 30, 2019	December 31, 2018
Trade receivables [i]	$ 10,435,989	$ 2,294,604
GST/HST recoverable	1,276,582	2,699,667
Insurance proceeds receivable [ii]	442,995	—
Balance, end of period	**$ 12,155,566**	**$ 4,994,271**

(i) As at September 30, 2019 and December 31, 2018, trade receivables included an allowance for doubtful accounts of $180,192 and $nil, respectively.

(ii) Refer to **Note 6**.

4. Inventory

The Company's inventory is comprised of:

	Capitalized Cost	Biological Asset Fair Value Adjustment	Carrying Value
Cannabis			
Work-in-process	$ 7,430,266	$ 12,510,273	$ 19,940,539
Finished goods	1,267,609	2,400,284	3,667,893
	8,697,875	14,910,557	23,608,432
Non-Cannabis			
Work-in-process	624,456	—	624,456
Finished goods	11,566	—	11,566
	636,022	—	636,022
Supplies and consumables	4,100,492	—	4,100,492
Balance, September 30, 2019	**$ 13,434,389**	**$ 14,910,557**	**$ 28,344,946**

	Capitalized Cost	Biological Asset Fair Value Adjustment	Carrying Value
Cannabis			
Work-in-process	$ 1,919,629	$ 1,599,499	$ 3,519,128
Finished goods	282,705	632,392	915,097
	2,202,334	2,231,891	4,434,225
Supplies and consumables	498,710	—	498,710
Balance, December 31, 2018	**$ 2,701,044**	**$ 2,231,891**	**$ 4,932,935**

5. Biological Assets

The Company's biological assets consist of both cannabis and non-cannabis seeds and plants. The changes in the carrying value of biological assets are as follows:

Balance, December 31, 2018	$	3,721,751
Acquired on acquisition		4,665,725
Production costs capitalized		17,712,100
Changes in fair value, less cost to sell due to biological transformation		40,358,763
Transferred to inventory upon harvest		(52,644,200)
Balance, September 30, 2019	**$**	**13,814,139**

Cannabis

Live cannabis plants are harvested as agricultural produce and as at September 30, 2019, on average, were approximately 14% complete, compared to approximately 45% average stage of completion as at December 31, 2018. Plants not in production are valued at cost. Plants in production are plants that are in the flowering stage and are valued at fair value less cost to complete and cost to sell, where fair value represents the Company's selling price per gram of dried cannabis.

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at September 30, 2019:

Selling price	Calculated as the average historical selling price, net of excise tax, for all strains of cannabis sold by the Company, which is expected to approximate future selling prices
Expected yield	Represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
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 materials and labour related to labelling and packaging

The following table quantifies each significant unobservable input and provides the impact of a 10% increase/decrease in each input would have on the fair value of biological assets.

Cannabis		**September 30, 2019**		**10% Change as at September 30, 2019**
Selling price (weighted average) – Flower [(i)]	$	4.25	$	559,680
Selling price (weighted average) – Trim	$	2.13	$	193,472
Average yield per plant (grams)		113.23	$	690,296
Post-harvest costs (weighted average)	$	0.51	$	62,856

(i) Net of excise tax.

5. Biological Assets (continued)

Non-cannabis

For vegetable plants the Company determined that fair value is determinable at all stages of the growth cycle. For bedding/floral plants which have a grow life of up to 50 weeks, the Company has determined that fair value is determinable at the point at which the plants are spaced, which ranges from week 12 to 25 of the growth cycle.

The following table quantifies each significant unobservable input and provides the impact of a 10% increase/decrease in each input would have on the fair value of biological assets.

Vegetable Plants	September 30, 2019	10% Change as at September 30, 2019
Selling price (weighted average)	$ 1.26	$ 20,255

Bedding/Floral Plants	September 30, 2019	10% Change as at September 30, 2019
Selling price (weighted average)	$ 4.43	$ 194,809

6. Property, Plant and Equipment

Property, plant and equipment relate to the infrastructure build-out for growing, production and operations.

During the nine months ended September 30, 2019, $248,883 (December 31, 2018 – $878,562) in borrowing costs were capitalized to building and improvements at a capitalization rate of 5.18% (December 31, 2018 – 8.25%).

A continuity of the property, plant and equipment balance for the period ended September 30, 2019 is as follows:

	Land	Building Improvements	Production Equipment	Other Equipment	Construction in Progress (CIP)	Total
Cost						
At December 31, 2018	$ 2,033,097	$ 18,419,634	$ 1,879,395	$ 2,723,123	$ 44,580,758	$ 69,636,007
Additions	26,761	4,076,037	6,164,248	6,091,599	78,714,197	95,072,842
Acquired	14,050,400	38,273,420	11,472,250	208,509	678,556	64,683,135
Disposals	—	(2,052)	(35,659)	(45,596)	—	(83,307)
Write-offs	—	(66,174)	(1,764,414)	(5,525)	(147,824)	(1,983,937)
Transfer to right-of-use assets	—	—	—	(36,766)	—	(36,766)
Transfer between asset classes	—	11,724	113,482	(125,206)	—	—
Transfers from CIP	—	77,527,660	3,380,342	627,352	(81,535,354)	—
At September 30, 2019	**$ 16,110,258**	**$ 138,240,249**	**$ 21,209,644**	**$ 9,437,490**	**$ 42,290,333**	**$ 227,287,974**
Accumulated depreciation						
At December 31, 2018	$ —	$ 1,141,116	$ 280,433	$ 358,682	$ —	$ 1,780,231
Additions	—	3,208,515	1,383,212	797,858	—	5,389,585
Disposals	—	—	(910)	(49,915)		(50,825)
Write-offs	—	(824)	(35,950)	(359)	—	(37,133)
Transfer to right-of-use assets	—	—	—	(12,523)	—	(12,523)
At September 30, 2019	**$ —**	**$ 4,348,807**	**$ 1,626,785**	**$ 1,093,743**	**$ —**	**$ 7,069,335**
Net book value						
At December 31, 2018	**$ 2,033,097**	**$ 17,278,518**	**$ 1,598,962**	**$ 2,364,441**	**$ 44,580,758**	**$ 67,855,776**
At September 30, 2019	**$ 16,110,258**	**$ 133,891,442**	**$ 19,582,859**	**$ 8,343,747**	**$ 42,290,333**	**$ 220,218,639**

The Company incurred damages in the year due to a fire at its Langley facility. The incident had no impact on its cannabis production or cannabis supply commitments. As at September 30, 2019, the Company incurred losses of $4,270,485, of which $1,815,891 related to the write-off of its property, plant and equipment. The remaining balance of $2,454,594 represents greenhouse clean up and remediation costs. As at September 30, 2019 under its insurance policy the Company had received $2,733,541 which had been recorded as an insurance proceeds and will be used to replace and to repair any damaged assets caused by the fire. As at September 30, 2019, the Company recorded additional $442,995 in accounts receivable from the insurer relating to the fire.

7. Intangible Assets and Goodwill

A continuity of the intangible assets and goodwill balances for the period ended September 30, 2019 is as follows:

	Customer Relationships	Brand Name	Trademark	Total Intangible Assets	Goodwill	Total Intangible Assets and Goodwill
Cost						
At December 31, 2018	$ —	$ —	$ —	$ —	$ 6,688,711	$ 6,688,711
Additions from acquisitions	8,617,000	13,994,000	2,227	22,613,227	33,473,984	56,087,211
At September 30, 2019	**$ 8,617,000**	**$ 13,994,000**	**$ 2,227**	**$ 22,613,227**	**$ 40,162,695**	**$ 62,775,922**
Accumulated amortization						
At December 31, 2018	$ —	$ —	$ —	$ —	$ —	$ —
Additions	432,289	—	304	432,593	—	432,593
At September 30, 2019	**$ 432,289**	**$ —**	**$ 304**	**$ 432,593**	**$ —**	**$ 432,593**
Net book value						
At December 31, 2018	**$ —**	**$ —**	**$ —**	**$ —**	**$ 6,688,711**	**$ 6,688,711**
At September 30, 2019	**$ 8,184,711**	**$ 13,994,000**	**$ 1,923**	**$ 22,180,634**	**$ 40,162,695**	**$ 62,343,329**

8. Business Combinations

The following table summarizes the balance sheet impact on the acquisition date of the Company's business combinations that occurred in the period ended September 30, 2019:

Acquisitions completed during the nine months ended September 30, 2019	Bevo (a)	Topgro (b)	True Büch (c)	Total
Consideration				
Cash paid	$ —	$ 9,401,096	$ —	**$ 9,401,096**
Working capital adjustment	—	(24,750)	—	**(24,750)**
Loan settlement	—	2,691,582	—	**2,691,582**
Common shares issued	78,305,966	—	2,048,001	**80,353,967**
Preferred shares issued	48,222	—	—	**48,222**
	$ 78,354,188	**$ 12,067,928**	**$ 2,048,001**	**$ 92,470,117**
Net identifiable assets acquired (liabilities assumed)				
Cash	$ 1,380,531	$ 18,465	$ 118,079	**$ 1,517,075**
Accounts receivable	1,615,939	75,082	120,669	**1,811,690**
Notes receivable	1,346,865	—	—	**1,346,865**
GST/HST receivable	81,185	28,576	—	**109,761**
Due from related parties	255,822	—	—	**255,822**
Inventories	3,608,856	96,163	51,462	**3,756,481**
Biological assets	4,665,725	—	—	**4,665,725**
Prepaid expenses and deposits	613,321	16,530	7,352	**637,203**
Property, plant and equipment	55,258,010	9,198,338	226,787	**64,683,135**
Intangible assets:				
Brand name	13,994,000	—	—	**13,994,000**
Customer relationships	7,434,000	—	1,183,000	**8,617,000**
Trademark	—	—	2,227	**2,227**
Accounts payable and accruals	(6,941,096)	(67,910)	(90,508)	**(7,099,514)**
Loans and borrowings	(19,589,225)	—	(308,226)	**(19,897,451)**
Deferred income tax liability	(13,284,994)	(1,305,421)	(335,604)	**(14,926,019)**
Non-controlling interests	—	—	(477,867)	**(477,867)**
	$ 50,438,939	**$ 8,059,823**	**$ 497,371**	**$ 58,996,133**
Purchase price allocation				
Net identifiable assets acquired	$ 50,438,939	$ 8,059,823	$ 497,371	**$ 58,996,133**
Goodwill	27,915,249	4,008,105	1,550,630	**33,473,984**
	$ 78,354,188	**$ 12,067,928**	**$ 2,048,001**	**$ 92,470,117**
Net cash inflows (outflows)				
Cash consideration paid	$ —	$ (9,401,096)	$ —	**$ (9,401,096)**
Cash acquired	1,380,531	18,465	118,079	**1,517,075**
	$ 1,380,531	**$ (9,382,631)**	**$ 118,079**	**$ (7,884,021)**

8. Business Combinations (continued)

Management is in the process of gathering the relevant information to determine the fair value of the net identifiable assets acquired. As such, the initial purchase prices were provisionally allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on each respective acquisition date. The values assigned are, therefore, preliminary and subject to change. The Company is continuing to obtain information to finalize its purchase price allocation for the fair value of identifiable intangible assets and the allocation of goodwill.

Goodwill, arising from the acquisitions, represents expected synergies, future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from these acquisitions are expected to be deductible for tax purposes.

(a) Bevo Agro Inc.

On January 8, 2019, Bevo (a Canadian company previously listed on the TSX Venture Exchange under the symbol "BVO") acquired all of the outstanding shares of Sun Pharm by way of a three-cornered amalgamation to form Zenabis Global Inc. (the "Transaction"). Bevo operates 53 acres of propagation greenhouse facilities on 98 acres of land in Langley, British Columbia and 20 acres of land in Pitt Meadows, British Columbia. Bevo's main products are the propagation of vegetable plants such as tomatoes, cucumbers and peppers and other plants such as bedding plants, flowers and grasses.

In accordance with IFRS 3 – Business Combinations, the Transaction was a reverse takeover of an operating company, Bevo, and thus management determined that the definition of a business under the standard has been met (the "RTO"). On closing of the RTO, the shareholders of Bevo held approximately 14% of the issued and outstanding shares of the Company, as a result, Sun Pharm shareholders controlled the Company. The resulting financial statements have been presented as a continuance of Sun Pharm (accounting acquirer), and comparative figures presented in the financial statements are those of Sun Pharm. The results of operations of Bevo after the date of acquisition of January 8, 2019 were included in these condensed consolidated interim financial statements.

The Transaction included the exchange of Sun Pharm common shares for the Company's shares with an exchange ratio of approximately 0.990706, as a result, Sun Pharm common shareholders received 159,746,237 shares of the Company in exchange for 161,244,936 Sun Pharm shares. Bevo shareholders received 27,768,073 common shares and 17,860 preferred shares of the Company in exchange for 27,785,933 Bevo shares.

The purchase price of the acquisition consisted of the fair value of the Company's common and preferred shares, with estimated fair value of $78,354,188 based on the share price of a concurrent common share financing of Sun Pharm prior to the RTO of $2.82 per share and redemption value of $2.70 for the preferred shares.

For the period from acquisition to September 30, 2019, Bevo accounted for $29,078,148 in revenues and $623,426 in net income. If the acquisition had been completed on January 1, 2019, the Company estimates it would have recorded $29,952,944 in revenues and estimates net income would remain comparable for the nine months ended September 30, 2019.

(b) Topgro Holdings Ltd. ("Topgro")

On January 22, 2019, the Company acquired Topgro, a Canadian company which operates agricultural land. The Company acquired Topgro to supplement its vegetable and floral propagation business and to ensure continuity for existing Bevo Farms Ltd. propagation customers while the first 10 acres (435,600 square feet) of the Zenabis Langley Facility is converted for cannabis cultivation.

8. Business Combinations (continued)

(b) Topgro Holdings Ltd. ("Topgro") (continued)

On the acquisition date the Company, through its subsidiary Bevo Farms Ltd., acquired all the issued and outstanding shares of Topgro for total consideration of $12,067,928 comprised of cash of $9,401,096, a loan settlement of $2,691,582 and working capital adjustments of $(24,750).

For the period from acquisition to September 30, 2019, Topgro accounted for $nil in revenues and $576,593 in net loss. If the acquisition had been completed on January 1, 2019, the Company estimates that the revenues and net loss for the nine months ended September 30, 2019 would remain comparable.

(c) True Büch

On January 22, 2019, the Company acquired a 51% ownership interest in True Büch, a Canadian company with expertise in the creation of cultured tea beverages. The Company and True Büch intend to draw upon each other's expertise to infuse cannabis into True Büch beverages when permitted under applicable laws and regulations, creating a cannabidiol cultured tea beverage.

On the acquisition date, the Company acquired 3,825 of the issued and outstanding common shares of True Büch. As consideration, the Company issued 455,947 of its common shares at $4.49 for total consideration of $2,048,001 to the shareholders of True Büch. The Company also has the option to purchase the remaining 49% of the equity in True Büch, at a predefined multiple of earnings for the preceding 12 months payable in cash.

For the period from acquisition to September 30, 2019, True Büch accounted for $1,083,378 in revenues and $92,235 in net income. If the acquisition had been completed on January 1, 2019, the Company estimates it would have recorded $1,155,078 in revenues and estimates net income would remain comparable for the nine months ended September 30, 2019.

Non-controlling interest

The following is a continuity of True Büch's non-controlling interest:

	Non-Controlling Interest
Balance, December 31, 2018	$ —
Non-controlling interest arising on acquisition of True Büch	477,867
Share of profit for the period	45,195
Balance, September 30, 2019	**$ 523,062**

9. Investments

	September 30, 2019	December 31, 2018
CubicFarm Systems Corp. (i)	$ 205,618	$ 399,988
National Access Cannabis (ii)	207,480	2,912,088
Other	160,000	160,000
Total investments	573,098	3,472,076
Less: short-term investments	**413,098**	**2,912,088**
Non-current investments	**$ 160,000**	**$ 559,988**

(i) During the nine months ended September 30, 2019, the Company recognized a gain of $25,834 in other comprehensive loss related to the sale of 141,500 shares in CubicFarm Systems Corp. at a weighted average selling price of $1.01 per share.

(ii) During the nine months ended September 30, 2019, the Company recognized a gain of $896,060 in the statement of loss related to the sale of 4,948,505 shares of its investment in National Access Cannabis at a weighted average selling price of $0.71 per share.

Finance and investment income consisted of the following:

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Realized and unrealized (loss) gain on investments	$ (181,480)	$ 276,470	$ 552,288	$ 295,291
Interest income	7,494	1,095	17,616	3,069
Total finance and investment income	**$ (173,986)**	**$ 277,565**	**$ 569,904**	**$ 298,360**

10. Related Party Transactions

(a) Due to related parties

Amounts due to related parties represent balances due to companies controlled by or affiliated with certain officers and directors that have significant influence over the Company and represent balances owed during the normal course of business and to assist in the financing of operations.

	September 30, 2019	December 31, 2018
Due to related parties	$ 31,858	$ 923,229
Included in accounts payable and accrued liabilities	665,939	—
Total amounts due to related parties	**$ 697,797**	**$ 923,229**

Amounts due to related parties are non-interest bearing, unsecured and due on demand.

10. Related Party Transactions (continued)

(b) Compensation of key management personnel

The Company's key management personnel have the authority and responsibility for planning, directing and controlling the activities of the Company and consists of the Company's executive management team and management directors.

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Salaries and benefits	$ 523,649	$ 285,276	$ 1,646,981	$ 809,698
Share-based payments	960,373	208,115	3,022,496	585,874
Director fees	152,652	—	395,961	—
Total compensation of key management personnel	**$ 1,636,674**	**$ 493,391**	**$ 5,065,438**	**$ 1,395,572**

(c) Service fees incurred to related parties

Amounts incurred with companies controlled by or affiliated with certain officers and directors that have significant influence over the Company, provided in the ordinary course of business.

	For the three months ended September 30,		For the nine months ended September 30,	
	2019	2018	2019	2018
Amounts incurred to companies affiliated with the:				
Chief Executive Officer of the Company [(i)]	$ 183,624	$ —	$ 1,890,719	$ —
Chief Growing Officer of the Company	126,000	—	336,000	—
Amounts incurred to companies controlled by the:				
Chairman of the Board of the Company and a significant shareholder of the Company	151,619	323,583	925,601	781,986
Total amounts incurred to related parties	**$ 461,243**	**$ 323,583**	**$ 3,152,320**	**$ 781,986**

(i) Except for $26,247 in amounts incurred, all other service arrangements were negotiated or entered into prior to the CEO's appointment on January 21, 2019.

(d) Due to shareholders

On October 17, 2018, the Company entered into agreements to refinance some of its shareholder loans with unsecured convertible notes (**Note 13(a)**).

11. Customer Deposits

During 2019, the Company entered into two supply agreements to supply dried cannabis products. Pursuant to the agreements, the customers advanced a total of $40,000,000 and the Company will deliver a monthly quantity of dried cannabis commencing the final quarter of 2019. The Company expects to deliver products within 12 to 24 months of the commencement of the agreements.

Revenue on these agreements will be recognized as the products are delivered. Since no deliveries have been made as of September 30, 2019, the amounts advanced by customers are recorded as customer deposits.

Furthermore, the Company incurred a success fee of $1,126,594, settled in cash and 319,148 common shares, for closing one of the agreements. This has been included as part of prepaid and other current assets.

12. Loans and Borrowings

As at September 30, 2019, the Company had the following loans and borrowings:

	September 30, 2019	December 31, 2018
Term loans (a)(b)(c)	$ 45,590,000	$ —
Revolving line of credit (a)(b)	—	—
Loans payable (d)	2,283,794	2,148,693
Senior notes payable (e)	46,476,302	—
Equipment loan	—	22,253
	94,350,096	2,170,946
Less: unamortized debt issuance costs	(707,824)	—
Total loans and borrowings	93,642,272	2,170,946
Less: current portion	**49,944,859**	**51,788**
Non-current portion	**$ 43,697,413**	**$ 2,119,158**

(a) In January 2019, the Company entered into a $51,000,000 secured credit agreement ("Credit Agreement") for credit facilities (the "Credit Facility"), provided by a major Canadian chartered bank for the purposes of repayment of Bevo Farms Ltd. debt assumed in the RTO, the intended acquisition of Topgro and conversion of the Zenabis Langley Facility for cannabis production. Under the Credit Facility, the Company has access to the following funds:

(i) a $46,700,000 term loan ("Term Loan");

(ii) a $2,000,000 revolving line of credit ("Revolver");

(iii) a $2,000,000 loan facility ("Facility A"); and

(iv) a $300,000 corporate card ("Facility B").

Under the terms of the Credit Agreement, the Company is subject to certain customary financial and non-financial covenants and restrictions. In addition, the Credit Agreement is secured by a first-ranking security interest over substantially all of the property of Bevo Farms Ltd. and its subsidiaries. As at September 30, 2019, the Company was in compliance with all covenants relating to the Credit Agreement.

Term loan

As at September 30, 2019, advances under the Term Loan was made in two tranches, with interest payments based on prime rate plus a margin. As at September 30, 2019, the borrowing rate was 4.70%. Each tranche is scheduled to mature on January 21, 2022. Details regarding the tranches are further discussed below:

(i) Tranche 1 provided available borrowings of $33,700,000 by way of a single advance. Under the Credit Agreement, Tranche 1 is available solely for the purpose of repaying current indebtedness of the Company and for the acquisition of Topgro. Interest is due monthly, and the principal balance is repayable in equal quarterly installments of 1/60th of the amount borrowed. As at September 30, 2019, $32,015,000 of Tranche 1 remained unpaid.

12. Loans and Borrowings (continued)

(a) (continued)

(ii) Tranche 2 provided available borrowings of $13,000,000 to finance capital expenditures for the conversion of a portion of Zenabis Langley, for the purposes of cannabis cultivation and production, and for propagation conversion capital expenditures for Zenabis Topgro. The fund is available from time to time at the discretion of the Company up to and including July 30, 2019 and with a maximum of five installments. Interest is due monthly, and the principal balance is repayable in equal quarterly installments of 1/60th of the amount beginning on the last day of each fiscal quarter commencing on the earlier of **(i)** substantial completion of the retrofit projects or **(ii)** September 30, 2019. As at September 30, 2019, Tranche 2 had been fully drawn.

Revolver

The Revolver provided available aggregate borrowings of up to $2,000,000. Interest payments are based on prime plus a margin that ranges between 0.25% and 1.75%. The Revolver is to be drawn, repaid and redrawn at the discretion of the Company to fund working capital and general corporate purposes and will mature on January 21, 2022. In March 2019, the revolving line of credit was temporarily increased from $2,000,000 to $6,000,000, which later was reduced to $2,000.000. As at September 30, 2019, the revolver was fully repaid and remained undrawn.

Facility A

Under the Credit Agreement, Facility A provides the Company $2,000,000 for the purposes of managing interest rate and foreign exchange risks. As at September 30, 2019, Facility A remained undrawn.

Facility B

Under the Credit Agreement, Facility B provided available borrowings of up to $300,000 for general corporate purposes. All outstanding obligations under this facility are repayable on a monthly basis. As at September 30, 2019, Facility B remained undrawn.

(b) Pursuant to the acquisition of True Büch (**Note 8(c)**), the Company assumed a term loan and revolving line of credit of $80,641 and $19,110, respectively. The term loan is scheduled to mature in September 2022 with interest payments based on prime plus 2.5% per annum. The revolving line of credit is payable upon demand with interest payments based on prime plus 3.75%. The loans are secured by a security interest over True Büch's property. As at September 30, 2019, the term loan and revolving line of credit were fully repaid.

(c) In August 2019, True Büch entered into a secured credit agreement ("True Büch Credit Agreement") for credit facilities (the " True Büch Credit Facilities"), provided by a major Canadian chartered bank. Under the True Büch Credit Agreement, True Büch has access to the following funds:

(i) a $250,000 revolving demand facility ("Facility 1"). Facility 1 is revolved by the bank in $5,000 increments with interest payable on a monthly basis at Prime + 2%. As at September 30, 2019, Facility 1 remains undrawn;

(ii) a $500,000 fixed term loan ("Facility 2") which is scheduled to mature in September 2024. Interest is payable on a monthly basis at 4.36%. As at September 30, 2019, Facility 2 has been fully drawn;

(iii) a $75,000 variable rate term loan ("Facility 3") which is scheduled to mature on January 31, 2020. Interest is payable monthly at Prime + 2%. As at September 30, 2019, Facility 3 has been fully drawn; and

(iv) a $50,000 credit card facility ("Facility 4"). As at September 30, 2019, Facility 4 remains undrawn.

12. Loans and Borrowings (continued)

(d) In August 2017, the Company entered into a loan agreement with a third party which provided borrowings of up to $2,000,000, bearing interest of 6% per annum. The loan agreement is scheduled to mature in September 2027, and is secured by a security interest over substantially all of the Company's property. The Company is not required to make any principal or interest payments through May 2019. Interest will accrue from the date of the draw until May 2019. Beginning in December 2019, the Company will be required to make interest only payments based on the outstanding principal and accrued interest balance, plus 24 equal monthly payments of the accrued interest. Beginning in September 2021, the Company will be required to make equal monthly principal payments of the outstanding loan balance plus interest until August 2027. As at September 30, 2019, $234,794 of interest had been accrued.

(e) In February 2019, the Company's senior convertible note was renegotiated, such that the remaining undrawn $20,850,000 balance was no longer convertible (**Note 13(e)**). On February 19, 2019, the Company entered into a $20,850,000 non-convertible senior note maturing in October 2019, with interest at prime plus 9%.

The non-convertible senior note holders also received 2,593,283 warrants, each entitling the note holders to acquire one Zenabis share for a period of one year at a price of $4.02 per share. Management determined that the warrants issued on February 19, 2019 were considered to be an equity instrument and separately accounted for it. At issuance, the fair value of the warrants was $297,153.

In July 2019, the Company amended its non-convertible senior note to extend the maturity date from October 2019 to July 2020. In connection with the amendment, the Company issued the convertible senior note holders (**Note 13(e)**) and non-convertible senior note holders 6,009,615 warrants, each entitling the note holders to acquire one common share of the Company at any time until July 2020 at a price of $2.08 per share. Management determined that the warrants issued in July 2019 were considered to be an equity instrument and separately accounted for it. At issuance, the fair value of the warrants was $770,220.

In August 2019, the Company entered into a $25,000,000 secured senior debt financing with a third party ("New Senior Debt"). In connection with the New Senior Debt, the Company also amended and restated its non-convertible senior note of $20,850,000 and senior convertible note of $4,150,000 (**Note 13(e)**) (collectively, the "Original Senior Debt") with an aggregate principal amount of $25,000,000, such that the amended and restated Original Senior Debt, together with the New Senior Debt, now represents $50,000,000 in senior secured debt (collectively, the "Senior Debt"). The New Senior Debt is scheduled to mature in June 2020 with interest at 14%.

Further, the amended and restated Original Senior Debt has no conversion option, and is scheduled to mature in June 2020, with interest at the higher of prime plus 9% and 12.95%.

In connection with the New Senior Debt, the Company issued 902,514 warrants, each entitling the holder to acquire one common share of the Company at any time until August 21, 2022, at a price of $1.39 per share. Management determined that the warrants issued in August 2019, were considered to be an equity instrument and separately accounted for it. At issuance, the fair value of the warrants was $551,249.

During the three and nine months ended September 30, 2019, accretion expense recognized through net loss was $632,580 and $789,928, respectively.

As at September 30, 2019, the Company was in compliance with all covenants relating to the Senior Debt.

12. Loans and Borrowings (continued)

Total long-term debt repayments are as follows:

Remaining 2019	$	1,110,629
2020		49,731,126
2021		3,321,050
2022		3,547,569
2023		3,552,057
Thereafter		33,087,665
Total long-term debt repayments	**$**	**94,350,096**

13. Convertible Loans

		September 30, 2019		December 31, 2018
Unsecured convertible notes payable – related parties (a)	$	10,998,082	$	8,670,539
Unsecured convertible notes payable – third parties (b)		—		5,750,586
Unsecured convertible debentures (c)		11,575,888		—
Secured convertible notes payable (d)		16,617,878		25,480,775
Secured convertible senior note payable (e)		—		3,583,322
Total convertible loans		39,191,848		43,485,222
Less: current portion		**16,617,878**		**43,485,222**
Non-current portion	**$**	**22,573,970**	**$**	**—**

(a) Unsecured Convertible Notes Payable – Related Parties

On October 17, 2018, the Company entered into agreements to refinance some of its shareholder loans with unsecured convertible notes. The notes, bearing interest at 6% per annum, were scheduled to mature in October 2019. In January 2019, certain noteholders agreed to extend the maturity to October 2020 with other terms remaining the same.

A liquidity event was defined as the latter of (i) a subsequent equity financing with over $25,000,000 in gross proceeds by the Company at a pre-money valuation of greater than $425,000,000, in conjunction with a transaction that results in the Common Shares being publicly traded, or (ii) when the note or the Common Shares underlying the note were free from any restriction (and otherwise free trading) under applicable securities laws and the common shares of the resulting issuer were listed on a stock exchange (the "Liquidity Event").

The conversion price (adjusted for the RTO conversion ratio of approximately 0.99) is the lesser of (i) $2.52 and (ii) a 25% discount to the per share price derived from the valuation of the Company upon the Liquidity Event. Prior to the issuance of the convertible notes, the shareholder loans were non-interest bearing and were repayable on demand.

Management determined that the conversion option is not an equity instrument and separately accounted for these as an embedded derivative. As at September 30, 2019, the fair value of the derivative liability was $22,993 (December 31, 2018 – $4,528,199).

The carrying value of the loans are accreted using the effective interest method to its redemption value of $11,913,450 to its maturity date. During the three and nine months ended September 30, 2019, accretion expense recognized through net loss was $200,763 and $1,051,359, respectively.

13. Convertible Loans (continued)

(a) Unsecured Convertible Notes Payable – Related Parties (continued)

During the nine months ended September 30, 2019, certain noteholders converted $1,824,263 of the principal and accrued interest amount outstanding on the unsecured notes payable at $2.65. Upon conversion, the note holders received 689,007 common shares of the Company.

(b) Unsecured Convertible Notes Payable – Third Parties

In October 2018, the Company issued unsecured convertible notes to third parties for proceeds of $4,633,360, bearing interest at 6% per annum and maturing in October 2019. The notes also have the option to convert to shares at the lender's option at the agreed conversion price. The conversion price (adjusted for the RTO conversion ratio of approximately 0.99) will be the lesser of **(i)** $2.52 and **(ii)** a 25% discount to the per share price derived from the valuation of the Company upon the Liquidity Event.

Management determined that the conversion option is not an equity instrument and separately accounted for it as an embedded derivative. As of September 30, 2019, the fair value of the derivative liability was $nil as one noteholder with principal balance of $2,055,000 became a related party and the remaining balance was fully converted (December 31, 2018 – $1,824,415). During the three and nine months ended September 30, 2019, accretion expense recognized through net loss was $nil and $4,334, respectively.

During the nine months ended September 30, 2019, certain noteholders converted $2,613,115 of the principal and accrued interest amount outstanding on the unsecured notes payable at $2.65. Upon the conversion, the note holders received 986,944 common shares of the Company.

(c) Unsecured Convertible Debentures

In March 2019, the Company entered into a letter of engagement with a financial institution under which the financial institution had agreed to purchase 15,000 unsecured convertible debentures of the Company at a price of $1,000 per debenture for gross proceeds of $15,000,000. In addition, the financial institution had agreed to offer for sale an additional 60,000 convertible debentures at a price of $1,000 per debenture, for additional gross proceeds of $60,000,000 ("Additional Debentures"). The Additional Debentures are issuable in tranches at the option of the Company.

The convertible debentures have a maturity date of 30 months from their date of issue and bear interest, payable in cash only, from their date of issue at 6.0% per annum, payable semi-annually on June 30 and December 31 of each year. The convertible debentures are convertible, at the option of the holder, into common shares of the Company at any time prior to the close of business on the last business day immediately preceding the applicable maturity date. The initial 15,000 debentures have a conversion price of $3.62 per common share, being the last closing price of the common shares of the Company on the TSX Venture Exchange prior to the date of issue. Each tranche of additional debentures shall have a conversion price equal to a 15% premium to the volume-weighted average price of the common shares of the Company during the 5 trading-day period immediately preceding their date of issue.

Purchasers of the initial 15,000 debentures also received, for no additional consideration, 55 warrants of the Company for every initial debenture purchased (the "Initial Warrant"). Each Initial Warrant is exercisable to purchase one common share of the Company at an exercise price of $3.62 per share, for a period of 30 months from the date of issue. Purchasers of the Additional Debentures will receive, for no additional consideration, a number of warrants that is equal to 20% of the number of common shares of the Company into which the debenture is convertible (based on the applicable conversion price), at an exercise price that is equal to a 15% premium to the applicable debenture conversion price.

13. Convertible Loans (continued)

(c) Unsecured Convertible Debentures (continued)

As consideration for its services in connection with the offering, the financial institution received a cash commission equal to 8.0% of the gross proceeds of the offering. On March 27, 2019, the Company completed the first tranche of the financing through the issuance of 15,000 unsecured convertible debentures for gross proceeds of $15,000,000.

Management determined that the conversion option and warrants are equity instruments and separately accounted for it. At issuance, the fair value of the conversion option and warrants was $2,859,239.

The carrying value of the loans are accreted using the effective interest method to its redemption value of $15,000,000 to its maturity date. During the three and nine months ended September 30, 2019, accretion expense recognized through net loss was $343,790 and $681,299, respectively.

During the nine months ended September 30, 2019, the financial institution did not convert any unsecured convertible debentures into common shares.

(d) Secured Convertible Notes Payable

In October 2018, the Company issued secured convertible notes with warrants to third parties for aggregate proceeds of $27,500,000, bearing interest at 6% per annum and are scheduled to mature in October 2019. The notes also have the option to convert principal and accumulated interest to shares at the lender's option at the agreed conversion price. The conversion price will be the lesser of **(i)** $2.52 and **(ii)** a 25% discount to the per share price derived from the valuation of the Company upon a liquidity event. Further, the Company entered into agreements to grant warrants to the noteholders to purchase, at any time before the liquidity event, shares of $7,700,000 at the conversion price, which is the same as the conversion of principal and accumulated interest to shares. Management initially determined that the conversion option and warrants granted were not equity instruments and separately accounted for these as an embedded derivative.

In January 2019, the warrant terms were amended which reduced the principal balance and fixed the conversion price. Thus, the warrants were reclassified to equity and were fully exercised as at September 30, 2019.

In April 2019, the Company completed an equity offering of 12,777,777 units for gross proceeds of $28,749,998 (the "Offering"). Each unit consists of one common share of the Company and one common share purchase warrant to purchase a common share at a price of $2.75 for a period of 36 months. The Offering constituted a liquidity event fixing the conversion price of the secured convertible notes, management determined the conversion options to be an equity instrument and reclassified them from a derivative liability to equity.

As of September 30, 2019, the fair value of the derivative liability for the conversion option was $nil (December 31, 2018 – $11,319,142).

In August 2019, the noteholders of the Company's secured convertible notes had agreed to extend the maturity date to June 30, 2020 and to subordinate the secured convertible notes to the New Senior Debt (**Note 12(e)**). In consideration thereof, the conversion price of the secured convertible notes was reduced to $1.55 and the interest rate was increased to 11%. The holders also agreed to convert, at the reduced conversion price, 30% of the principal amount of the secured convertible notes, such that the aggregate outstanding principal amount of the secured convertible notes was $17,404,959 as of September 30, 2019. During the nine months ended September 30, 2019, certain noteholders converted a total of $10,179,304 of the principal and accrued interest amount outstanding on the secured convertible notes at a weighted average price of $1.74. Upon conversion, note holders received a total of 5,865,163 common shares of the Company.

13. Convertible Loans (continued)

(d) Secured Convertible Notes Payable (continued)

In August 2019, the Company also issued the holders of the secured convertible notes 1,373,712 warrants, each entitling the holders to acquire one common share of the Company at any time until August 21, 2022 at a price of $1.82 per share. Management has determined that the warrants granted were considered to be an equity instrument and separately accounted for it. At issuance, the fair value of the warrants was $113,681.

The carrying value of the loans are accreted using the effective interest method to its redemption value of $17,404,959 to its maturity date. During the three and nine months ended September 30, 2019, accretion expense recognized through net loss was $444,887 and $1,759,960, respectively.

(e) Secured Convertible Senior Note Payable

In October 2018, the Company secured $25,000,000 in convertible senior debt financing that could be drawn down by the Company on a continuous basis, with the option to convert to shares at the lender's option at the agreed conversion price.

Management determined that the conversion option of the initial $4,150,000 drawn is not an equity instrument and separately accounted for it as an embedded derivative.

In February 2019, the Company's convertible senior note was renegotiated, such that the remaining undrawn $20,850,000 balance was no longer convertible. On February 19, 2019, the Company issued a $20,850,000 non-convertible senior note maturing in October 2019, with interest at prime plus 9% (**Note 12(e)**).

In July 2019, the Company amended its secured convertible senior note to extend the maturity date from October 2019 to July 2020 and also issued additional warrants (**Note 12(e)**).

In August 2019, the Company entered into a New Senior Debt with a third party. In connection with the New Senior Debt, the Company amended and restated its non-convertible senior note and senior convertible note (**Note 12(e)**), such that the initial $4,150,000 drawn facility was no longer convertible and that interest was restated as the higher of 12.95% and prime plus 9%. As a result of the amendment, the derivative liability was derecognized resulting in an ending balance of $nil as at September 30, 2019 (December 31, 2018 – $97,806).

The carrying value of the loan was accreted using the effective interest method to its redemption value of $4,150,000 until its amendment in August 2019 (**Note 12(e)**). During the three and nine months ended September 30, 2019, accretion expense recognized through net loss was $99,238 and $434,152, respectively.

The changes in the carrying value of convertible loans are as follows:

Balance, December 31, 2018	$	43,485,222
Additions		10,894,840
Transfers		(3,471,573)
Capitalized interest		274,873
Conversions		(13,538,899)
Refinance		(1,747,762)
Accretion		3,295,147
Balance, September 30, 2019	**$**	**39,191,848**

14. Right-of-use Assets and Lease Obligations

	Office Lease	Building Lease	Equipment Lease	Total
Right-of-use assets				
At January 1, 2019	$ —	$ —	$ 53,317	**$ 53,317**
Additions	5,252,876	811,675	166,432	**6,230,983**
Depreciation	(399,675)	(43,419)	(25,977)	**(469,071)**
At September 30, 2019	**$ 4,853,201**	**$ 768,256**	**$ 193,772**	**$ 5,815,229**

	Office Lease	Building Lease	Equipment Lease	Total
Lease obligations				
At January 1, 2019	$ —	$ —	$ 51,327	**$ 51,327**
Additions	5,252,876	811,675	168,272	**6,232,823**
Imputed interest	402,619	9,790	8,465	**420,874**
Payments	(536,576)	(48,527)	(33,094)	**(618,197)**
At September 30, 2019	5,118,919	772,938	194,970	**6,086,827**
Less: current portion	**454,903**	**103,968**	**45,219**	**604,090**
Non-current portion	**$ 4,664,016**	**$ 668,970**	**149,751**	**$ 5,482,737**

The Company primarily leases office and building space, and office equipment. The office and building space leases run for a period of 7 to 9 years, and the leases for office equipment for 3 to 5 years.

The weighted average incremental borrowing rate applied to lease obligations on January 1, 2019 was 13.19%. The Company has elected to recognize the lease payments of short-term and low-value leases in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. For the three and nine months ended September 30, 2019, short-term and low-value lease expenses recognized in the Company's condensed consolidated interim statements of loss and comprehensive loss were as follow:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Short-term lease expense	$ 7,198	$ 54,243
Low-value lease expense	$ —	$ —

The aggregate lease liability recognized in the statements of financial position at January 1, 2019 and the Company's operating lease commitment at December 31, 2018 can be reconciled as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018	$ 38,319
Effect of discounting those lease commitments at an annual rate of 13.19%	(8,295)
Effect of electing to account for short-term and low value leases off balance sheet	(950)
Capital lease commitment at December 31, 2018	22,253
Lease obligation	**$ 51,327**

15. Share Capital

(a) Authorized

The Company is authorized to issue an unlimited number of Class A common shares without par value.

(b) Issued and outstanding

As at September 30, 2019, 208,629,937 common shares (December 31, 2018 - 158,499,731) were issued and outstanding.

(c) Share purchase warrants

Each whole warrant entitles the holder to purchase one common share of the Company. A summary of warrants outstanding as at September 30, 2019 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2018	—	—
Issued	2,352,603	2.64
Exercised	(667,160)	2.62
Balance, January 7, 2019	1,685,443	2.65
Issued	24,481,901	2.65
Exercised	(1,685,443)	2.65
Balance, September 30, 2019	**24,481,901**	**2.65**

Exercise Price	Expiry Date	Number of Warrants
$4.02	February 12, 2020	2,593,283
$2.08	July 5, 2020	6,009,615
$3.62	September 27, 2021	825,000
$2.75	April 17, 2022	12,777,777
$1.39	August 21, 2022	902,514
$1.82	August 21, 2022	1,373,712

16. Equity Settled Share-based Transactions

The Company established an omnibus incentive plan (the "Plan") effective June 25, 2019, whereby the Company may grant stock options for the purchase of common shares of the Company and restricted share units to directors, officers, employees and key consultants to encourage ownership of the Company. The Company may also grant deferred share units to non-employee directors of the Company. Total equity settled share-based compensation outstanding is limited to 10% of the issued and outstanding shares of the Company.

The Board of Directors administer the Plan and has discretion as to the exercise price, number, vesting period and expiry date of each option award. The expiry date of stock options will be no later than 10 years from the date of grant. Unless otherwise determined by the Board, options vest over 3 years.

The following table summarizes the continuity of the Company's stock options transacted.

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018 (i)	14,460,564	$ 2.24
Granted	6,415,511	2.73
Exercised	(380,465)	1.01
Forfeited	(2,470,831)	2.62
Balance, September 30, 2019	**18,024,779**	**$ 2.39**

(i) Pursuant to the RTO (**Note 8(a)**), Sun Pharm options were converted into options of the Company at an exchange ratio of approximately 0.99.

The following table summarizes stock options outstanding at September 30, 2019:

	Options Outstanding		Options Exercisable	
Exercise Price	**Number**	**Weighted Average Remaining Contractual Life (Years)**	**Number**	**Weighted Average Remaining Contractual Life (Years)**
$0.50	971,439	2.71	949,419	2.71
$1.01	1,700,016	2.97	1,469,548	2.92
$1.59	1,637,419	3.56	1,212,239	3.55
$1.91	3,630,511	2.85	536,971	2.59
$2.64	298,381	3.89	298,381	3.89
$2.85	7,210,731	2.33	4,070,632	1.63
$3.13	380,000	2.51	75,834	2.51
$3.33	125,000	2.43	31,250	2.43
$3.55	300,000	2.39	75,000	2.39
$3.89	396,282	4.11	132,094	4.11
$4.16	550,000	2.34	175,000	2.34
$4.25	750,000	2.30	187,500	2.30
$4.45	75,000	2.35	75,000	2.35

16. Equity Settled Share-based Transactions (continued)

The fair value of stock options granted for the three and nine months ended September 30, 2019 was $nil and $10,327,636, respectively (September 30, 2018 – $517,018 and $5,404,173). Included in the options granted during the nine months ended September 30, 2019 are 650,000 options (September 30, 2018 – 301,180) granted to third-party consultants. During the three and nine months ended September 30, 2019, share-based compensation recognized through net loss was $2,004,544 and $6,225,613 (September 30, 2018 – $662,205 and $1,402,386), respectively.

The grant-date fair value was estimated using the Black-Scholes option pricing model under the following assumptions for the nine months ended:

	September 30, 2019	September 30, 2018
Expected life (in years)	1.88 - 4.00	2.75 - 3.5
Expected volatility	88% - 99%	95% - 98%
Risk-free interest rate	1.55% - 1.96%	1.81% - 2.16%
Expected dividend	$ —	$ —

As at September 30, 2019, the total compensation cost not yet recognized related to options granted is approximately $15,248,507 (September 30, 2018 – $5,396,500) and will be recognized over the remaining average vesting period of 1.73 years (September 30, 2018 – 2.02 years).

17. Financial Instruments

(a) Fair value of financial instruments

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3	Inputs for the asset or liability that are not based on observable market data.

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy and accounting classification:

September 30, 2019	Classification	Fair Value Level		Carrying Value		Fair Value
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	1	$	27,932,645	$	27,932,645
Accounts receivable	Amortized cost	2	$	12,155,566	$	12,155,566
Financial assets measured at fair value						
Short-term investments	Financial assets at FVTPL	1	$	207,480	$	207,480
Short-term investments	Financial assets at FVTOCI	1	$	205,618	$	205,618
Investments	Financial assets at FVTOCI	3	$	160,000	$	160,000
Financial liabilities not measured at fair value						
Accounts payable and accrued liabilities	Amortized cost	2	$	26,088,670	$	26,088,670
Due to related parties	Amortized cost	2	$	31,858	$	31,858
Loans and borrowings	Amortized cost	2	$	93,642,272	$	93,642,272
Convertible loans	Amortized cost	2	$	39,191,848	$	39,191,848
Financial liabilities measured at fair value						
Derivative liabilities	Financial liabilities at FVTPL	3	$	22,993	$	22,993

December 31, 2018	Classification	Fair Value Level		Carrying Value		Fair Value
Financial assets not measured at fair value						
Cash and cash equivalents	Amortized cost	1	$	16,966,803	$	16,966,803
Accounts receivable	Amortized cost	2	$	4,994,271	$	4,994,271
Financial assets measured at fair value						
Short-term investments	Financial assets at FVTPL	1	$	2,912,088	$	2,912,088
Investments	Financial assets at FVTOCI	3	$	559,988	$	559,988
Financial liabilities not measured at fair value						
Accounts payable and accrued liabilities	Amortized cost	2	$	13,200,699	$	13,200,699
Due to related parties	Amortized cost	2	$	923,229	$	923,229
Loans and borrowings	Amortized cost	2	$	2,170,946	$	2,170,946
Convertible loans	Amortized cost	2	$	43,485,222	$	43,485,222
Financial liabilities measured at fair value						
Derivative liabilities	Financial liabilities at FVTPL	3	$	17,769,562	$	17,769,562

17. Financial Instruments (continued)

(a) Fair value of financial instruments (continued)

Measurement of fair value:

The carrying value of cash, accounts receivable, accounts payable, accrued liabilities and due to related parties approximate their fair values as at September 30, 2019, and December 31, 2018 due to the relatively short maturity of these instruments.

The fair value of loans and borrowings for disclosure purposes is derived using discounted cash flow techniques, by calculating the present value of the expected cash flows discounted at market-related interest rate for similar loans ranging from 4.70% to 14.00% (December 31, 2018 – 6.00% to 12.95%).

The fair value of the embedded conversion options is determined using a combination of the Intrinsic Value Method and the Residual Method, such that the aggregate fair values of the straight debt portion of the convertible loans and the embedded conversion options equal the proceeds received from the loans upon issuance. The following significant unobservable inputs are used:

- Discount due to lack of marketability ranging from 7.80% to 37.03% (December 31, 2018 – 15.90% to 32.42%); and
- Assumption that there will be capital raises subsequent to issuance of convertible debt

Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting date while the debt component is accreted to the face value of the loans using the effective interest rate through periodic charges to finance expense over the term of the loans.

The following table shows the reconciliation from opening balances to closing balances for derivative liabilities:

Balance, December 31, 2018	$	17,769,562
Issue of loans and borrowings		—
Net change in fair value		2,648,690
Net change from refinancing		(4,577,356)
Settlement of derivative liabilities		(10,019,452)
Transfer to equity instruments		(5,798,451)
Balance, September 30, 2019	**$**	**22,993**

There have been no transfers between fair value levels during the periods.

(b) Financial instruments risk

(i) Credit risk:

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company does not have significant exposure to credit risk from its cash and accounts receivable balances. The risk exposure is limited to their carrying amounts at the balance sheet date. The risk is mitigated by holding cash with highly rated Canadian financial institutions. Accounts receivable primarily consist of trade accounts receivable to provincial cannabis wholesale bodies, other licensed producers, long-term customers and recoverable sales taxes which have low risk of default.

17. Financial Instruments (continued)

(b) Financial instruments risk (continued)

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. The Company's ability to continue as a going concern is dependent on the Company's ability to raise required funding through future capital raises and through debt financing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management is actively involved in the review, planning, and approval of significant expenditures and commitments.

As at September 30, 2019, the Company has the following contractual obligations:

	Total	Less Than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Accounts payable and accrued liabilities	$ 26,088,670	$ 26,088,670	$ —	$ —	$ —
Due to related parties	31,858	31,858	—	—	—
Loans and borrowings	94,350,095	1,110,629	53,052,176	7,099,625	33,087,665
Convertible loans	39,191,848	16,617,878	10,998,082	11,575,888	—
Lease obligations	6,086,827	142,659	1,315,624	2,564,102	2,064,442
Total	**$165,749,298**	**$ 43,991,694**	**$ 65,365,882**	**$ 21,239,615**	**$ 35,152,107**

As at December 31, 2018, the Company had the following contractual obligations:

	Total	Less Than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Accounts payable and accrued liabilities	$ 13,200,699	$ 13,200,699	$ —	$ —	$ —
Due to related parties	923,229	923,229	—	—	—
Loans and borrowings	2,170,946	51,788	119,158	—	2,000,000
Convertible loans	43,485,222	43,485,222	—	—	—
Total	**$ 59,780,096**	**$ 57,660,938**	**$ 119,158**	**$ —**	**$ 2,000,000**

(iii) Interest rate risk:

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. Cash bears interest at market rates. The Company's convertible debentures and loans and borrowings with fixed rates of interest do not expose the Company to interest rate risk. The Company's convertible debenture and loans and borrowings with an interest rate of Prime plus a margin will be affected by fluctuations in the Canadian prime interest rate, which can have an impact on the interest expense recognized.

(iv) Price risk:

Company's investments are susceptible to price risk arising from uncertainties about their future values. The fair value of short-term investments is based on quoted market prices which the shares of the investments can be exchanged for.

If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net loss and comprehensive loss of approximately $36,748 and $20,562, respectively (September 30, 2018 – $46,000 and $nil, respectively). See Note 9 for additional details regarding the fair value of investments and short-term investments.

18. Changes in Non-cash Operating Working Capital Items and Other

The changes in non-cash operating working capital items and other for the nine months ended 2019 and 2018 are as follows:

	September 30, 2019	September 30, 2018
Accounts receivable	$ (389,123)	$ (3,567,883)
Prepaid assets	(5,101,755)	(958,822)
Inventory	(20,888,931)	(2,864,534)
Biological assets	15,988,479	1,228,690
Accounts payable and accrued liabilities	(2,842,174)	848,337
Deferred revenue	30,202	11,500
Accrued interest - long-term loans	—	167,897
Accrued interest - related party loans	—	52,084
Total changes in non-cash operating working capital items and other	**$ (13,203,302)**	**$ (5,082,731)**

19. Segmented Information

Operating Segments	Cannabis	Propagation	All Other Segments (i)	Inter-segment (ii)	Total
Three months ended September 30, 2019					
Net revenue	$ 7,086,259	$ 5,269,050	$ 421,540	$ (775,157)	**$ 12,001,692**
Gross margin before fair value adjustment	3,623,261	1,902,579	310,026	(775,157)	**5,060,709**
Gross margin	16,228,931	2,248,317	310,026	(775,157)	**18,012,117**
Operating income (loss)	3,049,147	709,350	(4,739,464)	—	**(980,967)**
Net income (loss)	$ 291,753	$ (558,871)	$ (5,564,161)	$ —	**$ (5,831,279)**
Nine months ended September 30, 2019					
Net revenue	$ 18,437,092	$ 30,926,210	$ 1,093,378	$ (1,848,062)	**$ 48,608,618**
Gross margin before fair value adjustment	9,306,566	9,042,518	820,327	(1,848,062)	**17,321,349**
Gross margin	28,905,559	9,625,266	820,327	(1,848,062)	**37,503,090**
Operating (loss) income	(6,433,669)	4,708,702	(17,453,829)	—	**(19,178,796)**
Net (loss) loss	$ (10,232,501)	$ 243,851	$ (18,346,832)	$ —	**$ (28,335,482)**
Three months ended September 30, 2018 (iii)					
Net revenue	$ 3,581,705	$ —	$ —	$ —	**$ 3,581,705**
Gross margin before fair value adjustment	794,095	—	—	—	**794,095**
Gross margin	2,375,572	—	—	—	**2,375,572**
Operating loss	(2,352,414)	—	—	—	**(2,352,414)**
Net loss	$ (2,141,616)	$ —	$ —	$ —	**$ (2,141,616)**
Nine months ended September 30, 2018 (iii)					
Net revenue	$ 3,582,667	$ —	$ —	$ —	**$ 3,582,667**
Gross margin before fair value adjustment	743,764	—	—	—	**743,764**
Gross margin	3,175,487	—	—	—	**3,175,487**
Operating loss	(7,577,172)	—	—	—	**(7,577,172)**
Net loss	$ (7,637,275)	$ —	$ —	$ —	**$ (7,637,275)**

(i) All other segments primarily include the Company's corporate segment and Kombucha segment.
(ii) Inter-segment revenue relates to facility rent charged by the propagation segment to the cannabis segment.
(iii) Due to the accounting presentation resulting from the RTO (**Note 8(a)**), no comparable information is presented for the propagation segment for the three and nine months ended September 30, 2018.

19. Segmented Information (continued)

Operating Segments	Cannabis	Propagation	All Other Segments (i)	Total
As at September 30, 2019				
Total assets	$ 226,585,578	$ 139,573,288	$ 12,282,799	**$ 378,441,665**
Total liabilities	$ 136,883,032	$ 62,960,674	$ 19,948,868	**$ 219,792,574**
As at September 30, 2018 (ii)				
Total assets	$ 69,258,202	$ —	$ —	**$ 69,258,202**
Total liabilities	$ 25,520,863	$ —	$ —	**$ 25,520,863**

(i) All other segments primarily include the Company's corporate segment and Kombucha segment.
(ii) Due to the accounting presentation resulting from the RTO (Note 8(a)), no comparable information is presented for the propagation segment for the three and nine months ended September 30, 2018.

The Company has one propagation customer, that accounts for 31% and $16,265,700 of the Company's gross revenue for the nine months ended September 30, 2019. The Company expects to maintain this relationship with the customer.

20. Commitments

(a) In September 2019, the Company entered into an agreement with a supplier to purchase a minimum volume of cartridges annually for the next three years. Using these cartridges, the Company will sell cannabis extracts nationwide, pending anticipated changes to the Cannabis Act to permit the sale of cannabis extracts for vaporization. The total commitment under this agreement is $5,011,500.

(b) The Company may be subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Company, individually or in aggregate, will not have a material adverse impact on the Company's financial position, results of operations, or cash flows, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. To date, there are no claims or suits outstanding against the Company.

21. Subsequent Events

The following events have occurred subsequent to September 30, 2019:

(a) In October 2019, the Company announced that it would be offering rights (the "Rights Offering") to holders of its common shares at the close of business on October 31, 2019. The Rights Offering is intended to raise up to $20,800,000 assuming full uptake. Insiders of the Company have committed to acquire 30% of the common shares available under the Rights Offering for a total of approximately $6,200,000, representing strong participation. The remaining common shares are available for all other shareholders.

Pursuant to the Rights Offering, each holder of common shares will receive one transferable right (a "Right") for each common share held. One and a half (1.5) Rights will entitle a holder to purchase one (1) common share at a price of $0.15 (the "Subscription Price").

A maximum of 139,086,624 common shares will be issued pursuant to the Rights Offering, representing 66.6% of the currently issued and outstanding Common Shares. The Rights Offering will be open to holders of common shares who are residents in Canada. No fractional common shares will be issued.

(b) In October 2019, the insurers agreed to an additional amount of $442,995 of proceeds relating to the fire (Note 6). This amount has been recorded as a receivable as at September 30, 2019 (Note 3).