ZENABIS GLOBAL INC.

(FORMERLY KNOWN AS BEVO AGRO INC.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

(EXPRESSED IN CANADIAN DOLLARS)

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Financial Position
As at March 31, 2019 and December 31, 2018
(Unaudited)

	Notes	March 31, 2019	December 31, 2018
Assets			
Current assets			
Cash		$ 25,567,059	$ 16,966,803
Short-term investments	8	4,285,714	2,912,088
Accounts receivable	3	12,524,444	4,994,271
Inventory	4	12,915,841	4,932,935
Biological assets	5	13,356,971	3,721,751
Prepaid assets and other		7,587,437	2,836,737
		76,237,466	36,364,585
Property, plant and equipment	6	165,116,799	67,855,776
Right-of-use assets	12	5,245,804	–
Investments	8	646,413	559,988
Intangible assets		22,498,205	–
Goodwill	7	39,460,070	6,688,711
Total assets		**$ 309,204,757**	**$ 111,469,060**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 38,925,033	$ 13,200,699
Deferred revenue		11,500	11,500
Derivative liabilities	11,14	1,837,576	17,769,562
Due to related parties	9	49,409	923,229
Current portion of loans and borrowings	10	24,543,585	51,788
Current portion of convertible loans	11	27,317,364	43,485,222
Current portion of lease obligations	12	424,910	–
		93,109,377	75,442,000
Loans and borrowings	10	38,760,299	2,119,158
Convertible loans	11	21,514,035	–
Deferred income tax liability		13,773,463	–
Lease obligations	12	4,933,681	–
Total liabilities		**172,090,855**	**77,561,158**
Equity			
Share capital		174,566,115	72,122,342
Reserve for equity settled share-based transactions		5,904,056	4,004,401
Reserve for equity instruments		2,304,095	–
Accumulated other comprehensive income		86,425	–
Deficit		(46,227,641)	(42,218,841)
Total equity attributable to shareholders		136,633,050	33,907,902
Non-controlling interests	7	480,852	–
Total equity		**137,113,902**	**33,907,902**
Total liabilities and equity		**$ 309,204,757**	**$ 111,469,060**

Subsequent events (**Note 17**)
(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three months ended March 31, 2019 and 2018

(Unaudited)

	Notes	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue			
Gross revenue		$ 12,283,493	$ –
Excise taxes		(726,276)	–
Net revenue		**11,557,217**	**–**
Cost of sales		(7,680,343)	–
Gross margin before fair value adjustment		**3,876,874**	**–**
Realized fair value amounts included in inventory sold		(3,402,319)	–
Unrealized gain on changes in biological assets	5	7,993,853	–
Gross margin		**8,468,408**	**–**
Operating expenses			
Acquisition costs		4,919,978	–
Salaries and benefits		3,869,419	711,517
General and administrative		2,600,001	788,821
Professional fees		2,168,120	184,150
Share-based compensation	13	2,078,636	246,529
Depreciation and amortization		1,462,077	238,386
Advertising and marketing		946,423	250,725
Small tools and supplies		718,627	132,183
Total operating expenses		**18,763,281**	**2,552,311**
Loss from operations		**(10,294,873)**	**(2,552,311)**
Other income (expenses)			
Gain on revaluation of derivative liabilities	11,14	7,891,451	110,286
Interest expense		(4,553,288)	(251,460)
Finance and investment income	8	1,116,320	97,598
Loss on sale of assets		(7,402)	–
Net loss before income taxes		**(5,847,792)**	**(2,595,887)**
Current income tax expense		(61,477)	–
Deferred income tax recovery		1,903,454	–
Net loss		**$ (4,005,815)**	**$ (2,595,887)**
Other comprehensive income			
Unrealized gain on investments	8	$ 86,425	$ –
Net loss and comprehensive loss		**$ (3,919,390)**	**$ (2,595,887)**

	Notes		Three months ended March 31, 2019		Three months ended March 31, 2018
Net loss attributable to:					
Zenabis Global Inc.		$	(4,008,800)	$	(2,595,887)
Non-controlling interests	7		2,985		–
		$	**(4,005,815)**	**$**	**(2,595,887)**
Comprehensive loss attributable to:					
Zenabis Global Inc.		$	(3,922,375)	$	(2,595,887)
Non-controlling interests	7		2,985		–
		$	**(3,919,390)**	**$**	**(2,595,887)**
Loss per share, basic and diluted		**$**	**(0.02)**	**$**	**(0.02)**
Weighted average number of shares outstanding, basic and diluted			**186,777,479**		**141,788,078**

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

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Changes in Equity
For the three months ended March 31, 2019 and 2018
(Unaudited)

	Notes	Common Shares	Preferred Shares	Share Capital	Reserve for Equity Settled Share-based Transactions	Reserve for Equity Instruments	AOCI	Deficit	Non-controlling Interest	Total
Balance, December 31, 2017		**139,674,680**	**–**	**$ 39,178,113**	**$ 275,036**	**$ –**	**$ –**	**$ (9,697,081)**	**$ –**	**$ 29,756,068**
Issuance of share capital		5,283,520	–	8,339,156	–	–	–	–	–	8,339,156
Share-based compensation	13	–	–	–	246,529	–	–	–	–	246,529
Net loss		–	–	–	–	–	–	(2,595,887)	–	(2,595,887)
Balance, March 31, 2018		**144,958,200**	**–**	**$ 47,517,269**	**$ 521,565**	**$ –**	**$ –**	**$ (12,292,968)**	**$ –**	**$ 35,745,866**
Balance, December 31, 2018		**158,499,731**	**–**	**$ 72,122,342**	**$ 4,004,401**	**$ –**	**$ –**	**$ (42,218,841)**	**$ –**	**$ 33,907,902**
Issuance of share capital on debt conversion		2,078,045	–	7,869,960	–	–	–	–	–	7,869,960
Issuance of share capital on exercise of warrants		667,160	–	3,337,940	–	–	–	–	–	3,337,940
Balance, January 7, 2019		**161,244,936**	**–**	**83,330,242**	**4,004,401**	**–**	**–**	**(42,218,841)**	**–**	**45,115,802**
Shares exchanged on reverse takeover		(161,244,936)	–	(83,330,242)	–	–	–	–	–	(83,330,242)
Existing shares of Bevo Agro Inc. prior to reverse takeover		27,768,073	17,860	78,354,188	–	–	–	–	–	78,354,188
Shares issued to shareholders of Sun Pharm Investments Ltd.		159,746,237	–	83,330,242	–	–	–	–	–	83,330,242
Issuance of share capital for business combinations		455,947	–	2,048,001	–	–	–	–	477,867	2,525,868
Issuance of share capital on debt conversion		658,599	–	1,935,011	–	–	–	–	–	1,935,011
Issuance of share capital on exercise of options		198,139	–	379,568	(178,981)	–	–	–	–	200,587
Issuance of share capital on exercise of warrants		1,685,443	–	8,519,105	–	–	–	–	–	8,519,105
Issuance of share capital on conversion of preferred shares		14,466	(17,860)	–	–	–	–	–	–	–
Issuance of convertible notes		–	–	–	–	1,628,368	–	–	–	1,628,368
Issuance of warrants		–	–	–	–	675,727	–	–	–	675,727
Unrealized gain on investments	8	–	–	–	–	–	86,425	–	–	86,425
Share-based compensation	13	–	–	–	2,078,636	–	–	–	–	2,078,636
Net loss		–	–	–	–	–	–	(4,008,800)	2,985	(4,005,815)
Balance, March 31, 2019		**190,526,904**	–	**$ 174,566,115**	**$ 5,904,056**	**$ 2,304,095**	**$ 86,425**	**$ (46,227,641)**	**$ 480,852**	**$ 137,113,902**

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

ZENABIS GLOBAL INC.

(formerly known as Bevo Agro Inc.)

Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2019 and 2018
(Unaudited)

	Notes		Three months ended March 31, 2019		Three months ended March 31, 2018
Operating Activities					
Net loss		$	(4,005,815)	$	(2,595,887)
Items not involving cash:					
Change in fair value included in inventory sold			3,402,319		–
Change in fair value of biological assets	5		(7,993,853)		–
Depreciation and amortization			1,462,077		238,386
Loss on disposal of property, plant and equipment			7,402		–
Share-based compensation	13		2,078,636		246,529
Unrealized gain on investments	8		(1,111,755)		(96,686)
Gain on revaluation of derivative liabilities	11,14		(7,891,451)		(110,286)
Accretion expense			3,184,387		81,812
Current income tax expense			61,477		–
Deferred income tax recovery			(1,903,454)		–
Changes in non-cash working capital items and other	15		(4,933,536)		(1,591,397)
Net cash flows used in operating activities			**(17,643,566)**		**(3,827,529)**
Investing Activities					
Purchase of property, plant and equipment			(22,438,562)		(2,431,682)
Proceeds from disposal of property, plant and equipment			14,500		–
Acquisition of Topgro, net of cash acquired	7		(9,382,631)		–
Cash acquired from other business combinations	7		1,498,610		–
Net cash flow used in investing activities			**(30,308,083)**		**(2,431,682)**
Financing Activities					
Proceeds from secured loans and borrowings	10		62,054,407		373,226
Proceeds from issuance of secured convertible debt	11		13,593,950		–
Repayment of secured loans and borrowings	10		(23,628,648)		(326,680)
Debt issuance costs	10		(783,569)		–
Repayment of lease obligations			(157,965)		–
Restricted cash allocated for debt repayment			–		55,290
(Repayments to) advances from related parties			(873,820)		74,113
Stock options exercised			135,065		–
Warrants exercised			6,212,485		–
Proceeds from issuance of share capital			–		8,339,156
Net cash flows provided by financing activities			**56,551,905**		**8,515,105**
Increase in cash			**8,600,256**		**2,255,894**
Cash, beginning of period			16,966,803		5,934,864
Cash, end of period		**$**	**25,567,059**	**$**	**8,190,758**
Supplemental cash flow information:					
Property, plant and equipment purchased and unpaid for at period end		$	16,561,977	$	625,572

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

1. Nature of Operations

On January 8, 2019, Bevo Agro Inc. (a Canadian company previously listed on the TSX Venture Exchange under the symbol “BVO”) (“Bevo”) acquired all of the outstanding shares of Sun Pharm Investments Ltd. (“Sun Pharm”) by way of a three-cornered amalgamation with Bevo changing its name to Zenabis Global Inc. (the “Company”). Upon completion, the shareholders of Bevo held approximately 14% of the issued and outstanding shares of the Company and as a result, Sun Pharm shareholders controlled the Company resulting in a Reverse Take-Over of the Company. The resulting financial statements are presented as a continuance of Sun Pharm (accounting acquirer), and comparative figures presented in the financial statements are those of Sun Pharm (refer to **Note 7(a)**).

Sun Pharm was incorporated under the laws of Canada, on November 6, 2017, while the predecessor entity, Zenabis Limited Partnership was originally formed on April 5, 2014 as a limited partnership registered in Manitoba. The Company’s principal business is the production, distribution and sale of medical and consumer cannabis products in Canada pursuant to the Cannabis Act.

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

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

As at March 31, 2019, the Company had a deficit of $46,227,641 (December 31, 2018 – $42,218,841) and a working capital deficiency of $16,871,911 (December 31, 2018 – $39,077,415). Subsequent to the period ended March 31, 2019, the Company has completed a financing transaction which has eliminated the working capital deficiency (refer to **Note 17**).

2. Significant Accounting Policies and Significant Judgments

(a) Basis of Presentation and Measurement

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

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

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on May 30, 2019.

(b) Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries with intercompany balances and transactions eliminated upon consolidation. As at March 31, 2019, the subsidiaries of the Company are as follows:

2. Significant Accounting Policies and Significant Judgments (continued)

(b) Basis of consolidation (continued)

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

(c) Significant accounting judgments and estimates

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

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

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

(d) Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets acquired in a business combination are measured at fair value at the acquisition date. Property, plant and equipment and intangible assets are depreciated and amortized 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
Customer list	Straight-line	5 – 20 years
Brand name	N/A	Indefinite

2. Significant Accounting Policies and Significant Judgments (continued)

(d) Property, plant and equipment and intangible assets (continued)

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

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

(e) New standard effective January 1, 2019

IFRS 16 – Leases ("IFRS 16") introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12-months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

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

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

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

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

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

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

2. Significant Accounting Policies and Significant Judgments (continued)

(e) New standard effective January 1, 2019 (continued)

The adoption of IFRS 16 has resulted in the Company recognizing a right-of-use asset and lease liability on the condensed consolidated interim statements of financial position for equipment and office space leases with firm periods of greater than one year. The Company recognized its right-of-use asset and lease liability for these leases based on the present value of future minimum lease payments, whereas previously no right-of-use asset or lease liability was recognized. The right-of-use asset recognized as at January 1, 2019 and March 31, 2019 was $53,317 and $5,245,804, respectively. The lease obligation recognized as at January 1, 2019 and March 31, 2019 was $51,327 and $5,358,591, respectively (refer to **Note 12**). The comparative figures as at December 31, 2018 are presented under IAS 17, and not under IFRS 16 as in the current period.

3. Accounts Receivable

	March 31, 2019	December 31, 2018
Trade receivables	$ 8,141,735	$ 2,294,604
GST/HST recoverable	4,382,709	2,699,667
Balance, end of period	**$ 12,524,444**	**$ 4,994,271**

4. Inventory

The Company's inventory is comprised of:

	Capitalized Cost	Biological Asset Fair Value Adjustment	Carrying Value
Cannabis			
Work-in-process	$ 4,582,778	$ 2,995,518	$ 7,578,296
Finished goods	622,678	933,066	1,555,744
	5,205,456	3,928,584	9,134,040
Non-Cannabis			
Work-in-process	6,105	–	6,105
Finished goods	129,092	–	129,092
	135,197	–	135,197
Supplies and consumables	3,646,604	–	3,646,604
Balance, March 31, 2019	**$ 8,987,257**	**$ 3,928,584**	**$ 12,915,841**

4. Inventory (continued)

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

5. Biological Assets

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

Balance, December 31, 2018	$ 3,721,751
Acquired on acquisition	4,665,725
Production costs capitalized	3,834,930
Changes in fair value, less cost to sell due to biological transformation	7,993,853
Transferred to inventory upon harvest	(6,859,288)
Balance, March 31, 2019	**$ 13,356,971**

Cannabis

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

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at March 31, 2019:

Selling price	calculated as the average historical selling price, net of excise tax, for all strains of cannabis sold by the Company, which is expected to approximate future selling prices
Expected yield	represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant
Post-harvest costs	calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of the cost of materials and labour related to labelling and packaging

5. Biological Assets (continued)

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.

	March 31, 2019	10% Change as at March 31, 2019
Cannabis		
Selling price (weighted average) – Flower[i]	$ 6.25	$ 374,830
Selling price (weighted average) – Trim	2.50	106,514
Average yield per plant (grams)	117.23	$ 427,471
Post-harvest costs (weighted average)	$ 0.78	$ 54,553

(i) Net of excise tax.

Non-cannabis

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

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

	March 31, 2019	10% Change as at March 31, 2019
Vegetable Plants		
Selling price (weighted average)	$ 1.58	$ 12,234

	March 31, 2019	10% Change as at March 31, 2019
Bedding/Floral Plants		
Selling price (weighted average)	$ 7.49	$ 291,386

6. Property, Plant and Equipment

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

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

A continuity of the property, plant and equipment balance for the period ended March 31, 2019 is as follows:

	Land	Buildings and Land Improvements	Production Equipment	Other Equipment	Construction in Progress (CIP)	Total
Cost						
At December 31, 2018	$ 2,033,097	$ 18,419,634	$ 1,879,395	$ 2,723,123	$ 44,580,758	$ 69,636,007
Additions	–	2,259,457	1,636,480	3,165,072	26,930,397	33,991,406
Acquired	14,050,400	37,440,420	12,289,895	208,509	693,911	64,683,135
Disposals	–	–	(31,685)	–	–	(31,685)
Transfer to right-of-use assets	–	–	(36,766)	–	–	(36,766)
Transfers from CIP	–	32,244,179	1,444,203	358,773	(34,047,155)	–
At March 31, 2019	**$ 16,083,497**	**$ 90,363,690**	**$ 17,181,522**	**$ 6,455,477**	**$ 38,157,911**	**$ 168,242,097**
Accumulated depreciation						
At December 31, 2018	$ –	$ 1,141,116	$ 280,433	$ 358,682	$ –	$ 1,780,231
Additions	–	766,894	412,983	180,990	–	1,360,867
Disposals	–	–	(2,367)	(910)	–	(3,277)
Transfer to right-of-use assets	–	–	(12,523)	–	–	(12,523)
At March 31, 2019	**$ –**	**$ 1,908,010**	**$ 678,526**	**$ 538,762**	**$ –**	**$ 3,125,298**
Net book value						
At December 31, 2018	**$ 2,033,097**	**$ 17,278,518**	**$ 1,598,962**	**$ 2,364,441**	**$ 44,580,758**	**$ 67,855,776**
At March 31, 2019	**$ 16,083,497**	**$ 88,455,680**	**$ 16,502,996**	**$ 5,916,715**	**$ 38,157,911**	**$ 165,116,799**

7. Business Combinations

The following table summarizes the balance sheet impact on the acquisition date of the Company's business combinations that occurred in the period ended March 31, 2019:

Acquisitions completed during the three months ended March 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	1,606,068	75,082	120,669	**1,801,819**
Notes receivable	1,346,865	–	–	**1,346,865**
GST/HST receivable	100,158	28,576	–	**128,734**
Due from related parties	255,822	–	–	**255,822**
Inventories	3,608,856	96,163	51,462	**3,756,481**
Biological assets	4,665,725	–	–	**4,665,725**
Prepaid expenses and deposits	613,321	16,530	7,352	**637,203**
Property, plant and equipment	55,258,010	9,198,338	226,787	**64,683,135**
Intangible assets:				
Brand name	13,994,000	–	2,227	**13,996,227**
Customer relationships	7,434,000	–	1,183,000	**8,617,000**
Accounts payable and accruals	(6,348,973)	(67,910)	(90,508)	**(6,507,891)**
Loans and borrowings	(19,589,225)	–	(308,226)	**(19,897,451)**
Deferred income tax liability	(13,183,594)	(1,305,421)	(335,604)	**(14,824,619)**
Non-controlling interests	–	–	(477,867)	**(477,867)**
	$ 51,141,564	**$ 8,059,823**	**$ 497,371**	**$ 59,698,758**
Purchase price allocation				
Net identifiable assets acquired	$ 51,141,564	$ 8,059,823	$ 497,371	**$ 59,698,758**
Goodwill	27,212,624	4,008,105	1,550,630	**32,771,359**
	$ 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)**

7. Business Combinations (continued)

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

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

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

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 Investments Ltd. ("Sun Pharm") by way of a three-cornered amalgamation to form Zenabis Global Inc. (the "Transaction"). Bevo operates 53 acres of propagation greenhouse facilities on 98 acres of land in Langley, British Columbia and 20 acres of land in Pitt Meadows, British Columbia. Bevo's main products are the propagation of vegetable plants such as tomatoes, cucumbers and peppers and other plants such as bedding plants, flowers and grasses.

In accordance with IFRS 3 – Business Combinations, the Transaction is a reverse takeover of an operating company, Bevo, and thus management has 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 are presented as a continuance of Sun Pharm (accounting acquirer), and comparative figures presented in the financial statements are those of Sun Pharm. The results of operations of Bevo after the date of acquisition of January 8, 2019 were included in these condensed consolidated interim financial statements.

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

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

For the period from acquisition to March 31, 2019, Bevo accounted for $7,529,159 in revenues and $1,092,833 in net income. If the acquisition had been completed on January 1, 2019, the Company estimates it would have recorded $8,403,955 in revenues and estimates net income would remain the same for the three months ended March 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.

7. 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 March 31, 2019, Topgro accounted for $nil in revenues and $140,034 in net loss. If the acquisition had been completed on January 1, 2019, the Company estimates that the revenues and net loss for the three months ended March 31, 2019 would remain the same.

(c) True Büch

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

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

For the period from acquisition to March 31, 2019, True Büch accounted for $251,855 in revenues and $5,465 in net income. If the acquisition had been completed on January 1, 2019, the Company estimates it would have recorded $323,555 in revenues and estimates net income would remain the same for the three months ended March 31, 2019.

Non-controlling interest

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

		March 31, 2019
Balance, beginning of period	$	–
Non-controlling interest arising on acquisition of True Büch		477,867
Share of profit for the period		2,985
Balance, end of period	**$**	**480,852**

8. Investments

		March 31, 2019		December 31, 2018
CubicFarm Systems Corp. (i)	$	486,413	$	399,988
National Access Cannabis		4,285,714		2,912,088
Other		160,000		160,000
Total investments		4,932,127		3,472,076
Less: short-term investments		**(4,285,714)**		**(2,912,088)**
Non-current investments	**$**	**646,413**	**$**	**559,988**

(i) For the three months ended March 31, 2019, the Company recognized an unrealized gain on investments of $86,425 in other comprehensive income.

Finance and investment income consisted of the following:

		March 31, 2019		March 31, 2018
Realized and unrealized gain on investments	$	1,111,755	$	96,686
Interest income		4,565		912
Total finance and investment income	**$**	**1,116,320**	**$**	**97,598**

9. Related Party Transactions

(a) Due to related parties

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

		March 31, 2019		March 31, 2018
Due to related parties	$	49,409	$	524,465
Included in accounts payable and accrued liabilities		5,494,598		156,369
Total amounts due to related parties	**$**	**5,544,007**	**$**	**680,834**

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

(b) Compensation of key management personnel

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

		March 31, 2019		March 31, 2018
Salaries and benefits	$	502,933	$	154,054
Share-based payments		966,487		141,097
Director fees		124,513		–
Total compensation of key management personnel	**$**	**1,593,933**	**$**	**295,151**

9. Related Party Transactions (continued)

(c) Service fees incurred to related parties

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

		March 31, 2019		March 31, 2018
Amounts incurred to companies affiliated with the:				
Chief Executive Officer of the Company [i]	$	1,045,859	$	–
Chief Growing Officer of the Company		84,000		–
		1,129,859		–
Amounts incurred to companies controlled by the:				
Chairman of the Board of the Company and a significant shareholder of the Company		340,606		210,010
Total amounts incurred to related parties	**$**	**1,470,465**	**$**	**210,010**

(i) Except for $20,144 in amounts incurred, all other service arrangements were negotiated or entered into prior to the CEO's appointment on January 21, 2019.

(d) Due to shareholders

On October 17, 2018, the Company entered into agreements to refinance some of its shareholder loans with unsecured convertible notes (refer to **Note 11(a)** for details).

10. Loans and Borrowings

As at March 31, 2019, the Company had the following loans and borrowings:

		March 31, 2019		December 31, 2018
Term loans (a)(b)	$	40,301,994	$	–
Revolving line of credit (a)(b)		1,004,036		–
Loans payable (c)		2,180,685		2,148,693
Senior notes payable (d)		20,566,669		–
Lease obligations		–		22,253
Total principal balance		64,053,384		2,170,946
Less: unamortized debt issuance costs		(749,500)		–
Total long-term debt		63,303,884		2,170,946
Less: current portion		**(24,543,585)**		**(51,788)**
Non-current portion	**$**	**38,760,300**	**$**	**2,119,158**

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

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

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

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

10. Loans and Borrowings (continued)

(a) (continued)

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

Under the terms of the Credit Agreement, the Company is subject to certain customary financial and non-financial covenants and restrictions. In addition, the Credit Agreement is secured by a first-ranking security interest over substantially all of the property of Bevo Farms Ltd. and its subsidiaries. As at March 31, 2019, the Company was in compliance with all covenants relating to the Credit Agreement.

Term loan

As at March 31, 2019, advances under the Term Loan was made in two tranches, with interest payments based on prime rate plus a margin. As at March 31, 2019, the borrowing rate was 4.70%. Each tranche is scheduled to mature on January 21, 2022. Details regarding the tranches are further discussed below:

(i) Tranche 1 provided available borrowings of $33,700,000 by way of a single advance. Under the Credit Agreement, Tranche 1 is available solely for the purpose of repaying current indebtedness of the Company and for the acquisition of Topgro. Interest is due monthly and the principal balance is repayable in equal quarterly installments of 1/60th of the amount borrowed beginning on March 31, 2019 until the maturity date. As at March 31, 2019, Tranche 1 has been fully drawn.

(ii) Tranche 2 provided available borrowings of $13,000,000 to finance capital expenditures for the conversion of a portion of Zenabis Langley, for the purposes of cannabis cultivation and production, and for propagation conversion capital expenditures for Zenabis Topgro. The fund is available from time to time at the discretion of the Company up to and including July 30, 2019 and with a maximum of five installments. Interest is due monthly and the principal balance is repayable in equal quarterly installments of 1/60th of the amount beginning on the last day of each fiscal quarter commencing on the earlier of **(i)** substantial completion of the retrofit projects or **(ii)** September 30, 2019. As at March 31, 2019, $6,521,353 of Tranche 2 has been drawn.

Revolver

The Revolver provided available aggregate borrowings of up to $2,000,000. In March 2019, the revolving line of credit was temporarily increased from $2,000,000 to $6,000,000. Interest payments are based on prime plus a margin. The Revolver is to be drawn, repaid and redrawn at the discretion of the Company to fund working capital and general corporate purposes and will mature on January 21, 2022. As at March 31, 2019, $984,927 of the Revolver has been drawn with a borrowing rate of 4.70%.

Facility A

Under the Credit Agreement, Facility A provides the Company $2,000,000 for the purposes of managing interest rate and foreign exchange risks. As at March 31, 2019, Facility A remains undrawn.

Facility B

Under the Credit Agreement, Facility B provided available borrowings of up to $300,000 for general corporate purposes. All outstanding obligations under this facility is repayable on a monthly basis. As at March 31, 2019, Facility B remains undrawn.

(b) Pursuant to the acquisition of True Büch (**Note 7(c)**), the Company assumed a term loan and revolving line of credit of $80,641 and $19,110, respectively. The term loan is scheduled to mature in September 2022 with interest payments based on prime plus 2.5% per annum. The revolving line of credit is payable upon demand with interest payments based on prime plus 3.75%. The loans are secured by a security interest over True Büch's property.

10. Loans and Borrowings (continued)

(c) In August 2017, the Company entered into a loan agreement with a third party which provided borrowings of up to $2,000,000, bearing interest of 6% per annum. The loan agreement is scheduled to mature in September 2027 and is secured by a security interest over substantially all of the Company's property. The Company is not required to make any principal or interest payments through May 2019. Interest will accrue from the dates of disbursement and will be capitalized during this period. Beginning in June 2019, the Company will be required to make interest only payments based on the outstanding principal and capitalized interest balance plus 24 equal monthly payments of the capitalized interest. Beginning in May 2021, the Company will be required to make equal monthly principal payments of the outstanding loan balance plus interest until May 2027. As at March 31, 2019, $180,685 of interest has been capitalized.

(d) In February 2019, the Company's senior convertible note was renegotiated, such that the remaining undrawn $20,850,000 balance was no longer convertible (**Note 11(e)**). On February 19, 2019, the Company received $20,850,000 as a non-convertible senior note maturing in October 2019, with interest at prime plus 9%.

Total long-term debt repayments are as follows:

Remaining 2019	$	24,013,486
2020		3,017,321
2021		3,018,767
2022		9,537,143
2023		2,995,556
Thereafter		21,471,111
Total long-term debt repayments	**$**	**64,053,384**

11. Convertible Loans

		March 31, 2019		**December 31, 2018**
Unsecured convertible notes payable – related parties (a)	$	10,605,472	$	10,279,504
Unsecured convertible notes payable – third parties (b)		–		4,141,621
Unsecured convertible debentures (c)		10,908,563		–
Secured convertible notes payable (d)		23,573,346		25,480,775
Secured convertible senior note payable (e)		3,744,018		3,583,322
Total convertible loans		48,831,399		43,485,222
Less: current portion		**(27,317,364)**		**(43,485,222)**
Non-current portion	**$**	**21,514,035**	**$**	**–**

(a) Unsecured convertible notes payable – related parties

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

11. Convertible Loans (continued)

(a) Unsecured convertible notes payable – related parties (continued)

Liquidity Event is 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 are free from any restriction (and otherwise free trading) under applicable securities laws and the common shares of the resulting issuer are listed on a stock exchange (the "Liquidity Event").

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

Management determined that the conversion option is not an equity instrument and separately accounted for these as an embedded derivative. As at March 31, 2019, the fair value of the derivative liability was $502,520 (December 31, 2018 - $4,528,199).

The carrying value of the loans are accreted using the effective interest method to its redemption value of $11,899,925 to its maturity date. During the three months ended March 31, 2019, accretion expense recognized through net loss was $658,771.

During the three months ended March 31, 2019, certain noteholders converted $1,824,263 of the principal and accrued interest amount outstanding on the unsecured notes payable at $2.65. Upon conversion, the note holders received 689,007 common shares of the Company.

(b) Unsecured convertible notes payable – third parties

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

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

During the three months ended March 31, 2019, certain noteholders converted $2,613,115 of the principal and accrued interest amount outstanding on the unsecured notes payable at $2.65. Upon the conversion, the note holders received 986,944 common shares of the Company.

(c) Unsecured convertible debentures

In March 2019, the Company entered into a letter of engagement with a financial institution under which the financial institution has 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 has 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 will be issuable in tranches at the option of the Company.

11. Convertible Loans (continued)

(c) Unsecured convertible debentures (continued)

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

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

During the three months ended March 31, 2019, the unsecured convertible noteholders did not convert any unsecured convertible debentures into common shares.

(d) Secured convertible notes payable

In October 2018, the Company issued secured convertible notes with warrants to third parties for aggregate proceeds of $27,500,000, bearing interest at 6% per annum and are scheduled to mature in October 2019. The notes also have the option to convert principal and accumulated interest to shares at the lender's option at the agreed conversion price. The conversion price will be the lesser of (i) $2.52 and (ii) a 25% discount to the per share price derived from the valuation of the Company upon the 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 determined that the conversion option and warrants granted are not equity instruments and separately accounted for these as an embedded derivative. As of March 31, 2019, the fair value of the derivative liability for the conversion option was $1,255,553 (December 31, 2018 - $11,319,142). In January 2019, the warrant terms were amended which reduced the principal balance and fixed the conversion price. Thus, the warrants were reclassified to equity and were fully exercised as at March 31, 2019.

11. Convertible Loans (continued)

(d) Secured convertible notes payable (continued)

The carrying value of the loans are accreted using the effective interest method to its redemption value of $24,857,012 to its maturity date. During the three months ended March 31, 2019, accretion expense recognized through net loss was $741,745.

During the three months ended March 31, 2019, certain noteholders converted $2,720,043 of the principal and accrued interest amount outstanding on the secured convertible notes at a weighted average price of $2.61. Upon conversion, note holders received 1,041,381 common shares of the Company.

(e) Secured convertible senior note payable

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

Management determined that the conversion option of the initial $4,150,000 drawn is not an equity instrument and separately accounted for it as an embedded derivative. As at March 31, 2019, the fair value of the derivative liability was $79,503 (December 31, 2018 - $97,806).

During the three months ended March 31, 2019, the secured convertible senior noteholders did not convert any secured convertible senior notes into common shares of the Company.

The carrying value of the loan is accreted using the effective interest method to its redemption value of $4,150,000 to its maturity date. During the three months ended March 31, 2019, accretion expense recognized through net loss was $160,696.

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 received $20,850,000 as a non-convertible senior note maturing in October 2019, with interest at prime plus 9% (refer to **Note10(d)**) The non-convertible senior note holders also received 2,593,283 warrants, each entitling the note holders to acquire one Zenabis share for a period of one year at a price of $4.02 per share.

Management determined that the warrants are considered to be an equity instrument and separately accounted for it. At issuance, the fair value of the warrants were $297,153 (December 31, 2018 - $nil). During the three months ended March 31, 2019, accretion expense recognized through net loss was $32,435.

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

At December 31, 2018	$	43,485,222
Additions		10,894,840
Capitalized interest		274,873
Conversions		(6,462,677)
Refinance		(304,402)
Accretion		943,543
At March 31, 2019	**$**	**48,831,399**

12. Right-of-use Assets and Leases Obligations

	Office Lease	Equipment Lease	Total
Right-of-use assets			
At January 1, 2019	$ –	$ 53,317	**$ 53,317**
Additions	5,252,876	–	**5,252,876**
Depreciation	(57,097)	(3,292)	**(60,389)**
At March 31, 2019	**$ 5,195,779**	**$ 50,025**	**$ 5,245,804**

	Office Space Lease	Equipment Lease	Total
Lease obligations			
At January 1, 2019	$ –	$ 51,327	**$ 51,327**
Additions	5,252,876	–	**5,252,876**
Imputed interest	57,716	1,836	**59,552**
Payments	–	(5,164)	**(5,164)**
At March 31, 2019	5,310,592	47,999	**5,358,591**
Less: current portion	**(410,278)**	**(14,632)**	**(424,910)**
Non-current portion	**$ 4,900,314**	**$ 33,367**	**$ 4,933,681**

The Company primarily leases office space and office equipment. The office space lease runs for a period of seven years, and the leases for office equipment for three to five years.

As at March 31, 2019, the weighted average incremental borrowing rate applied to lease obligations on January 1, 2019 was 13.19%. The Company has elected to recognize the lease payments of short-term and low-value leases in profit or loss on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. For the three months ended March 31, 2019, short-term and low-value lease expenses recognized in the Company's condensed consolidated interim statements of loss and comprehensive loss were as follow:

	March 31, 2019
Short-term lease expense	$ 46,922
Low-value lease expense	$ –

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

	January 1, 2019
Operating lease commitment at December 31, 2018	$ 38,319
Effect of discounting those lease commitments at an annual rate of 13.19%	(8,296)
Effect of electing to account for short-term and low value leases off balance sheet	(950)
Capital lease commitment at December 31, 2018	22,254
Lease obligation	**$ 51,327**

13. Equity Settled Share-based Transactions

The Company established a stock option plan (the "Plan") effective January 8, 2019, whereby the Company may grant stock options for the purchase of common shares of the Company to directors, officers, employees and key consultants to encourage ownership of the Company. Total equity settled share-based compensation outstanding is limited to 10% of the issued and outstanding shares of the Company.

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

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2018 (i)	14,460,564	$ 2.24
Granted	2,130,000	4.08
Exercised	(198,139)	1.01
Forfeited	(399,018)	2.94
Balance, March 31, 2019	**15,993,407**	**$ 2.49**

(i) Pursuant to the RTO (**Note 7(a)**), Sun Pharm options were converted into options of the Company at an exchange ratio of approximately 0.99.

The following table summarizes stock options outstanding at March 31, 2019:

	Options Outstanding		Options Exercisable	
Exercise Price	**Number**	**Weighted Average Remaining Contractual Life (Years)**	**Number**	**Weighted Average Remaining Contractual Life (Years)**
$0.50	971,439	3.21	586,172	3.21
$1.01	1,882,342	3.49	1,502,570	3.43
$1.59	2,628,125	4.06	875,121	4.06
$2.64	298,381	4.39	298,381	4.39
$2.85	7,516,197	2.90	3,291,446	1.74
$3.33	125,000	2.93	10,417	2.93
$3.55	300,000	2.89	25,000	2.89
$3.89	396,282	4.61	33,024	4.61
$4.16	777,500	2.84	67,083	2.84
$4.25	750,000	2.81	62,500	2.81
$4.39	198,141	4.63	16,512	4.63
$4.45	150,000	2.85	37,500	2.85

The fair value of stock options granted for the three months ended March 31, 2019 was $5,139,592 (March 31, 2018 – $3,012,987). Included in the options granted during the three months ended March 31, 2019 are 500,000 options (March 31, 2018 – nil) granted to third-party consultants. During the three months ended March 31, 2019, share-based compensation recognized through net loss was $2,078,636 (March 31, 2018 – $246,529). The grant-date fair value was estimated using the Black-Scholes option pricing model under the following assumptions:

13. Equity Settled Share-based Transactions (continued)

	March 31, 2019	March 31, 2018
Expected life (in years)	1.88 – 3.0	3.5
Expected volatility	90% – 99%	95% – 98%
Risk-free interest rate	1.68% – 1.96%	1.81% – 2.44%
Expected dividend	$ –	$ –

As at March 31, 2019, the total compensation cost not yet recognized related to options granted is approximately $16,675,345 (March 31, 2018 – $3,518,990) and will be recognized over the remaining average vesting period of 1.97 years (March 31, 2018 – 2.41 years).

14. Financial Instruments

(a) Fair value of financial instruments

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

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

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

March 31, 2019	Classification	Fair Value Level	Carrying Value	Fair Value
Financial assets not measured at fair value				
Cash	Amortized cost	1	$ 25,567,059	$ 25,567,059
Accounts receivable	Amortized cost	2	$ 12,524,444	$ 12,524,444
Financial assets measured at fair value				
Short-term investments	Financial assets at FVTPL	1	$ 4,285,714	$ 4,285,714
Investments	Financial assets at FVTOCI	3	$ 646,413	$ 646,413
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	Amortized cost	2	$ 38,925,033	$ 38,925,033
Due to related parties	Amortized cost	2	49,409	49,409
Loans and borrowings	Amortized cost	2	63,303,884	63,303,884
Convertible loans	Amortized cost	2	$ 48,831,399	$ 48,831,399
Financial liabilities measured at fair value				
Derivative liabilities	Financial liabilities at FVTPL	3	$ 1,837,576	$ 1,837,576

14. Financial Instruments (continued)

(a) Fair value of financial instruments (continued)

December 31, 2018	Classification	Fair Value Level	Carrying Value		Fair Value	
Financial assets not measured at fair value						
Cash	Amortized cost	1	$	16,966,803	$	16,966,803
Accounts receivable	Amortized cost	2	$	4,994,271	$	4,994,271
Financial assets measured at fair value						
Short-term investments	Financial assets at FVTPL	1	$	2,912,088	$	2,912,088
Investments	Financial assets at FVTOCI	3	$	559,988	$	559,988
Financial liabilities not measured at fair value						
Accounts payable and accrued liabilities	Amortized cost	2	$	13,200,699	$	13,200,699
Due to related parties	Amortized cost	2		923,229		923,229
Loans and borrowings	Amortized cost	2		2,148,693		2,148,693
Convertible loans	Amortized cost	2	$	43,485,222	$	43,485,222
Financial liabilities measured at fair value						
Derivative liabilities	Financial liabilities at FVTPL	3	$	17,769,562	$	17,769,562

Measurement of fair value:

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

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

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

- Discount due to lack of marketability ranging from 14.30% to 32.42% (December 31, 2018 – 15.90% to 32.42%)
- Assumption that there will be capital raises subsequent to issuance of convertible debt

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

14. Financial Instruments (continued)

(a) Fair value of financial instruments (continued)

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

Balance, December 31, 2018	$	17,769,562
Issue of loans and borrowings		–
Net change in fair value		(1,335,178)
Net change from refinancing		(4,577,356)
Settlement of derivative liabilities		(10,019,452)
Balance, March 31, 2019	**$**	**1,837,576**

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, and recoverable sales taxes which have low risk of default.

(ii) Liquidity risk:

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

As at March 31, 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	$ 38,925,033	$ 38,925,033	$ –	$ –	$ –
Due to related parties	49,409	49,409	–	–	–
Loans and borrowings	64,053,384	24,013,486	6,036,089	12,532,698	21,471,111
Convertible loans	48,831,399	27,317,364	10,605,472	10,908,563	–
Lease obligations	5,358,591	308,578	1,039,630	2,164,987	1,845,396
Total	**$ 157,217,816**	**$ 90,613,870**	**$ 17,681,191**	**$ 25,606,248**	**$ 23,316,507**

14. Financial Instruments (continued)

(b) Financial instruments risk (continued)

(ii) Liquidity risk (continued):

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

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

(iii) Interest rate risk:

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

(iv) Price risk:

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

If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net loss and comprehensive loss of approximately $445,000 and $49,000, respectively (March 31, 2018 – $310,000 and $40,000). See **Note 8** for additional details regarding the fair value of investments and short-term investments.

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

The changes in non-cash operating working capital are as follows:

	March 31, 2019	March 31, 2018
Accounts receivable	$ (3,996,933)	$ 240,135
Prepaid assets	(4,113,497)	867
Inventory	(4,226,425)	(1,946,036)
Biological assets	(377,961)	(420,795)
Accounts payable and accrued liabilities	7,646,683	534,432
Other	134,597	–
Total changes in non-cash operating working capital items and other	**$ (4,933,536)**	**$ (1,591,397)**

16. Segmented Information

Operating Segments	Cannabis	Propagation	All Other Segments (i)	Inter-segment	Total
Three months ended March 31, 2019					
Net revenue	$ 4,098,973	$ 7,529,160	$ 251,855	$ (322,771)	**$ 11,557,217**
Gross margin before fair value adj.	2,089,813	1,588,791	198,270	–	**3,876,874**
Gross margin	4,736,611	3,533,527	198,270	–	**8,468,408**
Net income (loss)	1,861,070	952,801	(6,819,686)	–	**(4,005,815)**
Total assets	138,497,127	141,491,739	29,215,891	–	**309,204,757**
Total liabilities	$ 85,304,128	$ 63,530,224	$ 23,256,503	$ –	**$ 172,090,855**
Three months ended March 31, 2018 (ii)					
Net revenue	$ –	$ –	$ –	$ –	**$ –**
Gross margin	–	–	–	–	**–**
Net loss	(2,595,887)	–	–	–	**(2,595,887)**
Total assets	66,610,776	–	–	–	**66,610,776**
Total liabilities	$ 30,864,910	$ –	$ –	$ –	**$ 30,864,910**

(i) All other segments primarily include the Company's corporate segment and Kombucha segment.
(ii) Due to the accounting presentation resulting from the RTO (**Note 7(a)**), no comparable information is presented for the propagation segment for the three months ended March 31, 2018.

17. Subsequent Events

The following events have occurred subsequent to March 31, 2019:

(a) In April 2019, the Company filed a final short form base shelf prospectus (the "Shelf Prospectus") with the securities commissions in each of the provinces of Canada, except Quebec. The Shelf Prospectus allows the Company to offer up to $100,000,000 of common shares, preferred shares, debt securities, warrants and units, or any combination thereof, from time to time for a 25-month period.

(b) In April 2019, the Company filed a preliminary prospectus supplement (the "Supplement") to its Shelf Prospectus in connection with a unit offering (the "Offering"). The Offering raised total gross proceeds of approximately $28,750,000. Net proceeds of the Offering are intended to fund the cost of conversion of its facilities to cannabis production and for working capital.

(c) In May 2019, the Company granted an aggregate of 3,755,511 incentive stock options to certain independent directors, officers, employees and consultants of the Company in accordance with the Company's stock option plan on its annual grant cycle. The grant date of these options is May 1, 2019 and each option is exercisable into one common share of the Company at a price of $1.91 per share.