ZENABIS GLOBAL INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(EXPRESSED IN CANADIAN DOLLARS)

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INDEPENDENT AUDITORS' REPORT

To the shareholders of Zenabis Global Inc.

Opinion

We have audited the consolidated financial statements of Zenabis Global Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of loss and comprehensive loss for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Entity has experienced significant losses, negative cash flows from operations, has a working capital deficiency and has an accumulated deficit.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters as set forth in Note 1 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the assumptions used in the fair value of biological assets

Description of the matter

We draw attention to Notes 2(c)(ii) and 6 to the financial statements. The Entity has recorded biological assets of $13,189 thousand and unrealized fair value gains of $68,150 thousand in earnings. Biological assets are valued at fair value less costs to sell using the income approach. The significant assumptions used to measure the fair value of biological assets include selling prices, expected yield, and average cost to cultivate which forms the stage of completion.

Why the matter is a key audit matter

We identified the evaluation of the significant assumptions used in determining fair value of biological assets as a key audit matter. Significant auditor judgment was required to evaluate the significant assumptions. This matter represented an area of significant risk of material misstatement given changes to those assumptions could have a significant impact on the measurement of biological assets. As a result, significant auditor judgment was required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's historical estimated selling prices to actual results to assess the Entity's ability to accurately estimate selling prices. We tested the estimated selling prices by comparing to a selection of historical sales prices and actual sales prices subsequent to year end. We tested the expected yield by observing a selection of post-harvest weigh ins during the period and subsequent to year end. We tested the average cost to cultivate by selecting a sample of the direct costs and tracing to the source documents, assessing the allocation method of any indirect overhead, recalculating overhead allocations and on a selection basis comparing the underlying allocation to source documents.

Evaluation of the assumptions that are used in the measurement of the royalty liability

Description of the matter

We draw attention to Notes 2(d)(viii) and 15(c) to the financial statements. The Entity's royalty liability is $13,604 thousand included in Loans and borrowings. The royalty liability is based on future net cannabis revenues over the royalty term. The royalty liability was recognized at its estimated fair value at initial recognition based on the present value of expected future payments and is re-measured each reporting period based on revised expected future payments discounted at the original effective interest rate under the amortized cost method. The determination of expected future payments requires the Company to make significant estimates and judgments, including estimated cannabis sales volumes and selling prices.

Why the matter is a key audit matter

We identified the evaluation of the assumptions that are used in the measurement of the royalty liability as a key audit matter as significant auditor judgment was required to evaluate the significant assumptions. This matter represented a significant risk of material misstatement as changes to those assumptions could have a significant impact on the measurement of the royalty liability. This matter required significant auditor effort and specialized skills and knowledge to evaluate the Entity's estimated royalty liability.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's historical estimated cannabis sales volumes and estimated selling prices to actual results to assess the Entity's ability to accurately estimate cannabis sales volumes and selling prices. We evaluated the appropriateness of the Company's estimated cannabis sales volumes by comparing a selection of the estimated cannabis sales volumes to historical sales volumes of the Entity and actual sales volumes subsequent to year end. We tested the selling prices by comparing a selection to historical sales prices and actual sales prices subsequent to year-end. We involved valuation professionals with specialized skills and knowledge, who assisted in using such inputs to develop an independent estimate of the royalty liability and compared the results of our independent estimate of the royalty liability to the Entity's estimate.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Jonathan Wong.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 31, 2021

ZENABIS GLOBAL INC.

Consolidated Statements of Financial Position
As at December 31, 2020 and 2019

	Notes	December 31, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		$ 5,733,290	$ 16,574,203
Accounts receivable	4	8,501,738	13,417,071
Loan receivable		2,966,069	—
Inventory	5	59,312,308	39,333,991
Biological assets	6	13,189,033	14,481,409
Prepaid and other current assets		6,851,065	6,206,310
		96,553,503	90,012,984
Loan receivable	13	265,103	—
Investments	12	160,316	—
Deferred consideration	9	6,569,016	—
Other assets		810,421	—
Property, plant and equipment	7	121,920,346	205,716,525
Right-of-use assets	17	11,513,188	5,366,006
Total assets		**$ 237,791,893**	**$ 301,095,515**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 32,910,854	$ 28,622,664
Customer deposits	14	34,088,328	39,759,679
Due to related parties	13	—	97,534
Loans and borrowings	15	54,782,173	51,361,197
Convertible loans	16	11,346,007	28,076,753
Current lease obligations	17	763,633	569,641
		133,890,995	148,487,468
Loans and borrowings	15	12,846,530	42,806,451
Convertible loans	16	—	11,938,329
Deferred income tax liability		87,605	7,102,340
Lease obligations	17	12,533,720	5,136,498
Total liabilities		**159,358,850**	**215,471,086**
Equity			
Share capital		273,895,604	225,217,583
Reserve for equity settled share-based transactions		18,097,952	15,676,158
Reserve for equity instruments		19,723,062	8,419,059
Accumulated other comprehensive loss		(272,897)	(250,816)
Deficit		(231,958,430)	(162,197,117)
Total equity attributable to shareholders		79,485,291	86,864,867
Non-controlling interests	11	(1,052,248)	(1,240,438)
Total equity		**78,433,043**	**85,624,429**
Total liabilities and equity		**$ 237,791,893**	**$ 301,095,515**

Going concern (**Note 1**)
Commitments (**Note 25**)
Subsequent events (**Note 26**)
(The accompanying notes are an integral part of these consolidated financial statements)

ZENABIS GLOBAL INC.

Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2020 and 2019

	Notes	2020	2019 (i)
Revenue			
Gross revenue		$ 75,039,631	$ 36,432,960
Excise taxes		(15,736,800)	(5,994,973)
Net revenue		**59,302,831**	**30,437,987**
Cost of sales and inventory production expenses		(34,490,237)	(16,759,234)
Gross margin before fair value adjustments		**24,812,594**	**13,678,753**
Changes in fair value of inventory sold and other charges		(59,098,554)	(31,991,696)
Unrealized gain on changes in fair value of biological assets		68,150,029	54,831,124
Gross margin		**33,864,069**	**36,518,181**
Operating expenses			
Acquisition costs		—	4,398,646
Salaries and benefits		13,278,665	23,485,046
Restructuring costs		1,542,342	—
General and administrative		8,721,930	13,793,918
Professional fees		4,219,336	12,489,826
Share-based compensation	19	3,715,089	12,220,958
Depreciation and amortization		2,520,624	4,609,317
Sales and marketing		572,527	3,516,295
Impairment of assets held for sale	8	1,571,026	—
Impairment of property, plant and equipment	7	—	21,231,483
		36,141,539	**95,745,489**
Loss from operations		**(2,277,470)**	**(59,227,308)**
Other income (expense)			
Loss on revaluation of embedded derivative asset		(2,164,449)	—
Gain on revaluation of derivative liabilities	15	—	3,860,426
Finance and investment (expense) income	12	(490,185)	638,307
Interest expense		(23,802,642)	(9,017,047)
Loss on sale of property, plant and equipment		(1,186,264)	(213,599)
Loss from loss of control of a former subsidiary	11	(668,562)	—
Government subsidies		4,924,973	—
Loss on early conversion of debt	16	(13,924,271)	—
Loss on modification and extinguishment of debt		(10,430,349)	—
Loss on remeasurement of royalty liability		(4,747,875)	—
Other expense		(93,411)	(22,645)
Impairment of intangible assets and goodwill		—	(9,205,058)
Loss before income taxes and discontinued operations		**(54,860,505)**	**(73,186,924)**
Current income tax expense		(16,034)	(798,750)
Deferred income tax recovery		2,104	1,415,292
Net loss from continuing operations		**(54,874,435)**	**(72,570,382)**
Loss from discontinued operations, net of tax	9	(15,582,224)	(54,479,411)
Net loss		**$ (70,456,659)**	**$ (127,049,793)**

(i) Comparative information has been recast to reflect the presentation of discontinued operations as described in **Note 9**.

ZENABIS GLOBAL INC.

Consolidated Statements of Loss and Comprehensive Loss (continued)
For the years ended December 31, 2020 and 2019

	Notes		2020		2019 [(i)]
Other comprehensive loss					
Foreign exchange translation loss		$	(36,801)	$	—
Realized loss on investments			—		(250,816)
Comprehensive loss		**$**	**(70,493,460)**	**$**	**(127,300,609)**
Net loss from continuing operations attributable to:					
Zenabis Global Inc.		$	(54,179,089)	$	(70,851,231)
Non-controlling interests			(695,346)		(1,719,151)
		$	**(54,874,435)**	**$**	**(72,570,382)**
Net loss from discontinued operations attributable to:					
Zenabis Global Inc.		$	(15,582,224)	$	(54,479,411)
Non-controlling interests			—		—
		$	**(15,582,224)**	**$**	**(54,479,411)**
Comprehensive loss attributable to:					
Zenabis Global Inc.		$	(69,783,394)	$	(125,581,458)
Non-controlling interests			(710,066)		(1,719,151)
		$	**(70,493,460)**	**$**	**(127,300,609)**
Loss per share, basic and diluted					
Continuing operations		$	(0.10)	$	(0.30)
Discontinued operations			(0.03)		(0.23)
		$	**(0.13)**	**$**	**(0.53)**
Weighted number of shares outstanding, basic and diluted			**549,925,238**		**239,449,950**

(i) Comparative information has been recast to reflect the presentation of discontinued operations as described in **Note 9**.

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

ZENABIS GLOBAL INC.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2020 and 2019

	Notes	Common Shares	Preferred Shares	Share Capital	Reserve for Equity Settled Share-based Transactions	Reserve for Equity Instruments	AOCI	Deficit	Non-controlling Interest	Total
Balance, December 31, 2019		**347,716,561**	**—**	**$ 225,217,583**	**$ 15,676,158**	**$ 8,419,059**	**$ (250,816)**	**$ (162,197,117)**	**$ (1,240,438)**	**$ 85,624,429**
Issuance of units pursuant to offering	18	270,608,203	—	21,605,202	—	9,554,566	—	—	—	**31,159,768**
Issuance of share capital on debt conversion	16	145,234,370	—	25,997,534	—	(404,202)	—	—	—	**25,593,332**
Issuance of share capital on exercise of warrants	18	17,810,000	—	1,694,734	—	(455,006)	—	—	—	**1,239,728**
Share issuance costs		—	—	(2,421,849)	—	(563,890)	—	—	—	**(2,985,739)**
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	19	—	—	—	3,187,668	—	—	—	—	**3,187,668**
Restricted and deferred share units issued	19	15,733,724	—	1,624,810	(1,404,707)	—	—	—	—	**220,103**
Issuance of share purchase warrants		—	—	—	—	3,172,535	—	—	—	**3,172,535**
Derecognition of NCI upon loss of control		—	—	—	—	—	—	—	898,256	**898,256**
Foreign exchange translation		—	—	—	—	—	(22,081)	—	(14,720)	**(36,801)**
Share-based compensation	19	321,500	—	—	638,833	—	—	—	—	**638,833**
Net loss		—	—	—	—	—	—	(69,761,313)	(695,346)	**(70,456,659)**
Balance, December 31, 2020		**799,983,791**	**—**	**$273,895,604**	**$ 18,097,952**	**$ 19,723,062**	**$ (272,897)**	**$ (231,958,430)**	**$ (1,052,248)**	**$ 78,433,043**

ZENABIS GLOBAL INC.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2020 and 2019

	Notes	Common Shares	Preferred Shares	Share Capital	Reserve for Equity Settled Share-based Transactions	Reserve for Equity Instruments	AOCI	Deficit	Non-controlling Interest	Total
Balance, December 31, 2018		**158,499,731**	**—**	**$ 72,122,342**	**$ 4,004,401**	**$ —**	**$ —**	**$ (42,218,841)**	**$ —**	**$ 33,907,902**
Issuance of share capital on debt conversion	16	2,078,045	—	7,869,960	—	—	—	—	—	**7,869,960**
Issuance of share capital on exercise of options	19	667,160	—	3,337,940	—	—	—	—	—	**3,337,940**
Balance, January 8, 2019		**161,244,936**	**—**	**$ 83,330,242**	**$ 4,004,401**	**$ —**	**$ —**	**$ (42,218,841)**	**$ —**	**$ 45,115,802**
Shares exchanged on reverse takeover		(161,244,936)	—	(83,330,242)	—	—	—	—	—	**(83,330,242)**
Existing shares of Bevo Agro Inc. prior to reverse takeover		27,768,073	17,860	78,354,188	—	—	—	—	—	**78,354,188**
Shares issued to shareholders of Sun Pharm Investments Ltd.		159,746,237	—	83,330,242	—	—	—	—	—	**83,330,242**
Issuance of share capital for business combinations		455,947	—	2,048,001	—	—	—	—	478,713	**2,526,714**
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	16	380,465	—	602,424	(217,687)	—	—	—	—	**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	—	24,149,999	—	—	—	—	—	**24,149,999**
Issuance of share capital on exercise of rights issued		139,086,624	—	20,862,994	—	—	—	—	—	**20,862,994**
Issuance of share capital	18	319,148	—	526,594	—	—	—	—	—	**526,594**
Issuance of convertible notes	16	—	—	—	—	8,378,477	—	—	—	**8,378,477**
Extinguishment of convertible debt	16	—	—	—	—	(5,798,451)	—	5,352,366	—	**(446,085)**
Share issuance costs		—	—	(2,536,132)	—	(374,071)	—	—	—	**(2,910,203)**
Embedded warrants		—	—	—	—	6,562,039	—	—	—	**6,562,039**
Unrealized loss on investments		—	—	—	—	—	(250,816)	—	—	**(250,816)**
Share-based compensation	19	—	—	—	11,889,444	—	—	—	—	**11,889,444**
Net loss		—	—	—	—	—	—	(125,330,642)	(1,719,151)	**(127,049,793)**
Balance, December 31, 2019		**347,716,561**	**—**	**$ 225,217,583**	**$ 15,676,158**	**$ 8,419,059**	**$ (250,816)**	**$ (162,197,117)**	**$ (1,240,438)**	**$ 85,624,429**

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

ZENABIS GLOBAL INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	Notes	2020	2019 (i)
Operating Activities			
Net loss from continuing operations		$ (54,874,435)	$ (72,570,382)
Items not involving cash:			
Changes in fair value of inventory sold and other charges		59,098,554	31,991,696
Unrealized gain on changes in fair value of biological assets		(68,150,029)	(54,831,124)
Depreciation and amortization		2,520,624	4,609,317
Impairment of assets held for sale	8	1,571,026	—
Impairment		—	31,311,275
Loss on sale of property, plant and equipment		1,186,264	213,599
Loss from loss of control of a former subsidiary	11	668,562	—
Share-based compensation	19	3,715,089	12,220,958
Loss on remeasurement of royalty liability	15	4,747,875	—
Loss on early conversion of debt		13,924,271	—
Loss on modification and extinguishment of debt		10,430,349	—
Realized and unrealized loss on investments	12	512,000	1,319,635
Unrealized gain on investments	12	—	(1,826,041)
Gain on revaluation of derivative liability		—	(3,860,426)
Loss on revaluation of embedded derivative asset		2,164,449	—
Accrued interest		(25,082)	—
Interest capitalized		208,614	(8,084,033)
Accretion expense		10,580,270	9,480,350
Implied lease obligation interest		271,209	589,954
Current income tax expense		16,034	798,750
Change in deferred tax asset		(2,104)	(1,415,292)
Other		(41,202)	—
Changes in non-cash working capital items and other	22	(9,146,840)	(18,403,413)
Net cash provided by (used in) operating activities from discontinued operations	9	3,164,996	(10,162,063)
Net cash used in operating activities		**(17,459,506)**	**(78,617,240)**
Investing Activities			
Purchase of property, plant and equipment		(1,387,359)	(86,995,424)
Proceeds from disposal of property, plant and equipment and assets held for sale		6,950,000	37,575
Proceeds from sale of investment		—	3,989,538
Purchase of Investments		—	(261,872)
Cash acquired from business combinations		—	118,079
Cash reduction relating to the loss of control of True Büch		(105,456)	—
Net cash used in investing activities from discontinued operations	9	(4,381,023)	(9,191,193)
Net cash provided by (used in) investing activities		**$ 1,076,162**	**$ (92,303,297)**

(i) Comparative information has been recast to reflect the presentation of discontinued operations as described in **Note 9**.

ZENABIS GLOBAL INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	Notes	2020	2019 (i)
Financing Activities			
Net proceeds from secured loans and borrowings		$ 7,000,000	$ 43,702,676
Proceeds from issue of secured convertible debt		—	15,000,000
Repayment of secured loans and borrowings		(8,923,396)	(453,229)
Repayment of convertible debt		(19,832,266)	—
Transaction costs related to convertible debt		(453,000)	(1,189,773)
Repayment of lease obligations		(685,236)	(899,562)
Share issuance costs		(2,985,739)	(2,910,203)
Repayments to related parties		(4,926)	—
Stock options exercised		—	384,682
Warrants exercised		1,239,728	6,212,485
Proceeds from issuance of share capital units		31,159,768	28,749,998
Proceeds from exercise of rights issued		—	20,862,994
Customer deposit, net of finders fee		—	39,526,082
Net cash (used in) provided by financing activities from discontinued operations	9	(972,502)	21,541,787
Net cash provided by financing activities		**5,542,431**	**170,527,937**
Decrease in cash during the period		**(10,840,913)**	**(392,600)**
Cash and cash equivalents, beginning of period		16,574,203	16,966,803
Cash and cash equivalents, end of period		**$ 5,733,290**	**$ 16,574,203**
Supplemental cash flow information:			
Property, plant and equipment purchased and unpaid for at period end		$ 3,212,373	$ 16,041,371

(i) Comparative information has been recast to reflect the presentation of discontinued operations as described in **Note 9**.

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

1. Nature of Operations

On January 8, 2019, Bevo Agro Inc. (a Canadian company previously listed on the TSX Venture Exchange under the symbol "BVO") ("Bevo") acquired all of the outstanding shares of Sun Pharm Investments Ltd. ("Sun Pharm") by way of a three-cornered amalgamation with Bevo changing its name to Zenabis Global Inc. (the "Company"). The Company's shares are listed on the Toronto Stock Exchange ("TSX") under the trading symbol "ZENA".

The Company operates in two distinct industries: the production, distribution and sale of medical and adult-use recreational cannabis products in Canada pursuant to the Cannabis Act and the propagation of vegetable plants such as tomatoes, peppers, cucumbers and other plants such as bedding plants, flowers and grasses. The Company has entered into an agreement for the sale of all of the shares of the Company's propagation business on December 31, 2020.

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 consolidated financial statements for the years ended December 31, 2020 and 2019 (the "Consolidated 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 year ended December 31, 2020, the Company reported a net loss and comprehensive loss of $70,493,460, negative cash flow from operations of $17,459,506, working capital deficiency of $37,337,492 and an accumulated deficit of $231,958,430 as at December 31, 2020. Further, as at December 31, 2020, $66,128,180 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 Consolidated 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 2021. 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 2021.

Subsequent to December 31, 2020, the Company completed equity raises of $6,304,487 under its at-the-market equity program, and also entered into a credit agreement for a committed revolving credit facility of up to $60,000,000 (see **Note 26(a)** and **(d)**).

2. Significant Accounting Policies

(a) Basis of Presentation

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These Consolidated Financial Statements were approved and authorized for issue by the Board of Directors of the Company on March 31, 2021.

(b) Basis of Consolidation

These Consolidated 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
- 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 Consolidated 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.

As at December 31, 2020, the subsidiaries of the Company are as follows:

Subsidiaries	**Percentage Ownership**
Zenabis Investments Ltd.	100%
Zenabis Real Estate Holdings Ltd.	100%
Zenabis Annacis Ltd.	100%
Zenabis Atholville Ltd.	100%
Zenabis Stellarton Ltd.	100%
Zenabis Housing Ltd.	100%
Zenabis IP Holdings Ltd.	100%
Zenabis Retail Holdings Ltd.	100%
Zenabis Ventures Ltd.	100%
Zenabis Operations Ltd.	100%
Zenabis Ltd.	100%
Vida Cannabis (Canada) Ltd.	100%
Zenabis Hemp Company Ltd.	100%
Zen Craft Grow Ltd.	100%
Bevo Agro Inc.	100%
Bevo Farms Inc.	100%
ZenPharm Limited	60%

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies

(i) Cash and Cash Equivalents

Cash and short-term deposits in the Consolidated Statements of Financial Position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

(ii) Biological Assets and Inventory

The Company's biological assets consist of cannabis plants which are not yet harvested and are valued at fair value less cost to sell using the income approach. Production costs are capitalized to biological assets and include costs relating to biological transformation, consisting of the direct costs of labour and growing materials as well as other indirect costs such as depreciation of equipment and facilities in addition to the costs of utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality process is also included.

Capitalized costs are subsequently recorded within the line item 'Cost of sales and inventory production expenses' on the Consolidated Statements of Loss and Comprehensive Loss in the period that the related product is sold. The Company measures and adjusts the biological assets to the fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the period are included in the Consolidated Statements of Loss and Comprehensive Loss for the related period.

Inventory for finished goods are initially measured at the fair value less costs to sell of the biological asset at the time of harvest, and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. Inventory also includes subsequent costs such as materials and labour on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and are subsequently recorded within 'Cost of sales and inventory production expenses' on the Consolidated Statements of Loss and Comprehensive Loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded separately in the Consolidated Statements of Loss and Comprehensive Loss. The Company also reviews inventory for obsolete, redundant, damaged and slow-moving goods and any such inventories identified are written down to net realizable value.

(iii) Business Combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Goodwill represents the excess of the purchase price paid for the acquisition of the subsidiaries over the fair value of the net assets acquired.

Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any gain on bargain purchase is recognized immediately in the profit or loss. Transaction costs are expensed as incurred, except if related to the issuance of debt or equity securities.

The consideration transferred does not include amounts relating to the settlement of pre-existing relationships. Such amounts are generally recognized in the profit or loss.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(iii) Business Combinations (continued)

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in the profit or loss.

(iv) Property, Plant and Equipment

The initial recognition of property, plant and equipment is based on the acquisition or manufacturing cost, including any costs attributable to bringing the assets to the location of operation as well as ensuring the assets are in working condition. Property, plant and equipment acquired in a business combination are measured at fair value at the acquisition date. The assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated over their estimated useful lives using the following methods and rates:

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit of loss.

The Company capitalizes borrowing costs on capital to construct its buildings and improvements. Upon commencement of commercials operations, capitalized borrowing costs, as a portion of the total cost of the asset, are depreciated over the useful life of the related asset.

Construction in Progress is transferred to the appropriate asset class when available for use, at which point depreciation of the assets commences.

The estimated residual value, useful life and depreciation method are reviewed during reporting date and adjusted, if appropriate, with any changes being accounted for on a prospective basis. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components.

(v) Impairment of long-lived assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash generating unit's ("CGUs") fair value less costs of disposal and its value in use.

A CGU is defined under IAS36 as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other groups of assets. The Company generates cash inflows under two CGUs: Cannabis and Other.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(v) Impairment of long-lived assets (continued)

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the Consolidated Statements of Loss and Comprehensive Loss.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Company bases its impairment calculation on most recent budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognised in the Consolidated Statements of Loss and Comprehensive Loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill are not be reversible.

Intangible assets with indefinite useful lives are tested for impairment annually, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(vi) Leases

The Company applies a single recognition and measurement approach for all leases, except for short-term leases (with term of less than 12 months) and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying asset and lease liabilities representing its obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(vi) Leases (continued)

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

Generally, the Company uses its incremental borrowing rate as the discount rate. The Company has also elected to apply the practical expedient to not separate non-lease components (such as services and maintenance) from lease components. Instead, it may account for the entire contract as a single lease contract. The lease liability is subsequently increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there is a modification such as, a change in lease payments or a change in the assessment of an option to purchase the underlying asset.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(vii) Assets held for sale and discontinued operations

Assets Held for Sale

The Company classifies assets, or disposal groups, as held for sale when it expects to recover their carrying amounts through sale rather than continuing use. To meet criteria to be held for sale, the sale must be highly probable, and the assets or disposal groups must be available for immediate sale in their present condition. The Company must be committed to a plan to sell the assets or disposal group, and the sale should be expected to be completed one year from the date of classification.

The Company measures assets or disposal groups at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment loss on initial classification as held for sale and subsequent gains and losses and remeasurement are recognized in profit or loss.

Discontinued Operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or classified as held for sale. The operations and cash flows can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes. When the Company classifies an operation as a discontinued operation, it recasts the comparative Consolidated Statements of Loss and Comprehensive Loss as if the operation had been discontinued from the start of the comparative year. In doing this, the Company excludes the results for the discontinued operations and any gain or loss from disposal from the Consolidated Statements of Loss and Comprehensive Loss from continuing operations and presents them as a single line as profit or loss net of tax from discontinued operations.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(viii) Revenue from Contracts with Customers

The Company has used the following 5-step model for recognizing revenue from contracts with customers:

(i) Identify the contract(s) with the customer

(ii) Identify the performance obligations in the contract(s)

(iii) Determine the transaction price

(iv) Allocate the transaction price to the identified performance obligations

(v) Recognize revenue when the identified performance obligations are satisfied

Revenue from sale of goods is recognized at a point in time when control of the goods is transferred to the customers, at an amount which reflects the consideration to which the Company expects to be entitled to in exchange for those goods.

Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue as presented in the Consolidated Statements of Loss and Comprehensive Loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer.

In determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, existence of a significant financing component, non-cash consideration (if any) and consideration payable to customers (if any).

Variable Consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts provide customers with a right to return the goods within a specified period, which give rise to variable consideration.

The Company uses the expected value method to estimate the amount of variable consideration that can be included the transaction price and recognize as revenue. A refund liability is recognized for the goods that are expected to be returned (i.e., the amount not included in the transaction price). A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover the goods from the customer.

Significant Financing Component

For certain contracts, the Company receives advance payments from customers for the sale of cannabis products that are expected to be delivered within one to two years after signing the contract and receipt of payment. There is a significant financing component for these contracts considering the length of time between the customers' payment and the transfer of the cannabis products, as well as the prevailing interest rate in the market. As such, the advance payments accrete interest at a rate that commensurate with the rate that would be reflected in a separate financing transaction between the Company and the customer at contract inception.

The Company applies the practical expedient for short-term advances received from customers. That is, the promised amount of consideration is not adjusted for the effects of a significant financing component if the period between the transfer of the promised good or service and the payment is one year or less.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(viii) Revenue from Contracts with Customers (continued)

Cost to Obtain a Contract

Incremental costs to obtain a contract with a customer are capitalized if the Company expects to recover those costs, and are amortized into operating expenses over the life of the contract on a rational, systematic basis consistent with the pattern of the transfer of goods or services to which the asset relates.

(ix) Income Taxes

Income tax expense comprises current and deferred taxes. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the year end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the asset-liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets and liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiary to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax is based on the expected manner of realization or settlement of carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

(x) Foreign Currency Translation

All figures presented in the Consolidated Financial Statements are reflected in Canadian Dollars, which is the functional currency of the Company.

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian Dollars at the foreign exchange rate applicable at each reporting period. Realized and unrealized exchange gains and losses are recognized in the Consolidated Statements of Loss and Comprehensive Loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of transaction. Foreign currency gains and losses are reported on a net basis.

(xi) Share-Based Payments

Equity-Settled Transactions - Stock Options

The Company grants stock options and directors, officers, employees, and consultants. The Company measures stock options granted to employees at the fair value at the grant date and recognizes compensation expense over the vesting period. For stock options granted to non-employees, the compensation expense is measured at the fair value of the goods or services received except where the fair value cannot be estimated in which case it is measures at the fair value of the equity instrument granted. The fair value of the share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with stock options.

The fair value of options is determined using the Black-Scholes option pricing model which incorporates all the market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(xi) Share-Based Payments (continued)

Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net loss such that the cumulative expense reflects the revised estimate.

Upon exercise of stock options, consideration received on exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs")

RSUs and DSUs are equity settled share-based payments. The company has performance and non-performance based RSUs. RSUs and DSUs are measured at their intrinsic fair value on the date of grant based on the closing price of the Company's shares on the date prior to the grant and is recognised as share-based compensation expense over the vesting period with the responding credit to share reserves. The amount recognised for services as consideration for the RSUs and DSUs granted is based on the number of equity instruments that eventually vest. For performance based RSUs, an estimate is made of when the performance obligations are expected to be satisfied and the expense is calculated over that period. Upon release of RSUs and DSUs, the related share reserve is transferred to share capital.

Cash Settled Transactions

The Company also grants share appreciation rights to employees. A liability is recognised for the fair value of cash settled transactions initially and at each reporting date up to and including the settlement date with changes in fair value recognised in employee benefits expense. The fair value is measured using the Black-Scholes Option Pricing Model.

(xii) Financial Instruments

Financial Assets

The Company uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either **(i)** amortized cost; **(ii)** fair value through other comprehensive income, or **(iii)** at fair value through profit and loss.

(i) Amortized Cost:

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

(ii) Fair value through other comprehensive income ("FVTOCI"):

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(xii) Financial Instruments (continued)

Financial Assets (continued)

(ii) Fair value through other comprehensive income ("FVTOCI") (continued):

The classification includes certain equity instruments where an irrevocable election was made to classify the equity instruments as FVTOCI. Equity investments require a designation, on an instrument-by-instrument basis, between recording both unrealized and realized gains and losses either through **(i)** other comprehensive income ("OCI") with no recycling to profit and loss or **(ii)** profit and loss.

(iii) Fair value through profit or loss ("FVTPL"):

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows and sell the financial asset, and equity instruments not classified at FVTOCI.

Financial Liabilities

Financial liabilities are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost. Contingent consideration arising from business combinations are measured at fair value at initial recognition and subsequently at FVTPL.

Financial Liabilities also include derivative Financial Instruments that are entered into by the Company that are not designated as hedging instruments as defined by IFRS9. Embedded derivatives are classified as held for trading and any gains and losses are recognised through the Consolidated Statements of Loss and Comprehensive Loss.

Issued Financial Guarantee ("FG") is a financial liability initially recognised at fair value, which is determined using a valuation method that quantifies the economic benefit of the FG to the holder. Subsequently, the FG is measured at the higher of: **(i)** the IFRS 9 expected credit loss allowance, and **(ii)** the amount initially recognized (i.e. fair value) less any cumulative amount of income/amortization recognised.

Impairment of Financial Assets

The Company uses an expected credit loss impairment model on financial assets measured at amortized cost and debt instruments at FVTOCI, where expected future credit losses are provided for, irrespective of whether a loss event has occurred at the reporting date. For accounts receivable excluding taxes receivable, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to the debtors and other factors. The carrying amount of trade receivables is reduced for any expected credit losses through an allowance account.

Changes in the carrying amount of the allowance account are recognized in the Consolidated Statements of Loss and Comprehensive Loss. At the point where the Company are satisfied that no recovery of the amount owing is possible, the amount is considered not recoverable and the financial asset is written off.

2. Significant Accounting Policies (continued)

(c) Summary of Significant Accounting Policies (continued)

(xiii) Finance and Investment Income (Expense) and Interest Expense

Finance income comprises of interest and other income on funds invested. Interest income is recognised as it accrues in the Consolidated Statements of Loss and Comprehensive Loss, using the effective interest method.

Interest Expense includes interest payments (cash) on borrowings and the accretion expenses (non-cash) on debt and leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in Consolidated Statements of Loss and Comprehensive Loss using the effective interest method. Borrowing costs which are directly attributable to a qualifying asset are described within (iv).

(xiv) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholder by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated in a similar manner, but with adjustments to give the full effect to all dilutive potential common shares outstanding during the period. The dilutive effect of warrants and options is calculated using the treasury stock method. The if-converted method which assumes that all convertible debt has been converted if the debt is in-the-money is used to calculate the dilutive effect of convertible debt. Anti-dilutive effects of potential conversions of securities are ignored for this calculation.

(xv) Related Party Transactions

Parties are considered to be related if one party has the ability, directly, or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(d) Significant Judgments, Estimates and Assumptions

The preparation of the Company's Consolidated Financial Statements requires management to make judgments, estimates and assumptions that affect the reporting amount of revenues, expenses, assets and liabilities, and accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Significant Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated Financial Statements:

(i) Going Concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to secure debt and equity financing and to achieve profitable operations. Certain judgments are made when determining if and when the Company will secure debt and equity financing, and achieve profitable operations.

2. Significant Accounting Policies (continued)

(d) Significant Judgments, Estimates and Assumptions (continued)

Significant Judgments (continued)

(ii) Goodwill Impairment

The Company assesses impairment of goodwill based on the cash-generating units. A cash-generating unit is a group of assets for which the carrying amount of goodwill allocated to that unit or group is significant. Certain judgments are made in identifying CGU's. These assumptions have been based on various factors including how management monitors the entity's operations such as product lines, businesses, individual locations, districts or regional areas.

Significant Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(i) Business Combinations

In determining the allocation of the purchase price in a business combination, estimates including market based and appraisal values are used. Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

(ii) Useful Lives and Impairment of Property, Plant and Equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(iii) Impairment of Goodwill and Intangible Assets

Determining whether an impairment has occurred requires the valuation of the respective CGUs, which we estimate using a discounted cash flow method. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, discount rates, economic projections and market data.

(iv) Share-based Payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. In estimating the fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company's future share price, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in different outcomes.

2. Significant Accounting Policies (continued)

(d) Significant Judgments, Estimates and Assumptions (continued)

Significant Estimates and Assumptions (continued)

(v) Biological Assets and Inventory

Determination of the fair values of the biological assets requires the Company to make a number of estimates, including selling prices, expected yield and average cost to cultivate. Further information on estimates used in determining the fair value of biological assets is contained in **Note 6**. In calculating final inventory values, the Company compares the carrying value of inventory to the estimated net realizable value ("NRV"). NRV for work-in-process and finished Cannabis inventory is determined by deducting estimated remaining conversion/ completion costs and selling costs from the estimated sale price achievable in the ordinary course of business. Conversion and selling costs are determined using average cost. Changes to these assumptions could have a significant impact on the measurement of biological assets.

(vi) Convertible Loans

Convertible loans are financial instruments which are accounted for separately dependent on the nature of their components: a financial liability and an equity instrument. The identification of such components embedded within a convertible debenture requires significant judgment given that it is based on the interpretation of the substance of the contractual arrangement. Where the conversion option has a fixed conversion rate, the financial liability, which represents the obligation to pay coupon interest and principal on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance. Where the conversion option has a variable conversion rate, the conversion option is recognized as a derivative liability measured at fair value through profit and loss. The residual amount is recognized as a financial liability and subsequently measured at amortized cost. The determination of the fair value is also an area of significant judgment given that it is subject to various inputs, assumptions and estimates including: contractual future cash flows, discount rates, credit spreads and volatility. Transaction costs are apportioned to the debt liability and equity components or derivative liability in proportion to the allocation of proceeds. Transaction costs allocated to the debt liability and equity components are capitalized to the components; transaction costs allocated to the derivative liability are recognized immediately in profit and loss.

(vii) Fair Value of Financial Instruments

When the fair values of financial assets and financial liabilities recorded in the Consolidated Statements of Financial Position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques.

The carrying value of loans and borrowings for disclosure purposes is derived using the amortized cost method, by calculating the accretion expense at market-related interest rate less the actual interest expense. Where the carrying value does not approximate the fair value of financial assets and liabilities, valuation techniques such as the discounted cash flow (DCF) model are used.

The fair value of the warrants issued to debt holders is determined using the Black-Scholes Option Pricing Model. These are either classified as equity instruments or derivative liabilities subject to whether the exercise price is fixed or variable.

The fair value of the embedded conversion options classified as to be a derivative liability is determined using the Black-Scholes Option Pricing Model. On initial recognition, 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.

2. Significant Accounting Policies (continued)

(d) Significant Judgments, Estimates and Assumptions (continued)

Significant Estimates and Assumptions (continued)

(vii) Fair Value of Financial Instruments (continued)

The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as risk-free interest rate, volatility, and deduction rate due to lack of marketability. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

(viii) Royalty Liability

The Company accounts for a Royalty Liability using a discounted cash flow forecast based on estimated future revenues which is prepared by management. It is not based on observable market date but rather it is based on unobservable inputs of which the significant assumptions include the estimated cannabis sales volumes and selling prices during the Royalty term. Changes to these assumptions could have a significant impact on the measurement of the Royalty Liability.

(ix) Deferred Tax Assets and Liabilities

Deferred tax assets, including those arising from tax loss carryforwards, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize or recognize net deferred tax assets, if any, at the reporting date could be impacted.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority. Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(x) Revenue Recognition - Variable Consideration for Returns

The Company estimates variable consideration to be included in the transaction price for sale of goods with rights of return. The Company has developed a model for estimating sales returns. The model uses historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Company.

(xi) Leases - Incremental Borrowing Rate

The Company cannot readily determine the interest rate implicit in some of its leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as interest rate spreads for credit and other risks).

2. Significant Accounting Policies (continued)

(d) Significant Judgments, Estimates and Assumptions (continued)

Significant Estimates and Assumptions (continued)

(xii) Provision for Expected Credit Losses of Trade Receivables

The Company uses a provision matrix to calculate the expected credit losses for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

(e) Adoption of New Accounting Standards

(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: **(i)** a new chapter on measurement; **(ii)** guidance on reporting financial performance; **(iii)** improved definitions and guidance, particularly for the definition of a liability; and **(iv)** 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 did not have any impact on the amounts recognized in the Company's Consolidated 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 did not have any impact on the amounts recognized in the Company's Consolidated Financial Statements.

(iii) Definition of a Business

In October 2018, the IASB issued Definition of a Business (Amendments to IFRS 3) which: **(i)** 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; **(ii)** narrows the definition of a business and of outputs by focusing on goods and services provided to customers; and **(iii)** 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 will adopt the standard commencing January 1, 2020. The adoption of this standard has not had a material impact on the Company's Consolidated Financial Statements.

2. Significant Accounting Policies (continued)

(e) Adoption of New Accounting Standards (continued)

(iv) Government Subsidies

Effective January 1, 2020, the Company adopted the IAS 20, Accounting for Government Grants and Disclosure of Government Assistance. 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.

3. New Accounting Pronouncements

(a) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the Consolidated Statements of Financial Position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's Consolidated Financial Statements.

(b) Amendments to IAS 37: Onerous Contracts and the cost of Fulfilling a Contract

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's Consolidated Financial Statements.

4. Accounts Receivable

	December 31, 2020	December 31, 2019
Trade receivables [i]	$ 8,336,288	$ 11,658,568
GST/HST recoverable	132,701	1,173,451
Government subsidies receivable	32,749	—
Insurance proceeds receivable	—	585,052
Balance, end of period	**$ 8,501,738**	**$ 13,417,071**

(i) As at December 31, 2020, trade receivables included an allowance for doubtful accounts of $561,108 (December 31, 2019 – $664,264).

5. Inventory

The Company's inventory is comprised of:

December 31, 2020	Capitalized Cost	Biological Asset Fair Value Adjustment	Impairment of Capitalized Cost	Impairment of Fair Value Adjustment	Carrying Value
Cannabis					
Work-in-process	$ 23,523,437	$ 30,604,523	$ (676,572)	$ (3,293,429)	**$ 50,157,959**
Finished goods	2,653,320	2,628,815	(469,658)	(794,806)	**4,017,671**
	26,176,757	33,233,338	(1,146,230)	(4,088,235)	**54,175,630**
Non-cannabis					
Work-in-process	484,754	—	—	—	**484,754**
Supplies and consumables	4,651,924	—	—	—	**4,651,924**
Balance, December 31, 2020	**$ 31,313,435**	**$ 33,233,338**	**$ (1,146,230)**	**$ (4,088,235)**	**$ 59,312,308**

December 31, 2019	Capitalized Cost	Biological Asset Fair Value Adjustment	Impairment of Capitalized Cost	Impairment of Fair Value Adjustment	Carrying Value
Cannabis					
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**
Non-cannabis					
Work-in-process	623,344	—	—	—	**623,344**
Finished goods	7,317	—	—	—	**7,317**
	630,661	—	—	—	**630,661**
Supplies and consumables	7,483,397	—	—	—	**7,483,397**
Balance, December 31, 2019	**$ 19,052,958**	**$ 25,442,071**	**$ (874,734)**	**$ (4,286,304)**	**$ 39,333,991**

Included in inventory expensed for the year ended December 31, 2020 is an excess and obsolete inventory provision of $1,146,230 (December 31, 2019 – $874,734). Included in other charges for the year ended December 31, 2020 is $4,088,235 (December 31, 2019 – $4,286,304) for net realizable value adjustments of the fair value component of the excess and obsolete inventory provision.

6. Biological Assets

The Company's biological assets consist of cannabis seeds and plants. The changes in the carrying value of biological assets during the year ended December 31, 2020 are as follows:

	December 31, 2020	December 31, 2019
Balance, beginning of year	$ 14,481,409	$ 3,721,751
Additions on acquisition	—	4,665,725
Production costs capitalized	52,138,957	29,903,482
Changes in fair value, less cost to sell due to biological transformation [(i)]	78,461,250	61,790,854
Transferred to inventory upon harvest or sale	(127,692,791)	(85,600,403)
Disposal on sale of Bevo Farms	(4,199,792)	—
Balance, end of year	**$ 13,189,033**	**$ 14,481,409**

(i) Amount includes $10,311,221 (2019 – $6,919,730) recognized in discontinued operations.

6. Biological Assets (continued)

Live cannabis plants are harvested as agricultural produce and as at December 31, 2020, on average, were approximately 41% 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 estimates and inputs used to assess the fair value of biological assets include the following assumptions as at December 31, 2020:

Selling price	Calculated as the average historical selling price, net of excise tax, for all strains of cannabis sold by the Company, which is expected to approximate future selling prices
Expected yield	Represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
Post-harvest costs	Calculated as the cost per gram of harvested cannabis to prepare for the sale of cannabis plants post-harvest, consisting of the cost of materials and labour related to labelling and packaging
Stage of completion	Calculated by taking the weighted average costs incurred for production over an average cost to cultivate

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

	December 31, 2020	10% Change as at December 31, 2020	December 31, 2019	10% Change as at December 31, 2019
Selling price (weighted average) – Flower (i)	$ 3.40	$ 1,697,523	$ 4.55	$ 678,385
Average yield per plant (grams)	49.43	1,565,392	107.12	687,724
Post-harvest costs (weighted average)	$ 0.94	475,020	$ 0.61	86,076
Average stage of completion (%)	41	$ 1,022,826	17	$ 594,652

(i) Net of excise tax.

7. Property, Plant and Equipment

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

During the year ended December 31, 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 December 31, 2020 is as follows:

	Land	Buildings and Improvements	Production Equipment	Other Equipment	Construction in Progress	Total
Cost						
At December 31, 2019	$ 16,110,258	$ 131,377,099	$ 22,514,349	$ 12,770,656	$ 32,705,753	**$ 215,478,115**
Additions	—	886,894	2,296,885	1,004,393	1,916,533	**6,104,705**
Disposals	—	(192,740)	(1,143,839)	(159,880)	(183,107)	**(1,679,566)**
Transfer between asset classes	—	790,076	(676,223)	(113,853)	—	**—**
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)**
Disposal on sale of Bevo Farms	(14,050,400)	(41,590,394)	(10,735,666)	(351,551)	(6,655,203)	**(73,383,214)**
Transfers from CIP	—	15,699,781	881,229	1,777,041	(18,358,051)	**—**
At December 31, 2020	**$ 637,561**	**$ 99,653,549**	**$ 12,801,497**	**$ 14,587,988**	**$ 7,967,087**	**$ 135,647,682**
Accumulated depreciation						
At December 31, 2019	$ —	$ 6,018,407	$ 2,252,615	$ 1,490,568	$ —	**$ 9,761,590**
Additions	—	6,303,414	2,748,342	2,540,310	—	**11,592,066**
Disposals	—	(45,242)	(188,163)	(59,704)	—	**(293,109)**
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)**
Disposal on sale of Bevo Farms	—	(4,444,783)	(2,065,919)	(89,149)	—	**(6,599,851)**
At December 31, 2020	**$ —**	**$ 7,162,174**	**$ 2,718,494**	**$ 3,846,668**	**$ —**	**$ 13,727,336**
Net book value						
At December 31, 2019	**$ 16,110,258**	**$ 125,358,692**	**$ 20,261,734**	**$ 11,280,088**	**$ 32,705,753**	**$ 205,716,525**
At December 31, 2020	**$ 637,561**	**$ 92,491,375**	**$ 10,083,003**	**$ 10,741,320**	**$ 7,967,087**	**$ 121,920,346**

Impairment of Long-lived Assets

The Company considered the relationship between its market capitalization and its book value, among other factors when reviewing indicators of impairment. As at December 31, 2020, the Company qualitatively assessed its long-lived assets for indicators of impairment. As a result of the indicator-based impairment assessment, the Company determined that there are no indicators that the recoverable amounts of long lived assets are below their carrying values, therefore no impairment was identified.

As at December 31, 2019, the Company performed its annual impairment analysis by comparing the carrying value of each CGU containing the assets to its recoverable amount. Resulting from this assessment the Company has recorded impairment charges of $18,554,111 and $2,677,372 against the carrying value of buildings and improvements and production equipment, respectively, for the Cannabis CGU. The impairment charge is recorded within Operating expenses.

7. Property, Plant and Equipment (continued)

Impairment of Long-lived Assets (continued)

Cannabis CGU

As at December 31, 2019, the Company performed its annual impairment test on the intangible assets and goodwill of the Cannabis CGU using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to the future cash flows and growth projections, estimated weighted average cost of capital and, terminal growth rate. These key assumptions were based on historical data from internal sources as well as industry and market trends. The Company estimated the recoverable amount of goodwill and intangible assets based on the discounted projected cash flows. The projected cash flows have been updated to reflect the slower than expected roll-out of distribution channels in Canada and the slower than expected growth of the adult-use recreational market. The growth rate applied to revenue for the first five years of the cash flow projections are 2020 - 265%, 2021 - 15%, 2022 - 1%, 2023 - 9% and 2024 - 8%, respectively The pre-tax discount rate applied to the cash flow projections is 30.1%, and cash flows beyond the five year period are extrapolated using a 2.0% growth rate that is the same as the long term average growth rate of the cannabis industry. Based on its analysis, the Company determined that the recoverable amount under the value-in-use method for the Cannabis CGU was approximately $69,224,000, an impairment charge of $8,239,341 against the carrying value of goodwill and $965,716 against the carrying value of intangible assets in addition to the $21,231,483 impairment charge to property, plant and equipment was recognized as at December 31, 2019. The impairment charge was recorded within other income (expense) in the Consolidated Statements of Loss and Comprehensive Loss.

Key Assumptions Used in Value in Use Calculations

(a) Revenue forecast

Revenue has a significant impact on cash flows and profitability of the Company. Key assumptions in the Cannabis CGU include the net selling price per gram of $1.50 to $4.75 and expected product sell through in the adult-use recreational, medical, and business-to-business markets. Revenue assumptions for the Propagation CGU have been based on historical sales and current sales trends. Revenue amounts used in the model have been based on management forecasts.

(b) Growth rate estimates

Rates are based on published industry research. Taking into consideration the slower than expected expansion of the adult-use recreational market in Canada, a decline in the growth rate for the Cannabis CGU can lead to a decline in the value-in-use calculation. A decline in the growth rate for the Propagation CGU can lead to a decline in the value-in-use calculation.

(c) Discount rates

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have been incorporated in the cash flow estimates. The discount rate calculation is based on specific circumstances of the Company and its CGUs and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Company's investors. The cost of debt is based on the interest-bearing borrowings of the Company obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in specific amount and timing of the future taxable income in order to reflect a pre-tax discount rate.

(d) Period of projected cashflows

The Company projected cashflows over a five-year period and assessed a terminal value based on the cashflows forecasted for the fifth year.

8. 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. During the year ended December 31, 2020, impairment losses of $1,571,026 were incurred as a result of a reduction in its estimated fair value based on the reduction it its listing price.

Prior to its disposal, the fair value less cost of disposal of the Delta Property was determined to be $7,594,993.

	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)**
Impairment	—	(1,571,026)	—	**(1,571,026)**
Disposal	(1,422,297)	(4,713,858)	(1,458,838)	**(7,594,993)**
Net book value, December 31, 2020	**$ —**	**$ —**	**$ —**	**$ —**

	2020
Proceeds	$ 6,650,000
Less: net book value	(7,594,993)
Loss on sale	**$ (944,993)**

9. Discontinued Operations

On December 31, 2020, the Company entered into a rental rebate, liability contribution, and share purchase agreement to sell the Company’s wholly owned subsidiary, Bevo Farms Ltd. and subsidiaries ("Bevo Farms"). On December 31, 2020, Bevo Farms raised funds through an equity issuance which resulted in the Company's ownership interests decreasing to approximately 1.3%. As the Company no longer had a controlling ownership in Bevo Farms, consolidation of Bevo Farms ceased at December 31, 2020 and the former subsidiary was derecognized. The retained Company's ownership in Bevo Farms was recorded at its fair value of approximately $160,316. As a result of this transaction, the Company has changed its internal organization and the composition of its reportable segments. The Propagation segment was not previously classified as held-for-sale or as a discontinued operation. Accordingly, the comparative periods have been re-cast to show the discontinued operations separately from continuing operations, and the revenues, expenses and cash flows of Bevo Farms are presented as discontinued operations in these Consolidated Financial Statements.

The following are the financial results of Bevo Farms for the years ended December 31, 2020 and 2019:

	2020	2019
Gross revenue	$ 34,556,122	$ 36,067,232
Cost of sales and changes in fair value of inventory sold and biological assets	(24,651,687)	(26,222,844)
Operating expenses	(5,883,192)	(13,613,037)
Other income (expense)	883,733	(57,628,441)
Current and deferred income tax (expense) recovery	(2,271,735)	6,917,679
Net income (loss), net of tax	**2,633,241**	**(54,479,411)**
Loss on sale of discontinued operations	(18,215,465)	—
Loss from discontinued operations, net of tax	**$ (15,582,224)**	**$ (54,479,411)**

9. Discontinued Operations (continued)

As at December 31, 2019, the Company performed its annual test impairment on the intangible assets and goodwill of the Propagation CGU for impairment using the value-in-use method. The key assumptions used in the calculation of the recoverable amount relate to the future cash flows and growth projections, estimated weighted average cost of capital and, terminal growth rate. Based on its analysis, the Company determined that the recoverable amount under the value-in-use method for the Propagation CGU was approximately $16,741,000, an impairment charge of $31,211,762 against the carrying value goodwill and $21,063,429 against the carrying value of intangible assets in addition to the $6,609,782 impairment charge to property, plant and equipment was recognized as at December 31, 2019. The impairment charge is recorded within Other income (expense) in 2019.

The following are the cash flows of Bevo Farms for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Net cash provided by (used in) operating activities	$ 3,164,996	$ (10,162,063)
Net cash used in investing activities	(4,381,023)	(9,191,193)
Net cash (used in) provided by financing activities	(972,502)	21,541,787
Net cash flows for the year	**$ (2,188,529)**	**$ 2,188,531**

The following are the effects of the disposal on the financial position of the Company as at December 31, 2020:

	December 31, 2020
Net assets and liabilities	
Cash and cash equivalents	$ 3,384,855
Accounts receivable	10,526,332
Inventory	2,470,444
Biological assets	4,199,792
Prepaid and other current assets	427,764
Property, plant and equipment	66,783,363
Accounts payable and accrued liabilities	(11,059,177)
Loans and borrowings	(41,133,782)
Deferred income tax liability	(6,878,637)
Net assets disposed	**28,720,954**
Recognition of lease with Bevo Farms (Note 17)	
Right-of-use asset	11,236,461
Lease obligation	(12,999,988)
Total lease obligation	**(1,763,527)**
Consideration received	
Accounts payable forgiveness	**5,700,000**
Consideration receivable	
Cash proceeds	10,000,000
Less:	
Lockbox adjustments	(464,915)
Intercompany loan	(2,966,069)
Total consideration receivable	**6,569,016**
Loss on sale of discontinued operations	**$ (18,215,465)**

10. Business Combinations

During the year ended December 31, 2020, the Company did not complete any business combinations. The following table summarizes the balance sheet impact on the acquisition date of the Company's business combinations that occurred during the year ended December 31, 2019:

Acquisitions completed during the year ended December 31, 2019	Bevo (a)	Topgro (b)	True Büch (c)	Total
Consideration				
Cash paid	$ —	$ 9,401,096	$ —	$ 9,401,096
Working capital adjustment	—	(24,750)	—	(24,750)
Loan settlement	—	2,691,582	—	2,691,582
Common shares issued	78,305,966	—	2,048,001	80,353,967
Preferred shares issued	48,222	—	—	48,222
	$ 78,354,188	**$ 12,067,928**	**$ 2,048,001**	**$ 92,470,117**
Net identifiable assets acquired (liabilities assumed)				
Cash	$ 1,380,531	$ 18,465	$ 118,079	$ 1,517,075
Accounts receivable	1,615,939	75,082	120,669	1,811,690
Notes receivable	1,346,865	—	—	1,346,865
GST/HST receivable	81,185	28,576	—	109,761
Due from related parties	255,822	—	—	255,822
Inventory	3,608,856	96,163	51,462	3,756,481
Biological assets	4,665,725	—	—	4,665,725
Prepaid expenses and deposits	613,321	16,530	7,352	637,203
Property, plant and equipment	55,258,010	9,198,338	226,787	64,683,135
Intangible assets:				
Brand name	13,994,000	—	—	13,994,000
Customer relationships	7,434,000	—	1,183,000	8,617,000
Trademark	—	—	2,227	2,227
Accounts payable and accrued liabilities	(6,941,096)	(67,910)	(90,508)	(7,099,514)
Loans and borrowings	(19,589,225)	—	(308,226)	(19,897,451)
Deferred income tax liability	(12,573,402)	(1,305,421)	(335,604)	(14,214,427)
Non-controlling interests	—	—	(477,867)	(477,867)
	$ 51,150,531	**$ 8,059,823**	**$ 497,371**	**$ 59,707,725**
Purchase price allocation				
Net identifiable assets acquired	$ 51,150,531	$ 8,059,823	$ 497,371	$ 59,707,725
Goodwill	27,203,657	4,008,105	1,550,630	32,762,392
	$ 78,354,188	**$ 12,067,928**	**$ 2,048,001**	**$ 92,470,117**
Net cash inflows (outflows)				
Cash consideration paid	$ —	$ (9,401,096)	$ —	$ (9,401,096)
Cash acquired	1,380,531	18,465	118,079	1,517,075
	$ 1,380,531	**$ (9,382,631)**	**$ 118,079**	**$ (7,884,021)**

10. Business Combinations (continued)

During the year ended December 31, 2019, management finalized the purchase price allocation for the three acquisitions made.

Management gathered the relevant information to determine the fair value of the net identifiable assets acquired. The purchase prices have been allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed on each respective acquisition date.

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

(a) Bevo Agro Inc.

On January 8, 2019, Bevo (a Canadian company previously listed on the TSX Venture Exchange under the symbol "BVO") acquired all of the outstanding shares of Sun Pharm by way of a three-cornered amalgamation to form Zenabis Global Inc. (the "Transaction"). Bevo operates 53 acres of propagation greenhouse facilities on 98 acres of land in Langley, British Columbia and 20 acres of land in Pitt Meadows, British Columbia. Bevo's main products are the propagation of vegetable plants such as tomatoes, cucumbers and peppers and other plants such as bedding plants, flowers and grasses. Bevo is one of the largest propagation businesses in North America, with over 30 years of experience in propagation and state of the art greenhouse serving clients through North America. The addition of Bevo's significant propagation expertise and proven practices is expected to allow the Company to achieve industry leading operational efficiency, production costs and plant quality.

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

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

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

For the period from acquisition to December 31, 2019, Bevo accounted for $36,067,232 in revenues and $5,720,413 in net income, excluding impairment amounts totaling $58,884,973. If the acquisition had been completed on January 1, 2019, the Company estimates it would have recorded $36,942,028 in revenues and estimates net income, excluding impairment, would remain comparable for the year ended December 31, 2019.

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

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

10. Business Combinations (continued)

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

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

For the period from acquisition to December 31, 2019, Topgro accounted for $nil in revenues and $943,623 in net loss. If the acquisition had been completed on January 1, 2019, the Company estimates that the revenues and net loss for the year ended December 31, 2019 would remain comparable.

(c) True Büch

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

On the acquisition date, the Company acquired 3,825 of the issued and outstanding common shares of True Büch. As consideration, the Company issued 455,947 of its common shares at $4.49 for total consideration of $2,048,001 to the shareholders of True Büch. The Company also has the option to purchase the remaining 49% of the equity in True Büch, at a predefined multiple of earnings for the preceding 12 months payable in cash. In addition to the equity consideration, True Büch shareholders are entitled to cash earn-out payments based on the future financial results of True Büch exceeding the forecast on which the closing payment was based. As at December 31, 2019, no amounts have been accrued for cash earn-out payments as thresholds have not yet been achieved.

For the period from acquisition to December 31, 2019, True Büch accounted for $1,362,860 in revenues and $292,068 in net loss, excluding impairment amounts totaling $2,516,346. If the acquisition had been completed on January 1, 2019, the Company estimates it would have recorded $1,434,560 in revenues and estimates net income would remain comparable for the year ended December 31, 2019.

11. 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, and the investment was reclassified to fair value through profit and loss. During the year ended December 31, 2020, the investment was written down to $nil and $512,000 was recorded as finance and investment expense in the Consolidated Statements of Loss and Comprehensive Loss.

11. Non-controlling Interest (continued)

(a) Loss of Control (continued)

The following table presents a reconciliation of the loss from the loss of control of True Büch for the year ended December 31, 2020:

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

(b) ZenPharm

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

		December 31, 2020
Current assets	$	298,208
Non-current assets		69,469
Current liabilities		2,510,572
Non-current liabilities		—
Revenue for the year ended		—
Net loss for the year ended	$	1,775,167

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

		Non-controlling Interest
Balance, December 31, 2019	$	—
Non-controlling interest arising on the acquisition of True Büch and ZenPharm		478,713
Share of comprehensive loss for the period		(1,719,151)
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		(710,066)
Balance, December 31, 2020	**$**	**(1,052,248)**

12. Investments

		December 31, 2020		December 31, 2019
Bevo Farms [(i)]	$	160,316	$	—
Total investments	**$**	**160,316**	**$**	**—**

(i) Refer to Note 9.

Finance and investment income consisted of the following:

		2020		2019
Realized and unrealized (loss) gain on investments	$	(512,000)	$	506,406
Interest income		21,815		131,901
Total finance and investment (expense) income	**$**	**(490,185)**	**$**	**638,307**

13. 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.

		December 31, 2020		December 31, 2019
Due to related parties	$	—	$	97,534
Included in accounts payable and accrued liabilities		46,626		388,832
Total amounts due to related parties	**$**	**46,626**	**$**	**486,366**

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

(b) Loans to former subsidiary

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

(c) Compensation of key management personnel

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

		2020		2019
Salaries and benefits	$	1,980,106	$	2,105,382
Share-based payments		1,109,702		3,943,658
Director fees		578,746		594,567
Total compensation of key management personnel	**$**	**3,668,554**	**$**	**6,643,607**

13. Related Party Transactions (continued)

(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.

	2020	2019
Amounts incurred to companies affiliated with the:		
Former Chief Executive Officer of the Company	$ —	$ 2,277,460
Chief Growing Officer of the Company (i)	57,270	462,000
Amounts incurred to companies controlled by the Chairman of the Board of the Company and a significant shareholder of the Company (ii)	36,445	1,073,207
Amounts incurred to a company with mutual board members and/or key management personnel with the Company	—	157,131
Total amounts incurred to related parties	**$ 93,715**	**$ 3,969,798**

(i) Related to consulting in capacity as Chief Growing Officer for both the Cannabis and Propagation segments.
(ii) Consulting fees expensed to professional fees.

(e) Due to shareholders

On October 17, 2018, the Company entered into agreements to refinance some of its shareholder loans with unsecured convertible notes (**Note 15(a)**).

(f) Amounts included in discontinued operations from related parties

During the year ended December 31, 2020, the Company's discontinued operations earned rental and other miscellaneous revenues totaling $50,216 (December 31, 2019 – $180,282), from a company with mutual board members and/or key management personnel with the Company.

14. 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 year ended December 31, 2020, the total amount of revenue recognized from these prepaid supply agreements was $8,065,580 (December 31, 2019 – $2,343,915).

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 $3,501,837 for the year ended December 31, 2020 (December 31, 2019 – $2,272,329).

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 year ended December 31, 2020, the Company recognized $84,777 (December 31, 2019 – $86,887) of amortization expense relating to the success fee. As at December 31, 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 Consolidated Statements of Financial Position.

15. Loans and Borrowings

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

	December 31, 2020	December 31, 2019
Term loans	$ —	$ 45,005,818
Loans payable (a)	2,149,284	2,262,107
Senior notes payable (b) (c)	51,875,000	47,583,139
Royalty liability (c)	13,604,419	—
	67,628,703	**94,851,064**
Less: unamortized debt issuance costs	—	(683,416)
Total loans and borrowings	67,628,703	94,167,648
Less: current portion	**54,782,173**	**51,361,197**
Non-current portion	**$ 12,846,530**	**$ 42,806,451**

On December 31, 2020, the Company entered into a rental rebate, liability contribution, and share purchase agreement to sell the Company's wholly owned subsidiary, Bevo Farms Ltd. and subsidiaries. This transaction resulted in the de-recognition and deconsolidation of all the debt that was held in the Bevo entities which includes the term loans as above.

(a) 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 year ended December 31, 2020, the Company incurred $131,654 (December 31, 2019 – $113,414) of interest which was recognized in interest expense in the Statements of Loss and Comprehensive Loss. As at December 31, 2020, $149,284 of interest remains unpaid (December 31, 2019 – $262,107).

(b) 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.

15. Loans and Borrowings (continued)

(b) (continued)

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 15(c)**.

(c) 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.
- Beginning July 1, 2020, the Company will be required to 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", if the Trigger Payment was made by October 15, 2020 the royalty payment terms were to remain the same and not increase ("Amended Royalty"). The Company did not meet the timing for the Trigger Payment and the Amended Royalty came into effect on October 15, 2020.
- The option to buy-out the royalty agreement "Buy-Out" at a rate of the most recent royalty payment multiplied by the remaining royalty periods. The Buy-Out option is available at the earlier of repayment of the New Senior Debt in full or the Company's common shares trading above $1.00 for a continuous period of 30 days.
- 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 common share purchase 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 Statements of Loss and Comprehensive 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 Statements of Loss and Comprehensive Loss.

15. Loans and Borrowings (continued)

(c) (continued)

The royalty liability was recognized at its estimated fair value at initial recognition based on the present value of expected future payments and is re-measured each reporting period based on revised expected future payments discounted at the original effective interest rate under the amortized cost method. The royalty liability is recorded as a component of the loan balance. During the year ended December 31, 2020, accretion expense recognized in the Consolidated Statements of Loss and Comprehensive Loss was $3,713,415 (December 31, 2019 – $1,922,312).

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. Both the embedded derivative asset and the royalty liability 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.

Subsequent to initial recognition, the Trigger Payment was not made by October 15, 2020. Therefore the embedded derivative asset was revalued to $nil, and a loss of $2,164,449 was recognised through net loss. The royalty liability was remeasured to $13,604,419 at December 31, 2020 and a loss of $4,747,875 was recognised through the Consolidated Statements of Loss and Comprehensive Loss.

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:

	December 31, 2020	
	10% Increase	10% Decrease
Net cannabis revenue	$ 1,911,000	$ (1,630,000)

As at December 31, 2020, certain covenants were identified by the lender to be in breach, and a demand for repayment was received by the Company, accordingly, the liability has been classified as a current liability in the Consolidated Statement of Financial Position.

(d) In January 2019, the Company recorded a financial guaranty liability in relation to the debt of its wholly owned subsidiary Bevo Farms. The fair value of a financial guarantee contract was calculated as the present value of the difference between the net contractual cash flows required under a debt instrument, and the net contractual cash flows that would have been required without the guarantee. The Company's financial guarantee liability less cumulative amortization was $Nil. Subsequent to December 31, 2020, the Company closed the sale of Bevo Farms and received a release from its obligations under the financial guarantee contract (see **Note 26(f)**).

Total loans and borrowings repayments as at December 31, 2020 are as follows:

< 1 year	$ 54,782,173
1 - 2 years	3,025,324
2 - 5 years	6,311,567
> 5 years	3,509,639
Total long-term debt repayments	**$ 67,628,703**

16. Convertible Loans

		December 31, 2020		December 31, 2019
Unsecured convertible notes payable (a)	$	7,652,198	$	11,205,948
Unsecured convertible debentures (b)		3,573,159		11,938,329
Secured convertible notes payable (c)		120,650		16,870,805
Total convertible loans		11,346,007		40,015,082
Less: current portion		**11,346,007**		**28,076,753**
Non-current portion	**$**	**—**	**$**	**11,938,329**

(a) Unsecured Convertible Notes Payable

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.

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 Statements of Loss and Comprehensive 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.

In October 2020, certain noteholders converted $305,102 of principal balance to common shares of the company at a price of $0.05 per shares resulting in an issuance of 5,817,521 common shares. Due to the lower conversion price offered to the note holders, there was an early loss on conversion of $339,467 recognized in the Consolidated Statements of Loss and Comprehensive Loss.

In November 2020, $1,300,000 of the principal balance was converted into common shares at a price of $0.04862 per share resulting in an issuance of 26,737,968 common shares. Due to the lower conversion price offered to the note holders, there was an early loss on conversion of $1,574,507 recognized in the Consolidated Statements of Loss and Comprehensive Loss.

16. Convertible Loans (continued)

(a) Unsecured Convertible Notes Payable (continued)

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

The carrying value of the debt as at December 31, 2020 was $7,652,198 (December 31, 2019 - $11,205,949) and accretion expense recognized in interest expense was $1,213,501 (December 31, 2019 – $1,259,247).

(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 are issuable in tranches at the option of the Company.

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

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

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

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

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

The carrying value of the loans is accreted using the effective interest method to its redemption value of $15,000,000 to its maturity date. During the year ended December 31, 2020, accretion expense recognized in interest expense was $2,691,331 (December 31, 2019 – $1,043,489).

During the year ended December 31, 2020, no unsecured convertible debentures were converted into common shares.

16. Convertible Loans (continued)

(c) Secured Convertible Notes Payable

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

In January 2019, the warrant terms were amended which meant that the warrants no longer met the criteria of an embedded derivative and were therefore reclassed 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 15(c)**). In consideration thereof, the conversion price of the secured convertible notes was reduced to $1.55 and the interest rate was increased to 11%. The holders also agreed to convert, at the reduced conversion price, 30% of the principal amount of the secured convertible notes, such that the aggregate outstanding principal amount of the secured convertible notes was $17,404,959 as of December 31, 2019. During the year ended December 31, 2019, certain noteholders converted a total of $10,179,304 of the principal and accrued interest amount outstanding on the secured convertible notes at a weighted average price of $1.74. Upon conversion, note holders received a total of 5,865,163 common shares of the Company.

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

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

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

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 $3,363,007 recorded through net loss.

16. Convertible Loans (continued)

(c) Secured Convertible Notes Payable (continued)

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 Statements of Loss and Comprehensive Loss.

On October 30, 2020, The Company and certain noteholders entered into an agreement for the conversion of outstanding principal balances and the accrued interest into common shares of the Company at a price of $0.04794 per Common Share resulting in the issuance of an aggregate 32,208,806 Common Shares to the Noteholders. Additionally, the Note Amending Agreement provides for the issuance of an aggregate 16,104,403 common share purchase warrants to the Noteholders. Each Warrant is exercisable into an additional Common Share at a price of $0.06768 for a period of five years from the date of issue.

A loss on early conversion of debt of $2,053,814 was recognised through the Consolidated Statements of Loss and Comprehensive Loss. The warrants were valued as equity instruments using Black-Scholes option pricing model at $354,916.

During the year ended December 31, 2020, accretion expense recognized through net loss was $136,218 (December 31, 2019 – $2,012,886). The carrying value of the debt as at December 31, 2020 was $120,649 (December 31, 2019 – $16,870,805).

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

Balance, December 31, 2019	$ 40,015,082
Refinance	315,062
Conversions	(12,856,994)
Repayment	(19,832,266)
Accretion	3,705,123
Balance, December 31, 2020	**$ 11,346,007**

17. 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	11,236,461	74,130	**11,510,254**
Disposals	(4,373,589)	—	—	**(4,373,589)**
Depreciation	(400,473)	—	(84,584)	**(485,057)**
Derecognition upon loss of control of former subsidiary	—	(504,426)	—	**(504,426)**
At December 31, 2020	**$ 107,512**	**$ 11,236,461**	**$ 169,215**	**$ 11,513,188**

Lease obligations	Office Lease	Building Lease	Equipment Lease	Total
At January 1, 2019	$ 5,012,779	$ 509,062	$ 184,298	**$ 5,706,139**
Additions	199,663	12,999,988	74,130	**13,273,781**
Imputed interest	303,570	—	15,758	**319,328**
Disposals	(4,807,597)	—	—	**(4,807,597)**
Payments	(597,661)	—	(87,575)	**(685,236)**
Derecognition upon loss of control of former subsidiary	—	(509,062)	—	**(509,062)**
At December 31, 2020	110,754	12,999,988	186,611	**13,297,353**
Less: current portion	**110,754**	**584,004**	**68,875**	**763,633**
Non-current portion	**$ —**	**$ 12,415,984**	**$ 117,736**	**$ 12,533,720**

The Company primarily leases office and building space, and office equipment. The current office lease runs for a period of 1 year, the building space lease for 13 years, and the leases for office equipment for 3 to 5 years.

The Company has elected to recognize the lease payments of short-term and low-value leases in Consolidated 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 year ended December 31, 2020, short-term and low-value lease expenses recognized in the Company's Consolidated Statements of Loss and Comprehensive Loss were as follow:

	2020	2019
Short-term lease expense	$ 1,302,623	$ 161,825
Low-value lease expense	$ —	$ —

18. 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 December 31, 2020, 799,983,791 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 December 31, 2020 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2019	24,481,901	$ 2.62
Issued	396,808,956	0.18
Exercised	(17,810,000)	0.07
Cancelled/expired	(8,602,898)	2.66
Balance, December 31, 2020	**394,877,959**	**$ 0.22**

Exercise Price	Expiry Date	Number of Warrants
$ 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 (i)	181,290,456
0.15	10/19/2023	2,475,000
0.13	6/25/2021	10,877,426
0.10	9/23/2025 (ii)	89,317,747
0.09	9/23/2021	5,359,064
0.07	4/22/2025	53,445,522
$ 0.07	10/30/2025	16,104,403

(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.

(ii) 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.

19. Share-Based Payments

Equity Settled

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

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

(a) Stock Options

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2019	13,556,921	$ 2.18
Granted	58,168,100	0.07
Forfeited/expired	(15,897,253)	1.72
Balance, Balance, December 31, 2020	**55,827,768**	**$ 0.11**

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

	Options Outstanding		Options Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Remaining Contractual Life (Years)
$0.045-$0.05	54,499,594	4.48	8,614,850	3.69
$1.51-$2.00	1,135,295	2.00	640,929	1.72
$2.51-$3.00	92,879	0.81	92,879	0.81
$4.01-$5.00	100,000	1.09	66,666	1.09

The fair value of stock options granted for the year ended December 31, 2020 was $1,966,071 (December 31, 2019 – $9,113,190). During the year ended December 31, 2020, the Company did not grant any options to third-party consultants (December 31, 2019 – 650,000). During the year ended December 31, 2020, share-based compensation expense of $3,715,089 was recognised through the Consolidated Statements of Loss and Comprehensive Loss pertaining to stock options granted and vested during the period (December 31, 2019 – $12,220,958).

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

	December 31, 2020	December 31, 2019
Expected life (in years)	1.11 - 4.03	0.5 - 4.00
Expected volatility	84.10% - 92.78%	85% - 314%
Risk-free interest rate	0.24% - 1.63%	0.69% - 2.44%
Forfeiture rate	0% - 24.13%	0% - 1%
Expected dividend	$ —	$ —

19. Share-Based Payments (continued)

Equity Settled (continued)

(a) Stock Options

As at December 31, 2020, the total compensation cost not yet recognized related to options granted is approximately $924,827 (December 31, 2019 – $4,165,933) and will be recognized over the remaining average vesting period of 0.83 years (December 31, 2019 – 1.21 years).

(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	51,991,945	0.08
Vested, released and issued	(15,733,724)	0.10
Forfeited	(12,608,081)	0.08
Balance, December 31, 2020	**23,650,140**	**$ 0.08**

During the year ended December 31, 2020, share-based compensation recognized through net loss was $3,407,770 (December 31, 2019 – $nil) pertaining to RSUs and DSUs granted and vested during the period.

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

Weighted Average Issue Price	Number Outstanding	Number Vested
$0.05	11,222,220	—
$0.08	10,927,920	10,927,920
$0.15	375,000	375,000
$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 year ended December 31, 2020, cash-settled share-based compensation recovery recognized through the Consolidated Statements of Loss and Comprehensive Loss was $331,514 (December 31, 2019 – expense of $331,514). 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 December 31, 2020. As at December 31, 2020, the carrying amount of the liability relating to the SARs was $nil (December 31, 2019 – $331,514).

19. Share-Based Payments (continued)

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

	2020	2019
Expense arising from equity settled share-based payments transactions	$ 4,046,603	$ 11,889,444
(Recovery) expense arising from cash settled share-based payments transactions	(331,514)	331,514
Total expense arising from share-based payment transactions	**$ 3,715,089**	**$ 12,220,958**

20. Financial Instruments

(a) Fair value of financial instruments

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

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

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

December 31, 2020	Classification	Fair Value Level	Carrying Value	Fair Value
Financial assets not measured at fair value				
Cash and cash equivalents	Amortized cost	1	$ 5,733,290	$ 5,733,290
Accounts receivable	Amortized cost	2	8,501,738	8,501,738
Loan receivable	Amortized cost	2	$ 3,231,172	$ 3,231,172
Financial assets measured at fair value				
Investments	Financial assets at FVTPL	3	$ 160,316	$ 160,316
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	Amortized cost	2	$ 32,910,854	$ 32,910,854
Loans and borrowings	Amortized cost	2	54,024,284	54,024,284
Royalty liability	Amortized cost	3	13,604,419	13,604,419
Convertible loans	Amortized cost	2	$ 11,346,007	$ 11,346,007

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

20. Financial Instruments (continued)

(a) Fair value of financial instruments (continued)

Measurement of fair value:

The carrying value of cash, accounts receivable, loan receivable, investments, accounts payable and accrued liabilities, and due to related parties approximate their fair values as at December 31, 2020 and December 31, 2019 due to the relatively short maturity of these instruments.

The fair value of loans and borrowings, royalty liability, and convertible loans for disclosure purposes is derived based on discounting contractual cash flows at market-related interest rate for similar loans ranging from 4.70% to 14.00% (December 31, 2019 – 4.70% to 14.00%).

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 royalty liability is 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 to measure the embedded debt prepayment option and the royalty liability:

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

Subsequent to initial recognition, the embedded derivative component and the royalty liability are re-measured at fair value at each reporting date with changes in other income (expense). The royalty liability 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 based on management's estimate of expected future payments.

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

(b) Financial instruments risk

(i) Credit risk:

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

(ii) Liquidity risk:

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

20. Financial Instruments (continued)

(b) Financial instruments risk (continued)

(ii) Liquidity risk (continued):

As at December 31, 2020, the Company has the following contractual obligations:

	Total	Less Than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Accounts payable and accrued liabilities	**$ 32,910,854**	$ 32,910,854	$ —	$ —	$ —
Loans and borrowings	**54,024,284**	52,135,395	333,333	1,000,000	555,556
Royalty liability	**13,604,419**	2,646,778	2,691,991	5,311,567	2,954,083
Convertible loans	**11,346,007**	11,346,007	—	—	—
Lease obligations	**13,297,353**	763,632	737,712	2,643,717	9,152,292
Total	**$ 125,182,917**	**$ 99,802,666**	**$ 3,763,036**	**$ 8,955,284**	**$ 12,661,931**

As at December 31, 2019, the Company has the following contractual obligations:

	Total	Less Than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Accounts payable and accrued liabilities	**$ 28,622,664**	$ 28,622,664	$ —	$ —	$ —
Due to related parties	**97,534**	97,534	—	—	—
Loans and borrowings	**94,851,064**	51,454,546	3,425,894	10,628,401	29,342,223
Convertible loans	**40,015,082**	28,076,753	11,938,329	—	—
Lease obligations	**5,706,139**	569,640	634,549	2,399,035	2,102,915
Total	**$169,292,483**	**$ 108,821,137**	**$ 15,998,772**	**$ 13,027,436**	**$ 31,445,138**

(iii) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at market rates. The Company's convertible debentures and loans and borrowings with fixed rates of interest do not expose the Company to interest rate risk. The Company's convertible debenture and loans and borrowings with an interest rate of prime rate plus a margin will be affected by fluctuations in the Canadian prime interest rate, which can have an impact on the interest expense recognized.

(iv) Price risk:

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

If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net loss and comprehensive loss of approximately $16,032 (December 31, 2019 – $nil).

21. Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funding to support its ongoing operations and development such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company consists of items included in shareholders' equity and debt, net of cash. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products and capital raises to fund operations and expansion activities.

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings and convertible debt that define capital structure requirements. Breaches in meeting the financial covenants would permit the lenders to immediately call loans and borrowings and convertible debt. Certain covenants were identified by a lender to be in breach as at December 31, 2020.

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

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

	December 31, 2020	December 31, 2019
Accounts receivable	$ (1,895,763)	$ (1,335,436)
Prepaid assets	(1,572,070)	(5,550,406)
Inventory	(16,578,163)	(32,337,748)
Biological assets	6,405,605	16,018,016
Accounts payable and accrued liabilities	11,847,542	7,300,743
Deferred revenue	(7,353,991)	(2,498,582)
Total changes in non-cash operating working capital items and other	**$ (9,146,840)**	**$ (18,403,413)**

23. Segmented Information

For management purposes, the Company is organized into business units based on its products and services and these are comprised of two separate reportable segments: Cannabis 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	Other (i)	Inter-segment (ii)	Total
Year ended December 31, 2020				
Net revenue	$ 59,302,831	$ 130,000	$ (130,000)	**$ 59,302,831**
Gross margin before fair value adjustment	24,812,594	130,000	(130,000)	**24,812,594**
Gross margin	33,864,069	130,000	(130,000)	**33,864,069**
Operating income (loss)	7,419,608	(9,697,078)	—	**(2,277,470)**
Net loss from continuing operations	$ (40,743,771)	$ (14,130,664)	$ —	**(54,874,435)**
Loss from discontinued operations, net of tax				**(15,582,224)**
Net loss				**$ (70,456,659)**
Year ended December 31, 2019				
Net revenue	$ 29,075,127	$ 1,382,860	$ (20,000)	**$ 30,437,987**
Gross margin before fair value adjustment	12,670,844	1,027,909	(20,000)	**13,678,753**
Gross margin	35,510,272	1,027,909	(20,000)	**36,518,181**
Operating loss	(30,913,120)	(28,314,188)	—	**(59,227,308)**
Net loss from continuing operations	$ (39,681,211)	$ (32,889,171)	$ —	**(72,570,382)**
Loss from discontinued operations, net of tax				**(54,479,411)**
Net loss				**$(127,049,793)**

(i) Other primarily includes the Company's corporate activities in 2020 and 2019, along with its Kombucha business in 2019.
(ii) Includes Inter-segment revenue relates to management fees charged by the Other segment to the Cannabis segment.

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

	2020	2019
Cannabis		
Net revenue from government agencies (i)	$ 43,567,658	$ 24,416,194
Revenue from non-government agencies (ii)	15,735,173	4,658,933
	$ 59,302,831	**$ 29,075,127**
Revenue from Canada	$ 55,561,778	$ 29,075,127
Revenue from international exports	3,741,053	—
	$ 59,302,831	**$ 29,075,127**

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

Operating Segments	Cannabis	Propagation	Other (i)	Total
As at December 31, 2020				
Total assets	$ 225,825,532	$ —	$ 11,966,361	**$ 237,791,893**
Total liabilities	$ 149,476,308	$ —	$ 9,882,542	**$ 159,358,850**
As at December 31, 2019				
Total assets	$ 202,678,817	$ 81,678,913	$ 16,737,785	**$ 301,095,515**
Total liabilities	$ 132,562,059	$ 58,187,390	$ 24,721,637	**$ 215,471,086**

(i) Other primarily includes the Company's corporate activities in 2020 and 2019, along with its Kombucha business in 2019.

23. Segmented Information (continued)

The Company has Cannabis customers that account for $14,316,103 (24%), $8,014,368 (14%), $5,768,635 (10%), $3,647,337 (6%) and $3,455,334 (6%) of the Company's net revenue for the year ended December 31, 2020 (December 31, 2019 – $5,426,041 (19%), $3,186,206 (11%), $2,690,285 (9%), $4,221,327 (15%) and $6,493,019 (22%)). The Company expects to maintain these relationships with the customers.

24. Income Taxes

For the year ended December 31, 2020, the Company recorded $16,034 of current income tax expense (December 31, 2019 – $798,750) and $2,104 of deferred income tax recovery (December 31, 2019 – $1,415,292).

The income taxes shown in the Consolidated Statements of Loss and Comprehensive Loss differ from amounts obtained by applying statutory rates to the loss before income taxes due to the following:

		2020		2019
Loss before income taxes	$	(54,860,505)	$	(73,186,924)
Statutory tax rate		27 %		27 %
Expected income tax recovery	$	(14,812,336)	$	(19,760,469)
Permanent differences		6,259,318		4,655,586
Convertible loans and derivatives		—		2,515,427
Impairment on goodwill		—		2,492,171
Unrealized gain and loss on investments and derivatives		2,154,238		(935,143)
Realized gain and loss on sale of investments		—		740,892
Change in statutory rates and rate differences		(98,836)		(1,447,040)
Change in unrecognized deductible temporary differences		8,046,555		12,273,258
Prior year true-ups		(906,104)		(495,155)
Share issuance costs		(618,149)		(681,563)
Other		(10,756)		25,494
	$	**13,930**	**$**	**(616,542)**

24. Income Taxes (continued)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax liabilities are comprised of the following:

	2020	2019
Deferred tax assets:		
Non-capital losses	$ 16,115,141	$ 17,630,903
Deferred tax liabilities:		
Property, plant and equipment	(4,023,619)	(14,947,644)
Biological assets and inventory	(10,501,416)	(8,587,602)
Investments	(1,525,739)	(898,762)
Financial instruments	(73,667)	(299,235)
Financing fees	(78,305)	—
	(16,202,746)	(24,733,243)
Net deferred tax liabilities	**$ (87,605)**	**$ (7,102,340)**

The following is a summary of the unrecognized deductible temporary differences:

	2020	2019
Non-capital losses	$ 65,689,623	$ 49,278,797
Capital losses	519,450	1,410,452
Share issuance cost	6,011,045	4,939,194
Customer deposit	4,346,937	—
Investments	261,872	101,871
Atlantic qualified property ITC	2,392,858	343,134
Deferred revenue	—	2,272,329
Property, plant and equipment	15,212,246	20,803,588
Allowance for doubtful accounts	246,597	—
	$ 94,680,628	**$ 79,149,365**

As at December 31, 2020, the Company has Canadian non-capital loss carryforwards of $122,417,187 (December 31, 2019 – $110,158,162) which may be carried forward to apply against future income tax for Canadian income tax purposes. These non-capital loss carryforwards begin to expire in 2030.

25. 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.

26. Subsequent Events

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

(a) The Company has entered into a credit agreement with a Canadian private debt fund, as agent on behalf of certain lenders, in respect of a committed revolving credit facility in a principal amount of up to $60,000,000, subject to borrowing base requirements based on eligible receivables, inventory and real estate (the "Facility"). Advances made under the Facility will bear interest at a rate per annum equal to the greater of 10% or the Toronto-Dominion Bank 's prime rate, from time to time, plus 7.55%, calculated daily and payable monthly.

(b) In February 2021, the Company filed a petition with the Supreme Court of British Columbia for a determination of the amount required to repay and terminate the Senior Debt and to obtain discharges of the Senior Debt and related security. The purpose of the petition is to seek determination of the correct calculation of the amount required to exercise an option to buy out the amended royalty provided for in the Senior Debt, whether the royalty is secured by the same security charging the Senior Debt as well as related security, and whether certain prepayment amounts, default fees and legal fees are payable under the Senior Debt of $3,363,250. The Company intends to use the funds from the Facility to repay and discharge the Senior Debt.

(c) In February 2021, the Company announced that it has entered into a definitive arrangement under which Hexo Corp. ("Hexo") will acquire all of Zenabis' common shares at an approximate value of $235 million under which Zenabis shareholders will receive 0.01772 of a Hexo common share in exchange for each Zenabis common share. The transaction was unanimously approved by the board of directors of each HEXO and Zenabis, and the board recommends that the shareholders vote in favour of the transaction. The shareholders vote will take place in May 2021.

(d) The Company has established an at-the-market equity program that allows the Company to issue up to $15,000,000 of common shares from treasury to the public from time to time, at the Company’s discretion. Subsequent to December 31, 2020, the Company has issued from treasury to the public 36,956,000 common shares for aggregate gross proceeds of $6,304,487.

(e) Zenabis announced that its wholly-owned subsidiary Zenabis Ltd. has entered into a Settlement Agreement and Release with a customer (the “Settlement Agreement”), pursuant to which the parties have agreed to withdraw from the arbitration proceedings between the parties, and release the other party from all past, present and future claims of the parties arising out of the pre-paid supply agreement relating to subsequent deliveries of cannabis product. Pursuant to the Settlement Agreement, the Company has paid $12,500,000 to settle customer deposits of $25,428,780.

(f) In March 2021, the Company closed the previously announced sale of Bevo Farms, pursuant to the rental rebate, liability contribution, and share purchase agreement dated December 31, 2020 between Zenabis and Langley Propagation and Floral Company Ltd. and received a release from its obligations under the financial guarantee contract.