

# ZENABIS GLOBAL INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Financial Position  
As at September 30, 2020 and December 31, 2019

(Unaudited)

	Notes	September 30, 2020	December 31, 2019
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 4,830,869	\$ 16,574,203
Accounts receivable	3	14,260,922	13,417,071
Inventory	4	53,736,079	39,333,991
Biological assets	5	16,660,460	14,481,409
Prepaid and other current assets		5,534,736	6,206,310
Assets held for sale	7	7,594,993	—
		102,618,059	90,012,984
Loan receivable	10	262,267	—
Investments	9	512,000	—
Other assets		810,421	—
Property, plant and equipment	6	191,694,670	205,716,525
Right-of-use assets	14	343,484	5,366,006
<b>Total assets</b>		<b>\$ 296,240,901</b>	<b>\$ 301,095,515</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 25,518,094	\$ 28,622,664
Customer deposits	11	35,691,263	39,759,679
Due to related parties	10	—	97,534
Loans and borrowings	12	13,205,738	51,361,197
Convertible loans	13	10,577,379	28,076,753
Current lease obligations	14	226,360	569,641
		85,218,834	148,487,468
Loans and borrowings	12	99,755,792	42,806,451
Convertible loans	13	3,729,647	11,938,329
Deferred income tax liability		6,970,587	7,102,340
Lease obligations	14	135,571	5,136,498
<b>Total liabilities</b>		<b>195,810,431</b>	<b>215,471,086</b>
<b>Equity</b>			
Share capital		266,962,201	225,217,583
Reserve for equity settled share-based transactions		17,416,915	15,676,158
Reserve for equity instruments		19,333,630	8,419,059
Accumulated other comprehensive loss		(270,242)	(250,816)
Deficit		(202,208,723)	(162,197,117)
Total equity attributable to shareholders		101,233,781	86,864,867
Non-controlling interests	8	(803,311)	(1,240,438)
<b>Total equity</b>		<b>100,430,470</b>	<b>85,624,429</b>
<b>Total liabilities and equity</b>		<b>\$ 296,240,901</b>	<b>\$ 301,095,515</b>

Going concern (Note 1)

Commitments (Note 20)

Subsequent events (Note 21)

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

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
For the three and nine months ended September 30, 2020 and 2019

(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Revenue</b>					
Gross revenue		\$ 28,490,111	\$ 13,423,175	\$ 81,130,985	\$ 52,177,149
Excise taxes		(4,767,729)	(1,421,483)	(10,138,534)	(3,568,531)
<b>Net revenue</b>		<b>23,722,382</b>	<b>12,001,692</b>	<b>70,992,451</b>	<b>48,608,618</b>
Cost of sales and inventory production costs expenses		(13,575,679)	(6,940,983)	(43,108,282)	(31,287,269)
<b>Gross margin before fair value adjustments</b>		<b>10,146,703</b>	<b>5,060,709</b>	<b>27,884,169</b>	<b>17,321,349</b>
Changes in fair value of inventory sold and other charges		(19,114,863)	(6,760,956)	(51,290,780)	(20,177,022)
Unrealized gain on changes in fair value of biological assets		13,947,009	19,712,364	57,389,335	40,358,763
<b>Gross margin</b>		<b>4,978,849</b>	<b>18,012,117</b>	<b>33,982,724</b>	<b>37,503,090</b>
<b>Operating expenses</b>					
Acquisition costs		—	—	—	4,919,978
Salaries and benefits		3,046,097	7,421,432	11,044,274	17,361,880
Restructuring costs		—	—	1,542,342	—
General and administrative		4,727,903	3,210,424	7,216,528	10,688,547
Professional fees		1,260,032	2,691,913	3,270,186	8,338,097
Share-based compensation	16	1,266,986	2,004,544	2,621,742	6,225,613
Depreciation and amortization		911,015	2,726,639	4,451,788	6,291,703
Sales and marketing		57,062	938,132	387,310	2,856,068
Impairment of assets held for sale	7	1,571,026	—	1,571,026	—
		<b>12,840,121</b>	<b>18,993,084</b>	<b>32,105,196</b>	<b>56,681,886</b>
<b>(Loss) income from operations</b>		<b>(7,861,272)</b>	<b>(980,967)</b>	<b>1,877,528</b>	<b>(19,178,796)</b>
<b>Other income (expense)</b>					
Loss on revaluation of embedded derivative asset		(2,070,193)	—	(2,164,449)	—
Gain on revaluation of derivative liabilities	12	—	497,789	—	3,837,433
Finance and investment income (expense)	9	9,695	(173,986)	23,334	569,904
Interest expense		(5,850,396)	(4,689,124)	(20,166,356)	(12,993,578)
(Loss) gain on sale of property, plant and equipment		(504,658)	(21,675)	(13,406)	60,547
Loss due to an event		(2,330)	(1,186,692)	(48,064)	(4,270,485)
Insurance proceeds		445,268	492,995	470,268	3,176,536
Loss from loss of control of a former subsidiary	8	—	—	(668,562)	—
Government subsidies		1,963,465	—	5,996,459	—
Loss on early conversion of debt	13	—	—	(9,956,483)	—
Loss on modification and extinguishment of debt		—	—	(10,653,156)	—
Loss on remeasurement of royalty liability		(3,440,868)	—	(3,440,868)	—
Other income (expense)		799,303	61,994	332,651	(288)
<b>Loss before income taxes</b>		<b>(16,511,986)</b>	<b>(5,999,666)</b>	<b>(38,411,104)</b>	<b>(28,798,727)</b>
Current income tax expense		(359,642)	(342,758)	(2,117,219)	(925,606)
Deferred income tax recovery		(103,391)	511,145	68,537	1,388,851
<b>Net loss</b>		<b>\$ (16,975,019)</b>	<b>\$ (5,831,279)</b>	<b>\$ (40,459,786)</b>	<b>\$ (28,335,482)</b>
<b>Other comprehensive loss</b>					
Foreign exchange translation loss		\$ (28,481)	\$ —	\$ (32,375)	\$ —
Unrealized loss on investments		—	(138,080)	—	(51,645)
<b>Comprehensive loss</b>		<b>\$ (17,003,500)</b>	<b>\$ (5,969,359)</b>	<b>\$ (40,492,161)</b>	<b>\$ (28,387,127)</b>

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
For the three and nine months ended September 30, 2020 and 2019

**(Unaudited)** (continued)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Net (loss) income attributable to:					
Zenabis Global Inc.		\$ (16,852,572)	\$ (5,856,872)	\$ (40,011,606)	\$ (28,380,677)
Non-controlling interests		(122,447)	25,593	(448,180)	45,195
		<b>\$ (16,975,019)</b>	<b>\$ (5,831,279)</b>	<b>\$ (40,459,786)</b>	<b>\$ (28,335,482)</b>
Comprehensive (loss) income attributable to:					
Zenabis Global Inc.		\$ (16,869,661)	\$ (5,994,952)	\$ (40,031,032)	\$ (28,432,322)
Non-controlling interests		(133,839)	25,593	(461,129)	45,195
		<b>\$ (17,003,500)</b>	<b>\$ (5,969,359)</b>	<b>\$ (40,492,161)</b>	<b>\$ (28,387,127)</b>
<b>Loss per share, basic and diluted</b>					
		<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>\$ (0.08)</b>	<b>\$ (0.14)</b>
<b>Weighted average number of shares outstanding, basic and diluted</b>					
		<b>636,017,007</b>	<b>205,813,289</b>	<b>476,082,742</b>	<b>197,905,859</b>

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

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended September 30, 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
<b>Balance, December 31, 2019</b>		<b>347,716,561</b>	<b>—</b>	<b>\$ 225,217,583</b>	<b>\$ 15,676,158</b>	<b>\$ 8,419,059</b>	<b>\$ (250,816)</b>	<b>\$ (162,197,117)</b>	<b>\$ (1,240,438)</b>	<b>\$ 85,624,429</b>
Issuance of share capital pursuant to offering		270,608,203	—	21,605,202	—	9,554,566	—	—	—	31,159,768
Issuance of share capital on debt conversion	13	80,470,076	—	19,235,470	—	(404,202)	—	—	—	18,831,268
Issuance of share capital on exercise of warrants		17,810,000	—	1,694,734	—	(455,006)	—	—	—	1,239,728
Share issuance costs		—	—	(2,180,878)	—	(563,890)	—	—	—	(2,744,768)
Shares issued for payment of accounts payable		765,862	—	52,040	—	—	—	—	—	52,040
Shares issued as severance		1,793,571	—	125,550	—	—	—	—	—	125,550
Restricted and deferred share units granted		—	—	—	2,522,608	—	—	—	—	2,522,608
Restricted and deferred share units issued		10,675,000	—	1,212,500	(1,212,500)	—	—	—	—	—
Issuance of share purchase warrants		—	—	—	—	2,783,103	—	—	—	2,783,103
Derecognition of NCI upon loss of control	8	—	—	—	—	—	—	—	898,256	898,256
Foreign exchange translation		—	—	—	—	—	(19,426)	—	(12,949)	(32,375)
Share-based compensation		—	—	—	430,649	—	—	—	—	430,649
Net loss		—	—	—	—	—	—	(40,011,606)	(448,180)	(40,459,786)
<b>Balance, September 30, 2020</b>		<b>729,839,273</b>	<b>—</b>	<b>\$ 266,962,201</b>	<b>\$ 17,416,915</b>	<b>\$ 19,333,630</b>	<b>\$ (270,242)</b>	<b>\$ (202,208,723)</b>	<b>\$ (803,311)</b>	<b>\$ 100,430,470</b>

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Changes in Equity

For the nine months ended September 30, 2020 and 2019

(Unaudited) (continued)

Notes	Common Shares	Preferred Shares	Share Capital	Reserve for Equity Settled Share-based Transactions	Reserve for Equity Instruments	AOCI	Deficit	Non-controlling Interest	Total
<b>Balance, December 31, 2018</b>	<b>158,499,731</b>	—	<b>\$ 72,122,342</b>	<b>\$ 4,004,401</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (42,218,841)</b>	<b>\$ —</b>	<b>\$ 33,907,902</b>
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
<b>Balance, January 8, 2019</b>	<b>161,244,936</b>	—	<b>\$ 83,330,242</b>	<b>\$ 4,004,401</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (42,218,841)</b>	<b>\$ —</b>	<b>\$ 45,115,802</b>
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 for business combinations	5,482,381	—	9,360,168	—	(348,935)	—	—	—	9,011,233
Issuance of share capital on debt conversion	380,465	—	766,858	(382,121)	—	—	—	—	384,737
Issuance of share capital on exercise of warrants	1,685,443	—	8,519,105	—	—	—	—	—	8,519,105
Issuance of share capital on conversion of preferred shares	14,466	(17,860)	—	—	—	—	—	—	—
Issuance of share capital pursuant to offering	12,777,777	—	26,088,700	—	—	—	—	—	26,088,700
Issuance of share capital	319,148	—	526,594	—	—	—	—	—	526,594
Issuance of convertible notes	—	—	—	—	8,378,477	—	—	—	8,378,477
Extinguishment of convertible debt	—	—	—	—	(5,798,451)	—	5,352,366	—	(446,085)
Share issuance costs	—	—	(2,190,187)	—	(230,003)	—	—	—	(2,420,190)
Embedded warrants	—	—	—	—	4,772,176	—	—	—	4,772,176
Unrealized loss on investments	—	—	—	—	—	(51,645)	—	—	(51,645)
Share-based compensation	—	—	—	6,225,613	—	—	—	—	6,225,613
Net (loss) income	—	—	—	—	—	—	(28,380,677)	45,195	(28,335,482)
<b>Balance, September 30, 2019</b>	<b>208,629,937</b>	—	<b>\$206,803,669</b>	<b>\$ 9,847,893</b>	<b>\$ 6,773,264</b>	<b>\$ (51,645)</b>	<b>\$ (65,247,152)</b>	<b>\$ 523,062</b>	<b>\$ 158,649,091</b>

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

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Cash Flows  
For the nine months ended September 30, 2020 and 2019

(Unaudited)

	Notes	Nine months ended September 30,	
		2020	2019
<b>Operating Activities</b>			
Net loss		\$ (40,459,786)	\$ (28,335,482)
Items not involving cash:			
Changes in fair value of inventory sold and other charges		51,290,780	20,177,022
Unrealized gain on changes in fair value of biological assets		(57,389,335)	(40,358,763)
Depreciation and amortization		4,451,788	6,291,703
Impairment of assets held for sale	7	1,571,026	—
Loss (gain) on sale of property, plant and equipment		13,406	(60,547)
Loss due to an event		48,064	—
Loss from loss of control of a former subsidiary	8	668,562	—
Share-based compensation	16	2,621,742	6,225,613
Loss on remeasurement of royalty liability		3,440,868	—
Loss on early conversion of debt		9,956,483	—
Loss on modification and extinguishment of debt		10,653,156	—
Unrealized gain on investments		—	(552,288)
Write-off of property, plant and equipment		—	1,946,804
Gain on revaluation of derivative liabilities		—	(3,837,433)
Loss on revaluation of derivative assets		2,164,449	—
Accrued interest		62,208	339,334
Interest capitalized		208,614	—
Accretion expense		8,813,965	6,140,406
Implied lease obligation interest		311,620	420,874
Current income tax expense		2,117,219	925,606
Deferred income tax recovery		(68,537)	(1,388,851)
Other		(47,127)	—
Changes in non-cash working capital items and other	18	(21,989,826)	(13,203,302)
<b>Net cash used in operating activities</b>		<b>\$ (21,560,661)</b>	<b>\$ (45,269,304)</b>
<b>Investing Activities</b>			
Purchase of property, plant and equipment		\$ (2,364,747)	\$ (88,052,236)
Proceeds from disposal of property, plant and equipment		432,416	17,625
Remediation costs related to an event		(48,064)	—
Proceeds received from insurance claim related to an event		25,000	—
Proceeds from sale of investment		—	3,648,294
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		(105,455)	—
<b>Net cash used in investing activities</b>		<b>\$ (2,060,850)</b>	<b>\$ (92,270,338)</b>
<b>Financing Activities</b>			
Proceeds from secured loans and borrowings		\$ 8,381,354	\$ 90,676,980
Proceeds from issue of secured convertible debt		—	13,593,950
Repayment of convertible debt		(19,832,266)	—
Repayment of secured loans and borrowings		(5,254,750)	(26,582,911)
Transaction costs related to debt and convertible debt		(453,000)	—
Repayment of lease obligations		(612,962)	(618,197)
Net proceeds from issuance of share capital		28,415,000	26,362,048
Repayments to related parties		(4,927)	(891,371)
Stock options exercised		—	384,737
Warrants exercised		1,239,728	6,212,485
Customer deposit, net of finders fee		—	39,400,000
<b>Net cash provided by financing activities</b>		<b>\$ 11,878,177</b>	<b>\$ 148,537,721</b>

# ZENABIS GLOBAL INC.

Condensed Consolidated Interim Statements of Cash Flows  
For the nine months ended September 30, 2020 and 2019

**(Unaudited)** (continued)

	Notes	Nine months ended September 30,	
		2020	2019
<b>(Decrease) increase in cash during the period</b>		<b>\$ (11,743,334)</b>	<b>\$ 10,998,079</b>
Cash, beginning of period		16,574,203	16,966,803
<b>Cash, end of period</b>		<b>\$ 4,830,869</b>	<b>\$ 27,964,882</b>
<b>Supplemental cash flow information:</b>			
Property, plant and equipment purchased and unpaid at period end		\$ 3,416,704	\$ 7,865,228

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



# ZENABIS GLOBAL INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited)

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## 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 400 - 1152 Mainland Street, Vancouver, British Columbia, Canada, V6B 4X2. 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 condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and 2019 (the "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 and nine months ended September 30, 2020, the Company reported a net loss and comprehensive loss of \$17,003,500 and \$40,492,161 respectively. For the nine months ended September 30, 2020, the Company reported negative cash flow from operations of \$21,989,826 and an accumulated deficit of \$202,208,723 as at September 30, 2020. Further, as at September 30, 2020, \$23,783,117 of the Company's debt was due within the next 12 months. These conditions cast a material uncertainty on the Company's ability to continue as a going concern. The 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.

# ZENABIS GLOBAL INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited)

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## 2. Significant Accounting Policies

### (a) Basis of Presentation and Measurement

The 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 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 by the government 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 Condensed Consolidated Interim Financial Statements were approved and authorized for issue by the Board of Directors of the Company on November 13, 2020.

### (b) Basis of Consolidation

These 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 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.

# ZENABIS GLOBAL INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the three and nine months ended September 30, 2020 and 2019  
(Unaudited)

## 2. Significant Accounting Policies (continued)

### (b) Basis of Consolidation (continued)

As at September 30, 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 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.

# ZENABIS GLOBAL INC.

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## 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 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 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 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

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## 2. Significant Accounting Policies (continued)

### (f) New Accounting Pronouncements (continued)

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the impact of these amendments on the Company's Condensed Consolidated Interim Financial Statements.

## 3. Accounts Receivable

	September 30, 2020	December 31, 2019
Trade receivables <sup>(i)</sup>	\$ 11,954,428	\$ 11,658,568
GST/HST recoverable	139,303	1,173,451
Government subsidies receivable	1,761,831	—
Insurance proceeds receivable	405,360	585,052
<b>Balance, end of period</b>	<b>\$ 14,260,922</b>	<b>\$ 13,417,071</b>

(i) As at September 30, 2020, trade receivables included an allowance for doubtful accounts of \$395,951 (December 31, 2019 – \$664,264).

## 4. Inventory

The Company's inventory is comprised of:

September 30, 2020	Capitalized Cost	Biological Asset Fair Value Adjustment	Impairment of Capitalized Cost	Impairment of Fair Value Adjustment	Carrying Value
<b>Cannabis</b>					
Work-in-process	\$ 18,681,513	\$ 23,516,819	\$ (108,168)	\$ (588,902)	\$ 41,501,262
Finished goods	2,964,622	2,749,577	(142,146)	(279,115)	5,292,938
	21,646,135	26,266,396	(250,314)	(868,017)	46,794,200
<b>Non-cannabis</b>					
Work-in-process	484,754	—	—	—	484,754
<b>Supplies and consumables</b>	6,457,125	—	—	—	6,457,125
<b>Balance, September 30, 2020</b>	<b>\$ 28,588,014</b>	<b>\$ 26,266,396</b>	<b>\$ (250,314)</b>	<b>\$ (868,017)</b>	<b>\$ 53,736,079</b>

December 31, 2019	Capitalized Cost	Biological Asset Fair Value Adjustment	Impairment of Capitalized Cost	Impairment of Fair Value Adjustment	Carrying Value
<b>Cannabis</b>					
Work-in-process	\$ 8,947,204	\$ 22,181,505	\$ (826,613)	\$ (3,138,875)	\$ 27,163,221
Finished goods	1,991,696	3,260,566	(48,121)	(1,147,429)	4,056,712
	10,938,900	25,442,071	(874,734)	(4,286,304)	31,219,933
<b>Non-cannabis</b>					
Work-in-process	623,344	—	—	—	623,344
Finished goods	7,317	—	—	—	7,317
	630,661	—	—	—	630,661
<b>Supplies and consumables</b>	7,483,397	—	—	—	7,483,397
<b>Balance, December 31, 2019</b>	<b>\$ 19,052,958</b>	<b>\$ 25,442,071</b>	<b>\$ (874,734)</b>	<b>\$ (4,286,304)</b>	<b>\$ 39,333,991</b>

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## 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 during the nine-month period ended September 30, 2020 are as follows:

Balance, December 31, 2019	\$ 14,481,409
Production costs capitalized	38,228,524
Changes in fair value, less cost to sell due to biological transformation	57,389,335
Transferred to inventory upon harvest	(93,438,808)
<b>Balance, September 30, 2020</b>	<b>16,660,460</b>
Attributable to:	
Cannabis segment	14,093,009
Propagation segment	\$ 2,567,451

### Cannabis

Live cannabis plants are harvested as agricultural produce and as at September 30, 2020, on average, were approximately 37% 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 intended for flowering 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 September 30, 2020:

<b>Selling price</b>	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
<b>Expected yield</b>	Represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
<b>Post-harvest costs</b>	Calculated as the cost per gram of harvested cannabis to prepare for the sale of cannabis plants post-harvest, consisting of the cost of materials and labour related to labelling and packaging
<b>Stage of completion</b>	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.

<b>Cannabis</b>	<b>September 30, 2020</b>	<b>10% Change as at September 30, 2020</b>	<b>December 31, 2019</b>	<b>10% Change as at December 31, 2019</b>
Selling price (weighted average) – Flower <sup>(i)</sup>	\$ 3.97	\$ 1,415,848	\$ 4.55	\$ 678,385
Average yield per plant (grams)	47.44	960,795	107.12	687,724
Post-harvest costs (weighted average)	\$ 1.05	803,848	\$ 0.61	86,076
Average stage of completion (%)	38	\$ 832,076	17	\$ 594,652

(i) Net of excise tax.

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## 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.

<b>Vegetable Plants</b>	<b>September 30, 2020</b>	<b>10% Change as at September 30, 2020</b>	<b>December 31, 2019</b>	<b>10% Change as at December 31, 2019</b>
Selling price (weighted average)	\$ 1.05	\$ 22,212	\$ 1.81	\$ 151,398

<b>Bedding/Floral Plants</b>	<b>September 30, 2020</b>	<b>10% Change as at September 30, 2020</b>	<b>December 31, 2019</b>	<b>10% Change as at December 31, 2019</b>
Selling price (weighted average)	\$ 4.10	\$ 164,367	\$ 4.47	\$ 149,668

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## 6. Property, Plant and Equipment

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

During the nine months ended September 30, 2020, \$208,614 (December 31, 2019 – \$8,084,033), 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 September 30, 2020 is as follows:

	Land	Buildings and Improvements	Production Equipment	Other Equipment	Construction in Progress	Total
<b>Cost</b>						
At December 31, 2019	\$ 16,110,258	\$ 131,377,099	\$ 22,514,349	\$ 12,770,656	\$ 32,705,753	\$ 215,478,115
Additions	—	514,213	2,236,776	938,337	1,895,384	5,584,710
Disposals	—	(146,471)	(984,879)	(11,461)	—	(1,142,811)
Transfer between asset classes	—	790,076	(469,919)	(320,157)	—	—
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)	(335,238)	(338,818)	—	(1,040,641)
Transfers from CIP	—	15,699,781	881,229	584,494	(17,165,504)	—
<b>At September 30, 2020</b>	<b>\$ 14,687,961</b>	<b>\$ 140,917,531</b>	<b>\$ 23,842,318</b>	<b>\$ 13,623,051</b>	<b>\$ 15,976,795</b>	<b>\$ 209,047,656</b>
<b>Accumulated depreciation</b>						
At December 31, 2019	\$ —	\$ 6,018,407	\$ 2,252,615	\$ 1,490,568	\$ —	\$ 9,761,590
Additions	—	4,676,251	2,014,816	1,749,809	—	8,440,876
Disposals	—	(40,298)	(75,822)	—	—	(116,120)
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)
<b>At September 30, 2020</b>	<b>\$ —</b>	<b>\$ 9,984,738</b>	<b>\$ 4,163,228</b>	<b>\$ 3,205,020</b>	<b>\$ —</b>	<b>\$ 17,352,986</b>
<b>Net book value</b>						
<b>At December 31, 2019</b>	<b>\$ 16,110,258</b>	<b>\$ 125,358,692</b>	<b>\$ 20,261,734</b>	<b>\$ 11,280,088</b>	<b>\$ 32,705,753</b>	<b>\$ 205,716,525</b>
<b>At September 30, 2020</b>	<b>\$ 14,687,961</b>	<b>\$ 130,932,793</b>	<b>\$ 19,679,090</b>	<b>\$ 10,418,031</b>	<b>\$ 15,976,795</b>	<b>\$ 191,694,670</b>



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## 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. The fair value less cost of disposal of the Delta Property was determined to be \$7,594,993 as at September 30, 2020. During the three months ended September 30, 2020, impairment losses of \$1,571,026 were incurred as a result of a reduction of the listing price. 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, 2020	1,422,297	6,284,884	1,458,838	9,166,019
Impairment	—	(1,571,026)	—	(1,571,026)
<b>Net book value, September 30, 2020</b>	<b>\$ 1,422,297</b>	<b>\$ 4,713,858</b>	<b>\$ 1,458,838</b>	<b>\$ 7,594,993</b>

## 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 nine months ended September 30, 2020:

	September 30, 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
<b>Loss from the loss of control of True Büch</b>	<b>\$ (668,562)</b>

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## 8. Non-controlling Interest (continued)

### (b) ZenPharm

In October 2019, the Company formed ZenPharm to service the European medical cannabis market. As at September 30, 2020, the Company held a 60% ownership interest in ZenPharm. The following table represents the summarized financial information for ZenPharm:

	September 30, 2020
Current assets	\$ 239,644
Non-current assets	36,466
Current liabilities	1,796,664
Non-current liabilities	—
Revenues for the three and nine months ended	—
Net loss for the three months ended	306,118
Net loss for the nine months ended	\$ 1,120,451

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	(461,129)
<b>Balance, September 30, 2020</b>	<b>\$ (803,311)</b>

## 9. Investments

	September 30, 2020	December 31, 2019
True Büch <sup>(i)</sup>	\$ 512,000	\$ —
<b>Total investments</b>	<b>\$ 512,000</b>	<b>\$ —</b>

(i) Refer to Note 8(a).

Finance and investment income consisted of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Realized and unrealized (loss) gain on investments	\$ —	\$ (181,480)	\$ —	\$ 552,288
Interest income	9,695	7,494	23,334	17,616
<b>Total finance and investment income (expense)</b>	<b>\$ 9,695</b>	<b>\$ (173,986)</b>	<b>\$ 23,334</b>	<b>\$ 569,904</b>

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## 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. Payments of these balances are processed in the normal course of business.

	September 30, 2020	December 31, 2019
Due to related parties	\$ —	\$ 97,534
Included in accounts payable and accrued liabilities	14,209	388,832
Included in accounts receivable	(95,786)	—
<b>Total amounts due (from) to related parties</b>	<b>\$ (81,577)</b>	<b>\$ 486,366</b>

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 September 30, 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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and benefits	\$ 558,801	\$ 523,649	\$ 1,623,971	\$ 1,646,981
Share-based payments (recovery)	439,445	960,373	(393,001)	3,022,496
Director fees	97,805	152,652	472,496	395,961
<b>Total compensation of key management personnel</b>	<b>\$ 1,096,051</b>	<b>\$ 1,636,674</b>	<b>\$ 1,703,466</b>	<b>\$ 5,065,438</b>

### (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 September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Amounts incurred to companies affiliated with the:				
Former Chief Executive Officer of the Company	\$ —	\$ 183,624	\$ —	\$ 1,890,719
Chief Growing Officer of the Company	10,083	126,000	57,270	336,000
Amounts incurred to companies controlled by a Director of the Company	—	151,619	36,445	925,601
<b>Total amounts incurred to related parties</b>	<b>\$ 10,083</b>	<b>\$ 461,243</b>	<b>\$ 93,715</b>	<b>\$ 3,152,320</b>

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## 10. Related Party Transactions (continued)

### (e) Propagation revenues earned from related parties

During the three and nine months ended September 30, 2020, the Company's Propagation segment earned rental and other miscellaneous revenues totaling \$23,723 and \$29,723, respectively (September 30, 2019 – \$nil and \$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. For the three and nine months ended September 30, 2020, the total amount of revenue recognized from these prepaid supply agreements was \$2,278,530 and \$6,719,863, respectively (September 30, 2019 – \$nil and \$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 \$1,310,685 and \$3,903,562 for the three and nine months ended September 30, 2020, respectively (September 30, 2019 – \$nil and \$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 and nine months ended September 30, 2020, the Company recognized \$nil and \$84,777 (September 30, 2019 – \$nil and \$nil) of amortization expense relating to the success fee. As at September 30, 2020, the net amount of \$954,930 (December 31, 2019 – \$1,039,707) has been included as part of prepaid and other current assets in the Condensed Consolidated Interim Statements of Financial Position.

## 12. Loans and Borrowings

As at September 30, 2020, the Company had the following loans and borrowings:

	September 30, 2020	December 31, 2019
Term loans (a)	\$ 42,503,333	\$ 45,005,818
Loans payable (b)	2,205,265	2,262,107
Royalty liability (d)	11,713,153	—
Senior notes payable (c)(d)	57,152,541	47,583,139
	<b>113,574,292</b>	<b>94,851,064</b>
Less: unamortized debt issuance costs	(612,762)	(683,416)
Total loans and borrowings	112,961,530	94,167,648
<b>Less: current portion</b>	<b>13,205,738</b>	<b>51,361,197</b>
<b>Non-current portion</b>	<b>\$ 99,755,792</b>	<b>\$ 42,806,451</b>

(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");

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## 12. Loans and Borrowings (continued)

### (a) (continued)

- (iii) a \$2,000,000 loan facility ("Facility A");
- (iv) a \$300,000 corporate card ("Facility B"); and
- (v) a \$40,000 loan facility ("Canada Emergency Business Loan").

Under the terms of the Credit Agreement, the Company is subject to certain customary financial and non-financial covenants and restrictions. In addition, the Credit Agreement is secured by a first-ranking security interest over substantially all of the property of Bevo Farms Ltd. and its subsidiaries. As at September 30, 2020, the Company was in compliance with all covenants relating to the Credit Agreement.

### Term loan

As at September 30, 2020, advances under the Term Loan were made in two tranches, with interest payments based on prime rate plus a margin. As at September 30, 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 September 30, 2020, \$30,330,000 (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 September 30, 2020, \$12,133,333 (December 31, 2019 – \$13,000,000) remains unpaid.

### Canada Emergency Business Loan

In April 2020, the Company applied for and received the "Canada Emergency Business Loan" of \$40,000 at 0% interest which is due in December, 2022. There is an optional extension period from January 1, 2023 to December 31, 2025. If the extension is taken, then there is 5% interest for the extension period. As at September 30, 2020, \$40,000 was outstanding (December 31, 2019 – \$nil).

### 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 September 30, 2020, it was undrawn (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 September 30, 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 September 30, 2020, Facility B remained undrawn (December 31, 2019 – undrawn).

# ZENABIS GLOBAL INC.

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## 12. Loans and Borrowings (continued)

- (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. 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 three and nine months ended September 30, 2020, the Company incurred \$33,079 and \$99,257 (September 30, 2019 – \$31,848 and \$96,309) of interest which was recognized through net loss. As at September 30, 2020, \$205,265 of interest remains unpaid (December 31, 2019 – \$262,107).
- (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").

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.

Further to this, the New Senior Debt was subsequently refinanced in April 2020 which extended the maturity date to March 2025, see **Note 12(d)**.

- (d) In April 2020, the Company signed a definitive agreement amending and restating the non-convertible senior note. The restated debenture combines the Original Senior Debt, the New Senior Debt, the \$7,000,000 extension in addition to a capitalized amendment fee in the amount of \$3,750,000 for a total principal amount of \$60,750,000.

The key terms of the restated debenture included:

- The deferral of the maturity date of the original senior date 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.
- The early payment provision that could require monthly payments before the debt maturity date, with payment amounts determined by the lesser of an amount based on monthly free cashflow and monthly ending cash on hand.



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## 12. Loans and Borrowings (continued)

### (d) (continued)

- Beginning July 1, 2020, the company will make quarterly royalty payments to the Senior Lenders. The royalty payment is based on a declining royalty factor as net cannabis revenue reaches various thresholds.
- The option to prepay certain principal amounts of the debt "Trigger Payment" and a "Buy-Out" option. The royalty payments terms will remain the same and will not increase ("Amended Royalty") if the Trigger Payment is made by October 15, 2020. The Company has the right to buy-out its future royalty payments.
- 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.

Management determined the warrants to be equity instruments and were valued using Black Scholes valuation model with a fair value of \$1,780,413.

Management determined that the restated debenture met the requirements for debt extinguishment and a loss on extinguishment of \$10,879,058 was recognised in the consolidated statement of loss.

In June 2020, the \$7,000,000 debt extension was further extended to December 31, 2020. Management determined that this amendment met the requirements for debt modification and a gain on modification of \$356,858 was recognised in the consolidated statement of loss.

The restated debenture and debt extension is measured at amortized cost. During the three and nine months ended September 30, 2020, accretion expense recognized in the consolidated statement of loss was \$201,779 and \$1,845,285, respectively (September 30, 2019 – \$632,580 and \$789,928).

Management has accounted for the royalty liability at amortized cost which was recorded as a component of the loan balance, the amount assigned to the royalty liability at inception was \$7,719,661. Additionally, the Company determined that there were embedded derivative assets related to the Trigger Payment and Buy-Out options which have been separately accounted for as a derivative asset in prepaid and other current assets. The embedded derivative asset is level 3 instrument and was fair valued at inception at \$2,164,449 using a Monte Carlo approach. This incorporated several scenarios and probabilities of meeting the Trigger Payment and Buy-Out requirements. It also incorporated a revenue forecast over the next 8 years. At inception management used a probability of 50% of meeting the Trigger Payment in October 2020.

At September 30, 2020, the probability of meeting the Trigger Payment was re-estimated to 0%. The embedded derivative asset was revalued to \$nil, and a loss of \$2,164,449 was recognised through the net loss. The royalty liability was also remeasured to \$11,713,153 and a loss of \$3,440,868 was recognised through the net loss. Subsequent to September 30, 2020, the Trigger Payment was not made by October 15, 2020.

Reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other assumptions constant, would have affected the royalty liability by the amounts shown below:

	September 30, 2020	
	10% Increase	10% Decrease
Net cannabis revenue	\$ 873,000	\$ (996,000)

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## 12. Loans and Borrowings (continued)

Total loans and borrowings repayments as at September 30, 2020 are as follows:

< 1 year	\$ 13,293,948
1 - 2 years	14,028,201
2 - 5 years	56,327,208
> 5 years	29,924,935
<b>Total long-term debt repayments</b>	<b>\$ 113,574,292</b>

## 13. Convertible Loans

	September 30, 2020	December 31, 2019
Unsecured convertible notes payable – related parties (a)	\$ 9,330,262	\$ 11,205,948
Unsecured convertible debentures (b)	3,487,241	11,938,329
Secured convertible notes payable (c)	1,489,523	16,870,805
Total convertible loans	14,307,026	40,015,082
<b>Less: current portion</b>	<b>10,577,379</b>	<b>28,076,753</b>
<b>Non-current portion</b>	<b>\$ 3,729,647</b>	<b>\$ 11,938,329</b>

### (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.



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## 13. Convertible Loans (continued)

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

In May 2020, certain noteholders converted \$1,125,976 of the principal balance to common shares of the Company at a price of \$0.07 per share. A loss on early conversion of \$1,084,638 was recognised through net loss. In addition to the conversion, there was also an extension granted by one note holder whereby the maturity date for the debt was extended from October 2020 to June 2022 and the conversion price was amended from \$1.91 to the volume-weighted average price of the common shares of the Company during the 5 trading-day period immediately preceding the conversion. Management determined that the amended terms fundamentally changed the debt and accounted for this as a debt extinguishment. A gain on extinguishment of \$282,068 was recognised in the consolidated statement of loss. Since the value of the conversion price was not fixed, it was determined that the conversion option was a derivative liability. Therefore, the original debt was derecognised, the replacement debt was recognised at fair value and a separate conversion option was recognised.

As at September 30, 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 \$9,330,262 to its maturity date. During the three and nine months ended September 30, 2020, accretion expense recognized in net loss was \$187,780 and \$986,840 respectively (September 30, 2019 – \$200,763 and \$1,051,359).

### (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 nine months ended September 30, 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 at September 30, 2020, none of these warrants had been exercised or had expired.

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.

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## 13. Convertible Loans (continued)

### (b) Unsecured Convertible Debentures (continued)

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 \$3,487,241 to its maturity date. During the three and nine months ended September 30, 2020, accretion expense recognized through net loss was \$718,780 and \$2,605,411, respectively (September 30, 2019 – \$343,790 and \$681,299).

During the nine months ended September 30, 2020, no unsecured convertible debentures were converted into common shares.

### (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 were 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 price 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.

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.

# ZENABIS GLOBAL INC.

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## 13. Convertible Loans (continued)

### (c) Secured Convertible Notes Payable (continued)

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

The carrying value of the 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 \$1.55 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.

In June 2020, holders of the subordinated secured convertible notes agreed to convert, at a conversion price of \$0.10, \$2,600,549 of the principal amount in exchange for 25,415,836 common shares. Due to the lower conversion price offered to the note holders, there was a loss on early conversion of \$3,247,041 recorded through net loss.

In addition to this, there was an amendment to the debt whereby the maturity date was extended from June 2020 to March 2021. Management determined that this should be accounted for as a debt modification and therefore a loss on modification of \$413,024 calculated using the original effective interest rate was recorded through the consolidated statement of loss at this date.

The carrying value of the conversion option was \$nil as at September 30, 2020.

During the three and nine months ended September 30, 2020, accretion expense recognized through net loss was \$nil and \$136,218, respectively (September 30, 2019 – \$444,887 and \$1,759,960). The carrying value of the debt as at September 30, 2020 was \$1,489,523 (December 31, 2019 – \$16,870,804).

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

Balance, December 31, 2019	\$	40,015,082
Refinance		243,963
Conversions		(9,766,701)
Repayments on share subscriptions		(19,832,266)
Accretion		3,646,948
<b>Balance, September 30, 2020</b>	<b>\$</b>	<b>14,307,026</b>

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## 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	199,663	—	74,130	273,793
Depreciation	(354,397)	—	(63,903)	(418,300)
Disposals	(4,373,589)	—	—	(4,373,589)
Derecognition upon loss of control of former subsidiary	—	(504,426)	—	(504,426)
<b>At September 30, 2020</b>	<b>\$ 153,588</b>	<b>\$ —</b>	<b>\$ 189,896</b>	<b>\$ 343,484</b>

Lease obligations	Office Lease	Building Lease	Equipment Lease	Total
At December 31, 2019	\$ 5,012,779	\$ 509,062	\$ 184,298	\$ 5,706,139
Additions	199,663	—	74,130	273,793
Imputed interest	299,289	—	12,331	311,620
Payments	(547,058)	—	(65,904)	(612,962)
Disposals	(4,807,597)	—	—	(4,807,597)
Derecognition upon loss of control of former subsidiary	—	(509,062)	—	(509,062)
At September 30, 2020	157,076	—	204,855	361,931
<b>Less: current portion</b>	<b>155,879</b>	<b>—</b>	<b>70,481</b>	<b>226,360</b>
<b>Non-current portion</b>	<b>\$ 1,197</b>	<b>\$ —</b>	<b>\$ 134,374</b>	<b>\$ 135,571</b>

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 terminated its primary office lease in June 2020 and commenced leasing of a new office in July 2020.

The Company has elected to recognize the lease payments of short-term and low-value leases in the 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 and nine months ended September 30, 2020 and 2019, short-term and low-value lease expenses recognized in the Company's Condensed Consolidated Interim Statements of Loss and Comprehensive Loss were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Short-term lease expense	\$ 314,731	\$ 7,198	\$ 1,014,324	\$ 54,243
Low-value lease expense	\$ —	\$ —	\$ —	\$ —

# ZENABIS GLOBAL INC.

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## 15. Share Capital

### (a) Authorized

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

### (b) Issued and outstanding

As at September 30, 2020, 729,839,273 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 September 30, 2020 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2019	24,481,901	\$ 2.62
Issued	378,229,553	0.13
Exercised	(17,810,000)	0.07
Cancelled/expired	(2,593,283)	4.02
<b>Balance, September 30, 2020</b>	<b>382,308,171</b>	<b>\$ 0.26</b>

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
\$ 0.16	6/25/2025 <sup>(i)</sup>	181,290,456
\$ 0.13	6/25/2021	10,877,426
\$ 0.10	9/23/2025 <sup>(iii)</sup>	89,317,747
\$ 0.07	4/22/2025	53,445,522
\$ 0.09	9/23/2021	5,359,064

(i) In the event that the Common Shares are trading at a price greater than \$0.32 per Common Share for a period of ten consecutive trading days, the Company may accelerate the expiry date of the warrants.

(iii) In the event that the Common Shares are trading at a price greater than \$0.20 per Common Share for a period of ten consecutive trading days, the Company may accelerate the expiry date of the warrants.

## 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.

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## 16. Share-Based Payments (continued)

### Equity Settled (continued)

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.

#### (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	28,318,500	0.09
Forfeited/expired	(14,625,455)	1.83
<b>Balance, September 30, 2020</b>	<b>27,249,966</b>	<b>\$ 0.20</b>

The following table summarizes stock options outstanding at September 30, 2020:

Exercise Price	Options Outstanding		Options Exercisable	
	Number	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Remaining Contractual Life (Years)
\$0.05 - \$1.00	25,765,832	4.06	2,848,337	2.29
\$1.01 - \$2.00	1,260,295	2.18	567,319	2.03
\$2.01 - \$3.00	123,839	1.07	82,559	1.07
\$4.01 - \$5.00	100,000	1.34	58,333	1.34

The fair value of stock options granted for the three and nine months ended September 30, 2020 was \$408,116 and \$1,362,214, respectively (September 30, 2019 – \$nil and \$10,327,636). During the three and the nine months ended September 30, 2020, the Company granted 1,707,000 and 2,058,000 options to third-party consultants, respectively, (September 30, 2019 – nil and 650,000). During the three and nine months ended September 30, 2020, share-based compensation expense of \$281,874 and \$430,649 was recognised through the consolidated statement of loss, respectively, pertaining to stock options granted and vested during the period (September 30, 2019 – \$2,004,544 and \$6,225,613).

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

	September 30, 2020	September 30, 2019
Expected life (in years)	1.11 - 4.03	1.88 - 4.00
Expected volatility	84% - 93%	88% - 99%
Risk-free interest rate	0.25% - 0.31%	1.55% - 1.96%
Forfeiture rate	— %	— %
Expected dividend	\$ —	\$ —

As at September 30, 2020, the total compensation cost not yet recognized related to options granted is approximately \$890,891 (September 30, 2019 – \$15,248,507) and will be recognized over the remaining average vesting period of 1.34 years (September 30, 2019 – 1.73 years).



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## 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	—	\$ —
Granted	38,803,333	0.10
Vested, released and issued	(10,675,000)	0.12
Forfeited	(3,302,738)	0.12
<b>Balance, September 30, 2020</b>	<b>24,825,595</b>	<b>\$ 0.09</b>

During the three and nine months ended September 30, 2020, share-based compensation recognized through net loss was \$1,001,608 and \$2,522,608 (September 30, 2019 – \$nil and \$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 September 30, 2020:

Weighted Average Issue Price	Number Outstanding	Number Vested
\$0.08	16,450,595	—
\$0.11	6,500,000	—
\$0.15	750,000	750,000
\$0.16	1,125,000	1,125,000

### 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 and nine months ended September 30, 2020, cash-settled share-based compensation recovery recognized through net loss was \$16,496 and \$331,514 (September 30, 2019 – \$nil and \$nil). This was the result of a lower valuation of the stock appreciation rights liability due to a decrease in the Company's share price from December 31, 2019 to September 30, 2020. As at September 30, 2020, the carrying amount of the liability relating to the SARs was \$nil (December 31, 2019 – \$331,514), which has been included in accounts payable and accrued liabilities.

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## 16. Share-Based Payments (continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Expense arising from equity settled share-based payment transactions	\$ 1,283,482	\$ 2,004,544	\$ 2,953,256	\$ 6,225,613
Recovery arising from cash settled share-based payment transactions	(16,496)	—	(331,514)	—
<b>Total expense arising from share-based payment transactions</b>	<b>\$ 1,266,986</b>	<b>\$ 2,004,544</b>	<b>\$ 2,621,742</b>	<b>\$ 6,225,613</b>

## 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:

<b>Level 1</b>	Unadjusted quoted prices in active markets for identical assets or liabilities;
<b>Level 2</b>	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
<b>Level 3</b>	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, 2020	Classification	Fair Value Level	Carrying Value	Fair Value
<b>Financial assets not measured at fair value</b>				
Cash and cash equivalents	Amortized cost	1	\$ 4,830,869	\$ 4,830,869
Accounts receivable	Amortized cost	2	\$ 14,260,922	\$ 14,260,922
<b>Financial assets measured at fair value</b>				
Investments	Financial assets at FVTPL	3	\$ 512,000	\$ 512,000
<b>Financial liabilities not measured at fair value</b>				
Accounts payable and accrued liabilities	Amortized cost	2	\$ 25,518,094	\$ 25,518,094
Loans and borrowings	Amortized cost	2	101,861,139	101,861,139
Royalty Liability	Amortized cost	3	11,713,153	11,713,153
Convertible loans	Amortized cost	2	\$ 14,307,026	\$ 14,307,026



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## 17. Financial Instruments (continued)

### (a) Fair value of financial instruments (continued)

December 31, 2019	Classification	Fair Value Level	Carrying Value	Fair Value
<b>Financial assets not measured at fair value</b>				
Cash and cash equivalents	Amortized cost	1	\$ 16,574,203	\$ 16,574,203
Accounts receivable	Amortized cost	2	\$ 13,417,071	\$ 13,417,071
<b>Financial liabilities not measured at fair value</b>				
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 September 30, 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 based on discounting contractual cash flows at market-related interest rate for similar loans ranging from 14.00% to 4.70% (December 31, 2019 – 4.70% to 14.00%).

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.

The fair value of the embedded debt prepayment option is determined using an amortizing callable bond model where prepayment was allowed anytime at par and without penalty, and the embedded royalty payments are valued using the Monte Carlo simulation of the future net cannabis revenue, and the probability weighted royalty amount at the valuation date. The following significant unobservable inputs were used:

- Future net cannabis revenue; and
- Probability of meeting the Trigger Payment requirements.

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.

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## 17. Financial Instruments (continued)

### (b) Financial instruments risk (continued)

#### (iii) 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, 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	\$ 25,518,094	\$ 25,518,094	\$ —	\$ —	\$ —
Loans and borrowings	101,861,139	10,590,885	11,764,671	51,970,027	27,535,556
Royalty Liability	11,713,153	2,703,063	2,263,530	4,357,181	2,389,379
Convertible loans	14,307,026	10,554,077	3,487,241	265,708	—
Lease obligations	361,931	226,360	81,184	54,387	—
<b>Total</b>	<b>\$ 153,761,343</b>	<b>\$ 49,592,479</b>	<b>\$ 17,596,626</b>	<b>\$ 56,647,303</b>	<b>\$ 29,924,935</b>

#### (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).

# ZENABIS GLOBAL INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 18. Changes in Non-cash Operating Working Capital Items and Other

The changes in non-cash operating working capital items and other for the nine months ended September 30, 2020 and 2019 are as follows:

	Nine months ended September 30,	
	2020	2019
Accounts receivable	\$ (1,031,183)	\$ (389,123)
Prepaid assets	(235,599)	(5,101,755)
Inventory	(9,956,691)	(20,888,931)
Biological assets	3,919,504	15,988,479
Accounts payable and accrued liabilities	(8,033,644)	(2,842,174)
Deferred revenue	(6,652,213)	30,202
<b>Total changes in non-cash operating working capital items and other</b>	<b>\$ (21,989,826)</b>	<b>\$ (13,203,302)</b>

# ZENABIS GLOBAL INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 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 <sup>(i)</sup>	Inter-segment <sup>(ii)</sup>	Total
<b>Three months ended September 30, 2020</b>					
Net revenue	\$ 19,017,746	\$ 5,479,138	\$ 40,000	\$ (814,502)	\$ 23,722,382
Gross margin before fair value adjustment	8,921,415	1,999,790	40,000	(814,502)	10,146,703
Gross margin	3,601,380	2,151,971	40,000	(814,502)	4,978,849
Operating (loss) income	(7,043,047)	445,645	(1,263,870)	—	(7,861,272)
Net (loss) income	\$ (15,208,359)	\$ 360,997	\$ (2,127,657)	\$ —	\$ (16,975,019)
<b>Three months ended September 30, 2019</b>					
Net revenue	\$ 7,086,259	\$ 5,269,050	\$ 421,540	\$ (775,157)	\$ 12,001,692
Gross margin before fair value adjustment	3,623,261	1,902,579	310,026	(775,157)	5,060,709
Gross margin	16,228,931	2,248,317	310,026	(775,157)	18,012,117
Operating income (loss)	3,049,147	709,350	(4,739,464)	—	(980,967)
Net income (loss)	\$ 291,753	\$ (558,871)	\$ (5,564,161)	\$ —	\$ (5,831,279)
<b>Nine months ended September 30, 2020</b>					
Net revenue	\$ 43,415,039	\$ 29,939,998	\$ 90,000	\$ (2,452,586)	\$ 70,992,451
Gross margin before fair value adjustment	19,520,805	10,725,950	90,000	(2,452,586)	27,884,169
Gross margin	25,678,066	10,667,244	90,000	(2,452,586)	33,982,724
Operating income (loss)	953,438	6,710,269	(5,786,179)	—	1,877,528
Net (loss) income	\$ (36,851,121)	\$ 5,396,054	\$ (9,004,719)	\$ —	\$ (40,459,786)
<b>Nine months ended September 30, 2019</b>					
Net revenue	\$ 18,437,092	\$ 30,926,210	\$ 1,093,378	\$ (1,848,062)	\$ 48,608,618
Gross margin before fair value adjustment	9,306,566	9,042,518	820,327	(1,848,062)	17,321,349
Gross margin	28,905,559	9,625,266	820,327	(1,848,062)	37,503,090
Operating (loss) income	(6,433,669)	4,708,702	(17,453,829)	—	(19,178,796)
Net (loss) income	\$ (10,232,501)	\$ 243,851	\$ (18,346,832)	\$ —	\$ (28,335,482)

(i) Other primarily includes the company's corporate activities.

(ii) Includes 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.

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## 19. Segmented Information (continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Cannabis</b>				
Net revenue from government agencies <sup>(i)</sup>	\$ 12,061,908	\$ 6,651,856	\$ 30,317,696	\$ 16,059,699
Revenue from non-government agencies <sup>(ii)</sup>	6,955,838	434,403	13,097,343	2,377,393
	<b>\$ 19,017,746</b>	<b>\$ 7,086,259</b>	<b>\$ 43,415,039</b>	<b>\$ 18,437,092</b>
Revenue from Canada	\$ 16,552,891	\$ 7,086,259	\$ 40,141,043	\$ 18,437,092
Revenue from International Exports	2,464,855	—	3,273,996	—
	<b>\$ 19,017,746</b>	<b>\$ 7,086,259</b>	<b>\$ 43,415,039</b>	<b>\$ 18,437,092</b>
<b>Propagation</b>				
Revenue from the USA	\$ 3,169,890	\$ 3,668,511	\$ 18,555,942	\$ 20,165,499
Revenue from Canada	2,309,248	1,600,539	11,384,056	10,760,711
	<b>\$ 5,479,138</b>	<b>\$ 5,269,050</b>	<b>\$ 29,939,998</b>	<b>\$ 30,926,210</b>

(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.

Operating Segments	Cannabis	Propagation	Other <sup>(i)</sup>	Total
<b>As at September 30, 2020</b>				
Total assets	\$ 213,525,706	\$ 79,747,387	\$ 2,967,808	<b>\$ 296,240,901</b>
Total liabilities	\$ 135,163,538	\$ 53,602,784	\$ 7,044,109	<b>\$ 195,810,431</b>
<b>As at December 31, 2019</b>				
Total assets	\$ 202,678,817	\$ 81,678,913	\$ 16,737,785	<b>\$ 301,095,515</b>
Total liabilities	\$ 132,562,059	\$ 58,187,390	\$ 24,721,637	<b>\$ 215,471,086</b>

(i) Other primarily includes the company's corporate activities.

The Company has one Propagation customer that accounts for \$1,518,339 (5%) and \$14,674,912 (18%) of the Company's gross revenue for the three and nine months ended September 30, 2020, respectively (September 30, 2019 – \$1,511,029 (11%) and \$16,350,448 (31%)). The Company expects to maintain this relationship with the customer.

The Company has two Cannabis customers that account for \$4,620,365 (16%) and \$13,052,759 (16%) and \$2,975,384 (10%) and \$5,520,907 (7%) of the Company's gross revenue for the three and nine months ended September 30, 2020, respectively (September 30, 2019 – \$2,945,040 (22%) and \$4,545,102 (9%), and \$690,991 (5%) and \$3,509,020 (7%)). The Company expects to maintain these relationships with the customers.

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## 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. The total commitment under this agreement is \$3,456,000.
- (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. There are no current claims against the Company.

## 21. Subsequent Events

The following events have occurred subsequent to September 30, 2020:

- (a) On October 19, 2020, the Company has entered into definitive agreements with the holders of two of the unsecured convertible notes to defer the maturity date of the notes principal amount of \$6,400,000 from October 17, 2020 to June 30, 2021. Zenabis will issue to each noteholder 1,237,500 warrants. Each warrant will entitle its holder to purchase a common share of the Company at an exercise price of \$0.15 for a period of five years. Additionally, the holder of a third unsecured convertible note with a principal amount of \$2,600,000 has delivered to the Company an interim waiver of any default under such note upon its maturity to facilitate ongoing negotiations for the extension or settlement of such note.
- (b) On October 30, 2020, the Company has entered into the note amending agreement with the holders of the subordinated secured convertible notes to convert 100% of the outstanding principal amount and the accrued interest on each note into common shares of Zenabis at a price of \$0.04794 per share resulting in the issuance of 32,208,806 common shares. Additionally the Company will issue warrants exercisable into 16,104,403 common shares at a price of \$0.06768 per share for a period of five years subject to the Company's right to accelerate the expiry date if the 10-day weighted average trading price of the common shares on the Toronto Stock Exchange exceeds \$0.1356 per share.