ZENABIS GLOBAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2019

Management's Discussion and Analysis of Financial Results of Operations for the Three and Nine Months Ended September 30, 2019

This Management's Discussion and Analysis ("MD&A") is prepared as of November 14, 2019 and reports on the operating results and financial condition of Zenabis Global Inc. (formerly Bevo Agro Inc.) ("Zenabis" or the "Company") for the three and nine months ended September 30, 2019. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and 2018, including the related notes thereto (the "Condensed Consolidated Interim Financial Statements"). The Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") of International Financial Reporting Standards ("IFRS").

All dollar amounts referred to in this MD&A are expressed in Canadian dollars except where indicated otherwise.

The Company's most recent annual information form and other documents and information have been filed with Canadian securities regulators on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its expansion plans in North America, its receipt of various licenses from Health Canada, the adequacy of its financial resources, its future economic performance and the Company's ability to become a leader in the field of cannabis. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the "risk factors" contained in the Company's short-form prospectus dated April 10, 2019 and filed on SEDAR, all of which are incorporated by reference herein. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

CAUTIONARY STATEMENTS REGARDING CERTAIN PERFORMANCE MEASURES

This MD&A contains certain financial performance measures that are not recognized or defined under IFRS (termed "Non-GAAP Measures"). As a result, this data may not be comparable to data presented by other licensed producers and cannabis companies. For an explanation and reconciliation of these measures to related comparable financial information presented in the consolidated financial statements prepared in accordance with IFRS, refer to the Non-GAAP Financial Measures section below. The Company believes that these Non-GAAP Measures are useful indicators of operating performance and are used by management to assess the financial and operational performance of the Company. These Non-GAAP Measures include, but are not limited to, the following:

- Cost of cultivation
- Grams of cannabis sold
- Grams of internally produced cannabis sold
- Net revenue per gram of cannabis sold
- Cost of goods sold per gram of cannabis sold
- Cost to internally produce a gram of cannabis sold
- Adjusted EBITDA

Non-GAAP Measures should be considered together with other data prepared in accordance with IFRS to enable investors to evaluate the Company's operating results, underlying performance and prospects in a manner similar to the Company's management. Accordingly, these Non-GAAP Measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

BUSINESS OVERVIEW

Zenabis Global Inc. ("Zenabis" or the "Company") was formed on January 8, 2019, by way of a three-cornered amalgamation between Bevo Agro Inc. (a Canadian company previously listed on the TSX Venture Exchange under the symbol "BVO") ("Bevo") and Sun Pharm Investments Ltd. ("Sun Pharm"). Under the provisions of the Cannabis Act in Canada, the Company is primarily focused on the production and sale of medical and adult-use recreational cannabis and value add cannabis products (the "Cannabis" segment), but also operates in two other segments: "Propagation" and "Other".

The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "ZENA".

Cannabis

Zenabis is a licensed producer of cannabis whose current focus is:

- Converting the Zenabis Langley Site A facility from commercial propagation to cannabis cultivation;
- Developing the extraction, analytical testing and research and development capabilities of Zenabis Delta;
- Expanding the processing capacity of Zenabis Stellarton; and
- Operating three cannabis growing and processing facilities (Zenabis Langley; Zenabis Atholville and Zenabis Stellarton).

Zenabis' vision is to become one of the largest and most efficient licensed producers of medical and adult-use recreational cannabis, with a variety of value-add cannabis products. Zenabis believes that one of its key differentiators is its growing ability, which allows Zenabis to deliver cultivation results that have consistently exceeded design capacity estimates, subsequent to initial ramp-up challenges being addressed. During the three months ended September 30, 2019, the total amount harvested at Zenabis Atholville exceeded the revised design capacity of the flower rooms by 25.7%.

Zenabis' marketing strategy is built on offering consumers high-quality cannabis products combined with tailor-made brands that cater to specific medical and adult-use recreational customer bases. In August 2019, Zenabis launched Re-Up, Zenabis' low-cost, high-value cannabis brand. Under the Re-Up brand, Zenabis provides a variety of cannabis products to consumers at prices comparable to the illicit market. In addition, Zenabis expects to drive long-term growth through innovation and technology. The Company plans to implement its strategy via additional investment in research and development as well as partnering with other leading organizations and businesses within the cannabis industry.

Upon the upcoming completion of Zenabis Langley and Zenabis Delta, Zenabis will be a large-scale, vertically-integrated low-cost cannabis producer with experience in cultivation and extraction, a research and development and innovation focus, and a portfolio of products and brands to drive long-term growth.

Propagation

Zenabis operates a Propagation business through a wholly-owned subsidiary Bevo Farms Ltd. ("Bevo Farms") in the Lower Mainland of British Columbia, whose main activity is the propagation of vegetable plants (such as tomatoes, peppers and cucumbers) and the cultivation of other plants (such as bedding plants, flowers and poinsettias). Bevo Farms provides greenhouses, field farms, nurseries and wholesalers across the continent with healthy, vigorous and pest and disease-free plants. Since incorporation in 1989, Bevo Farms has expanded to become one of the largest suppliers of propagated plants in North America. The management team of Bevo Farms has more than 100 years of cumulative growing experience that brings a wealth of knowledge to drive continual improvement in Zenabis' cannabis cultivation operations.

Other

Zenabis intends to operate in other value-add cannabis product segments such as edibles and beverages. The Company's first entry into the beverage segment was through the acquisition of a majority stake in Hillsboro Corporation Inc. (doing business as "True Büch"). True Büch currently produces cultured tea beverages (kombucha) and has sales in Alberta, British Columbia, Saskatchewan and Manitoba. Zenabis intends to work with True Büch to create CBD-infused beverages and expand into markets across Canada. Additionally, the Other segment includes Zenabis' head office, located in Vancouver, which provides financial, administrative and other support functions to the Company's Cannabis and Propagation businesses.

Conversion/Construction of Facilities

The Company's focus during the third quarter was to convert and expand its cannabis facilities and raise funds. During the quarter, the Company raised $40,000,000 of non-dilutive capital via pre-paid supply agreements with High Park Holdings Ltd. ("High Park") and Starseed Medicinal Inc. ("Starseed") and raised $23,538,000 in net proceeds from additional senior secured debt.

Highlights related to construction from the quarter include:

- Substantial completion of Zenabis Atholville; and
- Substantial completion of Zenabis Langley Site A - Part 2A.

Each quarter this year our annual production capacity more than doubled. The Company increased its licensed annual production capacity of dried cannabis to 57,000 kilograms ("kg") as at September 30, 2019. This licensed annual production capacity compares to 23,100 kg as at June 30, 2019, 10,200 kg as at March 31, 2019 and approximately 5,000 kg as at December 31, 2018.

Highlights related to licensing subsequent to the quarter ended September 30, 2019 include:

- Submission of a license amendment for Zenabis Langley Site A - Part 2A (39,400 kg of annual production capacity); and
- Submission of a sales license application for Zenabis Stellarton that will increase the Company's fulfillment capacity.

The Company increased its annual production capacity across all facilities to 57,000 kg as of September 30, 2019. On September 27, 2019, the Company submitted a license amendment to Health Canada for Zenabis Langley for additional growing areas which will increase expected growing capacity by 39,400 kg of dried cannabis from 9,900 kg as at September 30, 2019, this amendment is pending approval of Health Canada. The table below summarizes the Company's licensed annual production capacity:

	Licensed Annual Production Capacity (kg)				
	Zenabis Atholville	Zenabis Langley	Zenabis Stellarton	Zenabis Delta	Total
Q2 | June 30, 2019	**22,300**	**—**	**800**	**—**	**23,100**
Receipt of Zenabis Atholville Phase 2C - Part 1 License Amendment	9,800	—	—	—	**9,800**
Receipt of Zenabis Langley Site A - Part 1 Cultivation License	—	9,900	—	—	**9,900**
Zenabis Atholville Capacity Amendment	11,200 (i)	—	—	—	**11,200**
Receipt of Zenabis Atholville Phase 2C - Part 2 License Amendment	3,000	—	—	—	**3,000**
Q3 | September 30, 2019	**46,300**	**9,900**	**800**	**—**	**57,000**

(i) Net based on 22,300 kg (Zenabis Atholville licensed annual production capacity as at June 30, 2019) plus 9,800 kg (licensed annual production capacity from the Phase 2C - Part 1 license amendment) multiplied by 1.35 (1 + 35%, the outperformance from the second quarter of 2019 as described Zenabis' MD&A for the three months ending June 30, 2019).

Given the timeline lag from cultivation (post-licensing) to a saleable product is approximately 90-165 days (60-75 days for cultivation and 30-90 days for post-harvest activities), Zenabis did not recognize any sales during the quarter related to production capacity that was licensed between June 30, 2019 and September 30, 2019. In Q4 2019, Zenabis expects to recognize revenues from Zenabis Atholville Phase 2B and Zenabis Atholville Phase 2C - Part 1. First revenue recognition from product cultivated at Zenabis Langley Site A - Phase 1 is expected to be in late Q4 2019 or early Q1 2020.

The table below outlines the current licensed annual production capacity (as of the date of this MD&A) and design capacity, as well as the estimated expenditures to achieve design capacity:

Operational and Under Construction		Facility Size (square feet)	Licensed Capacity (kg)	Total Design Capacity (kg) (i)	Estimated Expenditures to Complete (ii)	Target Construction Completion Date
Zenabis Langley	**Site A**	450,000	9,900	96,100	$ 11,067,000	February 2020
Zenabis Atholville		380,000	46,300	46,300	972,000	Completed
Zenabis Stellarton		255,000	800	800	—	Completed
Zenabis Delta		25,000	N/A	N/A	TBD	TBD
Total		**1,110,000**	**57,000**	**143,200**	**$ 12,039,000**	

(i) The forward-looking estimates of future maximum production capacity at Zenabis' four facilities are based on the material assumption that the ratio of dried cannabis cultivated per square foot of bench space at each facility will be consistent with the output, on a per crop, per square foot of bench space basis, that the Company has historically achieved at Zenabis Atholville through September 2018 multiplied by 1.35, the outperformance at Zenabis Atholville for the three months ending June 30, 2019.

(ii) Estimated expenditures to complete are as at September 30, 2019. Zenabis declared that it had reached substantial completion at Zenabis Atholville on July 29, 2019. Zenabis still had a limited amount of expenditures remaining at this facility as at September 30, 2019 related to final completion of Zenabis Atholville.

Zenabis Atholville is currently fully licensed to produce cannabis from a 380,000 square foot production area, and now has an annual cultivation capacity of 46,300 kg. Construction of this facility was completed on time and meaningfully under budget. During the three months ended September 30, 2019, the Company capitalized $8,735,256 in expansion costs for Zenabis Atholville.

The first phase of Zenabis Langley (Zenabis Langley – Part 1) is licensed and operational. During the three months ended September 30, 2019, Zenabis reached substantial completion of Part 2A and submitted a cultivation license amendment for this phase. Zenabis remains focused on converting the remaining portion of Zenabis Langley but revised its conversion plan for these phases to split Zenabis Langley – Part 2B into two phases (Zenabis Langley – Part 2B and Zenabis Langley – Part 2C). Zenabis made this revision for the following reasons:

- Focus on Cashflow Generation: By revising the timeline for the submission of Zenabis Langley's final two flower rooms (Zenabis Langley – Part 2B and Part 2C), Zenabis expects to be able to reduce cashflow outflows for capital expenditure while working to generate positive cashflow from operations.
- Staggered Operational Ramp-Up: The staggered operational ramp-up at Zenabis Langley is expected to reduce the inherent issues that come with ramping up a facility of this size. As is illustrated by the packaging discussion below (regarding ramp-up at Zenabis Atholville), ramp-up challenges are known in this industry. While Zenabis is focused on ramping up its facilities in a manner where any commercially possible action is taken to mitigate risk, Zenabis believes that reducing ramp-up risk by implementing a staggered ramp-up at Zenabis Langley is in the best interest of the Company.
- Defer Budget Overages: Zenabis recently identified that it expects to spend the entirety of its estimated budget amount remaining at Zenabis Langley (as forecasted in Zenabis' MD&A for the period ended June 30, 2019 at $13,700,000) upon completion of Part 2B. As a result, Zenabis expects capital expenditure amounts remaining to spend relating to Part 2C to be budget overages. This overage was driven by increases in equipment costs relating to HVAC equipment and automated tray tables. Zenabis has made the decision to defer this overage expenditure to a time when Zenabis expects it can be funded by operating cashflow as opposed to cash on hand.

During the three-months ended September 30, 2019, the Company capitalized $10,478,837 in ongoing conversion costs for Zenabis Langley.

As of the date of this MD&A, the first crop from Zenabis Langley is nearing the point of harvest, and initial indications are that the yield will be below forecast, which was based on our stated design capacity. Historically, all of Zenabis' facilities, and nearly all individual rooms, have experienced a varying degree of initial ramp-up challenges. Consistent with past experience, Zenabis remains confident that design capacity will be achieved after such ramp-up challenges have been addressed. In order to achieve design capacity, the Company intends to modify and improve growing processes and make additional capital investments in the Zenabis Langley facility beyond those already incurred. The Company intends to fund any incremental capital investment required to achieve ramp-up of the Zenabis Langley facility from the proceeds of the Company's Rights Offering, which will close November 27, 2019. Although the amount of the required incremental investment is not currently known, it is not currently anticipated to exceed $3 million. This represents a change in the planned use of funds as disclosed in the Rights Offering Circular, which stated that the proceeds would be used solely for working capital.

The first phase of construction at Zenabis Stellarton is complete and the initial operational area was licensed in early March 2019. Zenabis has limited cultivation at Zenabis Stellarton (800 kg of licensed annual production capacity). Given the cultivation capacity available at Zenabis Atholville and Zenabis Langley, the Company intends to utilize the existing licensed space at Zenabis Stellarton as a processing, packaging and fulfillment centre, as well as a manufacturing facility for cannabis 2.0 products. Zenabis no longer intends to build out the remaining area at Zenabis Stellarton for cultivation purposes, and instead believes that this additional facility space can best be utilized for value-add product manufacturing and processing of cannabis.

Zenabis is in the process of converting Zenabis Delta to an extraction, research and development and analytical testing lab facility. In order to ensure the Company has extraction capacity near each of its key cultivation facilities (Zenabis Atholville and Zenabis Langley), Zenabis is also installing new extraction capacity at Zenabis Atholville.

Cannabis Production and Sales

The Cannabis operations' increase in harvest yields was highlighted by Zenabis outperforming the original design capacity of its licensed production facilities by an average of 67.8% and 46.3% during the three and nine months ended September 30, 2019. This was accomplished through the transfer of knowledge and expertise gained from the successful combination of Sun Pharm and Bevo Farms, as well as leveraging alternative growing techniques with the aim of maximizing yield per square foot per day.

The Company saw cannabis net revenue decrease to $7,086,259 during the three months ended September 30, 2019, as compared to $7,251,860 for the prior quarter. This decrease was primarily due to new packaging equipment installed at Zenabis Atholville in August 2019, which did not achieve its expected output for September 2019, and due to previously disclosed wholesale price decreases to provincial counterparties that were initiated at the outset of the third quarter of 2019. As a result of issues with new dried flower packaging equipment in Zenabis Atholville, Zenabis was not able to package, ship and sell all of the product cultivated in August and September destined for provincial counterparties, which prevented the Company from achieving expected revenues. Product that was not shipped in the third quarter of 2019 as a result of the packaging delays is available for shipment in the fourth quarter of 2019. As a result, packaging ramp-up issues have resulted in delays in revenues, but not an overall loss of revenue potential. With focused troubleshooting, Zenabis resolved this operational issue, such that there should be no further delays in the Company's ability to package, ship and sell all of the product cultivated at Zenabis Atholville. Over the first 10 days of November, the primary packaging equipment at Zenabis Atholville packaged an average 18,099 units per day. This is within 60% of the original target capacity for this system of 30,000 units per day.

During the three months ended September 30, 2019, actual harvest weight more than doubled in comparison to the prior quarter. Given the packaging issues noted above, the quantity of cannabis finished goods packaged and on hand did not increase by a comparable amount, while the Company had $19,940,539 in work-in-process. As such, saleable product had not increased in proportion to the increased harvested weight.

The table below outlines Zenabis' gross margin before fair value adjustments year to date:

	Three months ended Q1 | 19	Three months ended Q2 | 19	Three months ended Q3 | 19	Nine months ended Q3 | 19
Net Revenue	$ 4,098,973	$ 7,251,860	$ 7,086,259	$ 18,437,092
Cannabis Gross Margin Before Fair Value Adjustment	$ 2,089,813	$ 3,593,492	$ 3,623,261	$ 9,306,566
Cannabis Gross Margin Before Fair Value Adjustment (%)	51	50	51	50

The table below outlines Zenabis' cannabis production year to date:

	Three months ended Q1 | 19	Three months ended Q2 | 19	Three months ended Q3 | 19	Nine months ended Q3 | 19
Actual Harvest Weight (kg)	1,472	2,473	5,239	9,184
Revised Design Capacity Harvest Weight (kg) **(a)** (i)	1,649	2,407	4,169	8,225
Performance (kg) **(b)**	(177)	66	1,070	959
Performance Ratio (%) **(b / a)**	(10.7)	2.7	25.7	11.7

(i) The Revised Design Capacity Harvest Weight is based on the "design capacity" yield that Zenabis has disclosed to date. This figure was derived by converting the actual square footage of flower room space and the forecast canopy for each specific flower room into a kilograms per room per day figure based on Zenabis' historical yield data at the Zenabis Atholville facility based on the yield performance in the three months ending June 2019 for revised design capacity. The Revised Design Capacity Harvest Weight in the table above is the harvest weight that would have resulted if the Design Capacity Yield Per Day for a room was multiplied by the Effective Flower Room Equivalent Days, as defined under "Performance Ratio". Zenabis has revised its design capacity at Zenabis Atholville upwards by 35% (equal to Zenabis Atholville's Performance Ratio for the three months ended June 30, 2019) from 34,300 kg per annum to 46,300 kg per annum. Zenabis no longer reports outperformance relative to original design capacity (the kg/day figure utilized to derive the 34,300 kg original design capacity for Zenabis Atholville). In September 2019, Zenabis completed 10 harvests at Zenabis Atholville. The average Performance Ratio for these harvests was 21.8% relative to the revised design capacity. In September 2019, Zenabis did not complete any harvests at Zenabis Stellarton or Zenabis Langley.

Propagation

The Propagation operations achieved net revenues of $4,493,893 and a gross margin before fair value adjustment of $1,127,422 during the three months ended September 30, 2019. Results from Propagation continue to be positive, with no interruption to existing Propagation customers during the conversion of greenhouses from vegetable and flower propagation to cannabis cultivation. The Company's Propagation operating results are seasonal, driven by the varying levels of activity in the growing cycles of the vegetable greenhouse crops, the bedding plant and flower seasons, as well as the timing of customer orders, the varying cycles of the greenhouse vegetable industry and the seasonality of the customer's planting season. Historically the timing of revenue for the Propagation business is earned based on the following schedule:

Quarter Ended	March 31	June 30	September 30	December 31	Total
Proportion of Annual Revenue	20%	50%	15%	15%	**100%**

Commercial Agreements

(a) $30,000,000 supply agreement with High Park Holdings Ltd. ("High Park")

In July 2019, the Company entered into a prepaid supply agreement with High Park, a wholly owned subsidiary of Tilray Inc., pursuant to which High Park advanced $30,000,000 to the Company in July 2019 in return for a future supply of dried cannabis. Under the terms of the agreement, the Company will deliver a monthly quantity of dried cannabis to High Park commencing in the final quarter of 2019. The Company expects the prepaid amount to be retired within 12 months. In order to secure its delivery obligations, the Company has provided High Park with security over certain of its assets. The Company has commenced supply to High Park under this agreement.

(b) $10,000,000 supply agreement with Starseed Medicinal Inc. ("Starseed")

In July 2019, the Company entered into a prepaid supply agreement with Starseed pursuant to which Starseed advanced in September 2019, $10,000,000 to the Company in return for supply of dried cannabis flower and trim. Under the terms of the agreement, the Company will deliver a monthly quantity of dried cannabis commencing in the final quarter of 2019. The Company expects the prepaid amount to be retired within 18 to 24 months.

(c) Agreement with a beverage partner

On August 26, 2019, the Company entered into an agreement with a Canadian beverage technology company. Zenabis plans to utilize their technology in the production of cannabis-infused beverages and other cannabis-infused products. Under the terms of the agreement, Zenabis will have access to the beverage inputs to produce a wide range of THC and CBD-infused beverages, as permitted by applicable laws and regulations. The beverage partner will produce the beverage inputs using cannabis supplied by Zenabis. As one of many potential uses for the beverage inputs, Zenabis intends to produce a line of CBD-infused kombucha products together with True Büch.

(d) Distribution agreement with PAX Labs (Canada), Inc. ("PAX")

In September 2019, the Company entered into an agreement with PAX to purchase a minimum volume of cartridges annually for the next three years. Pending the changes to the Cannabis Act coming into effect later this year, this agreement will enable Zenabis to sell cannabis extracts in the form of PAX Era Pods nationwide. This agreement makes Zenabis the fifth licensed producer to launch PAX Era Pods to date.

(e) Cultivation agreement with Tantalus Labs Ltd. ("Tantalus Labs")

On October 22, 2019, the Company entered into a cultivation agreement with Tantalus Labs pursuant to which the Company will grow and harvest cannabis plants from clones provided by Tantalus Labs. The plants will be grown and harvested at Zenabis Langley. Tantalus Labs will be responsible for drying, trimming and packaging the harvested cannabis at its own licensed facilities. The initial term of the cultivation agreement will be two years with the option to renew thereafter for successive two-year terms. In 2020 and 2021, Zenabis expects to grow cannabis plants for Tantalus Labs that would yield thousands of kilograms of dried cannabis.

Acquisitions

(a) Acquisition of Bevo Agro Inc. ("Bevo")

On January 8, 2019, Bevo acquired all of the outstanding shares of Sun Pharm by way of a three-cornered amalgamation to form Zenabis Global Inc. (the "Transaction"). In accordance with IFRS 3 – Business Combinations, the Transaction was a reverse takeover of an operating company, Bevo, and thus management had determined that the definition of a business under the standard had been met (the "RTO"). 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.

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

On January 22, 2019, Zenabis completed the acquisition of Topgro and its wholly-owned subsidiary, Topgro Greenhouses Ltd., 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).

The Topgro Acquisition included 10.4 acres of greenhouse space on 50 acres of land in Aldergrove, British Columbia, which Zenabis intends to use for the propagation of vegetable plants and other plants. This facility ensures continuity for existing Propagation customers while the initial 10 acres of the Zenabis Langley facility is converted for cannabis cultivation.

(c) Acquisition of True Büch

On January 22, 2019, Zenabis completed the acquisition of 51% of True Büch through the issuance of 455,947 common shares of the Company. True Büch is a beverage company with expertise in the creation of cultured tea beverages, widely known as kombucha. True Büch kombucha is raw, unpasteurized, gluten free and non-GMO and comes in over 11 distinct flavours.

When permitted under the Cannabis Act and when the infrastructure is in place, Zenabis and True Büch intend to draw upon each other's expertise to infuse cannabis into True Büch beverages, creating a cultured tea beverage infused with CBD.

In addition to the equity consideration, True Büch shareholders are entitled to cash earn-out payments based on the future financial results of True Büch exceeding the forecast on which the closing payment was based. Zenabis also has the option, on or after the second anniversary of the date of the acquisition, 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.

Financing Activities

(a) 2018 secured convertible note financings

In October 2018, Sun Pharm raised $27,500,000 in gross proceeds via the issuance of secured convertible notes (the "Secured Convertible Notes"), with an original maturity date of October 2019, and a conversion rate of $2.65 per Zenabis common share. After the conversions in Q1 and Q3 of 2019 and the amendment in July 2019, the principal balance of the Secured Convertible Notes as at September 30, 2019 was $17,404,959 and matured in June 2020. As at September 30, 2019, the principal balance was convertible into common shares at $1.55 per share and bears annual interest of 11%.

(b) Senior convertible debt financing

In October 2018, Sun Pharm raised $4,150,000 in total proceeds via the issuance of a senior secured debenture ("Senior Convertible Debt"), which originally matured in October 2019, and was convertible into common shares at $4.04 per common share. In July and August 2019, the Company amended the Senior Convertible Debt, amending the maturity date to June 2020, and extinguishing the conversion feature of this debenture (see Senior debt financing below for more details).

(c) Credit facilities

In January 2019, Bevo Farms entered into a credit agreement for an aggregate of $51,000,000 in credit facilities (the "Facilities") with a major Canadian chartered bank. The Facilities are comprised of a $46,700,000 term loan, a $2,000,000 revolving line of credit, a $2,000,000 hedging facility and a $300,000 credit card. Between January and May 2019, Zenabis drew the full $46,700,000 term loan for the purpose of refinancing existing debt, acquiring Topgro and capital expenditures. The revolving line of credit, hedging facility and credit card are all undrawn as at the date of the MD&A. The Facilities mature in January 2022.

(d) Senior debt financing

In February 2019, the Company completed a secured note financing ("Senior Non-Convertible Debt"), providing total proceeds of $20,850,000. In connection with this financing the Company issued the lender 2,593,283 warrants, each entitling the lender to acquire one common share for a period of one year from February 2019, at a price of $4.02 per common share.

(d) Senior debt financing (continued)

In July 2019, the Company amended the terms of its $20,850,000 Senior Non-Convertible Debt and $4,150,000 Senior Convertible Debt (**Note 13(e)**) (collectively, the "Original Senior Debt") with an aggregate principal debt amount of $25,000,000. The amendment included an adjustment to the maturity date (delayed from October 2019 to June 2020) and a substantial reduction in the prepayment penalty. In connection with the amendment, the Company issued the lender 6,009,615 common share purchase warrants, each entitling the lender to acquire one common share of the Company at any time until July 5, 2020, at an exercise price of $2.08 per common 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 further amended the Original Senior Debt when it secured an incremental $25,000,000 in secured senior debt financing from a third party ("New Senior Debt"). To effect the issuance of the New Senior Debt, the Company upsized its existing senior debt from $25,000,000 to $50,000,000 (collectively, the "Senior Debt", with the original $25,000,000 referred to as the Original Senior Debt and the incremental $25,000,000 received in August 2019 referred to as the New Senior Debt).

Both the New Senior Debt and Original Senior Debt mature in June 2020. The New Senior Debt bears annual interest of 14% and the Original Senior Debt bears annual interest at the greater of Prime + 9% and 12.95%.

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

(e) Unsecured convertible debenture financing

In March 2019, the Company issued 15,000 unsecured convertible debenture units at a price of $1,000 per unit for gross proceeds of $15,000,000. The debentures have a conversion price of $3.62 per common share. Purchasers of the debentures also received, for no additional consideration, 55 warrants of the Company for every unit purchased. Each warrant is currently exercisable to purchase one common share at an exercise price of $3.62 per share, for a period of 30 months from the date of issue.

The Company subsequently entered into an investment agreement with counterparties who agreed to purchase an additional 60,000 unsecured convertible debenture units (the "Additional Offering") at a price of $1,000 per unit for gross proceeds of $60,000,000. The Additional Offering will be issuable in tranches at the option of the Company. 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 during the 5 trading-day period immediately preceding their date of issue. Purchasers of the additional debentures receive, for no additional consideration, that number of warrants that is equal to 20% of the number of Common Shares issuable upon conversion of the additional debentures at an exercise price that is equal to a 15% premium to the applicable conversion price.

All of the above unsecured convertible debentures have a maturity date of 30 months from the date of issue and will bear interest (payable in cash only) from their date of issue at 6.0% per annum. Convertible debentures will be convertible, at the option of the holder, into common shares at any time prior to the maturity date.

To the extent the Company issues any additional tranches of unsecured convertible debentures, the Company expects that the net proceeds would be utilized to fund working capital.

(f) Capital raise

On April 9, 2019, Zenabis filed a short form base shelf prospectus which allows the Company to raise up to $100,000,000 during a 25-month period through the issuance of common shares, preferred shares, debt securities, warrants to purchase shares or debt securities, or any combination thereof, of the Company.

(f) Capital raise (continued)

In April 2019, Zenabis completed a fully-marketed, "best efforts" offering (the "Offering") of 12,777,777 units of the Company (each, a "Unit"), which includes the exercise of the agents' over-allotment option in full, at a price of $2.25 per Unit, for aggregate gross proceeds to the Company of approximately $28,750,000, before deducting commissions and expenses of the Offering. Each Unit consisted of one common share of the Company (each, a "Common Share") and one common share purchase warrant to purchase a Common Share at a price of $2.75 for a period of 36 months from the date of closing.

After the issuance of the above noted Units, the Company retained the ability, under the short form base shelf prospectus, to raise additional financing of approximately $71,250,000 through the issuance of common shares, preferred shares, debt securities, warrants to purchase shares or debt securities, or any combination thereof, of the Company if it is deemed to be required.

(g) Rights offering

In October 2019, Zenabis 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 $20.8 million, assuming all rights are exercised. Insiders of the Company have committed to exercise rights representing 30% of the common shares available under the Rights Offering, for a total of approximately $6.2 million, representing strong insider support.

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. The completion of the Rights Offering will result in an adjustment to the exercise or conversion price of convertible securities and certain warrants previously issued by the Company, in accordance with the terms of those convertible securities.

The outcome of Rights Offering will be determined on November 27, 2019, upon expiry of any unexercised Rights.

Refer to the "Liquidity and Capital Resources" section for further discussion and analysis on financing activities.

SELECTED FINANCIAL INFORMATION

The following selected financial data with respect to the Company's financial condition and results of operations have been derived from the Condensed Consolidated Interim Financial Statements of the Company for the three months ended September 30, 2019 and 2018, prepared in accordance with IFRS. The selected financial data should be read in conjunction with the Condensed Consolidated Interim Financial Statements and the notes thereto.

Financial Results	**Q3 | 2019**	**Q2 | 2019**	**% Change**	**Q3 | 2018** (iii,v)
Gross revenue	$ 13,423,175	$ 26,470,481	**(49)**	$ 3,663,817
Net revenue (i)	12,001,692	25,049,709	**(52)**	3,581,705
Gross margin before fair value adjustment	5,060,709	8,383,766	**(40)**	794,095
Operating expenses	18,993,084	18,925,521	**—**	4,727,986
Operating loss	(980,967)	(7,902,956)	**N/A**	(2,352,414)
Other (expense) income	(5,018,699)	(9,048,313)	**(45)**	210,798
Net loss	(5,831,279)	(18,498,388)	**(68)**	(2,141,616)
Adjusted EBITDA (iv)	(9,201,192)	(6,296,335)	**46**	(2,971,878)
Loss per share, basic and diluted	$ (0.03)	$ (0.09)	**(69)**	$ (0.01)
Balance Sheet				
Total assets	$ 378,441,665	$ 329,244,361	**15**	$ 69,258,202
Total non-current liabilities	88,792,545	86,244,690	**3**	3,613,710
Property, plant and equipment	$ 220,218,639	$ 201,363,882	**9**	$ 50,668,459
Operational Results - Cannabis				
Grams of cannabis sold (ii)	1,491,729	1,720,262	**(13)**	N/A
Grams of internally produced cannabis sold (ii)	1,240,916	1,387,741	**(11)**	N/A
Net revenue per gram of cannabis sold(iv)	$ 4.75	$ 4.22	**13**	N/A
Net revenue per gram of cannabis flower, oil and pre-roll sold (iv)	5.12	4.97	**3**	N/A
Net revenue per gram of cannabis trim sold (iv)	2.25	2.25	**—**	N/A
Cost of goods sold per gram of cannabis sold (iv)	2.32	2.13	**9**	N/A
Cost to internally produce a gram of cannabis sold (iv)	$ 1.14	$ 0.78	**46**	N/A

(i) Net revenue represents our total gross revenue exclusive of excise taxes levied by the Canada Revenue Agency ("CRA") on the sale of medical and recreational cannabis products effective October 17, 2018.
(ii) Includes oil sales. Oil sales are converted at a standard rate of 9 milliliters per gram for recreational oil.
(iii) Due to the accounting presentation resulting from the RTO, no comparable information is presented for the Propagation and Other segments. For prior period information please refer to the financial statements previously filed by Bevo Agro Inc. on SEDAR.
(iv) Refer to the "Non-GAAP Financial Measures" section for reconciliation to the IFRS equivalent.
(v) No meaningful comparison can be drawn between 2019 periods and corresponding periods in 2018 due to the fundamental change in the nature of the Cannabis operations (moving from limited medical production to large scale commercial production for adult use recreational and medical markets).

Adjusted EBITDA has continued to show a loss primarily due to the operational costs incurred by the Company to build-out its operational capacity to achieve the planned design capacity of its various facilities.

Net revenue per gram of cannabis sold increased by 13% to $4.75 from $4.22 in Q2 2019, this increase is related to the sales mix discussed below.

Internal production cost of dried cannabis sold is $1.14 per gram, compared to $0.78 per gram in Q2 2019, the cost per gram is impacted as a result of the sales mix between dried flower and dried trim, where a gram of dried flower is assigned a higher cost than a gram of dried trim and lower sales of bulk trim in the quarter resulted in a higher internal production cost per gram of dried cannabis sold.

Cannabis

Net Revenue				
Three months ended	Q3 2019:	$ 7,086,259		The increase is due to the Company operating in the larger adult use recreational market in 2019, whereas the majority of revenues from Q3 2018 related to business to business sales.
	Q3 2018:	$ 3,581,705		
	Change:	**$ 3,504,554**	**98%**	
Nine months ended	Q3 2019:	$ 18,437,092		The increase is due to the Company operating in the larger adult use recreational market in 2019. The majority of revenues from 2018 related to business to business sales that occurred in Q3 2018.
	Q3 2018:	$ 3,582,667		
	Change:	**$ 14,854,425**	**415%**	
Cost of Sales				
Three months ended	Q3 2019:	$ (3,462,998)		The increase from Q3 2018 to Q3 2019 resulted from the increase in sales. Gross margin before fair value adjustment increased from 22% in Q3 2018 to 51% for the nine months ended Q3 2019.
	Q3 2018:	$ (2,787,610)		
	Change:	**$ (675,388)**	**24%**	
Nine months ended	Q3 2019:	$ (9,130,526)		All sales in 2018 were in Q3, thus the cost of sales only related to the one quarter compared to three quarters in 2019. Gross margin before fair value adjustment increased from 22% in 2018 to 50% for the nine months ended Q3 2019.
	Q3 2018:	$ (2,838,903)		
	Q3 2019:	**$ (6,291,623)**	**222%**	
Realized Fair Value Amounts Included in Inventory Sold				
Three months ended	Q3 2019:	$ (5,667,500)		The increase is a result of the overall increase in sales volumes, inventory sold in Q3 2019 being from internal production and a decrease of cost of cultivation.
	Q3 2018:	$ (748,576)		
	Change:	**$ (4,918,924)**	**657%**	
Nine months ended	Q3 2019:	$ (13,607,447)		The increase is due to the Company selling significantly more cannabis for the nine months ended Q3 2019 than in the comparative period, thus realizing higher fair value amounts on inventory sold.
	Q3 2018:	$ (748,576)		
	Change:	**$ (12,858,871)**	**1,718%**	
Unrealized Gain on Changes in Fair Value of Biological Assets				
Three months ended	Q3 2019:	$ 18,273,170		The increase relates to a significant increase in overall cannabis cultivation during Q3 2019, in comparison to Q3 2018. This primarily resulted from the increase in Licensed Annual Production Capacity at Zenabis Atholville and Zenabis Langley.
	Q3 2018:	$ 2,330,053		
	Change:	**$ 15,943,117**	**684%**	
Nine months ended	Q3 2019:	$ 33,206,440		The increase relates to a significant increase in cannabis cultivation as at September 30, 2019, in comparison to 2018. This primarily resulted from the increase in Licensed Annual Production Capacity at Zenabis Atholville and Zenabis Langley.
	Q3 2018:	$ 3,180,299		
	Change:	**$ 30,026,141**	**944%**	
Gross Margin				
Three months ended	Q3 2019:	$ 16,228,931		The increase is largely due to significantly higher sales volumes in Q3 2019 in comparison to Q3 2018, offset by proportionately higher cost of sales in the current year. Additionally, the increase is due to larger gains on changes in fair value of biological assets, offset by proportionately higher realized fair value amounts included in inventory sold.
	Q3 2018:	$ 2,375,572		
	Change:	**$ 13,853,359**	**583%**	
Nine months ended	Q3 2019:	$ 28,905,559		The increase is largely due to significantly higher sales volumes in Q3 2019 in comparison to Q3 2018, offset by proportionately higher cost of sales in the current year. Additionally, the increase is due to larger gains on changes in fair value of biological assets, offset by proportionately higher realized fair value amounts included in inventory sold.
	Q3 2018:	$ 3,175,487		
	Change:	**$ 25,730,072**	**810%**	
Salaries and Benefits				
Three months ended	Q3 2019:	$ (7,244,753)		The increase is due to the operational ramp-up leading to the Company employing an average of 529 personnel between July 1, 2019 and September 30, 2019, compared to 99 in the same period of 2018.
	Q3 2018:	$ (1,024,343)		
	Change:	**$ (6,220,410)**	**607%**	
Nine months ended	Q3 2019:	$ (16,497,055)		The increase is due to the operational ramp-up leading to the Company employing an average of 409 personnel between January 1, 2019 and September 30, 2019, compared to 69 in the same period of 2018.
	Q3 2018:	$ (3,095,550)		
	Change:	**$ (13,401,505)**	**433%**	

General and Administrative					
Three months ended	Q3 2019:	$	(2,041,146)		The increase is primarily due to the ramp-up at the facilities, leading to an increase in general office expenditures and travel required between facilities in Western and Eastern Canada for the expansion of the facilities.
	Q3 2018:	$	(1,293,974)		
	Change:	**$**	**(747,172)**	**58%**	
Nine months ended	Q3 2019:	$	(7,559,288)		The increase is primarily due to the ramp-up at the facilities, leading to an increase in general office expenditures and travel required between facilities in Western and Eastern Canada for the expansion of the facilities.
	Q3 2018:	$	(2,943,635)		
	Change:	**$**	**(4,615,653)**	**157%**	

Professional Fees					
Three months ended	Q3 2019:	$	(995,518)		Costs incurred for professional fees in Q3 2018 and 2019 relate to the operational ramp-up. In 2019, professional fees have been allocated between cannabis and other segment depending on the nature of the services provided.
	Q3 2018:	$	(989,504)		
	Change:	**$**	**(6,014)**	**1%**	
Nine months ended	Q3 2019:	$	(4,204,643)		The increase is primarily due to contracting external staffing companies and other consultants required to facilitate the Company's rapid expansion of its various facilities.
	Q3 2018:	$	(1,636,373)		
	Change:	**$**	**(2,568,270)**	**157%**	

Share-based Compensation					
Three months ended	Q3 2019:	$	—		For the three months ended September 30, 2019, share-based compensation of $2,004,544 was recorded in the Other segment.
	Q3 2018:	$	(662,205)		
	Change:	**$**	**662,205**	**N/A**	
Nine months ended	Q3 2019:	$	—		For the nine months ended September 30, 2019, share-based compensation of $6,225,613 was recorded in the Other segment.
	Q3 2018:	$	(1,402,386)		
	Change:	**$**	**1,402,386**	**N/A**	

Depreciation					
Three months ended	Q3 2019:	$	(1,458,771)		The increase is primarily due to the acquisition of $64,683,135 in capital assets upon business combinations in Q1 2019, as well as additions to plant, property and equipment subsequent to Q3 2018 and up to September 30, 2019, related to facility conversion and expansion.
	Q3 2018:	$	(299,808)		
	Change:	**$**	**(1,158,963)**	**387%**	
Nine months ended	Q3 2019:	$	(2,855,395)		The increase is primarily due to the acquisition of $64,683,135 in capital assets upon business combinations in Q1 2019, as well as the additions to property, plant and equipment during the nine months ended September 30, 2019, related to facility conversion and expansion.
	Q3 2018:	$	(796,224)		
	Change:	**$**	**(2,059,171)**	**259%**	

Sales and Marketing					
Three months ended	Q3 2019:	$	(664,439)		The increase is primarily due to the Company increasing its marketing efforts as it builds out its adult-use recreational brands, which includes the purchase of advertising space in provincial governments' cannabis stores.
	Q3 2018:	$	(458,152)		
	Change:	**$**	**(206,287)**	**45%**	
Nine months ended	Q3 2019:	$	(2,374,785)		The increase is primarily due to the Company increasing its marketing efforts as it builds out its adult-use recreational brands, which includes the purchase of advertising space in provincial governments' cannabis stores.
	Q3 2018:	$	(878,491)		
	Change:	**$**	**(1,496,294)**	**170%**	

Other Income (Expense)					
Three months ended	Q3 2019:	$	(2,926,265)		The decrease is largely due to higher interest expense incurred on a larger debt balance during Q3 2019.
	Q3 2018:	$	210,798		
	Change:	**$**	**(3,137,063)**	**N/A**	
Nine months ended	Q3 2019:	$	(3,803,605)		The increase in expense is largely due to higher interest expense incurred on a larger debt balance during 2019, offset by the gain on revaluation of the embedded derivative liability.
	Q3 2018:	$	(60,103)		
	Change:	**$**	**(3,743,502)**	**6,228%**	

Propagation (i)

	Three months ended September 30,			Nine months ended September 30,		
	Q3 | 19	Q3 | 18	Change	Q3 | 19	Q3 | 18	Change
Net Revenue	$ 4,493,893	$ —	**$ 4,493,893**	$ 29,078,148	$ —	**$ 29,078,148**
Cost of Sales	(3,366,471)	—	**(3,366,471)**	(21,883,692)	—	**(21,883,692)**
Realized Fair Value Amounts Included in Inventory Sold	(1,093,455)	—	**(1,093,455)**	(6,569,574)	—	**(6,569,574)**
Unrealized Gain on Changes in Fair Value of Biological Assets	1,439,194	—	**1,439,194**	7,152,323	—	**7,152,323**
Gross Margin	1,473,161	—	**1,473,161**	7,777,205	—	**7,777,205**
Salaries and Benefits(ii)	(107,001)	—	**(107,001)**	(710,441)	—	**(710,441)**
General and Administrative(ii)	(421,756)	—	**(421,756)**	(1,182,131)	—	**(1,182,131)**
Depreciation	(966,721)	—	**(966,721)**	(2,777,576)	—	**(2,777,576)**
Other Expense	$ (1,250,487)	$ —	**$ (1,250,487)**	$ (4,272,552)	$ —	**$ (4,272,552)**

(i) Business combinations occurred during Q1 of fiscal 2019, and thus prior year comparatives do not exist for the Propagation segment.
(ii) In Q3 2019, the propagation business was being utilized for contract hemp growing at the Zenabis facilities resulting in additional costs being capitalized to inventory under the Cannabis segment.

Other (i)

	Three months ended September 30,			Nine months ended September 30,		
	Q3 | 19	Q3 | 18	Change	Q3 | 19	Q3 | 18	Change
Net Revenue	$ 421,540	$ —	**$ 421,540**	$ 1,093,378	$ —	**$ 1,093,378**
Cost of Sales	(111,514)	—	**(111,514)**	(273,051)	—	**(273,051)**
Gross Margin	310,026	—	**310,026**	820,327	—	**820,327**
Acquisition Costs	—	—	**—**	(4,919,978)	—	**(4,919,978)**
General and Administrative	(747,523)	—	**(747,523)**	(1,947,130)	—	**(1,947,130)**
Professional Fees	(1,662,150)	—	**(1,662,150)**	(3,915,360)	—	**(3,915,360)**
Share-based Compensation	(2,004,544)	—	**(2,004,544)**	(6,225,613)	—	**(6,225,613)**
Depreciation	(301,148)	—	**(301,148)**	(658,733)	—	**(658,733)**
Sales and Marketing	(264,451)	—	**(264,451)**	(452,962)	—	**(452,962)**
Other Expense	$ (841,946)	$ —	**$ (841,946)**	$ (1,543,774)	$ —	**$ (1,543,774)**

(i) Business combinations occurred during Q1 of fiscal 2019, and thus prior year comparatives do not exist for the Other segment.

SUMMARY OF QUARTERLY RESULTS

The financial results for each of the eight most recently completed quarters are summarized below:

Quarterly Results	Q3 | 2019	Q2 | 2019	Q1 | 2019	Q4 | 2018 (i)
Gross revenue	$ 13,423,175	$ 26,470,481	$ 12,283,493	$ 3,841,445
Excise taxes	(1,421,483)	(1,420,772)	(726,276)	(438,356)
Net revenue	12,001,692	25,049,709	11,557,217	3,403,089
Operating loss	(980,967)	(7,902,956)	(10,294,873)	(13,768,165)
Net loss	(5,831,279)	(18,498,388)	(4,005,815)	(24,884,485)
Loss per share, basic and diluted	$ (0.03)	$ (0.09)	$ (0.02)	$ (0.16)

Quarterly Results	Q3 | 2018 (i)	Q2 | 2018 (i)	Q1 | 2018 (i)	Q4 | 2017 (i)
Gross revenue	$ 3,663,817	$ 962	$ —	$ —
Excise taxes	(82,112)	—	—	—
Net revenue	3,581,705	962	—	—
Operating loss	(2,352,414)	(2,672,447)	(2,552,311)	(2,182,783)
Net loss	(2,141,616)	(2,899,772)	(2,595,887)	(1,606,354)
Loss per share, basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.01)

(i) Period includes Cannabis operations only.

Included in the Company's results are the operations of its two main operating segments, Cannabis and Propagation. To date, the Company's Cannabis operations have shown growth in revenue since commencing medical cannabis sales in June 30, 2018, as a result of the legalization of adult-use recreational cannabis in Canada. To date, the Company has not noted any seasonality in the Cannabis segment; however, there is currently not enough market data to draw any definitive conclusions on the effects of seasonality on this industry.

The Company's Propagation operating results are seasonal, driven by the varying levels of activity in the growing cycles of the vegetable greenhouse crops, the bedding plant and flower seasons as well as the timing of customer orders, the varying cycles of the greenhouse vegetable industry and the seasonality of the customer's planting season. Propagation sales in the quarter ending June 30 are typically the strongest as this is the period where Bevo Farms expands its production of bedding plants to meet market demand.

Since December 31, 2018, the operating loss has consistently diminished each quarter as a result of increased cultivation leading to meaningful unrealized gains in fair value of biological assets.

Adjusted EBITDA

Adjusted EBITDA is not a recognized, defined, or standardized measure under IFRS and may not be compared to similar measures presented by other issuers. Adjusted EBITDA is a metric used by management, calculated as net income (loss) before interest expense; finance and investment income; gain (loss) on revaluation of derivative liability; gain (loss) on sale of assets; loss from event; insurance proceeds; current income tax expense; deferred income tax expense (recovery); depreciation and amortization; share-based compensation; acquisition costs; and the fair value adjustment to biological assets and inventory. Management believes adjusted EBITDA is a useful financial metric to assess the Company's operating performance before the impact of non-cash items and acquisition related activities. The following is a reconciliation of adjusted EBITDA to net loss, being the closest GAAP financial measure, for the three-month periods outlined:

	Q3 | 2019	Q2 | 2019	Q3 | 2018
Net loss	$ (5,831,279)	$ (18,498,388)	$ (2,141,616)
Changes in fair value of inventory sold	6,760,956	10,013,747	748,576
Unrealized gain on changes in fair value of biological assets	(19,712,364)	(12,652,546)	(2,330,053)
Share-based compensation	2,004,544	2,142,433	662,205
Depreciation and amortization	2,726,639	2,102,987	299,808
(Gain) loss on revaluation of derivative liabilities	(497,789)	4,551,807	—
Finance and investment expense (income)	173,986	98,557	(277,565)
Interest expense	4,689,124	3,751,166	69,617
Loss (gain) on sale of assets	21,675	184,249	(2,850)
Loss due to event	1,186,692	3,083,793	—
Insurance proceeds	(492,995)	(2,683,541)	—
Foreign exchange (gain) loss	(61,994)	62,282	—
Current income tax expense	342,758	521,371	—
Deferred income tax (recovery) expense	(511,145)	1,025,748	—
Adjusted EBITDA	**$ (9,201,192)**	**$ (6,296,335)**	**$ (2,971,878)**

Cannabis Revenues and Costs on a Per Gram Basis

Net revenue per gram of cannabis sold, cost of goods sold per gram of cannabis sold and cost to internally produce a gram of cannabis sold are not recognized, defined, or standardized measures under IFRS and may not be compared to similar measures presented by other issuers. Management believes these per gram metrics are useful financial measures to assess the Company's Cannabis sales and cultivation performance. The following is a reconciliation of cost of cultivation, grams of cannabis sold, grams of internally produced cannabis sold, net revenue per gram of cannabis sold, cost of goods sold per gram of cannabis sold and cost to internally produce a gram of cannabis sold to net revenue and cost of goods sold, being the closest GAAP financial measures, for the three-month periods outlined:

		Q3 | 2019	Q2 | 2019	Q1 | 2019
Revenue				
Cannabis flower, oil and pre-roll net revenue	(a)	$ 6,657,949	$ 6,179,524	$ 4,098,973
Cannabis trim net revenue	(b)	428,310	1,072,336	—
Cannabis segment net revenue [(i)]	(c)	$ 7,086,259	$ 7,251,860	$ 4,098,973
Cost of Goods Sold				
Cannabis segment cost of goods sold	(d)	$ 3,459,228	$ 3,658,368	$ 2,009,160
Less: Packaging costs		(669,819)	(551,009)	(486,457)
Less: Shipping costs		(388,097)	(361,592)	(190,852)
Less: Cost of products purchased from third parties		(642,126)	(1,504,295)	(258,572)
Less: Cost of goods sold for oil products		(348,919)	(161,228)	—
Cannabis segment cost of cultivation	(e)	$ 1,410,267	$ 1,080,244	$ 1,073,279
Total Grams Sold				
Grams of cannabis flower, oil and pre-roll sold [(i)]	(f)	1,301,369	1,243,664	692,356
Grams of cannabis trim sold	(g)	190,360	476,598	—
Grams of cannabis sold [(i)]	(h)	1,491,729	1,720,262	692,356
Internally Produced Grams Sold				
Grams of internally produced cannabis sold	(i)	1,240,916	1,387,741	632,755
Per Gram Metrics				
Net revenue per gram of cannabis sold	(c/h)	**$ 4.75**	**$ 4.22**	**$ 5.92**
Net revenue per gram of cannabis flower, oil and pre-roll sold	(a/f)	**5.12**	**4.97**	**5.92**
Net revenue per gram of cannabis trim sold	(b/g)	**2.25**	**2.25**	**N/A**
Cost of goods sold per gram of cannabis sold	(d/h)	**2.32**	**2.13**	**2.90**
Cost to internally produce a gram of cannabis sold	(e/i)	**$ 1.14**	**$ 0.78**	**$ 1.70**

(i) Includes oil sales. Oil sales are converted at a standard rate of 9 milliliters per gram for adult-use recreational oil.

LIQUIDITY AND CAPITAL RESOURCES

The table below outlines the Company's working capital and cash flows for the nine months ended September 30, 2019:

Working Capital	Q3 2019: $ (41,095,561) Q4 2018: $ (39,077,415) **Change: $ (2,018,146) 5%** The decline in working capital is primarily due to: • An increase in accounts payable and accrued liabilities from $13,200,699 to $26,088,670 which is primarily due to the capital expenditures for the construction of Zenabis' facilities, the timing of settlement of our account payables and the general increase in operations with the growth of the facilities. In addition to the increase in the accounts payable balance from our propagation segment. • An increase in customer deposits from $11,500 to $37,689,681 due to the prepaid amounts received from two supply agreements with licensed producers. • An increase in the current portion of loans and borrowings from $51,788 to $49,944,859 primarily due to the refinancing of the company's loans in addition to new loans entered into in 2019. These negative aspects are offset by: • An increase in accounts receivable from $4,994,271 to $12,155,566 due to: higher cannabis sales, in addition to the propagation accounts receivables, and a receivable related to a supply arrangement, both of which were not included in the prior year comparatives. • An increase in inventory and biological assets, from $4,932,935 to $28,344,946 and $3,721,751 to $13,814,139, respectively, primarily due to the higher production of cannabis in addition to the substantial increase in the design capacity from Q4 2018 to Q3 2019. • A decrease in derivative liabilities from $17,769,562 to $22,993 primarily due to settlement of derivative liabilities and the refinancing and amendment of our convertible notes. This was partially offset by fair value changes primarily resulting from the decrease in the Company's share price. • A decrease in the convertible loans balance from $43,485,222 to $16,617,878, as in the prior year the entire balance was current.
Cash Flows – Operating	Q3 2019: $ (45,269,304) Q3 2018: $ (13,286,205) **Change: $ (31,983,099) 241%** The increase in cash outflows from operations is primarily due to the operational ramp up of the company, in addition to various costs related to the acquisitions made in the first quarter of 2019.
Cash Flows – Investing	Q3 2019: $ (92,270,338) Q3 2018: $ (6,162,243) **Change: $ (86,108,095) 1,397%** The increase in cash outflows from investing activities is primarily due to the capital expenditures related to the construction of the facilities in both Atholville and Langley and the acquisitions that were completed during the first quarter of 2019. This was partially offset by the proceeds received from the sale of shares in some investments.
Cash Flows – Financing	Q3 2019: $ 148,505,484 Q3 2018: $ 13,513,584 **Change: $ 134,991,900 999%** The increase in cash in flows from financing is primarily due to the debt arrangements entered into by the company, cash received from the prepaid supply agreements with licensed producers and the issuance of shares and equity instruments during the 9 months ended September 2019.

As at September 30, 2019, the Company has primarily financed its operations and met its capital requirements through equity and debt financings, although it has generated revenues from operations.

The Company's objective when managing its liquidity and capital resources is to generate sufficient cash to fund the Company's operating and working capital requirements. The Company reported a working capital deficit of $41,095,561 at September 30, 2019, as compared to a working capital deficit of $39,077,415 at December 31, 2018, representing a decrease in working capital of $2,018,146.

Cash on hand increased from $16,966,803 as at December 31, 2018, to $27,932,645 as at September 30, 2019. The increase in cash was mainly attributable to cash received from financing of $148,505,484, that was offset by cash used in operating activities of $45,269,304 and investing activities of $92,270,338.

Financing Activities

The table below reflects Zenabis' debt financing as at September 30, 2019:

	Draw Date	Maturity Date	Principal Amount as of September 30, 2019	Interest Rate	Financial Statements Note Reference
Secured Loans	Sept 27, 2017	Sept 27, 2027	$ 2,000,000	6.00%	12(d)
	Jan 21, 2019	Jan 21, 2022	45,015,000	Prime + 0.75%	12(a)
	Aug 28, 2019	Jan 31, 2020	75,000	Prime + 2.00%	12(c)
	Sept 3, 2019	Sept 3, 2024	500,000	4.36%	12(c)
	Feb 19, 2019	June 30, 2020	25,000,000	Max (Prime + 9.00%, 12.95%)	12(e)
	Aug 21, 2019	June 30, 2020	$ 25,000,000	14.00%	12(e)
			$ 97,590,000		
Unsecured Convertible Debentures	Oct 17, 2018	Oct 17, 2020	$ 11,913,451	6.00%	13(a)
	March 27, 2019	Sept 27, 2021	15,000,000	6.00%	13(c)
			$ 26,913,451		
Secured Convertible Notes	Oct 17, 2018	June 30, 2020	$ 17,404,959	11.00%	13(d)
			$ 17,404,959		
Total			**$ 141,908,410**		

Zenabis has raised, or has secured, significant capital to fund its operations, development and expansion plans for the next twelve months. This includes the right to issue $60,000,000 via the Additional Offering and $40,000,000 via prepaid supply agreements with Starseed and High Park. On October 24, 2019, the Company announced a Rights Offering, under which the Company intends to raise up to $20.8 million. The intent of the Rights Offering is to buttress the Company's cash position while the Company: **(i)** undergoes operational ramp-up at Zenabis Atholville and Zenabis Langley; and **(ii)** completes Zenabis Langley. Zenabis expects to be both cashflow and earnings positive on an ongoing quarterly basis subject to the following assumptions:

- **(i)** Cultivation from Zenabis' facilities achieving existing disclosed design capacity;
- **(ii)** Zenabis' disclosed timelines for completion of construction at Zenabis Langley and timelines for Health Canada licensing are consistent with past timelines;
- **(iii)** Costs for small tools and supplies will increase in an approximately linear manner with production;
- **(iv)** Costs will increase for salaries and benefits, general and administrative and sales and marketing;
- **(v)** Costs will stay flat or decline for professional fees; and
- **(vi)** Sales will be consistent with current indications of purchase intent from existing customers for Zenabis' adult-use recreational cannabis and medical cannabis products.

Zenabis is currently pursuing suitable alternatives with regards to its capital structure in order to simplify its capital structure by replacing existing debt on its Cannabis operations.

Liquidity and Capital Resource Measures

Zenabis' major capital expenditures in 2019 consist of the ongoing expansion of existing facilities, the purchase of additional facility equipment that will increase Zenabis' production efficiencies, the conversion of the Zenabis Langley facility and the hiring of new personnel. As discussed in the "Conversion/Construction of Facilities" section above, the Company has incurred significant capital expenditures to complete the facilities currently under construction.

Off-Balance Sheet Arrangements

On September 27, 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 changes to the Cannabis Act coming into effect later this year to permit the sale of cannabis extracts for vaporization. The total commitment under this agreement is $4,899,000.

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 net 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.

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.

RELATED PARTY TRANSACTIONS

The Company has several contracts or arrangements with related parties under which payments were made during the three and nine months ended September 30, 2019. These contracts or arrangements can be classified into the following categories:

Start-up Services	During the phase when the Company's Cannabis operations were being undertaken by a private enterprise controlled by its founders, the Company obtained a variety of services from companies affiliated with certain of its founders, including, its (shared) office premises, IT services and other administrative services. The services provided were typically in areas in which the scale of the business was not sufficient to support the business hiring dedicated full-time personnel to provide the services. The services were provided on a cost-plus basis and had no minimum or fixed term. As a result, after completion of the RTO, the Company has been replacing the services (including its office premises lease) through in-sourcing and with services provided by arm's-length parties.
Temporary Advisory Services	Prior to the time at which Mr. Grieve was hired as our Chief Executive Officer ("CEO"), the Company entered into certain contracts and arrangements with entities affiliated with Mr. Grieve. At the time these contracts or arrangements were negotiated or entered into, they were not related party transactions and were entered into on commercially reasonable arm's-length terms. These services primarily related to financial advisory services provided by a business that is an affiliate of the CEO, but also include human resource services from a separate company affiliated with the CEO. For staffing services, the affiliated company has been replaced through in-sourcing and other third-party service providers as the Company continues to increase the number of its full-time personnel. For financial advisory services, the number of personnel providing services has been reduced to two. Finally, since Mr. Grieve became the CEO, the Company has implemented procedures designed to ensure that there is independent review and approval of all payments made under these contracts or arrangements, and to ensure that these services are in-sourced or terminated as soon as possible.
Ongoing Consulting Arrangements	The Company has entered into consulting arrangements with certain companies through which it obtains the services of some of its personnel (as opposed to entering into employment agreements directly with those personnel). The Company intends to convert these consulting contracts into employment contracts.

Related Party and Services	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Entities affiliated with the CEO				
Debt Issuance Costs (i)				
The Company agreed to a success fee based strategic services agreement with a business affiliated with the CEO in October 2018 under which a success fee was payable. These services were completed, and the fee relates to the successful completion on January 20, 2019, of the $51,000,000 Financing. Costs have been capitalized in loans and borrowing as at September 30, 2019. There are no further success fees payable to any business affiliated with the CEO for the completion of any financing following Mr. Grieve becoming the CEO.	$ —	$ —	$ 382,500	$ —
On-going Advisory Fees (i)				
The Company agreed to a strategic consulting services agreement in October 2018, under which a business affiliated with the CEO dedicated the services of certain of its personnel to the Company based on fixed monthly rates for individuals of various levels. This agreement included an obligation to train internal personnel to replace these external services. These services are being replaced with an internal strategy team, with contracted staffing decreasing from seven personnel as at December 31, 2018 to two personnel as at November 14, 2019. All services were provided at market rates. The Company intends to eliminate the requirement for full-time personnel providing these services as soon as practical.	183,624	—	539,714	—
Human Resources and Staffing Services (i)				
The Company commenced utilizing HR and recruitment services in Q4 2018 from a company affiliated with the CEO to implement the Company's rapid expansion during Q1 and Q2 of fiscal 2019, during which period employee headcount at the Company's Cannabis segment increased from approximately 200 as at December 31, 2018, to 489 as at June 30, 2019. Zenabis' relationship with the company affiliated with the CEO has been terminated, as Zenabis has grown its internal HR function and retained arm's length third parties when necessary.	—	—	942,258	—
Construction				
Bevo previously purchased garage doors from a company affiliated with the CEO, and Zenabis has continued with such purchases where appropriate for use in the Zenabis Langley facility. Costs have been capitalized in property, plant and equipment as at September 30, 2019.	—	—	26,247	—
Entities affiliated with the Chairman of the Board				
Contract Employees				
Employees initially contracted to Zenabis to facilitate Zenabis' rapid production expansion. Certain of these contractors have either been hired by the Company or replaced through in-sourcing the related activities.	—	277,763	365,722	673,466
Office Rent				
Fees incurred for the use of office space.	60,000	30,000	398,912	75,000
Consulting Fees				
Construction management services related to Zenabis Delta and executive management services related to general operations.	91,619	15,820	160,967	33,520
A company affiliated with the Chief Growing Officer				
Management Fees				
Fees paid for managing Bevo Farms' operations. The Company has agreed to transition these services to an employment contract in the fourth quarter of 2019.	126,000	—	336,000	—
	$ 461,243	**$ 323,583**	**$ 3,152,320**	**$ 781,986**

(i) All service agreements pre-date the CEO's appointment on January 21, 2019. Mr. Grieve is not the majority owner of any of these entities. The Company has worked diligently to ensure that it has built internal capacity to replace these service providers as quickly as possible.

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

CRITICAL ACCOUNTING 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.

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 consolidated financial statements, except for those described in Notes **2(e)** and **2(f)** of the Condensed Consolidated Interim Financial Statements.

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 16 – Leases ("IFRS 16")

IFRS 16, issued in January 2016, 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 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. This standard substantially carries forward the lessor accounting requirements of IAS 17 – Leases, while requiring enhanced disclosures to be provided by lessors.

IFRS 16 was adopted by the Company effective January 1, 2019, under the modified retrospective approach. 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.

(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

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 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%).
- 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 consists of trade accounts receivable to provincial cannabis wholesale bodies, other licensed producers and recoverable sales taxes which have a low risk of default.

(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**

(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 marketable securities 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).

SUMMARY OF OUTSTANDING SHARE DATA

Outstanding Shares, Warrants, Options and Other Securities

The company's common shares trade on the TSX under the symbol "ZENA". The following table sets out the number of common shares, warrants, options and convertible debentures outstanding of the Company as at September 30, 2019 and November 12, 2019:

	September 30, 2019	November 12, 2019
Common shares issued and outstanding	208,629,937	208,629,937
Options	18,024,779	18,024,779
Warrants	24,481,901	24,481,901
Convertible debentures at $1.55	11,255,501	11,255,501
Convertible debentures at $2.52	4,736,423	4,736,423
Convertible debentures at $3.62	4,143,646	4,143,646
Total fully diluted shares	**271,272,187**	**271,272,187**

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 during the nine-month period ended September 30, 2019:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018	14,460,564	2.24
Granted	2,130,000	4.08
Exercised	(198,139)	1.01
Forfeited	(399,018)	2.94
Balance, March 31, 2019	15,993,407	2.49
Granted	4,285,511	2.73
Exercised	—	—
Forfeited	(1,054,397)	2.53
Balance, June 30, 2019	19,224,521	2.40
Granted	—	—
Exercised	(182,326)	1.01
Forfeited	(1,017,416)	2.75
Balance, September 30, 2019	**18,024,779**	**2.39**

The following is a summary of the outstanding stock options as 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

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:

	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).