ZENABIS GLOBAL INC.

AMENDED AND RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2020

Management's Discussion and Analysis of Financial Results of Operations for the Three Months Ended March 31, 2020

This amended and restated management's discussion and analysis ("Amended and Restated MD&A") is prepared as of June 12, 2020 and reports on the operating results and financial condition of Zenabis Global Inc. ("Zenabis" or the "Company") for the three months ended March 31, 2020 and 2019. This MD&A should be read in conjunction with the Company's amended and restated condensed consolidated interim financial statements for the three months ended March 31, 2020 and 2019, including the related notes thereto (the "Amended and Restated Condensed Consolidated Interim Financial Statements"). The Amended and Restated Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") of International Financial Reporting Standards ("IFRS").

This Amended and Restated MD&A provides additional comparative disclosures related to the three months ended March 31, 2020 ("Q1 2020") and the three months ended December 31, 2019 ("Q4 2019"), given that management believes this provides more relevant and current information.

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

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

FORWARD-LOOKING STATEMENTS

This Amended and Restated MD&A may contain "forward-looking information" within the meaning of Canadian securities legislation ("forward-looking statements"). These forward-looking statements are made as of the date of this Amended and Restated MD&A and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as required under applicable securities legislation. Forward-looking statements relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events and include, but are not limited to, the Company and its operations, its projections or estimates about its future business operations, its expansion plans in North America and Europe, its receipt of various licenses from Health Canada, the adequacy of its financial resources, its future economic performance and the Company's ability to become a leader in the field of cannabis. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. By their very nature, forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the "risk factors" contained in the Company's annual information form dated March 30, 2020 and filed on SEDAR, all of which are incorporated by reference herein. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

CAUTIONARY STATEMENTS REGARDING CERTAIN PERFORMANCE MEASURES

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

- Cost of cultivation
- Grams of internally produced cannabis sold
- Grams of cannabis purchased from third parties and sold
- Grams of cannabis sold
- Net revenue per gram of cannabis sold
- Cost of goods sold per gram of cannabis sold
- Cost to internally produce a gram of cannabis sold
- Adjusted EBITDA

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

BUSINESS OVERVIEW

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

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

SEGMENTS

Cannabis

Zenabis, a licensed producer ("LP") under the Cannabis Act, owns and operates three state-of-the-art facilities across Canada for the purpose of the production and sale of cannabis and value add cannabis products. These facilities consist of a greenhouse facility in British Columbia (the "Langley Facility"), an indoor cultivation and processing facility in New Brunswick (the "Atholville Facility") and a processing facility in Nova Scotia (the "Stellarton Facility"). The Company also owns and operates additional facilities in British Columbia (the "Pitt Meadows Facility" and the "Aldergrove Facility") for industrial hemp cultivation activities and its Propagation segment.

Most of the Company's significant construction projects are substantially completed and significant capital investments concluded. The Company's cultivation, processing and finished goods manufacturing infrastructure is in place and licensed, and is or will be operating at a steady state in 2020.

Zenabis believes that one of its key differentiators is its vast cultivation experience, which has allowed Zenabis to deliver consistent, high-quality yields that exceed expected estimates and cultivate at a low cost per gram.

Zenabis intends to also operate in other value add cannabis product segments, such a derivative products and beverages.

Propagation

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

Other

For the purpose of expanding into the European medical cannabis market, the Company, in conjunction with local European partners, formed ZenPharm Limited ("ZenPharm") in October 2019. The Company's local partners in Europe have an established facility located in the European Union ("EU") which is currently being utilized to provide pharmaceutical products to the European market and will be utilized for the packaging and distribution of European Union Good Manufacturing Practice ("EU GMP") medical cannabis products with cannabis produced in the Atholville Facility. In February 2020, Zenabis received an export license from Health Canada to export cannabis to the EU.

Additionally, Zenabis' head office, located in Vancouver, British Columbia, provides financial, administrative and other support functions to the Company's Cannabis and Propagation businesses.

Previously, this segment also included the consumer beverage business through Hillsboro Corporation Inc. (doing business as "True Büch"), of which the Company owned a 51% interest in. During the three months ended March 31, 2020, True Büch raised funds via an equity raise which resulted in a loss of control and the deconsolidation of this entity in the current period (see **Note 8** of the Amended and Restated Condensed Consolidated Interim Financial Statements for additional information).

BUSINESS STRATEGY

Zenabis' strategy is to position the Company as a large scale, high-quality and low-cost licensed producer of cannabis for the adult-use recreational and medical markets.

The Company is focused on:

- Consistency: steady state production at facilities while continuing to develop innovative ways to refine cannabis cultivation to increase yield and tetrahydrocannabinol ("THC") potency;
- Fresh to market: focused on supply chain efficiencies in order to provide consumers with fresh product;
- Competitive pricing: to continue to be a low-cost producer that has the capability to offer competitive pricing while maintaining a healthy margin;
- Product mix: advanced genetic testing and cultivar planning in order to access and offer in-demand cultivars; and
- Product development: continued focus on the developing industry in Canada and ensuring that the Company is successful through the launch of derivative products.

The Company believes that focusing on these areas will drive long-term growth and shareholder returns.

BRANDS & PARTNERSHIPS

Canadian Adult-use Recreational & Medical Market Brands

In the lead up to, and since the legalization of, recreational cannabis in Canada in 2018, Zenabis has invested capital and resources to develop its share in the adult-use recreational and medical cannabis markets in Canada. These investments were focused on consumer segmentation, brand development, marketing and sales to ensure Zenabis is well-positioned to grow its share of the Canadian cannabis market. As of the date of this Amended and Restated MD&A, Zenabis currently has supply arrangements and/or agreements with nine provinces and two territories, through which it serves the Canadian recreational market.

Zenabis has developed a portfolio of adult-use recreational brands to meet the demand of the consumer segment. Each brand offers products with distinct attributes: **(1)** price, **(2)** potency and **(3)** assortment in order to meet each consumer segment's needs. The Company, in its regular research of the Canadian recreational market, and in working closely with provincial distribution channels to meet their product needs, may bring new products, brands or brand segments to market to serve Canadian consumers in a competitive and profitable manner. Additionally, through the 'Zenabis' medical brand, the Company serves Canadian medical patients directly, as well as through a supply agreement with *Medical Cannabis by Shoppers*, across all Canadian provinces.

Cannabis Derivative Products - Cannabis 2.0 & Partnerships

In September 2019, Zenabis entered into an agreement with PAX Labs (Canada), Inc. ("PAX") to become a PAX Era brand partner. Zenabis will package and sell PAX Era pods with cannabis extracts for use with the PAX Era vaporizer devices.

In December 2019, Zenabis signed a definitive agreement with HYTN Beverages Inc. ("HYTN") to produce a range of cannabis-infused beverages at the Stellarton Facility. The initial launch of cannabis-infused sparkling water beverages will be under the HYTN brand and are expected to begin deliveries in Q2 2020. The Company intends to leverage cannabis distillate products from its own extraction laboratory in the Atholville Facility in order to have competitive pricing and a stable supply of cannabis distillate. The combination of HYTN's beverage manufacturing expertise with the Company's cannabis extracts allows Zenabis to provide consumers with a new line of high-quality cannabis-infused beverages.

Propagation Brands

The Propagation segment operates under the name 'Bevo'. The Propagation segments continues to operate in a similar manner and with similar customers as it did prior to its acquisition by the Company. The Propagation business continues to provide healthy, vigorous and pest- and disease-free plants to greenhouses, field farms, nurseries and wholesalers across the continent and is well-known for the quality of its products.

OPERATIONS & PRODUCTION | CANNABIS

Cultivation

Since January 8, 2019, Zenabis has continued to expand its cultivation footprint and streamline operations. Zenabis believes that the currently licensed areas will have sufficient production capacity of the kilograms ("kg") of cannabis required to meet current market demand for the Company's recreational and medical products. As such the Company has ceased further construction and conversion projects until such time as the market demand requires additional production capacity.

In consideration of the ever-evolving cannabis market, inclusive of the Canadian medical and adult-use recreational markets, as well as the international medical export market, the Company has determined the above noted design capacity will be sufficient to meet current demand and it may, from time to time, purposely reduce or increase the planned overall production. This will be done to ensure that the Company is producing product that can be sold and that production space is optimized. Additionally, the Company has entered into contract cultivation agreements which will utilize production space, but will not form part of normal saleable product.

Atholville Facility

Zenabis owns and operates the Atholville Facility, a 380,000 square foot ("sq. ft.") indoor facility in Atholville, New Brunswick. As of the date of this Amended and Restated MD&A, Zenabis Atholville is fully licensed and operating at a steady state of production. As announced on May 20, 2020, the Company received EU GMP approval for its operations at its Zenabis Atholville Facility. Zenabis is currently working with its ZenPharm minority owner and has completed an initial commercial shipment of dried cannabis to the EU in Q2 2020.

As one of the largest indoor cannabis production facilities in Canada, with 41 flower rooms, the scale and flexibility of the Atholville Facility allows Zenabis to both cultivate and harvest at a large-scale.

Langley Facility

The Langley Facility consists of 48 acres (approximately 2,100,000 sq. ft.) of closed greenhouse on 98 acres (approximately 4,279,000 sq. ft.) of land in Langley, British Columbia. For Zenabis' Cannabis business, Zenabis utilizes 10 acres (approximately 450,000 sq. ft.) of greenhouse (Site A). The remaining 38 acres (approximately 1,650,000 sq. ft.) will continue to be used for Zenabis' Propagation business (Site B).

Zenabis continues to ramp-up production at the Langley Facility in the existing licensed space in order to achieve steady state production. Zenabis achieved its first harvest from all licensed flower areas during April 2020. Zenabis believes the currently licensed space is sufficient to meet current demand at a competitive cost per gram. The Company expects to have the flexibility to resume construction on additional cultivation space as market demand dictates.

Being a greenhouse, the output of the Langley Facility may be affected by seasonal changes in weather.

Stellarton Facility

The Stellarton Facility is a 255,000 sq. ft. indoor facility in Stellarton, Nova Scotia, and is currently used as a packaging, processing and derivative product manufacturing facility. Zenabis submitted a sales license application for the Stellarton Facility in October 2019 and expects to use this facility as a fulfillment centre upon receipt of this license.

Delta Facility

The Delta Facility is a 25,000 sq. ft. indoor facility in Delta, British Columbia. The Delta Facility was operational in cultivating cannabis products until May 2019 when cultivation operations were ceased. Currently, the Delta Facility is not operational and is listed for sale as it has been deemed to be non-core to Zenabis' Cannabis business, having a limited annual licensed capacity of only 100kg. Zenabis began relocating extraction equipment to the Atholville Facility in Q3 2019, as previously disclosed.

Extraction

Zenabis is currently ramping up its extraction capacity at the Atholville Facility. Zenabis intends to utilize cannabis biomass produced at Zenabis' cannabis-focused facilities, and hemp produced at the Pitt Meadows Facility and Aldergrove Facility, in order to supply sufficient extracts for its derivative products. The Atholville Facility's current extraction machine has now reached steady state production and is processing approximately 1,000 kg of biomass per month. Due to demand for extraction output for Cannabis 2.0 and other products, the Company is currently transferring two additional extraction machines of the same type from the Delta Facility to the Atholville Facility, which are expected to be fully operational by the end of Q2 2020. Additionally, after meeting existing contractual obligations, Zenabis may utilize any excess extraction capacity for third party extraction purposes.

Packaging & Processing

The Atholville Facility's focus is on the packaging of flower products and taking advantage of on-site cultivation and supply chain efficiencies in order to provide consumers with fresh product. The Stellarton Facility's focus is on the packaging and processing of value-added and derivative products, as well as being utilized in conjunction with HYTN to produce a range of cannabis-infused beverages for the adult-use recreational market.

OUTLOOK

Zenabis believes that the Canadian recreational market is positioned for continued growth in 2020, with additional retail store openings planned for Ontario, British Columbia and other provinces. Additionally, the increasing availability of edible and derivative products is also expected to significantly expand the Canadian adult-use recreational market.

Zenabis has initially focused on two product categories for the recently legalized derivative products: vaporizers and beverages. Initial shipments of vaporizer products occurred in Q1 2020 and Zenabis has continued to supply its cannabis concentrates in the form of vaporizing cartridges designed for use in PAX Era vaporizing devices. Further, Zenabis remains on track to launch cannabis-infused beverages in Q2 2020 with its initial launch of cannabis-infused sparkling water beverages. Additionally, Zenabis has continued to develop and produce in-demand genetic strains as well as focusing on higher THC products which are being sought after by consumers.

The Company has continued to see strong sales of its 'Re-Up' brand which focuses on high-value, low-cost cannabis. Under 'Re-Up', the Company has provided various cannabis products to consumers at a competitive price. Since initial launch in New Brunswick, the Company has expanded distribution channels of this brand to include Ontario, Alberta, British Columbia and Quebec, among other provinces.

The Company believes that persistent competition from the low-cost illicit market, as well as new supply from competitor LPs as their facilities reach full production, is likely to result in continued declines in the wholesale price of cannabis in 2020 and beyond. However, Zenabis believes it is well-positioned to remain competitive, producing large-scale and high-quality products at a relatively low cost.

Zenabis is focused on achieving and maintaining operational excellence and becoming cash flow positive in Fiscal 2020. This means maintaining a consistent and active review of our operational processes, focusing on continuing to drive down costs, optimizing procedures and expenditures in our supply chain, and continuing to work closely with our customers to ensure our production is optimized to the market demands. As an example of the various cost efficiency initiatives underway, in Q1 2020, Zenabis rightsized the Company's workforce by reducing the size of the Vancouver head office and its facilities, which has resulted in a cost reduction of approximately $2,000,000 per quarter. The Company continues to aggressively manage its capital allocation decisions and will be guided by market conditions and demand in any and all capital expenditures.

In order to meet Zenabis' strategic plan and planned 2020 growth, the Company has taken multiple steps to reduce the debt amounts maturing within the next year. The Company successfully converted $7,166,152 of debt (completed in January and May of 2020), extended the maturity date of its $50,000,000 senior notes payable to March 31, 2025, and extended the maturity date of certain unsecured convertible notes to June 30, 2022. The Company continues to engage with its lenders in addition to other third parties to pursue refinancing alternatives for the remaining debt maturing in 2020.

The above steps have been taken to provide the Company with the working capital flexibility to execute on its strategic plan and achieve success in 2020, which consists mainly of increasing revenues, focusing on cost reduction and employing lean manufacturing. As with any plan, its success is dependent on dutiful execution by the Company and navigating the changing landscape of the Cannabis industry. Zenabis believes that the changes undertaken in the later part of 2019, during Q1 2020, and to date in Q2 2020 will position the Company to be able to react and adapt in a timely manner to changes and obstacles as they arise.

The Company acknowledges that there is material uncertainty over the Company's ability to meet its funding requirements as they fall due. The Company's ability to continue in the normal course of operations is dependent on its ability to extend its debt maturing in Fiscal 2020. While the Company has been successful in renegotiating its debt in the past, there is no assurance that it will be successful in doing so in the future. The Company has established and put into motion various initiatives to reduce costs and expand revenues as part of the Company's strategic plan to attain profitability and positive cash flows in Fiscal 2020.

The COVID-19 outbreak was declared a pandemic by the World Health Organization in 2020. For the quarter ended March 31, 2020, the COVID-19 pandemic did not materially disrupt the Company's operations or financial condition. All of the Company's facilities continue to be operational and we continue to monitor and adjust operating procedures as needed based on the guidance of various levels of government agencies for the regions we operate in.

Although there have not been significant impacts to the Company's operations to date, certain projects have been delayed due to COVID-19 related travel restrictions, such as the delay in the receipt of a sales license amendment for the Zenabis Stellarton facility and the delay in the launch of the HYTN beverage operations.

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. Future 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 Company continues to work diligently to ensure operations continue and product is delivered while continuing to emphasize the safety of our product and employees.

OVERALL PERFORMANCE

CANNABIS PRODUCTION & SALES

	Three months ended			
	Q2 | 19	Q3 | 19	Q4 | 19	Q1 | 20
Harvest weight (kg)	2,473	5,239	10,237	7,727
Weight sold (kg)	1,720	1,492	3,705	3,730
Net revenue [(i)]	$ 7,251,860	$ 7,086,259	$ 10,638,035	$ 12,601,116
Consumer net revenue	*5,350,684*	*6,657,725*	*8,349,895*	*9,776,140*
Wholesale bulk revenue	*1,884,734*	*428,310*	*2,192,266*	*2,778,053*
Medical and ther revenue	*16,442*	*224*	*95,874*	*46,923*
Gross margin before FV adjustment	$ 3,593,492	$ 3,623,261	$ 3,364,278	$ 5,006,028
Gross margin before FV adjustment (%)	50	51	32	40

(i) Net revenue represents total gross revenue exclusive of excise taxes levied by the Canada Revenue Agency ("CRA") on the sale of medical and recreational cannabis products.

Q1 | 2020 - *Three months ended March 31, 2020*

Cannabis net revenue increased to $12,601,116 during Q1 2020 as compared to $10,638,035 during Q4 2019. This increase is primarily due to the Company's focus on higher value and margin products, which include cannabis extracts pursuant to the Company's partnership with PAX, as well as a shift towards the development and cultivation of high THC strains.

During Q1 2020, total harvests were below design capacity for the Atholville Facility, but were within expected variance. The decreases were due to certain mechanical issues, which were resolved early in the quarter, in addition to growing technique variations undertaken to experiment with various growing methods. Additionally, four grow rooms in the Atholville Facility were converted to vegetative rooms, rather than flower rooms, to support the ramp-up of the Langley Facility, resulting in lower harvested amounts during the quarter.

PROPAGATION

The Propagation operations, excluding inter-segment amounts, achieved net revenues of $7,313,344 and a gross margin before fair value adjustments of $3,967,773 during Q1 2020, as compared to net revenues of $7,206,389 and a gross margin before fair value adjustments of $1,588,791 during the same period in 2019. Results from Propagation continue to be positive. The Company's Propagation operating results are seasonal, driven by the varying levels of activity in the growing cycles of the vegetable greenhouse crops, the bedding plant and flower seasons, as well as the timing of customer orders, the varying cycles of the greenhouse vegetable industry and the seasonality of the customer's planting season. Historically, the timing of revenue for the Propagation business is earned based on the following schedule:

	Q1	Q2	Q3	Q4	Total
Proportion of annual revenue	20%	50%	15%	15%	**100%**

INCOME/LOSS FROM OPERATIONS

	Q1 | 2020	Q4 | 2019	% Change
Cannabis gross margin	$ 11,116,906	$ 6,604,715	**68**
Propagation gross margin	4,152,671	2,067,183	**101**
Other gross margin	—	187,581	**N/A**
Total gross margin	**15,269,577**	**8,859,479**	**72**
Operating expenses			
Salaries and benefits	4,155,409	6,978,421	**(40)**
Restructuring costs	1,058,452	—	**N/A**
General and administrative	1,460,547	5,162,417	**(72)**
Professional fees	839,762	3,891,451	**(78)**
Share-based compensation	341,858	5,995,345	**(94)**
Depreciation and amortization	2,050,093	2,090,304	**(2)**
Sales and marketing	174,128	717,437	**(76)**
Impairment of property, plant and equipment	—	27,841,265	**N/A**
Total operating expenses	**10,080,249**	**52,676,640**	**(81)**
Income (loss) from operations	**$ 5,189,328**	**$ (43,817,161)**	**N/A**

During Q1 2020, the Company has been aggressively reviewing and analyzing its operating procedures, supply chain, staffing levels and operations with the purpose of rightsizing overall expenses and pursuing profitability and positive cashflows from operations. The staffing reductions, curtailment of the Delta Facility's operations and listing it for sale, and cessation of non-core activities have resulted in a significant reduction in the Company's operating expenses, which has garnered immediate results. The Company has continued to focus on its proven track record of high-yield, consistent cultivation results, in-sourcing various corporate and operational activities, and expansion of its range of cultivars to ensure that the remainder Fiscal 2020 is a year of growth and profitability.

Late in Q4 2019 and during Q1 2020 the Company was focused on aggressively reducing overall costs while increasing revenue in an effort to move the Company towards profitability. The efforts undertaken by the Company during this period have resulted in significant reductions in operating expenses, increases in gross margins, and a significant increase in income from operations. The results of Q1 2020 are indicative of the Company's shift in focus from facility construction to a consumer packaged goods company. The shift in focus has resulted in the Company focusing on operating effectiveness and efficiencies required for the Company to grow and succeed.

BUSINESS DEVELOPMENTS

(a) EU Export

In February 2020, Zenabis received an export license from Health Canada to export cannabis for medical purposes to the EU, with which it intends to supply pharmaceutical-grade cannabis products to the EU market. Zenabis shipped the initial test shipment to its EU partner in April 2020. In May 2020, the Company announced that it has successfully received European Union Good Manufacturing Practices ("EU GMP") approval for its Atholville Facility and expects to commence commercial export to the European Union in the third quarter of 2020.

(b) Israel Export

In March 2020, Zenabis received an initial purchase order for bulk dried cannabis from a certified importer located in Israel, and obtained an export license from Health Canada to export cannabis for medical purposes in April 2020. Zenabis shipped the bulk dried cannabis for this order in May 2020.

(c) Amendment to Health Canada License in Langley

In June 2020, the Company announced Health Canada approval of additional growing and processing areas at Zenabis Langley.

(d) Cost Reductions

During the three months ended March 31, 2020 the Company took various steps to stream-line operations and reduce overall operating costs. Such steps have included, but are not limited to:

- reduction of head office staff by over 35%;
- reduction of overall Cannabis workforce by over 20%;
- listing the Delta Facility for sale; and
- a thorough review of all of the Company's operations and projects, and implementing a cessation of non-core activities.

FINANCING ACTIVITIES

(a) Partial Conversion of Secured Convertible Notes Payable

In January 2020, holders of the Company's subordinated secured convertible notes payable agreed to convert an aggregate of $6,040,176 of the outstanding principal amount into common shares of the Company at a conversion price of $0.155 per common share, resulting in the issuance of 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 a three year period following the date of issuance.

(b) Senior Debt Expansion

In March 2020, the Company received additional funding from its Senior Debt lenders in the amount of $7,000,000 with the purpose being to provide the Company with additional liquidity. The debt matures in July 2020, but an automatic extension to November 2020 will occur if certain conditions are met.

(c) Senior Notes Payable Extension

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

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

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

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

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

(d) Partial Conversion and Extension of Unsecured Convertible Notes Payable - Related Parties

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

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

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

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

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

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

SELECTED FINANCIAL INFORMATION

The following selected financial data with respect to the Company's financial condition and results of operations have been derived from the Amended and Restated Condensed Consolidated Interim Financial Statements of the Company for the three months ended March 31, 2020, 2019 and 2018, prepared in accordance with IFRS. The selected financial data should be read in conjunction with the Amended and Restated Condensed Consolidated Interim Financial Statements.

Amended and Restated Condensed Consolidated Interim Statements of Net Loss	Three months ended		
	Q1 | 2020	Q1 | 2019	Q1 | 2018 [iii,iv]
Financial Results			
Gross revenue	$ 22,361,374	$ 12,283,493	$ —
Net revenue [i]	19,914,460	11,557,217	—
Gross margin before fair value adjustments	8,973,801	3,876,874	—
Operating expenses	10,080,249	18,763,281	2,552,311
Operating income (loss)	5,189,328	(10,294,873)	(2,552,311)
Other (expense) income	(12,195,021)	4,447,081	(43,576)
Net loss	(7,702,835)	(4,005,815)	(2,595,887)
Adjusted EBITDA income (loss) [ii]	2,343,955	(6,947,048)	(2,067,396)
Loss per share, basic and diluted	$ (0.02)	$ (0.02)	$ (0.02)

(i) Net revenue represents our total gross revenue exclusive of excise taxes levied by the Canada Revenue Agency ("CRA") on the sale of medical and recreational cannabis products effective October 17, 2018.

(ii) Refer to the "Non-GAAP Financial Measures" section for reconciliation to the IFRS equivalent.

(iii) Due to the accounting presentation resulting from the RTO, no comparable information is presented for the Propagation and Other segments. For prior period information, please refer to the financial statements previously filed by Bevo Agro Inc. on SEDAR.

(iv) No meaningful comparison can be drawn between the 2020 and 2019 periods and corresponding periods in 2018 due to the fundamental change in the nature of the Cannabis operations (moving from limited medical production to large scale commercial production for adult-use recreational and medical markets).

The Company produced an Adjusted EBITDA of $2,343,955 during Q1 2020 as compared to an Adjusted EBITDA loss of $6,947,048 during Q4 2019. This increase to a positive Adjusted EBITDA is attributed to the Company's substantial efforts to improve its short- and long-term profitability, which included a corporate restructuring that resulted in significant reductions in employee headcount at the corporate and facility levels. This alignment of the Company's operations with its revised outlook have led to realized savings of roughly $2,000,000 per quarter in salary expense, while maintaining the Company's current production levels at par with capacity. Furthermore, the Company terminated a number of significant consulting contracts, reduced the use of third-party professionals, and eliminated non-core projects, all of which will contribute to the Company's goal obtaining cash flow positive operations and profitability during Fiscal 2020.

Amended and Restated Condensed Consolidated Interim Statements of Financial Position		Q1 | 2020		Q4 | 2019		Q4 | 2018 (i)
Total assets	$	305,911,408	$	301,095,515	$	111,469,060
Total non-current liabilities	$	65,542,783	$	66,983,618	$	2,119,158

(i) Due to the accounting presentation resulting from the RTO, no comparable information is presented for the Propagation and Other segments. For prior period information, please refer to the financial statements previously filed by Bevo Agro Inc. on SEDAR.

Key Quarterly Financial and Operating Results		Q1 | 2020		Q4 | 2019	% Change
Financial Results - Cannabis					
Cannabis net revenue	$	12,601,116	$	10,638,035	**18**
Consumer net revenue		*9,776,140*		*8,349,895*	***17***
Wholesale bulk revenue		*2,778,053*		*2,192,266*	***27***
Medical and other revenue		*46,923*		*95,874*	***(51)***
Cost of sales and inventory production costs expensed		(7,595,088)		(7,273,757)	**4**
Gross margin before FV adjustments on cannabis net revenue	$	5,006,028	$	3,364,278	**49**
Gross margin before FV adjustments on cannabis net revenue (%)		40		32	**25**
Balance Sheet					
Total assets	$	305,911,408	$	301,095,515	**2**
Property, plant and equipment		196,600,683		205,716,525	**(4)**
Cannabis inventory and biological assets		53,214,410		41,763,096	**27**
Total non-current liabilities	$	65,542,783	$	66,983,618	**(2)**
Operational Results - Cannabis (i)					
Grams of cannabis sold		3,730,457		3,705,079	**1**
Net revenue per gram of cannabis sold	$	3.38	$	2.87	**18**
Cost of sales per gram of cannabis sold		2.04		1.96	**4**
Cost to internally produce a gram of cannabis sold	$	0.63	$	0.97	**(35)**

During Q1 2020 the Company reported gross margin before fair value adjustment in the Cannabis segment of $5,006,028 compared to $3,364,278 reported during Q4 2019. The increase in gross margin before fair value adjustment is the result of increased sales volumes and a higher net revenue per gram.

Although the dried cannabis market continues to be a focus of the Company and has seen significant growth, Zenabis has supplemented its revenue streams through its Cannabis 2.0 products, being vaporizers through the previously announced agreement with PAX, and plans to introduce beverage products through the arrangement with HYTN, the sale of Zenabis' own recreational cannabis oil and derivative products, the development of ZenPharm for the purpose of developing Zenabis' European medical cannabis export streams, and entry in the cannabis for medical purposes export market in non-EU countries. These various revenue streams will allow the Company to diversify its revenue sources and will contribute to the shift towards positive Adjusted EBITDA and cashflows in the coming quarters.

During Q1 2020 the Company's cost to cultivate a gram of cannabis sold decreased from $0.97 in Q4 2019 to $0.63. This decrease in cultivation cost is the result of the Company selling product that was produced while in full operations at its Atholville facility realizing the cost efficiencies of full-scale operations. The Company's net revenue per gram of cannabis sold saw an increase from $2.87 in Q4 2019 to $3.38 in Q1 2020. This increase is due to a combination of product mix and sales channel mix. During Q1 2020 the Company had higher sales volumes through provincial wholesalers as opposed to bulk LP-to-LP sales in comparison with Q4 2019.

DISCUSSION OF OPERATIONS

CANNABIS

Gross Margin Components

Net revenue increased to $12,601,116 during Q1 2020 compared to $4,098,973 during Q1 2019 due to increased sales to provincial customers and the continued shipments of bulk cannabis pursuant to prepaid supply agreements and to other LPs. Net revenue during Q1 2020 increased by 18% from $10,638,035 during Q4 2019 due to increased bulk shipments and the Company's focus on higher value products.

Cost of sales and inventory production costs expensed increased to $7,595,088 during Q1 2020 compared to $2,009,160 during Q1 2019 due to increased sales. Cost of sales and inventory production costs expensed during Q1 2020 increased by 4% from $7,273,757 during Q4 2019, despite the Company realizing an 18% increase in net revenue. This non-linear increase is attributable to the sale of higher margin cannabis 2.0 products during Q1 2020.

Realized FV amounts included in inventory sold increased to $10,796,018 during Q1 2020 compared to $2,590,943 during Q1 2019 due to increased sales. Realized FV amounts included in inventory sold during Q1 2020 decreased by 33% from $16,077,006 during Q4 2019 due to a lower fair value per gram of inventory carried forward from 2019 due to the impairment charges on inventory taken in Q4 2019. Unrealized gain on changes in FV of biological assets increased to $16,906,896 during Q1 2020 compared to $5,237,741 for during Q1 2019 due to the overall increase in cannabis in production. Unrealized gain on changes in FV of biological assets during Q1 2020 decreased by 12% from $19,317,441 during Q4 2019 due to downward pressure on prices utilized in the calculation of the changes in FV of biological assets.

Operating Expense Components

Salaries and benefits increased to $3,952,892 during Q1 2020 compared to $3,598,670 during Q1 2019 due to an increase in headcount. Salaries and benefits during Q1 2020 decreased by 41% from $6,755,779 during Q4 2019 due to the Company's corporate restructuring efforts during Q1 2020.

During Q1 2020, the Company incurred $1,058,452 in restructuring costs related to severance and other employee benefits for laid-off employees, which spanned two separate waves of layoffs in an effort to right size the Company's operations to match the current and anticipated demand of the Canadian adult-use recreational and medical cannabis markets.

General and administrative expense decreased to $410,921 during Q1 2020 compared to $2,677,892 during Q1 2019 due to the full utilization of production facilities, resulting in the capitalization of overhead costs to inventory, and the Company's transition from construction to steady state operations. General and administrative expense during Q1 2020 decreased by 85% from $2,750,722 during Q4 2019 due to aggressive cost cutting undertaken by the Company in areas such as travel, third party consultants, and administrative support.

Professional fees decreased to $261,191 during Q1 2020 compared to $1,493,118 during Q1 2019 due to the ramp-up of the Company's operations in the prior year requiring third-party assistance, as well as extensive cost-cutting measures in Fiscal 2020. Professional fees during Q1 2020 decreased by 74% from $1,001,572 during Q4 2019 due to reductions in the use of third-party professional services.

Depreciation and amortization increased to $1,074,776 during Q1 2020 compared to $562,523 during Q1 2019 as the company added over $82,000,000 in new assets between these two periods. Depreciation and amortization in Q1 2020 increased by 28% from $839,826 during Q4 2019 due to a full quarter of depreciation for the assets acquired by the Company during Q4 2019, as well as moving more assets out of construction in progress and into use.

Sales and marketing expense decreased to $150,192 during Q1 2020 compared to $931,560 during Q1 2019 due to the Company's shift in focus from building out its adult-use recreational brands in the prior year to bringing more marketing functions in-house and focusing on retail marketing in Q1 2020. Sales and marketing expense during Q1 2020 decreased by 55% from $332,844 during Q4 2019 as a result of the Company's extensive cost-cutting measures in Fiscal 2020.

Other Income/Expense Components

The Company realized a gain on the revaluation of its embedded derivative liabilities of $nil during Q1 2020 as compared to a gain of $7,891,451 during Q1 2019 due the revaluation of the convertible features of the Company's debt, which is driven by the share price.

Interest expense increased to $5,045,956 during Q1 2020 compared to $2,529,600 during Q1 2019 as the Company entered into new loan agreements during Fiscal 2019, resulting in additional interest expense in Q1 2020 that was not present in Q1 2019. In Q4 2019, the Company realized an interest income of $1,682,739 due to the Company capitalizing interest for the entirety of Fiscal 2019 during Q4 2019 as a result of a longer than expected construction timeline.

During Q1 2020, the Company accrued government subsidies totaling $590,808 as part of COVID-19 wage subsidies to support businesses, which were received subsequent to Q1 2020.

During Q1 2020, the Company recorded a loss on early conversion of debt of $5,624,803 pertaining to the conversion of its subordinated secured convertible notes payable.

PROPAGATION

Gross Margin Components

Net revenue, excluding inter-segment amounts, during Q1 2020 was $7,313,344, which was consistent with that achieved in Q1 2019 of $7,206,389.

The remaining gross margin components, being cost of sales and inventory production costs expensed, realized FV amounts included in inventory sold, and unrealized gain on changes in FV of biological assets should be analyzed together for the Propagation segment. These component totals decreased to $3,160,673 during Q1 2020 compared to $3,672,862 during Q1 2019 due to a difference in product mix and associated growing costs between the two periods.

Other Income/Expense Components

Interest expense decreased to $512,132 during Q1 2020 compared to $1,940,296 during Q1 2019 as the latter included fair value adjustments to Bevo's debt upon acquisition, which were recorded as accretion expense.

During Q1 2020, the Company accrued government subsidies totaling $122,565 as part of COVID-19 wage subsidies to support businesses.

OTHER

Gross Margin Components

Net revenue and cost of sales and inventory production costs expensed, excluding inter-segment amounts, decreased to $nil during Q1 2020 as a result of the loss of control of True Büch.

Operating Expense Components

Acquisition costs decreased to $nil during Q1 2020 as compared to $4,398,646 during Q1 2019 as there were no acquisitions in Q1 2020.

General and administrative expense increased to $1,070,471 during Q1 2020 as compared to $641,710 during Q1 2019, largely as a result of increased insurance expense, director fees and listing fees. General and administrative expense during Q1 2020 decreased by 30% from $1,536,778 during Q4 2019 as a result of the Company's extensive cost-cutting measures in Fiscal 2020.

Professional fees decreased to $348,646 during Q1 2020 as compared to $770,347 during Q1 2019 as a result of the Company requiring third party consultants to establish its operations in the prior year. Professional fees during Q1 2020 decreased by 88% from $2,846,919 during Q4 2019 as a result of both the Company's extensive cost-cutting measures in Fiscal 2020, as well as the timing of the 2019 audit fees which have a large impact on fourth quarter professional fees.

Share-based compensation expense decreased to $341,858 during Q1 2020 as compared to $2,078,636 during Q1 2019 as a result of the true-ups required `to account for unvested options forfeited in Fiscal 2020. Share-base compensation expense during Q1 2020 decreased by 94% from $5,995,345 during Q4 2019 as a result of the true-ups required to account for unvested options forfeited in Fiscal 2020.

Other Income/Expense Components

Interest expense increased to $748,196 during Q1 2020 compared to $83,392 during Q1 2019 as the Company entered into the $15,000,000 unsecured convertible debenture at the end of Q1 2019, which resulted in three months of interest in 2020 compared to a partial quarter of interest in 2019.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Results	Q1 | 2020	Q4 | 2019	Q3 | 2019	Q2 | 2019
Cannabis gross revenue	$ 15,048,030	$ 13,064,477	$ 8,507,742	$ 8,672,632
Propagation revenue	7,313,344	6,989,084	4,493,893	17,377,866
Other revenue	—	269,482	421,540	419,983
Total gross revenue	22,361,374	20,323,043	13,423,175	26,470,481
Cannabis excise taxes	(2,446,914)	(2,426,442)	(1,421,483)	(1,420,772)
Net revenue	19,914,460	17,896,601	12,001,692	25,049,709
Operating income (loss)	5,189,328	(43,817,161)	(980,967)	(7,902,956)
Net loss	(7,702,835)	(98,714,311)	(5,831,279)	(18,498,388)
Loss per share, basic and diluted	$ (0.02)	$ (0.34)	$ (0.03)	$ (0.09)

Quarterly Results	Q1 | 2019	Q4 | 2018 (i)	Q3 | 2018 (i)	Q2 | 2018 (i)
Cannabis gross revenue	$ 4,825,249	$ 3,841,445	$ 3,663,817	$ 962
Propagation revenue	7,206,389	—	—	—
Other revenue	251,855	—	—	—
Total gross revenue	12,283,493	3,841,445	3,663,817	962
Cannabis excise taxes	(726,276)	(438,356)	(82,112)	—
Net revenue	11,557,217	3,403,089	3,581,705	962
Operating loss	(10,294,873)	(13,768,165)	(2,352,414)	(2,672,447)
Net loss	(4,005,815)	(24,884,485)	(2,141,616)	(2,899,772)
Loss per share, basic and diluted	$ (0.02)	$ (0.16)	$ (0.01)	$ (0.02)

(i) Fiscal 2018 periods include Cannabis operations only.

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

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

NON-GAAP FINANCIAL MEASURES

ADJUSTED EBITDA

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

	Three months ended			
	Q1 | 2020	Q4 | 2019	Q1 | 2019	Q1 | 2018
Net loss	$ (7,702,835)	$ (98,714,311)	$ (4,005,815)	$ (2,595,887)
Changes in fair value of inventory sold	12,923,860	18,014,038	3,402,319	—
Unrealized gain on changes in fair value of biological assets	(19,219,636)	(21,432,091)	(7,993,853)	—
Impairment of inventory	—	874,734	—	—
Acquisition costs	—	—	4,398,646	—
Restructuring costs	1,058,452	—	—	—
Share-based compensation	341,858	5,995,345	2,078,636	246,529
Depreciation and amortization	2,050,093	2,090,304	1,462,077	238,386
Impairment of property, plant and equipment	—	27,841,265	—	—
Gain on revaluation of embedded derivative liability	—	(22,993)	(7,891,451)	(110,286)
Finance and investment (income) expense	(6,544)	316,621	(1,116,320)	(97,598)
Interest expense (income)	6,306,284	(335,248)	4,553,288	251,460
(Gain) loss on sale of assets	(9,185)	(55,417)	7,402	—
Loss due to an event	25,567	982,560	—	—
Insurance proceeds	—	(520,526)	—	—
Loss on deconsolidation of subsidiary	668,562	—	—	—
Government subsidies	(713,373)	—	—	—
Loss on early conversion of debt	5,624,803	—	—	—
Other expense	298,907	122,880	—	—
Impairment of intangible assets and goodwill	—	61,480,249	—	—
Current income tax expense (recovery)	654,987	(126,856)	61,477	—
Deferred income tax expense (recovery)	42,155	(6,944,120)	(1,903,454)	—
Adjusted EBITDA	**$ 2,343,955**	**$ (10,433,566)**	**$ (6,947,048)**	**$ (2,067,396)**

CANNABIS REVENUES AND COSTS ON A PER GRAM BASIS

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

		Q1 | 2020	Q4 | 2019
Revenue [i]			
Cannabis segment net revenue	(a)	$ 12,601,116	$ 10,638,035
Cost of Goods Sold			
Cannabis segment cost of goods sold	(b)	$ 7,595,088	$ 7,273,756
Less:			
Excess and obsolete inventory provision		—	(874,734)
Processing and packaging costs		(3,060,246)	(1,740,350)
Shipping costs		(1,780,429)	(626,862)
Cost of products purchased from third parties		—	(101,711)
Cost of goods sold for oil products		(408,265)	(402,725)
Cannabis segment cost of cultivation	(c)	$ 2,346,148	$ 3,527,374
Grams Sold [i]			
Grams of internally produced cannabis sold	(d)	3,730,457	3,655,030
Grams of cannabis purchased from third parties and sold		—	50,049
Total grams of cannabis sold	(e)	3,730,457	3,705,079
Per Gram Metrics			
Net revenue per gram of cannabis sold	(a/e)	**$ 3.38**	**$ 2.87**
Cost of goods sold per gram of cannabis sold	(b/e)	**2.04**	**1.96**
Cost to internally produce a gram of cannabis sold	(c/d)	**$ 0.63**	**$ 0.97**

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

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Working capital increased from a deficit of $58,474,484 as at December 31, 2019 to a deficit of $46,251,203 as at March 31, 2020.

The increase in working capital is primarily due to an increase in inventory from $39,333,991 to $44,597,534 and biological assets from $14,481,409 to $24,240,153 due to the higher production of cannabis which resulted from the completion of facility expansions. Additionally, the Company had a decrease in accounts payable and accrued liabilities from $28,622,664 to $28,286,154. These increases in working capital are offset by an increase in current portion of debt.

The increase in working capital is mainly due to the fact that the Company has shifted its focus from facility construction which caused increases in liabilities to fund the quickly expanded operations in Fiscal 2019 to take advantage of the legalization of adult-use recreational Cannabis in Canada. The increases in working capital reflect the Company's focus on operational efficiencies in 2020.

The Company's objective when managing its working capital and capital resources is to maintain liquidity so as to meet financial obligations when they come due, while actioning its strategic plan. The Company manages its working capital by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

Cash Flows | Operating

Cash outflows from operations decreased to $14,346,192 during Q1 2020 as compared to $17,643,566 during Q1 2019. The decrease in cash outflows from operations is primarily due the Company taking substantial measures in 2020 to reduce its costs to improve profitability. In 2019 the Company incurred higher costs to develop and implement the resources and capacity needed by the Cannabis segment to support the facilities that were under construction in addition to various costs related to the acquisitions made in the first quarter of 2019.

Cash Flows | Investing

Cash outflows from investing activities decreased to $224,181 during Q1 2020 as compared to $30,308,083 during Q1 2019. The decrease in cash outflows from investing activities is primarily due to a reduction in capital expenditures which is due to the Company's facilities substantially completing construction projects in Fiscal 2019.

Cash Flows | Financing

Cash inflows from financing activities decreased to $6,378,362 during Q1 2020 as compared to $56,551,905 during Q1 2019. The decrease in cash flows from financing is primarily due to the debt arrangements entered into by the Company during 2019 which were used for capital expenditures on the Company's facilities.

Capital Management

During Q1 2020, the Company primarily financed its operations and met its capital requirements through increasing revenues, additionally, to the Company securing incremental funding from its senior debt lenders in the amount of $7,000,000.

The Company's objective when managing its liquidity and capital resources is to generate sufficient cash to fund the Company's operating and working capital requirements. The Company reported a working capital deficit of $46,251,203 at March 31, 2020, as compared to a working capital deficit of $58,474,484 at December 31, 2019, representing an increase in working capital of $12,223,281.

Cash on hand decreased from $16,574,203 as at December 31, 2019 to $8,382,192 as at March 31, 2020. The decrease in cash was mainly attributable to cash used in operating activities of $14,346,192, cash used in investing activities of $224,181, which was offset by cash received from financing of $6,378,362.

The Company's major capital expenditures during Q1 2020 were largely comprised of completion of the conversion of the Langley Facility. The Company's principal capital requirements relate to the introduction of new and diversified products for the markets the Company serves.

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

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

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 raise additional capital through debt and equity financings or refinancing debt as it comes due. While the Company has been successful in raising capital in the past, there is no assurance that it will be successful in closing further financing in the future. 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 flow in 2020.

FINANCING ACTIVITIES

The table below reflects Zenabis' debt financing as at March 31, 2020:

	Draw Date	Maturity Date as at March 31, 2020	Principal Amount as of March 31, 2020	Interest Rate	Financial Statements Note Reference
Secured Loans	Sep 2017	Sep 2027	$ 2,000,000	6.00%	12(b)
	Jan 2019	Jan 2022	43,241,666	Prime + 0.75%	12(a)
	Mar 2020	Jan 2022	1,341,354	Prime + 3.75%	12(a)
	Feb 2019	Jun 2020	25,000,000	Max (Prime + 9.00%, 12.95%)	12(c)
	Aug 2019	Jun 2020	25,000,000	14.00%	12(c)
	Mar 2020	Jul 2020	7,000,000	14.00%	12(d)
			103,583,020		
Unsecured Convertible Debentures	Oct 2018	Oct 2020	11,913,451	6.00%	13(d)
	Mar 2019	Sep 2021	15,000,000	6.00%	13(c)
			26,913,451		
Customer Deposits	Jul 2019	N/A	25,428,780	N/A	11
	Sep 2019	N/A	9,815,115	N/A	11
			35,243,895		
Secured Convertible Notes	Oct 2018	Jun 2020	**11,364,782**	11.00%	13(e)
Total			**$ 177,105,148**		

In addition to the progress made during Q1 2020 in extinguishing short-term debt, the Company made subsequent advancements in supporting its capital requirements. These include the extension of the maturity date of the senior secured debt from June 2020 to March 2025, the conversion of $1,125,976 of unsecured convertible debt into shares, and the extension of $1,666,160 of the outstanding principal amount to June 2022.

To date, Zenabis has raised or secured significant capital to fund its development and expansion plans as the Company shifts its focus from construction to operating efficiently as a Consumer Packaged Goods business, Zenabis' focus in terms of liquidity and capital resourcing has also shifted towards aggressively maintaining and improving its working capital position.

The table below reflects Zenabis' debt financing as at June 12, 2020, excluding customer deposits amounts pursuant to prepaid supply agreements as these do not represent future cash outlays, but rather future deliverables of inventory:

	Principal Amount as at March 31, 2020	Additions	Conversions	Deferral Election	Principal Amount as at June 12, 2020	Maturity Date as at June 12, 2020
Secured Loans	$ 2,000,000	$ —	$ —	$ —	$ 2,000,000	Sep 2027
	43,241,666	—	—	—	43,241,666	Jan 2022
	1,341,354	—	—	—	1,341,354	Jan 2022
	25,000,000	1,875,000	—	—	26,875,000	Mar 2025
	25,000,000	1,875,000	—	—	26,875,000	Mar 2025
	7,000,000	—	—	—	7,000,000	Jul 2020 (i)
	103,583,020	**3,750,000**	**—**	**—**	**107,333,020**	
Unsecured Convertible Debentures	11,913,451	—	(1,125,976)	(1,666,160)	9,121,315	Oct 2020
	—	—	—	1,666,160	1,666,160	Jun 2022
	15,000,000	—	—	—	15,000,000	Sep 2021
	26,913,451	**—**	**(1,125,976)**	**—**	**25,787,475**	
Secured Convertible Notes	11,364,782	—	(2,600,548)	(8,764,234)	—	Jun 2020
	—	—	—	8,764,234	8,764,234	Mar 2021
	11,364,782	**—**	**(2,600,548)**	**—**	**8,764,234**	
Total	**$ 141,861,253**	**$ 3,750,000**	**$ (3,726,524)**	**$ —**	**$ 141,884,729**	

(i) Maturity is automatically extended to November 2020 if certain conditions are met.

Zenabis expects to be both cash flow and earnings positive in Q2 2020 subject to the following assumptions:

(i) Cultivation from Zenabis' facilities continuing at existing or higher levels;

(ii) Realization of the proceeds from the sale of the Company's Delta Facility;

(iii) Realization of economies of scale resulting from the expanded production capability;

(iv) Benefiting from decreased salaries and benefits, general and administrative expenses, professional fees, and sales and marketing expenses as a direct result of the cost saving measures undertaken early in 2020; and

(v) Sales being consistent with current indications of purchase intent from existing customers for Zenabis' adult-use recreational cannabis and medical cannabis products.

OFF-BALANCE SHEET ARRANGEMENTS

On September 27, 2019, the Company entered into an agreement with a supplier to purchase a minimum volume of cartridges annually for the next three years. Using these cartridges, the Company began to sell cannabis extracts nationwide during Q1 2020. The total commitment under this agreement is $5,011,500. In the event that the agreement is terminated, neither the supplier nor the Company will be liable for any compensation to the other party.

GOING CONCERN

The Amended and Restated Condensed Consolidated Interim Financial Statements have been prepared on the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

For the three months ended March 31, 2020, the Company reported a comprehensive loss of $7,770,745, negative cash flow from operations of $14,346,192, negative working capital of $46,251,203 and an accumulated deficit of $169,746,258 as at March 31, 2020. Further, as at March 31, 2020, $82,432,356 of the Company's debt was due within the next 12 months. Subsequent to March 31, 2020, the Company made significant progress by extending the maturity of its $50,000,000 senior note to March 2025, converting $1,125,976 of its unsecured convertible debentures due in October 2020 and deferring $1,666,160 of its unsecured convertible debentures to June 2022. Additionally, the Company undertook various cost savings measures during the three months ended March 31, 2020 that will be fully realized during the three months ended June 30, 2020 and onwards. Despite these advancements, the aforementioned conditions cast a material uncertainty on the Company’s ability to continue as a going concern. The Amended and Restated Condensed Consolidated Interim Financial Statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company acknowledges that there is material uncertainty over the Company's ability to meet its funding requirements as they fall due. The Company’s ability to continue in the normal course of operations is dependent on its ability to extend its debt maturing in Fiscal 2020. While the Company has been successful in renegotiating its debt in the past, there is no assurance that it will be successful in doing so in the future. The Company has established and put into motion various initiatives to reduce costs and expand revenues as part of the Company's strategic plan to attain profitability and positive cash flows in Fiscal 2020.

RELATED PARTY TRANSACTIONS

Related Party and Services	Q1 | 2020	Q1 | 2019
Entities affiliated with the former CEO and Current Director		
Debt Issuance Costs [i]		
The Company agreed to a 'success fee' based strategic services agreement with a business affiliated with the former CEO in October 2018. Under this agreement, a success fee was payable upon the successful completion of the $51,000,000 financing in January 2019. These costs have been capitalized in loans and borrowing as at March 31, 2020.	$ —	$ 382,500
Human Resources ("HR") and Staffing Services [i]		
The Company commenced utilizing HR and recruitment services in Q4 2018 from a company affiliated with the former CEO to implement the Company's rapid expansion during Q1 and Q2 of Fiscal 2019, during which period employee headcount at the Company's Cannabis segment increased from approximately 200 as at December 31, 2018, to 489 as at June 30, 2019. Zenabis' relationship with the company affiliated with the former CEO has been terminated.	—	546,806
Construction		
Bevo previously purchased garage doors from a company affiliated with the former CEO, the costs of which have been capitalized in property, plant and equipment as at March 31, 2020.	—	20,144
Entities affiliated with the Former Chairman of the Board and Current Director		
Contract Employees		
Employees initially contracted to Zenabis to facilitate Zenabis' rapid production expansion. All contractors have either been hired by the Company or replaced through in-sourcing the related activities.	—	192,182
Office Rent		
Fees incurred for the use of office space.	—	105,000
Consulting Fees		
Construction management services related to the Delta Facility and executive management services related to general operations. As at March 31, 2020, $35,845 of the fees incurred in Q1 2020 were capitalized to assets held for sale.	36,445	43,425
A company affiliated with the Chief Growing Officer		
Management Fees		
Fees paid for managing the propagation and cannabis growing operations, in lieu of salary.	126,000	84,000
	$ 162,445	**$ 1,374,057**

(i) All service agreements pre-date the former CEO's appointment on January 21, 2019.

During Q1 2020, the Company's Propagation segment earned rental and other miscellaneous revenues totaling $2,500 (Q1 2019 – $nil) from a company with mutual board members and/or key management personnel with the Company.

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.

	Q1 | 2020	Q1 | 2019
Salaries and benefits	$ 606,689	$ 502,933
Share-based payments	550,033	966,487
Director fees	238,774	124,513
Total compensation of key management personnel	**$ 1,395,496**	**$ 1,593,933**

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's Amended and Restated 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual audited consolidated financial statements for the years ended December 31, 2019 and 2018, except for updates to existing policies identified below. The Company based its assumptions and estimates on parameters available when the Amended and Restated Condensed Consolidated Interim 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.

(a) Assets Held-for-Sale

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

(b) Government Subsidies

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

NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

(a) Fair value of financial instruments

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

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

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

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

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

Measurement of fair value:

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

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

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

- Discount due to lack of marketability ranging from 4.49% to 37.03% (December 31, 2019 – 4.49% to 37.03%); and
- Assumption that there will be capital raises subsequent to issuance of convertible debt.

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

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

(b) Financial instruments risk

(i) Credit risk:

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

(ii) Liquidity risk:

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

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

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

(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 the prime rate plus a margin will be affected by fluctuations in the Canadian prime interest rate, which can have an impact on the interest expense recognized.

(iv) Price risk:

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

If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net loss and comprehensive loss of approximately $51,200 (December 31, 2019 – $nil).

OUTSTANDING SHARES, WARRANTS, OPTIONS AND OTHER SECURITIES

The Company's common shares trade on the TSX under the symbol "ZENA". The following table sets out the number of common shares, warrants, options, stock units and conversion options outstanding of the Company as at March 31, 2020 and June 10, 2020:

	March 31, 2020	June 10, 2020
Common shares issued and outstanding	386,685,435	431,871,070
Deferred stock units	2,250,000	1,125,000
Restricted stock units	4,800,000	4,800,000
Options	23,275,298	16,743,800
Warrants at $0.07 to $2.68	42,017,956	113,273,478
Conversion options at $1.17	9,713,476	7,490,785
Conversion options at $1.91	6,248,204	5,657,668
Conversion options at $2.68	5,599,522	5,599,522
Total fully diluted shares	**480,589,891**	**586,561,323**

SHARE-BASED TRANSACTIONS

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

(a) Stock Options

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash Settled

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

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

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

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