ZENABIS GLOBAL INC.

AMENDED AND RESTATED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

ZENABIS GLOBAL INC.

Amended and Restated Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2020 and 2019
(Unaudited)

	Notes	March 31, 2020	December 31, 2019
		(As restated – see Note 21)	
Assets			
Current assets			
Cash and cash equivalents		$ 8,382,192	$ 16,574,203
Accounts receivable	3	10,616,990	13,417,071
Inventory	4	44,597,534	39,333,991
Biological assets	5	24,240,153	14,481,409
Prepaid and other current assets		5,985,050	6,206,310
Assets held for sale	7	9,166,019	—
		102,987,938	90,012,984
Loan receivable	10	256,627	—
Investments	9	512,000	—
Other assets		810,421	—
Property, plant and equipment	6	196,600,683	205,716,525
Right-of-use assets	14	4,743,739	5,366,006
Total assets		**$ 305,911,408**	**$ 301,095,515**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 28,286,154	$ 28,622,664
Customer deposits	11	37,948,113	39,759,679
Due to related parties	10	10,431	97,534
Loans and borrowings	12	59,922,326	51,361,197
Convertible loans	13	22,510,030	28,076,753
Current lease obligations	14	562,087	569,641
		149,239,141	148,487,468
Loans and borrowings	12	41,556,655	42,806,451
Convertible loans	13	12,314,362	11,938,329
Deferred income tax liability		7,093,226	7,102,340
Lease obligations	14	4,578,540	5,136,498
Total liabilities		**214,781,924**	**215,471,086**
Equity			
Share capital		236,063,992	225,217,583
Reserve for equity settled share-based transactions		16,315,377	15,676,158
Reserve for equity instruments		9,310,975	8,419,059
Accumulated other comprehensive loss		(291,562)	(250,816)
Deficit		(169,746,258)	(162,197,117)
Total equity attributable to shareholders		91,652,524	86,864,867
Non-controlling interests	8	(523,040)	(1,240,438)
Total equity		**91,129,484**	**85,624,429**
Total liabilities and equity		**$ 305,911,408**	**$ 301,095,515**

Going concern (**Note 1**)
Commitments (**Note 20**)
Subsequent events (**Note 22**)
(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

ZENABIS GLOBAL INC.

Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2020 and 2019
(Unaudited)

	Notes	Three months ended March 31, 2020	2019
		(As restated – see Note 21)	
Revenue			
Gross revenue		$ 22,361,374	$ 12,283,493
Excise taxes		(2,446,914)	(726,276)
Net revenue		**19,914,460**	**11,557,217**
Cost of sales and inventory production costs expensed		(10,940,659)	(7,680,343)
Gross margin before fair value adjustments		**8,973,801**	**3,876,874**
Changes in fair value of inventory sold and other charges		(12,923,860)	(3,402,319)
Unrealized gain on changes in fair value of biological assets		19,219,636	7,993,853
Gross margin		**15,269,577**	**8,468,408**
Operating expenses			
Acquisition costs		—	4,398,646
Salaries and benefits		4,155,409	3,869,419
Restructuring costs		1,058,452	—
General and administrative		1,460,547	3,318,628
Professional fees		839,762	2,689,452
Share-based compensation	16	341,858	2,078,636
Depreciation and amortization		2,050,093	1,462,077
Sales and marketing		174,128	946,423
		10,080,249	**18,763,281**
Income (loss) from operations		**5,189,328**	**(10,294,873)**
Other income (expense)			
Gain on revaluation of derivative liabilities		—	7,891,451
Finance and investment income	9	6,544	1,116,320
Interest expense		(6,306,284)	(4,553,288)
Gain (loss) on sale of property, plant and equipment		9,185	(7,402)
Loss due to an event		(25,567)	—
Loss from loss of control of a former subsidiary	8	(668,562)	—
Government subsidies		713,373	—
Loss on early conversion of debt	13	(5,624,803)	—
Other expense		(298,907)	—
Loss before income taxes		**(7,005,693)**	**(5,847,792)**
Current income tax expense		(654,987)	(61,477)
Deferred income tax (expense) recovery		(42,155)	1,903,454
Net loss		**$ (7,702,835)**	**$ (4,005,815)**
Other comprehensive loss			
Foreign exchange translation loss		$ (67,910)	$ —
Unrealized gain on investments		—	86,425
Comprehensive loss		**$ (7,770,745)**	**$ (3,919,390)**

ZENABIS GLOBAL INC.

Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2020 and 2019
(Unaudited) (continued)

	Notes	Three months ended March 31, 2020		2019	
		(As restated – see **Note 21**)			
Net loss attributable to:					
Zenabis Global Inc.		$	(7,549,141)	$	(4,008,800)
Non-controlling interests			(153,694)		2,985
		$	**(7,702,835)**	**$**	**(4,005,815)**
Comprehensive loss attributable to:					
Zenabis Global Inc.		$	(7,589,887)	$	(3,922,375)
Non-controlling interests			(180,858)		2,985
		$	**(7,770,745)**	**$**	**(3,919,390)**
Loss per share, basic and diluted		**$**	**(0.02)**	**$**	**(0.02)**
Weighted average number of shares outstanding, basic and diluted			**375,123,242**		**186,777,479**

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

ZENABIS GLOBAL INC.

Amended and Restated Condensed Consolidated Interim Statements of Changes in Equity
For the three months ended March 31, 2020 and 2019
(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, 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 options		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		455,947	—	2,048,001	—	—	—	—	477,867	**2,525,868**
Issuance of share capital on debt conversion		658,599	—	1,935,011	—	—	—	—	—	**1,935,011**
Issuance of share capital on exercise of options		198,139	—	379,568	(178,981)	—	—	—	—	**200,587**
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 convertible notes		—	—	—	—	1,628,368	—	—	—	**1,628,368**
Embedded warrants		—	—	—	—	675,727	—	—	—	**675,727**
Unrealized gain on investments		—	—	—	—	—	86,425	—	—	**86,425**
Share-based compensation		—	—	—	2,078,636	—	—	—	—	**2,078,636**
Net loss		—	—	—	—	—	—	(4,008,800)	2,985	**(4,005,815)**
Balance, March 31, 2019		**190,526,904**	**—**	**$ 174,566,115**	**$ 5,904,056**	**$ 2,304,095**	**$ 86,425**	**$ (46,227,641)**	**$ 480,852**	**$ 137,113,902**
Balance, December 31, 2019		**347,716,561**	**—**	**$ 225,217,583**	**$ 15,676,158**	**$ 8,419,059**	**$ (250,816)**	**$ (162,197,117)**	**$ (1,240,438)**	**$ 85,624,429**
Issuance of share capital on debt conversion	13	38,968,874	—	10,773,063	—	—	—	—	—	**10,773,063**
Issuance of share warrants		—	—	—	—	891,916	—	—	—	**891,916**
Share issuance costs		—	—	73,346	—	—	—	—	—	**73,346**
Derecognition of NCI upon loss of control	8	—	—	—	—	—	—	—	898,256	**898,256**
Foreign exchange translation		—	—	—	—	—	(40,746)	—	(27,164)	**(67,910)**
Share-based compensation		—	—	—	639,219	—	—	—	—	**639,219**
Net loss		—	—	—	—	—	—	(7,549,141)	(153,694)	**(7,702,835)**
Balance, March 31, 2020 (As restated – see **Note 21**)		**386,685,435**	**—**	**$236,063,992**	**$ 16,315,377**	**$ 9,310,975**	**$ (291,562)**	**$(169,746,258)**	**$ (523,040)**	**$ 91,129,484**

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

ZENABIS GLOBAL INC.

Amended and Restated Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2020 and 2019
(Unaudited)

	Notes	Three months ended March 31, 2020		Three months ended March 31, 2019
		(As restated – see Note 21)		
Operating Activities				
Net loss		$ (7,702,835)	$	(4,005,815)
Items not involving cash:				
Changes in fair value of inventory sold and other charges		12,923,860		3,402,319
Unrealized gain on changes in fair value of biological assets		(19,219,636)		(7,993,853)
Depreciation and amortization		2,050,093		1,462,077
(Gain) loss on sale of property, plant and equipment		(9,185)		7,402
Loss due to an event		25,567		—
Loss from loss of control of a former subsidiary	8	668,562		—
Loss on early conversion of debt	13	5,624,803		—
Share-based compensation	16	341,858		2,078,636
Unrealized gain on investments		—		(1,111,755)
Gain on revaluation of derivative liabilities		—		(7,891,451)
Accrued interest		410,389		—
Accretion expense		2,189,857		3,184,387
Current income tax expense		654,987		61,477
Change in deferred tax asset		42,155		(1,903,454)
Other		(70,715)		—
Changes in non-cash working capital items and other	18	(12,275,952)		(4,933,536)
Net cash used in operating activities		**$ (14,346,192)**	**$**	**(17,643,566)**
Investing Activities				
Purchase of property, plant and equipment		$ (687,395)	$	(22,438,562)
Proceeds from disposal of property, plant and equipment		9,185		14,500
Remediation costs related to an event		(25,567)		—
Proceeds received from insurance claim related to an event		585,052		—
Cash acquired from business combinations		—		1,498,610
Acquisition of Topgro		—		(9,382,631)
Cash reduction relating to the loss of control of a former subsidiary		(105,456)		—
Net cash used in investing activities		**$ (224,181)**	**$**	**(30,308,083)**
Financing Activities				
Proceeds from secured loans and borrowings		$ 8,341,354	$	62,054,407
Proceeds from issue of secured convertible debt		—		13,593,950
Repayment of secured loans and borrowings		(1,284,304)		(23,628,648)
Transaction costs related to debt and convertible debt		(453,000)		(783,569)
Repayment of lease obligations		(299,034)		(157,965)
Share issuance costs		73,346		—
Repayments to related parties		—		(873,820)
Stock options exercised		—		135,065
Warrants exercised		—		6,212,485
Net cash provided by financing activities		**$ 6,378,362**	**$**	**56,551,905**
(Decrease) increase in cash during the period		**$ (8,192,011)**	**$**	**8,600,256**
Cash, beginning of period		16,574,203		16,966,803
Cash, end of period		**$ 8,382,192**	**$**	**25,567,059**
Supplemental cash flow information:				
Property, plant and equipment purchased and unpaid at period end		$ 3,461,829	$	16,561,977

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

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

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 British Columbia, Nova Scotia and New Brunswick.

COVID-19 Impact on Operations

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and our business are not known at this time. These impacts could include an impact on our ability to maintain operations, to obtain debt and equity financing, impairment of investments, impairments in the value of our long-lived assets, or potential future decreases in revenue or the profitability of our ongoing operations. The production and sale of cannabis have been recognized as essential services across Canada. To date, the Company has not seen significant impacts on operations as a result of the COVID-19 pandemic. The Company is closely monitoring the impact of the pandemic on all aspects of the business.

Going Concern

These amended and restated condensed consolidated interim financial statements for the three months ended March 31, 2020 and 2019 (the "Amended and Restated 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 three months ended March 31, 2020, the Company reported a comprehensive loss of $7,770,745, negative cash flow from operations of $14,346,192, negative working capital of $46,251,203 and an accumulated deficit of $169,746,258 as at March 31, 2020. Further, as at March 31, 2020, $82,432,356 of the Company's debt was due within the next 12 months. Subsequent to March 31, 2020, the Company made significant progress by extending the maturity of its $50,000,000 senior note to March 2025, converting $1,125,976 of its unsecured convertible debentures due in October 2020 and deferring $1,666,160 of its unsecured convertible debentures to June 2022. Additionally, the Company undertook various cost saving measures during the three months ended March 31, 2020 that will be fully realized during the three months ended June 30, 2020 and onwards. Despite these advancements, the aforementioned conditions cast a material uncertainty on the Company's ability to continue as a going concern. The Amended and Restated 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.

The Company 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 extend its debt maturing in Fiscal 2020. While the Company has been successful in renegotiating its debt in the past, there is no assurance that it will be successful in doing so in the future. The Company has established and put into motion various initiatives to reduce costs and expand revenues as part of the Company's strategic plan to attain profitability and positive cash flows in Fiscal 2020.

2. Significant Accounting Policies

(a) Basis of Presentation and Measurement

The Amended and Restated Condensed Consolidated Interim Financial Statements 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 Amended and Restated 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 for the years ended December 31, 2019 and 2018 (the "Annual Audited Consolidated Financial Statements"), except for the adoption of new policies identified in **Note 2(c)** as a result of the Company listing one of its facilities for sale, **Note 2(d)** as a result of wage subsidies issued as a response to the COVID-19 outbreak and the adoption of new accounting standards identified in **Note 2(e)**, and should be read in conjunction with the Annual Audited Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform to the current year presentation.

These Amended and Restated Condensed Consolidated Interim Financial Statements were approved and authorized for issue by the Board of Directors of the Company on June 12, 2020.

(b) Basis of Consolidation

These Amended and Restated Condensed Consolidated Interim Financial Statements comprise the accounts of the Company and its subsidiaries, with intercompany balances and transactions eliminated upon consolidation.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over investee (i.e. existing rights to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Amended and Restated Condensed Consolidated Interim Financial Statements from the date the Company gains control until the date the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Company and to the non-controlling interest.

2. Significant Accounting Policies (continued)

(b) Basis of Consolidation (continued)

As at March 31, 2020, 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%
ZenPharm Ltd. ("ZenPharm")	60%

(c) Assets Held-for-Sale

Non-current assets, or disposal groups comprising of assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered through the sale rather than continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and their fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurements are recognized in the Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive Loss.

(d) Government Subsidies

Government subsidies are recognised when there is reasonable assurance that the subsidy will be received and all attached conditions will be complied with. When the subsidy relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which is intended to compensate, are expensed. When the subsidy relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

2. Significant Accounting Policies (continued)

(e) New Standards Effective January 1, 2020

(i) Conceptual Framework

In March 2018, the IASB issued the revised Conceptual Framework for Financial Reporting which assists entities in developing accounting policies when no IFRS Standard applies to a particular transaction and helps stakeholders to more fully understand the standards. The revised conceptual framework includes the following clarifications and updates: **(a)** a new chapter on measurement; **(b)** guidance on reporting financial performance; **(c)** improved definitions and guidance, particularly for the definition of a liability; and, **(d)** clarifications on important items such as the role of stewardship, prudence and measurement uncertainty in financial reporting. The revised conceptual framework is effective for annual reporting periods beginning on or after January 1, 2020 and is applicable to the Company starting January 1, 2020. Earlier application is permitted. The adoption of this new standard has not had any impact on the amounts recognized in the Company's Amended and Restated Condensed Consolidated Interim Financial Statements.

(ii) Definition of Material

In October 2018, the IASB issued Definition of Material (Amendments to IAS 1 and 8) to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and are applicable to the Company starting January 1, 2020. The adoption of this new standard does not have any impact on the amounts recognized in the Company's Amended and Restated Condensed Consolidated Interim Financial Statements.

(iii) Definition of a Business

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3) which: **(a)** clarifies that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; **(b)** narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and **(c)** removes certain assessments and adds guidance and illustrative examples. The amendment is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. While early application is permitted, the Company adopted the standard commencing January 1, 2020. The adoption of this standard does not have an impact on the Company's Amended and Restated Condensed Consolidated Interim Financial Statements.

(f) New Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

(i) Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the impact of these amendments on the Company's Amended and Restated Condensed Consolidated Interim Financial Statements.

3. Accounts Receivable

	March 31, 2020	December 31, 2019
Trade receivables [(i)]	$ 9,741,840	$ 11,658,568
GST/HST recoverable	161,777	1,173,451
Government subsidies receivable	713,373	—
Insurance proceeds receivable	—	585,052
Balance, end of period	**$ 10,616,990**	**$ 13,417,071**

(i) As at March 31, 2020, trade receivables included an allowance for doubtful accounts of $570,411 (December 31, 2019 – $664,264).

4. Inventory

The Company's inventory is comprised of:

March 31, 2020	Capitalized Cost	Biological Asset Fair Value Adjustment	Carrying Value
Cannabis			
Work-in-process	$ 10,457,327	$ 18,179,581	**$ 28,636,908**
Finished goods	3,485,692	4,629,960	**8,115,652**
	13,943,019	22,809,541	**36,752,560**
Non-Cannabis			
Work-in-process	484,754	—	**484,754**
Supplies and consumables	7,360,220	—	**7,360,220**
Balance, March 31, 2020	**$ 21,787,993**	**$ 22,809,541**	**$ 44,597,534**

December 31, 2019	Capitalized Cost	Biological Asset Fair Value Adjustment	Carrying Value
Cannabis			
Work-in-process	$ 8,120,591	$ 19,042,630	**$ 27,163,221**
Finished goods	1,943,575	2,113,137	**4,056,712**
	10,064,166	21,155,767	**31,219,933**
Non-Cannabis			
Work-in-process	623,344	—	**623,344**
Finished goods	7,317	—	**7,317**
	630,661	—	**630,661**
Supplies and consumables	7,483,397	—	**7,483,397**
Balance, December 31, 2019	**$ 18,178,224**	**$ 21,155,767**	**$ 39,333,991**

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:

		March 31, 2020
Balance, beginning of period	$	14,481,409
Acquired on acquisition		—
Production costs capitalized		16,570,832
Changes in fair value, less cost to sell due to biological transformation		19,219,636
Transferred to inventory upon harvest		(26,031,724)
Balance, end of period		**24,240,153**
Attributable to:		
Cannabis segment		16,461,850
Propagation segment	$	7,778,303

Cannabis

Live cannabis plants are harvested as agricultural produce and as at March 31, 2020, on average, were approximately 25% complete, compared to approximately 17% average stage of completion as at December 31, 2019. 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 sell.

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 category 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 March 31, 2020:

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
Stage of completion	Calculated by taking the weighted average costs incurred for production over an average cost to cultivate

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

Cannabis		March 31, 2020		10% Change as at March 31, 2020		December 31, 2019		10% Change as at December 31, 2019
Selling price (weighted average) – Flower (i)	$	4.50	$	1,679,194	$	4.55	$	678,385
Selling price (weighted average) – Trim	$	0.50		53,147	$	1.25		95,416
Average yield per plant (grams)		94.35		1,732,341		107.12		687,724
Post-harvest costs (weighted average)	$	0.83		591,070	$	0.61		86,076
Average stage of completion (%)		25	$	1,231,007		17	$	594,652

(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 week 25 of the growth cycle.

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

Vegetable Plants	March 31, 2020	10% Change as at March 31, 2020	December 31, 2019	10% Change as at December 31, 2019
Selling price (weighted average)	$ 1.43	$ 22,675	$ 1.81	$ 151,398

Bedding/Floral Plants	March 31, 2020	10% Change as at March 31, 2020	December 31, 2019	10% Change as at December 31, 2019
Selling price (weighted average)	$ 8.34	$ 930,662	$ 4.47	$ 149,668

6. Property, Plant and Equipment

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

During the three months ended March 31, 2020, $208,614 (March 31, 2019 – $248,883) in borrowing costs were capitalized to building and improvements at a capitalization rate of 16.06% (December 31, 2019 – 13.45%).

A continuity of the property, plant and equipment balance for the period ended March 31, 2020 is as follows:

	Land	Buildings and Improvements	Production Equipment	Other Equipment	Construction in Progress	Total
Cost						
At December 31, 2019	$ 16,110,258	$ 131,377,099	$ 22,514,349	$ 12,770,656	$ 32,705,753	**$ 215,478,115**
Additions	—	231,634	1,535,075	792,746	1,403,991	**3,963,446**
Disposals	—	—	—	—	—	**—**
Transfer between asset classes	—	138,950	639,321	(778,271)	—	**—**
Transfer to assets held-for-sale	(1,422,297)	(6,950,582)	—	—	(1,458,838)	**(9,831,717)**
Derecognition upon loss of control of former subsidiary	—	(366,585)	(335,239)	(338,818)	—	**(1,040,642)**
Transfers from CIP	—	10,265,223	610,232	575,749	(11,451,204)	**—**
At March 31, 2020	**$ 14,687,961**	**$ 134,695,739**	**$ 24,963,738**	**$ 13,022,062**	**$ 21,199,702**	**$ 208,569,202**
Accumulated depreciation						
At December 31, 2019	$ —	$ 6,018,407	$ 2,252,615	$ 1,490,568	$ —	**$ 9,761,590**
Additions	—	1,551,064	636,992	752,233	—	**2,940,289**
Disposals	—	—	—	—	—	**—**
Transfer to assets held for sale	—	(665,698)	—	—	—	**(665,698)**
Derecognition upon loss of control of former subsidiary	—	(3,924)	(28,381)	(35,357)	—	**(67,662)**
At March 31, 2020	**$ —**	**$ 6,899,849**	**$ 2,861,226**	**$ 2,207,444**	**$ —**	**$ 11,968,519**
Net book value						
At December 31, 2019	**$ 16,110,258**	**$ 125,358,692**	**$ 20,261,734**	**$ 11,280,088**	**$ 32,705,753**	**$ 205,716,525**
At March 31, 2020	**$ 14,687,961**	**$ 127,795,890**	**$ 22,102,512**	**$ 10,814,618**	**$ 21,199,702**	**$ 196,600,683**

7. Assets Held-for-Sale

In connection with management's plan to rationalize expenditures to align the Company's cultivation footprint to current demand, the Company had committed to sell its facility in Delta, British Columbia (the "Delta Property") and reclassified it from property, plant and equipment to assets held-for-sale, as well as ceased depreciating the Delta Property's assets, on March 1, 2020. Through a third-party appraisal, the fair value less cost of disposal of the Delta Property was determined to be $12,303,750, resulting in no impairment losses during the three months ended March 31, 2020. The Delta Property is allocated to the Cannabis segment.

	Land	Buildings and Improvements	Construction in Progress	Total
Net book value, December 31, 2019	$ 1,422,297	$ 6,267,207	$ 1,437,621	**$ 9,127,125**
Additions	—	42,493	21,217	**63,710**
Depreciation	—	(24,816)	—	**(24,816)**
Net book value, March 1 and 31, 2020	**$ 1,422,297**	**$ 6,284,884**	**$ 1,458,838**	**$ 9,166,019**

8. Non-controlling Interest

(a) Loss of Control

On January 22, 2019, Zenabis completed the acquisition of 51% of Hillsboro Corporation Inc. (doing business as "True Büch") through the issuance of 455,947 common shares. True Büch is a beverage company with expertise in the creation of cultured tea beverages, widely known as kombucha.

During the three months ended March 31, 2020, True Büch raised funds through an equity issuance which resulted in the Company's ownership decreasing below 50%. As the Company no longer had a controlling ownership in True Büch, consolidation of True Büch ceased during the three months ended March 31, 2020 and the former subsidiary was deconsolidated. The fair value of the remaining investment was determined to be $512,000.

The following table presents a reconciliation of the loss from the loss of control of True Büch for the three months ended March 31, 2020:

	March 31, 2020
Investment in True Büch at Fair Value	$ 512,000
Less:	
Non-controlling interest	(898,256)
True Büch's assets prior to deconsolidation	(1,804,175)
True Büch's liabilities prior to deconsolidation	1,521,869
Loss from the loss of control of True Büch	**$ (668,562)**

8. Non-controlling Interest (continued)

(b) ZenPharm

In October 2019, the Company formed ZenPharm to service the European medical cannabis market. As at March 31, 2020, the Company held a 60% ownership interest in ZenPharm. The following table represents the summarized financial information for ZenPharm:

		March 31, 2020
Current assets	$	136,368
Non-current assets		22,209
Current liabilities		1,320,791
Non-current liabilities		—
Revenues for the three months ended		—
Net loss for the three months ended	$	452,145

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

		Non-controlling Interest
Balance, December 31, 2019		(1,240,438)
Non-controlling interest removed from the loss of control of True Büch		898,256
Share of comprehensive loss for the period		(180,858)
Balance, March 31, 2020	**$**	**(523,040)**

9. Investments

		March 31, 2020		December 31, 2019
True Büch [(i)]	$	512,000	$	—
Total investments	**$**	**512,000**	**$**	**—**

(i) Refer to **Note 8(a)**.

Finance and investment income consisted of the following:

	Three months ended March 31,			
		2020		2019
Realized and unrealized gain on investments	$	—	$	1,111,755
Interest income		6,544		4,565
Total finance and investment income	**$**	**6,544**	**$**	**1,116,320**

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.

		March 31, 2020		December 31, 2019
Due to related parties	$	10,431	$	97,534
Included in accounts payable and accrued liabilities		678,025		388,832
Total amounts due to related parties	**$**	**688,456**	**$**	**486,366**

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

(b) Loans to former subsidiary

During the year ended December 31, 2019, True Büch issued a $250,000 promissory note to the Company. The note bears interest at 4.5% per annum and is due on August 27, 2021. Upon the loss of control of True Büch, the loan was no longer eliminated on consolidation and the principal balance and accrued interest were moved to loan receivable as at March 31, 2020.

(c) 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.

	Three months ended March 31,			
		2020		2019
Salaries and benefits	$	606,689	$	502,933
Share-based payments		550,033		966,487
Director fees		238,774		124,513
Total compensation of key management personnel	**$**	**1,395,496**	**$**	**1,593,933**

(d) 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.

	Three months ended March 31,			
		2020		2019
Amounts incurred to companies affiliated with the:				
Former Chief Executive Officer of the Company	$	—	$	949,450
Chief Growing Officer of the Company		126,000		84,000
Amounts incurred to companies controlled by a Director of the Company		36,445		340,607
Total amounts incurred to related parties	**$**	**162,445**	**$**	**1,374,057**

(e) Propagation revenues earned from related parties

During the three months ended March 31, 2020, the Company's Propagation segment earned rental and other miscellaneous revenues totaling $2,500 (March 31, 2019 – $nil) from a company with mutual board members and/or key management personnel with the Company.

11. Customer Deposits

During the year ended December 31, 2019, the Company entered into two agreements to supply dried cannabis products to customers. Pursuant to the agreements, the customers advanced a total of $40,000,000 to be applied against future purchase orders. In order to secure its delivery obligations, the Company has provided one customer with security over certain of its assets. Revenue on these agreements is recognized as the cannabis products are delivered which commenced in the final quarter of 2019. The Company expects to deliver cannabis products equivalent to the advanced amount within 12 to 24 months of the commencement of the agreements. For the three months ended March 31, 2020, the total amount of revenue recognized from these prepaid supply agreements was $2,687,877 (March 31, 2019 – $nil).

In connection with the prepaid supply agreements, the Company has concluded that there is a financing component. Utilizing an implied interest rate of 13%, the Company recognized an interest expense of $1,296,438 for the three months ended March 31, 2020 (March 31, 2019 – $nil).

Furthermore, for closing one of the agreements, the Company incurred a success fee of $1,126,594 settled in cash and 319,148 common shares. During the three months ended March 31, 2020, the Company recognized $84,777 (March 31, 2019 – $nil) of amortization expense relating to the success fee. As at March 31, 2020, the net amount of $954,931 (December 31, 2019 – $1,039,707) has been included as part of prepaid and other current assets in the Amended and Restated Condensed Consolidated Interim Statements of Financial Position.

12. Loans and Borrowings

As at March 31, 2020, the Company had the following loans and borrowings:

	March 31, 2020	December 31, 2019
Term loans (a)	$ 43,241,666	$ 45,005,818
Revolving line of credit (a)	1,341,354	—
Loans payable (b)	2,222,791	2,262,107
Senior notes payable (c)(d)	55,332,607	47,583,139
	102,138,418	94,851,064
Less: unamortized debt issuance costs	(659,437)	(683,416)
Total loans and borrowings	101,478,981	94,167,648
Less: current portion	**59,922,326**	**51,361,197**
Non-current portion	**$ 41,556,655**	**$ 42,806,451**

(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 reverse takeover ("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 March 31, 2020, the Company was in compliance with all covenants relating to the Credit Agreement.

12. Loans and Borrowings (continued)

(a) (continued)

Term loan

As at March 31, 2020, advances under the Term Loan were made in two tranches, with interest payments based on prime rate plus a margin. As at March 31, 2020, the borrowing rate was 4.70%. Each tranche is scheduled to mature on January 21, 2022. Any remaining principal balance will be due at maturity.

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 March 31, 2020, $30,891,667 (December 31, 2019 – $31,453,333) of Tranche 1 remained unpaid.

(ii) Tranche 2 provided available borrowings of $13,000,000 to finance capital expenditures for the conversion of a portion of Zenabis Langley Facility, for the purposes of cannabis cultivation and production, and for propagation conversion capital expenditures for Zenabis Topgro. 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 September 30, 2019. As at March 31, 2020, Tranche 2 had been fully drawn (December 31, 2019 – fully drawn).

Revolver

The Revolver provided available aggregate borrowings of up to $2,000,000. Interest payments are based on prime rate plus a margin that ranges between 0.25% and 1.75%. The Revolver may 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 March 31, 2020, $1,341,354 had been drawn (December 31, 2019 – 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 March 31, 2020, Facility A remained undrawn (December 31, 2019 – 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 March 31, 2020, Facility B remained undrawn (December 31, 2019 – undrawn).

(b) 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 the Company's Zenabis Atholville Facility property and equipment. The Company was not required to make any principal or interest payments through May 2019. Beginning in December 2019, the Company was required to make interest only payments based on the outstanding principal and accrued interest balance, plus 21 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 September 2027. During the thee months ended March 31, 2020, the Company incurred $39,316 (March 31, 2019 – $nil) of interest which was recognized through net loss. As at March 31, 2020, $222,791 of interest remains unpaid (December 31, 2019 – $262,107).

12. Loans and Borrowings (continued)

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

The non-convertible senior note holders also received 2,593,283 warrants, each entitling the note holders to acquire one common share of the Company 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 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 (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 rate 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 months ended March 31, 2020, accretion expense recognized through net loss was $1,172,863 (March 31, 2019 – $32,435).

(d) In March 2020, the Company received additional funding from its Senior Debt holders in the amount of $7,000,000, less a structuring fee of 5%, bearing interest of 14% per annum. The additional funding under the Senior Debt facility matures in July 2020, an automatic extension to November 2020 will occur if certain conditions are met.

During the three months ended March 31, 2020, accretion expense recognized through net loss was $29,605 (March 31, 2019 – nil).

Total long-term debt repayments are as follows:

2020	$ 59,126,909
2021	3,329,288
2022	3,446,666
2023	3,446,666
2024	3,446,666
Thereafter	29,342,223
Total long-term debt repayments	**$ 102,138,418**

13. Convertible Loans

	March 31, 2020	December 31, 2019
Unsecured convertible notes payable – related parties (a)	$ 11,418,840	$ 11,205,948
Unsecured convertible debentures (b)	12,314,363	11,938,329
Secured convertible notes payable (c)	11,091,189	16,870,805
Total convertible loans	34,824,392	40,015,082
Less: current portion	**22,510,030**	**28,076,753**
Non-current portion	**$ 12,314,362**	**$ 11,938,329**

(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 unchanged.

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 reverse takeover ("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.

Pursuant to the rights offering on November 27, 2019, the conversion price of the unsecured convertible notes payable was adjusted from $2.52 to $1.91 per common share. Management determined that this was not a debt modification and therefore the carrying value of the debt remained unchanged. It was also determined that the liquidity event had still not been met and therefore the value of the conversion option was not fixed.

Management determined that the conversion option is not an equity instrument and separately accounted for these as an embedded derivative.

As at March 31, 2020, the fair value of the derivative liability was $nil (December 31, 2019 – $nil).

The carrying value of the notes is accreted using the effective interest method to its redemption value of $11,418,840 to its maturity date. During the three months ended March 31, 2020, accretion expense recognized in net loss was $212,893 (March 31, 2019 – $658,771).

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. During the year ended December 31, 2019, the derivative liability was extinguished as one noteholder with principal balance of $2,055,000 became a related party and the remaining balance was fully converted into 986,944 common shares of the Company at $2.65 per common share. During the three months ended March 31, 2020, accretion expense recognized through net loss was $nil (March 31, 2019 – $4,334).

13. Convertible Loans (continued)

(b) 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 were not drawn on by the Company and the ability to draw the Additional Debentures expired during the three months ended March 31, 2020.

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.

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 them. At issuance, the fair value of the conversion option and warrants was $2,859,239.

Pursuant to the rights offering on November 27, 2019, the conversion price of the unsecured convertible debentures was adjusted from $3.62 to $2.61. Management determined that this was not a debt modification and therefore the carrying value of the unsecured convertible debt remained unchanged. As a result of the adjustment of the conversion price of the unsecured convertible debt, an additional 1,606,344 common shares are issuable upon the full conversion on the Unsecured Convertible Debentures.

The carrying value of the loans is accreted using the effective interest method to its redemption value of $15,000,000 to its maturity date. During the three months ended March 31, 2020, accretion expense recognized through net loss was $377,021 (March 31, 2019 – $13,974).

During the three months ended March 31, 2020, no unsecured convertible debentures were converted into common shares.

13. Convertible Loans (continued)

(c) 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 a derivative.

In January 2019, the warrant terms were amended which meant that the warrants no longer met the criteria of an embedded derivative and were therefore reclassified as an equity instrument. The fair value of the warrants on January 1, 2019 was determined to be $5,644,554. These were all exercised in January and February 2019.

Pursuant to the rights offering on November 27, 2019, the conversion price of the secured convertible notes payable was fixed at $1.69. Management determined the conversion options to be an equity instrument and reclassified them from a derivative liability to equity.

As at March 31, 2020, there was no derivative liability outstanding for the conversion option (December 31, 2019 – $nil).

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(c)**). 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 December 31, 2019. During the year ended December 31, 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.

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 notes is accreted using the effective interest method to their redemption value of $17,404,959 to their maturity dates.

Pursuant to the rights offering on November 27, 2019, the conversion price of the secured convertible notes payable was adjusted from $1.54635 to $1.17. Management determined that this was not a debt modification and therefore the carrying value of the debt and the conversion option remained unchanged. As a result of the rights offering, an additional 3,620,520 common shares are issuable upon the full conversion of the unsecured convertible notes.

In January 2020, holders of the subordinated secured convertible notes agreed to convert, at a conversion price of $0.155 per common share of the Company, an aggregate of $6,040,176 of the principal amount of the notes in exchange for the 38,968,874 common shares of the Company. In connection with the conversion, the Company issued an aggregate of 20,129,338 common share purchase warrants to the holders, each exercisable to acquire one common share of the Company at a price of $0.20 at any time during the three year period following the conversion date. A loss on early conversion of $5,624,803 was recognised through net loss.

13. Convertible Loans (continued)

(c) Secured Convertible Notes Payable (continued)

During the three months ended March 31, 2020, accretion expense recognized through net loss was $260,561 (March 31, 2019 – $160,696). The carrying value of the debt as at March 31, 2020 was $11,091,189 (December 31, 2019 – $16,870,805).

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

Balance, December 31, 2019	$	40,015,082
Conversions		(6,040,176)
Accretion		849,486
Balance, March 31, 2020	**$**	**34,824,392**

14. Right-of-use Assets and Lease Obligations

Right-of-use assets		**Office Lease**		**Building Lease**		**Equipment Lease**		**Total**
At December 31, 2019	$	4,681,911	$	504,426	$	179,669	**$**	**5,366,006**
Additions		—		—		74,129		**74,129**
Depreciation		(171,289)		—		(20,681)		**(191,970)**
Derecognition upon loss of control of former subsidiary		—		(504,426)		—		**(504,426)**
At March 31, 2020	**$**	**4,510,622**	**$**	**—**	**$**	**233,117**	**$**	**4,743,739**

Lease obligations		**Office Lease**		**Building Lease**		**Equipment Lease**		**Total**
At December 31, 2019	$	5,012,779	$	509,062	$	184,298	**$**	**5,706,139**
Additions		—		—		74,130		**74,130**
Imputed interest		164,007		—		4,447		**168,454**
Payments		(276,472)		—		(22,562)		**(299,034)**
Derecognition upon loss of control of former subsidiary		—		(509,062)		—		**(509,062)**
At March 31, 2020		4,900,314		—		240,313		**5,140,627**
Less: current portion		**488,612**		**—**		**73,475**		**562,087**
Non-current portion	**$**	**4,411,702**	**$**	**—**	**$**	**166,838**	**$**	**4,578,540**

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 Company has elected to recognize the lease payments of short-term and low-value leases in the Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive 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 months ended March 31, 2020 and 2019, short-term and low-value lease expenses recognized in the Company's Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive Loss were as follows:

	Three months ended March 31,			
		2020		**2019**
Short-term lease expense	$	313,583	$	46,922
Low-value lease expense	$	—	$	—

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 March 31, 2020, 386,685,435 common shares (December 31, 2019 – 347,716,561) 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 March 31, 2020 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2019	24,481,901	$ 2.62
Issued	20,129,338	0.20
Exercised	—	—
Cancelled/Expired	(2,593,283)	4.02
Balance, March 31, 2020	**42,017,956**	**$ 1.37**

Exercise Price	Expiry Date	Number of Warrants
$ 2.08	7/5/2020	6,009,615
2.68	9/27/2021	825,000
2.75	4/17/2022	12,777,777
1.39	8/21/2022	902,514
1.82	8/21/2022	1,373,712
$ 0.20	1/27/2023	20,129,338

16. Share-Based Payments

Equity Settled

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 (the "Board") 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.

16. Share-Based Payments (continued)

Equity Settled (continued)

(a) Stock Options

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

	Number of Options	Weighted Average Exercise Price
December 31, 2019	13,556,921	$ 2.18
Granted	11,518,500	0.16
Exercised	—	—
Forfeited/expired	(1,800,123)	1.77
Balance, March 31, 2020	**23,275,298**	**$ 1.21**

The following table summarizes stock options outstanding at March 31, 2020:

	Options Outstanding		Options Exercisable	
Exercise Price	**Number**	**Weighted Average Remaining Contractual Life (Years)**	**Number**	**Weighted Average Remaining Contractual Life (Years)**
$0.16 - $1.00	12,068,272	2.75	2,029,507	2.51
$1.01 - $2.00	5,972,277	2.53	3,329,293	2.49
$2.01 - $3.00	3,753,468	2.37	2,334,278	2.48
$3.01 - $4.00	1,047,948	2.58	485,223	2.63
$4.01 - $5.00	433,333	1.84	185,414	1.84

The fair value of stock options granted for the three months ended March 31, 2020 was $954,098 (March 31, 2019 – $5,139,592). During the three months ended March 31, 2020, the Company granted 351,000 options to third-party consultants (March 31, 2019 – 500,000). During the three months ended March 31, 2020, share-based compensation recognized through net loss was $251,942 (March 31, 2019 – $2,078,636).

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

	March 31, 2020	March 31, 2019
Expected life (in years)	1.62 - 3.00	1.88 - 3.00
Expected volatility	84% - 91%	90% - 99%
Risk-free interest rate	1.62% - 1.63%	1.68% - 1.96%
Forfeiture rate	12%	0% - 1%
Expected dividend	$ —	$ —

As at March 31, 2020, the total compensation cost not yet recognized related to options granted is approximately $3,099,217 (March 31, 2019 – $16,675,345) and will be recognized over the remaining average vesting period of 1.17 years (March 31, 2019 – 1.97 years).

16. Share-Based Payments (continued)

Equity Settled (continued)

(b) Restricted Share Units ("RSU") and Deferred Share Units ("DSU")

The following table summarizes the continuity of the Company's RSUs and DSUs transacted:

	RSUs and DSUs	
	Number	Weighted Average Issue Price
Balance, December 31, 2019	—	$ —
Issued	7,850,000	0.13
Vested, released and issued	—	—
Forfeited	(800,000)	0.12
Balance, March 31, 2020	**7,050,000**	**$ 0.13**

During the three months ended March 31, 2020, share-based compensation recognized through net loss was $387,277 (March 31, 2019 – $nil) pertaining to RSUs and DSUs granted and vested during the period.

The following table summarizes the RSUs and DSUs that remain outstanding as at March 31, 2020:

Weighted Average Issue Price	Expiry Date	Number Outstanding	Number Vested
$0.12	February 10, 2023	4,800,000	—
$0.16	N/A	2,250,000	2,250,000

Cash Settled

Certain employees of the Company were granted Share Appreciation Rights ("SARs") which are settled in cash. The SARs have a base price of $0.21 per common share, vest immediately and there are no market-based conditions attached. The SARs are payable at December 31, 2020 based on the amount that the Company's common share price at December 31, 2020 exceeds the base price. The liability of the share appreciation rights is measured initially at grant date and at the end of each reporting period until settled. The fair value of the share appreciation rights is measured by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights are granted.

During the three months ended March 31, 2020, share-based compensation recovery recognized through net loss was $297,361 (March 31, 2019 – $nil). As at March 31, 2020, the carrying amount of the liability relating to the SARs was $34,153 (December 31, 2019 – $331,514), which has been included in accounts payable and accrued liabilities.

The total equity and cash settled share-based compensation expense recognized in the Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive Loss are as follows:

	Three months ended March 31,	
	2020	2019
Expense arising from equity settled share-based payment transactions	$ 639,219	$ 2,078,636
Recovery arising from cash settled share-based payment transactions	(297,361)	—
Total expense arising from share-based payment transactions	**$ 341,858**	**$ 2,078,636**

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:

March 31, 2020	Classification	Fair Value Level	Carrying Value	Fair Value
Financial assets not measured at fair value				
Cash and cash equivalents	Amortized cost	1	$ 8,382,192	$ 8,382,192
Accounts receivable	Amortized cost	2	$ 10,616,990	$ 10,616,990
Financial assets measured at fair value				
Investments	Financial assets at FVTPL	3	$ 512,000	$ 512,000
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	Amortized cost	2	$ 28,286,154	$ 28,286,154
Due to related parties	Amortized cost	2	10,431	10,431
Loans and borrowings (i)	Amortized cost	2	101,478,981	101,478,981
Convertible loans (i)	Amortized cost	2	$ 34,824,392	$ 34,824,392

(i) The Company measures its loans and borrowings and convertible loans using the effective interest rate method which approximates the fair value.

December 31, 2019	Classification	Fair Value Level	Carrying Value	Fair Value
Financial assets not measured at fair value				
Cash and cash equivalents	Amortized cost	1	$ 16,574,203	$ 16,574,203
Accounts receivable	Amortized cost	2	$ 13,417,071	$ 13,417,071
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	Amortized cost	2	$ 28,622,664	$ 28,622,664
Due to related parties	Amortized cost	2	97,534	97,534
Loans and borrowings	Amortized cost	2	94,167,648	94,167,648
Convertible loans	Amortized cost	2	$ 40,015,082	$ 40,015,082

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 March 31, 2020 and December 31, 2019 due to the relatively short maturity of these instruments.

The fair value of loans and borrowings for disclosure purposes is derived using the amortized cost method, by calculating the accretion expense less the actual interest expense at market-related interest rate for similar loans ranging from 4.70% to 14.00% (December 31, 2019 – 4.70% to 14.00%).

17. Financial Instruments (continued)

(a) Fair value of financial instruments (continued)

Measurement of fair value (continued):

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 4.49% to 37.03% (December 31, 2019 – 4.49% to 37.03%); 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.

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.

(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 March 31, 2020, 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	**$ 28,286,154**	$ 28,286,154	$ —	$ —	$ —
Due to related parties	**10,431**	10,431	—	—	—
Loans and borrowings	**102,138,418**	59,126,909	6,775,954	6,893,332	29,342,223
Convertible loans	**34,824,392**	22,510,030	12,314,362	—	—
Lease obligations	**5,140,627**	562,087	618,779	2,294,282	1,665,479
Total	**$170,400,022**	**$ 110,495,611**	**$ 19,709,095**	**$ 9,187,614**	**$ 31,007,702**

17. Financial Instruments (continued)

(b) Financial instruments risk (continued)

As at December 31, 2019, 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	**$ 28,622,664**	$ 28,622,664	$ —	$ —	$ —
Due to related parties	**97,534**	97,534	—	—	—
Loans and borrowings	**94,851,064**	51,454,546	3,425,894	10,628,401	29,342,223
Convertible loans	**40,015,082**	28,076,753	11,938,329	—	—
Lease obligations	**5,706,139**	569,640	634,549	2,399,035	2,102,915
Total	**$169,292,483**	**$ 108,821,137**	**$ 15,998,772**	**$ 13,027,436**	**$ 31,445,138**

(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 rate 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:

The Company's investments are susceptible to price risk arising from uncertainties about their future values. The fair value of 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 $51,200 (December 31, 2019 – $nil).

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

The changes in non-cash operating working capital items and other for the three months ended March 31, 2020 and 2019 are as follows:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Accounts receivable	$ 2,058,337	$ (3,996,933)
Prepaid assets	552,422	(4,113,497)
Inventory	(5,312,440)	(4,226,425)
Biological assets	(2,294,043)	(377,961)
Other assets	(810,421)	—
Accounts payable and accrued liabilities	(4,212,284)	7,646,683
Deferred revenue	(2,257,523)	—
Other	—	134,597
Total changes in non-cash operating working capital items and other	**$ (12,275,952)**	**$ (4,933,536)**

19. Segmented Information

For management purposes, the Company is organized into business units based on its products and services and these are comprised of three separate reportable segments: Cannabis, Propagation and Other. These have been allocated based on how the company engages in business decisions, how revenues are generated and how expenses are incurred.

Operating Segments	Cannabis	Propagation	Other (i)	Inter-segment (ii)	Total
Three months ended March 31, 2020					
Net revenue	$ 12,601,116	$ 8,107,347	$ 10,000	$ (804,003)	**$ 19,914,460**
Gross margin before fair value adjustment	5,006,028	4,761,776	10,000	(804,003)	**8,973,801**
Gross margin	11,116,906	4,946,674	10,000	(804,003)	**15,269,577**
Operating income (loss)	3,404,479	3,755,580	(1,970,731)	—	**5,189,328**
Net (loss) income	$ (6,819,453)	$ 2,506,078	$ (3,389,460)	$ —	**$ (7,702,835)**
Three months ended March 31, 2019					
Net revenue	$ 4,098,973	$ 7,529,160	$ 251,855	$ (322,771)	**$ 11,557,217**
Gross margin before fair value adjustment	2,089,813	1,911,562	198,270	(322,771)	**3,876,874**
Gross margin	4,736,611	3,856,298	198,270	(322,771)	**8,468,408**
Operating (loss) income	(4,849,923)	2,393,618	(7,838,568)	—	**(10,294,873)**
Net income (loss)	$ 1,538,299	$ 1,275,572	$ (6,819,686)	$ —	**$ (4,005,815)**

(i) Other primarily include the Company's corporate activities.
(ii) Inter-segment revenue relates to facility rent charged by the Propagation segment to the Cannabis segment, and management fees charged by the Other segment to the Cannabis segment.

The Company derives revenue from the transfer of goods at a point-in-time from the following operating segments:

	Three months ended March 31, 2020	2019
Cannabis		
Net revenue from government agencies (i)	$ 9,797,644	$ 4,098,973
Revenue from non-government agencies (ii)	2,803,472	—
	$ 12,601,116	**$ 4,098,973**
Propagation		
Revenue from the USA	$ 2,476,687	$ 2,475,152
Revenue from Canada	5,630,660	5,054,008
	$ 8,107,347	**$ 7,529,160**

(i) Related to recreational sales of Cannabis to the Company's provincial customers.
(ii) Includes medical sales to individuals and revenue from prepaid supply agreements in addition to wholesale to other Licensed Producers.

19. Segmented Information (continued)

Operating Segments	Cannabis	Propagation	Other (i)	Total
As at March 31, 2020				
Total assets	$ 217,251,866	$ 81,978,919	$ 6,680,623	**$ 305,911,408**
Total liabilities	$ 135,411,887	$ 56,931,911	$ 22,438,126	**$ 214,781,924**
As at December 31, 2019				
Total assets	$ 202,678,817	$ 81,678,913	$ 16,737,785	**$ 301,095,515**
Total liabilities	$ 132,562,059	$ 58,187,390	$ 24,721,637	**$ 215,471,086**

(i) Other primarily include the Company's corporate activities.

The Company has one Propagation customer that accounts for $1,101,750 and 5% of the Company's gross revenue for the three months ended March 31, 2020 (March 31, 2019 – $1,502,988 and 12%). The Company expects to maintain this relationship with the customer.

The Company has three Cannabis customers that account for $4,164,133 (19%), $2,346,451 (10%) and $1,328,775 (6%) of the Company's gross revenue for the three months ended March 31, 2020 (March 31, 2019 – $nil (nil%), $331,966 (3%) and $1,868,344 (15%)). The Company expects to maintain these relationships with the customers.

20. Commitments and Contingencies

(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 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. Other than the claim listed below, there are no other claims ongoing:

In October 2018, a lawsuit was filed against certain parties, including the Company, alleging that such parties infringed on the trademark rights in respect of the "Namaste" brand that the Company uses under license from an affiliate. An agreement in principle has been reached but not executed, pursuant to which the Company has accrued for $250,000 in potential payments to resolve this matter.

21. Restatement of Previously Reported Condensed Consolidated Interim Financial Statements

Subsequent to the issuance of the previously reported non-reviewed condensed consolidated interim financial statements for the three months ended March 31, 2020, the Company has updated its accounting analysis of various transactions leading to revised conclusions as described below. As a result, the Company has restated its condensed consolidated interim financial statements.

- The Company identified that certain deposits recorded as current may take over one year to settle, and accordingly an amount of $810,421 was reclassified from 'Prepaid and other current assets' to non-current 'Other assets'.
- The Company determined that a payment from a customer was incorrectly recorded as decrease in 'Customer deposits' and the correction resulted in 'Accounts receivable' decrease of $850,432.
- The Company identified that $879,631 was incorrectly classified as non-current 'Loans and borrowings' and reclassified this to 'Current portion of loans and borrowings'.
- The Company updated its accounting analysis with respect to the induced early conversion of unsecured convertible notes which led to a revised conclusion that a loss on early conversion in conjunction with the unsecured convertible notes for $5,624,803 was not recorded. In addition to this, the warrants which were issued on conversion were fair valued at $891,916 and classified as equity instruments within the 'Reserve for Equity' in the Statement of Equity. 'Share Capital' was also increased by $4,732,887 related to the conversion.
- The Company identified that $1,060,500 in payables was incorrectly classified as 'Property, plant and equipment' and reclassified this to 'Accounts payable and accrued liabilities'.
- The deferred income tax liability for True Büch as at the date of disposal was understated by $568,670. This resulted in an increase to the 'Loss from loss of control of a former subsidiary' of $568,670.
- In the Statement of Cash Flows, the following four adjustments were made:
  - **(i)** Within 'Investing activities', the Company reclassified $2,756,718 of capital expenditures which related to 2019 and included these within 'Changes in non-cash working capital' in 'Accounts payable'.
  - **(ii)** Within 'Operating activities', the Company reclassified $1,168,925 of biological asset overhead depreciation from change in 'Non-cash working capital' in 'Inventory' to 'Biological assets'.
  - **(iii)** Within 'Operating activities', an amount of $67,910 was reclassified from 'Foreign exchange translation' to 'Other'.
  - **(iv)** Within 'Operating activities', the 'Accretion expense' was adjusted from $3,040,289 to $2,189,857.
- There were two corrections made to the condensed consolidated interim financial statements:
  - **(i)** In the supplemental cash flow information on page 5, the amount of 'Property, plant and equipment purchased and unpaid for at the period end' was amended from $4,886,956 to $3,461,829.
  - **(ii)** In **Note 16**, the amount of share-based compensation not yet recognized as of March 31, 2020 was amended from $13,046,570 to $3,099,217.

21. Restatement of Previously Reported Condensed Consolidated Interim Financial Statements (continued)

The following tables summarize the effects of the adjustments described above:

(a) Line items on the Amended and Restated Condensed Consolidated Interim Statements of Financial Position:

	As at March 31, 2020	Adjustment	As at March 31, 2020
	(Previously Reported)		*(Restated)*
Accounts receivable	$ 11,467,422	$ (850,432)	**$ 10,616,990**
Prepaid and other current assets	6,795,471	(810,421)	**5,985,050**
Total current assets	104,648,791	(1,660,853)	**102,987,938**
Other assets	—	810,421	**810,421**
Property, plant and equipment	195,540,183	1,060,500	**196,600,683**
Total assets	$ 305,701,340	$ 210,068	**$ 305,911,408**
Accounts payable and accrued liabilities	$ 27,225,654	$ 1,060,500	**$ 28,286,154**
Customer deposits	38,798,545	(850,432)	**37,948,113**
Current portion of loans and borrowings	59,042,695	879,631	**59,922,326**
Current liabilities	148,149,442	1,089,699	**149,239,141**
Loans and borrowings	42,436,286	(879,631)	**41,556,655**
Deferred income tax liability	6,524,556	568,670	**7,093,226**
Total liabilities	214,003,186	778,738	**214,781,924**
Share capital	231,331,105	4,732,887	**236,063,992**
Reserve for equity instruments	8,419,059	891,916	**9,310,975**
Accumulated other comprehensive loss	(318,726)	27,164	**(291,562)**
Deficit	(163,552,785)	(6,193,473)	**(169,746,258)**
Total equity attributable to shareholder	92,194,030	(541,506)	**91,652,524**
Non-controlling interest	(495,876)	(27,164)	**(523,040)**
Total equity	91,698,154	(568,670)	**91,129,484**
Total liabilities and equity	$ 305,701,340	$ 210,068	**$ 305,911,408**

21. Restatement of Previously Reported Condensed Consolidated Interim Financial Statements (continued)

(b) Line items on the Amended and Restated Condensed Consolidated Interim Statements of Loss and Comprehensive Loss:

	For the three months ended March 31, 2020	Adjustment	For the three months ended March 31, 2020
	(Previously Reported)		*(Restated)*
Loss from loss of control of a former subsidiary	$ (99,892)	$ (568,670)	**$ (668,562)**
Loss on early conversion of debt	—	(5,624,803)	**(5,624,803)**
Loss before income taxes	(812,220)	(6,193,473)	**(7,005,693)**
Net loss	$ (1,509,362)	$ (6,193,473)	**$ (7,702,835)**
Comprehensive loss	$ (1,577,272)	$ (6,193,473)	**$ (7,770,745)**
Net loss attributable to Zenabis Global Inc.	$ (1,355,668)	$ (6,193,473)	**$ (7,549,141)**
Comprehensive loss attributable to:			
Zenabis Global Inc.	$ (1,423,578)	$ (6,166,309)	**$ (7,589,887)**
Non-controlling interest	$ (153,694)	$ (27,164)	**$ (180,858)**
Loss per share, basic and diluted	$ (0.00)	$ (0.02)	**$ (0.02)**

(c) Line items on the Amended and Restated Condensed Consolidated Interim Statements of Changes in Equity:

	As at March 31, 2020	Adjustment	As at March 31, 2020
	(Previously Reported)		*(Restated)*
Share capital	$ 231,331,105	$ 4,732,887	**$236,063,992**
Reserve for equity instruments	8,419,059	891,916	**9,310,975**
AOCI	(318,726)	27,164	**(291,562)**
Deficit	(163,552,785)	(6,193,473)	**(169,746,258)**
Non-controlling interest	(495,876)	(27,164)	**(523,040)**
Total	$ 91,698,154	$ (568,670)	**$ 91,129,484**

21. Restatement of Previously Reported Condensed Consolidated Interim Financial Statements (continued)

(d) Line items on the Amended and Restated Condensed Consolidated Interim Statements of Changes in Cash Flows:

	For the three months ended March 31, 2020	Adjustment	For the three months ended March 31, 2020
	(Previously Reported)		*(Restated)*
Net loss	$ (1,509,362)	$ (6,193,473)	**$ (7,702,835)**
Gain on sale of assets	(11,168)	1,983	**(9,185)**
Loss from loss of control of a former subsidiary	99,892	568,670	**668,562**
Loss on early conversion of debt and expired warrants	—	5,624,803	**5,624,803**
Foreign exchange translation	(67,910)	67,910	**—**
Share-based compensation	341,857	1	**341,858**
Accretion expense	3,040,289	(850,432)	**2,189,857**
Current income tax expense	42,155	612,832	**654,987**
Change in deferred tax asset	—	42,155	**42,155**
Other	(2,805)	(67,910)	**(70,715)**
Changes in non-cash working capital items and other	(9,714,678)	(2,561,274)	**(12,275,952)**
Net cash flows used in operating activities	(11,591,457)	(2,754,735)	**(14,346,192)**
Purchase of property, plant and equipment	(3,442,130)	2,754,735	**(687,395)**
Net cash flows used in investing activities	$ (2,978,916)	$ 2,754,735	**$ (224,181)**
Property, plant and equipment purchased and unpaid for at period end	$ 4,886,956	$ (1,425,127)	**$ 3,461,829**

22. Subsequent Events

The following events have occurred subsequent to March 31, 2020:

(a) Amendments to Senior Secured Debenture

On April 23, 2020, the Company signed a definitive agreement with a syndicate of lenders (the "Senior Lenders") amending and restating its senior secured debt in the principal amount of $50,000,000. The key terms of the amended and restated debenture include:

(i) The deferral of the maturity date of the original senior debt from June 2020 to March 2025 with the principal amount of the original senior debt being repaid on the basis of straight-line amortization over 36 months beginning on April 1, 2022.

(ii) The addition of $3,750,000 to the principal amount as an amendment fee.

(iii) Beginning July 1, 2020, the company will make royalty payments to the Senior Lenders when the net cannabis revenue for each quarter exceeds $20,000,000. The royalty payment is based on a declining royalty factor as net cannabis revenue reaches various thresholds.

(iv) The issuance of 71,255,522 common share purchase warrants to the Senior Lenders with each warrant entitling its holder to purchase one common share of the Company at a price of $0.07017 per common share for a period of 5 years.

22. Subsequent Events (continued)

(b) Partial Conversion and Extension of Unsecured Convertible Notes Payable

On May 4, 2020, certain holders of the unsecured convertible notes payable agreed to convert $1,125,976 of outstanding principal into common shares of the Company at a conversion price of $0.07 per common share, resulting in the issuance of 16,085,366 of common shares of the Company.

Further, certain holders of the unsecured convertible notes payable agreed to extend the maturity date of $1,666,160 of the outstanding principal amount to June 30, 2022.

(c) Partial Conversion and Extension of Secured Convertible Notes Payable

On June 4, 2020, certain noteholders of the secured convertible notes payable agreed to convert $2,600,548 of the outstanding principal balance into common shares of the Company at a conversion price of $0.10232 per common share, resulting in an issuance of 25,415,836 of common shares of the Company.

Further, the noteholders agreed to defer the maturity date of the remaining principal amount of $8,764,234 from June 2020 to March 2021.