ZENABIS GLOBAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2020

Management's Discussion and Analysis of Financial Results of Operations for the Three and Nine Months Ended September 30, 2020

This management's discussion and analysis ("MD&A") is prepared as of November 13, 2020 and reports on the operating results and financial condition of Zenabis Global Inc. ("Zenabis" or the "Company") for the three and nine months ended September 30, 2020 and 2019. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and 2019, including the related notes thereto (the "Condensed Consolidated Interim Financial Statements"). The 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").

All dollar amounts referred to in this 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 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 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 MD&A contains certain financial performance measures that are not recognized or defined under IFRS (termed "Non-GAAP Financial 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 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 Financial 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 Financial Measures include, but are not limited to, the following:

- Cost of cultivation
- Net revenue per gram of cannabis sold
- Cost of sales per gram of cannabis sold
- Cost to internally produce a gram of cannabis sold
- Adjusted EBITDA

Non-GAAP Financial 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 Financial 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").

Zenabis believes that its key differentiators in the cannabis industry are

- Consistency: steady state production at facilities while continuing to develop innovative ways to refine cannabis cultivation to increase yields of its leading Cannabis cultivars, reduce cost, and increase tetrahydrocannabinol ("THC") potency;
- Experience: Zenabis has drawn on the vast cultivation experience of Bevo Farms and transferred this to the cannabis cultivation operations, which has allowed Zenabis to deliver consistent, high-quality yields that exceed expected estimates and cultivate at a low cost per gram;
- Quality: Zenabis' focus on producing high-quality desirable products at a competitive price has resulted in continued growth in demand for the Company's products; and
- Brand: Zenabis has developed a portfolio of adult-use recreational brands to meet the varying consumer needs by appealing to different market segments; and
- Distribution: Zenabis has established national distribution channels across Canada including Provincial cannabis networks, recurring LP-to-LP sales, and private wholesalers/retailers; in addition to an expanding export portfolio which currently includes Israel, Europe, and Australia.

Additionally, Zenabis operates in the value added cannabis product segments, such as derivative products with current offerings being 510-Threaded vapes, PAX vapes, oils, oral sprays and gelcaps, and will also be offering beverages and gummies upon completion of pre-launch work with third-party manufacturers.

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 that has been transferred to Zenabis' cannabis cultivation operations to drive continual improvement.

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 Zenabis' Atholville Facility. In February 2020, Zenabis received an export license from Health Canada to export its first shipment of 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 ("Q1 2020"), True Büch raised funds via an equity raise which resulted in a loss of control and the deconsolidation of this entity in Q1 2020 (see **Note 8** of the 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 yields of its leading Cannabis cultivars, reduce cost, and increase tetrahydrocannabinol ("THC") potency;
- 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;
- Product development: continued focus on the evolving industry in Canada and ensuring that the Company is successful through the launch of derivative products; and
- Focus: by establishing partnerships with third parties for activities such as the production of cannabis-infused edibles and beverages, expansion into the European medical market, and other future Cannabis 2.0 products Zenabis is focused on improving core business operations while expanding product offerings through partnerships at limited to no capital outlay.

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 MD&A, Zenabis currently has supply arrangements and/or agreements with provincial and territorial agencies for coast-to-coast distribution, 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 Namaste, Re-Up, and Blazery. 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 across Canada through a supply agreement with *Medical Cannabis by Shoppers*.

During 2020 Zenabis has successfully developed its international bulk and packaged medical cannabis sales market. Zenabis has made recurring commercial shipments to Israel and Australia, and initial commercial shipments to the EU. Shipments to the EU have been facilitated via ZenPharm which will function as Zenabis' packaging and distribution facility in the EU. Zenabis expects regular recurring commercial shipments to the EU to begin in Q1 2021 after receipt of all licensing and regulatory approvals by ZenPharm.

Cannabis Derivative Products - Cannabis 2.0 & Partnerships

Zenabis is continuing to utilize the agreement with PAX Labs (Canada), Inc. ("PAX") as a PAX Era brand partner to package and sell PAX Era pods with cannabis extracts for use with the PAX Era vaporizer devices. Zenabis continues to sell its PAX Era vaporizer products in multiple markets across Canada with strong consumer demand.

Zenabis' Re-Up 510-Threaded vaporizer line continues to see expanded distribution and sales in the markets Zenabis has been selling this product into. This product line, which is produced at Zenabis Atholville using product cultivated and extracted by Zenabis, in addition to extraction materials sourced from third parties. Zenabis anticipates that this product will continue to contribute meaningfully to net revenue.

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. Initial deliveries of the HYTN products were expected to begin in 2020, however, due to significant delays in the commissioning of HYTN's production line HYTN has requested to exit their contract with the Company. The Company is currently re-evaluating its strategy with respect to beverages, which it will execute in due course.

Zenabis has completed initial selection process for a third-party manufacturing partner to produce gummies for the Adult-Use recreational market at the manufacturers existing production facility. Upon completion of final due diligence and quality assessments, Zenabis expects to be able to launch its line of cannabis-infused gummies in late Q4 2020 or during Q1 2021.

Propagation Brands

The Propagation segment operates under the name 'Bevo'. The Propagation segment 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, pest-free 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

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, Zenabis believes that the currently licensed areas at its various facilities will have sufficient production capacity of the kilograms ("kg") of cannabis required to meet current market demand for the Company's adult-use 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. 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. Zenabis Atholville is fully licensed for cannabis production and processing and is currently 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 continuing to work with its ZenPharm partner and completed the initial test shipment of dried cannabis to the EU in Q2 2020. Regular recurring commercial shipments to ZenPharm are expected to begin in early Q1 2021 after receipt of all licensing and regulatory approvals by ZenPharm.

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

Zenabis owns and operates the Langley Facility, a 450,000 sq. ft. greenhouse in Langley, British Columbia for cannabis production. Zenabis is focused on optimizing the production in the currently licensed space at the Langley facility by implementing tactics to increase the yield per sq. ft. and reduce the overall cost to cultivate cannabis. Zenabis believes the currently licensed space is sufficient to meet current demand at a competitive cost per gram.

Being a greenhouse, the output of the Langley Facility may be affected by seasonal changes in weather. Zenabis expects the yield to decline and cost to cultivate to increase in the non-summer months, however as the facility has not been in steady state production for a full year the seasonal impacts are not currently known.

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. The Stellarton Facility received its sales license in May 2020 and is utilizing this facility for the production of value added Cannabis products.

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 100 kg.

Extraction

Zenabis is currently ramping up its extraction capacity at the Atholville Facility by exploring various strategies to increase throughput of cannabis material and distillate output utilizing the currently commissioned equipment and infrastructure. Zenabis intends to utilize cannabis biomass produced at Zenabis' cannabis-focused facilities in order to supply extracts for its derivative products. Due to the growing demand for extraction output for Cannabis 2.0 and other products, the Company expects to be a net buyer of additional extraction output in order to meet growing demand for its Cannabis 2.0 product offerings.

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 for the adult-use recreational market.

OUTLOOK

Zenabis believes that the Canadian recreational market is positioned for continued growth in 2020 and 2021, 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 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 and 510-Threaded vaporizing devices. Zenabis' beverage partner, HYTN, has experienced significant COVID-19-related delays in the commissioning of its production line and, as a result, has requested to exit their contract with Zenabis. The Company is currently re-evaluating its strategy with respect to beverages, which it will execute in due course. Additionally, Zenabis expects to be able to launch its line of cannabis-infused gummies in late Q4 2020 or during Q1 2021, upon completion of all due diligence and quality assessments of the identified third-party manufacturer.

Additionally, Zenabis has continued to develop and produce in-demand genetic strains as well as focusing on higher-THC products, which are highly 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, and has seen national distribution of this product line.

The Company's Namaste product line has focused on bringing new strains and a premium product to the adult-use recreational market. The Company has seen national distribution and continued expansion of this product line and strong consumer acceptance.

Zenabis is focused on achieving and maintaining operational excellence in Fiscal 2020. The Company has implemented various initiatives that have resulted in positive Adjusted EBITDA, significant growth in net revenue, expansion of overall market share, strengthening brand recognition, and growth in consumer demand. To continue this positive momentum, Zenabis maintains a consistent and active review of our operational processes, focusing on continually driving 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, 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 considerable cost reduction 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 through debt conversions, early repayments, and extensions of maturity dates. The various steps taken in relation to the Company's debt have been done to ensure working capital flexibility in order to execute its strategic plan and achieve success in 2020 and beyond. The strategic plan consists of increasing revenues, focusing on key product categories, 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 and during the current year will position the Company to be able to react and adapt in a timely manner to any changes, obstacles and opportunities 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 and Fiscal 2021. While the Company has been successful in renegotiating its debt in the past, there is no assurance that it will be successful in doing so in the future. The Company has established and put into motion various initiatives to reduce costs and expand revenues as part of the Company's strategic plan to attain success in Fiscal 2020.

The COVID-19 outbreak was declared a pandemic by the World Health Organization in 2020. For the period ended September 30, 2020, the COVID-19 pandemic did not materially disrupt the Company's ongoing 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 ongoing operations to date, certain projects have been delayed due to COVID-19 related travel restrictions, such as the delay in the receipt of the sales license amendment for the Zenabis Stellarton facility early in 2020 and the delay in the commissioning of the beverage operations by HYTN and the launch of its cannabis-infused beverage products. Additionally, as a result of COVID-19 the Propagation division has seen more variability in its sales of floral plants during 2020.

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.

Considering the factors described above and based on quarter-to-date (unaudited) results, Zenabis anticipates recording consolidated net revenue in Q4 2020 in the range of $25 million to $29 million, comprised of $19 million to $21 million for the Cannabis segment and $6 million to $8 million for the Propagation segment. The Company anticipates recording consolidated Adjusted EBITDA in the range of $5 million to $7 million for Q4 2020.

CANNABIS PRODUCTION & SALES

	Three months ended			
	Q3 | 20	Q2 | 20	Q1 | 20	Q4 | 19
Harvest weight (kg)	12,083	12,640	7,727	10,237
Weight sold (kg)	7,819	3,954	3,730	3,705
Net revenue [(i)]	$ 19,017,746	$ 11,796,177	$ 12,601,116	$ 10,638,035
Consumer net revenue	*12,061,908*	*8,486,628*	*9,776,140*	*8,349,895*
Wholesale revenue	*6,882,259*	*3,228,351*	*2,778,053*	*2,192,266*
Medical and other revenue	*73,579*	*81,198*	*46,923*	*95,874*
Gross margin before FV adjustment	$ 8,921,415	$ 5,593,362	$ 5,006,028	$ 3,364,278
Gross margin before fair value adjustment (%)	47	47	40	32

(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.

Q3 | 2020 - *Three months ended September 30, 2020 ("Q3 2020")*

During Q3 2020, overall harvests remained consistent with those during the three months ended June 30, 2020 ("Q2 2020"). Further, as noted in Q1 2020, four grow rooms that were used for flowering in the Atholville Facility during 2019 were converted to vegetative rooms in 2020 to support the ramp-up of the Langley Facility.

In regards to revenue, Zenabis saw a 43% growth in its adult-use recreational revenue category over Q2 2020, attributable to the launches of the 28-gram Re-Up packaged flower product and Re-Up 510-Threaded vaporizer line during Q3 2020, as well as the reductions in pricing for the Company's Namaste and Re-Up products in order to increase sales volumes. Additionally, the wholesale revenue category increased by 113% over Q2 2020, as the Company increased shipments to Israel and Australia. The Company expects to continue expanding its wholesale customer base as more export opportunities are realized and converted into recurring orders. The Company notes that due to changes in regulations in Israel during Q4 2020 pertaining to the import of cannabis products, shipments to Israel are not likely to occur during Q4 2020 but are expected to resume in Q1 2021. The Company has established plans to redirect product that had been designated for the Israel market to other sales channels.

The Company also achieved consistent gross margins during Q3 2020 in comparison to Q2 2020, despite the decreasing sales prices of adult-use recreational cannabis, as a result of ongoing cost-saving measures put in place in the first half of 2020.

PROPAGATION

The Propagation operations, excluding inter-segment amounts, achieved net revenues of $4,704,636 and a gross margin before fair value adjustments of $1,225,288 during the three months ended September 30, 2020, as compared to net revenues of $15,559,432 and a gross margin before fair value adjustments of $3,170,303 during the three months ended June 30, 2020. 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

	Q3 | 2020	Q2 | 2020	% Change
Cannabis gross margin	$ 3,601,380	$ 10,959,780	**(67)**
Propagation gross margin	1,377,469	2,774,518	**(50)**
Total gross margin	**$ 4,978,849**	**$ 13,734,298**	**(64)**
Operating expenses			
Salaries and benefits	$ 3,046,097	$ 3,842,768	**(21)**
Restructuring costs	—	483,890	**(100)**
General and administrative	4,727,903	1,028,078	**360**
Professional fees	1,260,032	1,170,392	**8**
Share-based compensation	1,266,986	1,012,898	**25**
Depreciation and amortization	911,015	1,490,680	**(39)**
Sales and marketing	57,062	156,120	**(63)**
Impairment of assets held for sale	1,571,026	—	**N/A**
Total operating expenses	**$ 12,840,121**	**$ 9,184,826**	**40**
(Loss) income from operations	**$ (7,861,272)**	**$ 4,549,472**	**(273)**

During 2020, the Company has been continually 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 the cessation of non-core activities have resulted in reductions in the Company's overall operating expenses. During Q3 2020 the Company noted an increase in general and administrative costs relating to certain one-time activities incurred at the various operating sites. 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 the expansion of its range of cultivars to ensure that the remainder Fiscal 2020 is a year of growth and profitability.

Included in the (Loss) Income from operations during Q3 2020 is a $5,167,854 loss due to the difference between realized and unrealized changes in fair value. This amount is a non-cash loss representing the difference in estimated fair value of the biological assets capitalized during the quarter and the fair value amount included in inventory sold.

KEY DEVELOPMENTS

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 recurring commercial exports to the European Union in the fourth quarter of 2020, or first quarter of 2021 with regional sales in Europe by ZenPharm commencing in the first quarter of 2021.

(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. Since the initial shipment in May 2020, the Company has made multiple significant shipments to Israel with repeat orders from the same customer. The Company notes that due to changes in regulations in Israel during Q4 2020 pertaining to the import of cannabis products, shipments to Israel are not likely to occur during Q4 2020 but are expected to resume in Q1 2021.

(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) Australia Export

In August 2020, Zenabis made its first shipment to an Australian distributor under a long-term supply agreement with the company.

(e) Cost Reductions

During the nine months ended September 30, 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;
- moving the head office to a smaller space at a significantly reduced rent cost;
- reduction of overall Cannabis workforce;
- continuing review of supply chain, vendors, and production inputs;
- 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 was originally set to mature in July 2020, but was extended to December 31, 2020.

(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 shares of the Company.

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

(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 $2,600,549 of the outstanding principal balance into common shares of the Company at a conversion price of $0.10 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.

(f) Public Offering of Units - Q2 2020

On June 25, 2020, the Company sold 181,290,456 units of the Company ("Units") at a price of $0.13 per Unit for gross proceeds of $23,567,760, of which $8,138,785 was allocated to the value of warrants issued. Each Unit consists of one common share of the Company ("Common Share") and one common share purchase warrant, the latter exercisable to purchase one Common Share at a price of $0.16 for a period of 60 months. In the event that the Common Shares are trading a price greater than $0.32 per Common Share for a period of ten consecutive trading days, the Company may accelerate the expiry date of the warrants.

Pursuant to the offering, the Company paid a cash commission equal to 6.0% of the gross proceeds of the offering, and issued 10,877,426 common share purchase warrants, each exercisable to purchase one Common Share at a price of $0.13 for a period of 12 months.

(g) Public Offering of Units - Q3 2020

On September 23, 2020, the Company sold 89,317,747 units of the Company ("Units") at a price of $0.085 per Unit for gross proceeds of $7,592,009. Each Unit consists of one common share of the Company ("Common Share") and one common share purchase warrant, the latter exercisable to purchase one Common Share at a price of $0.10 for a period of 60 months. In the event that the Common Shares are trading a price greater than $0.20 per Common Share for a period of ten consecutive trading days, the Company may accelerate the expiry date of the warrants.

Pursuant to the offering, the Company paid a cash commission equal to 6.0% of the gross proceeds of the offering, and issued 5,359,064 common share purchase warrants, each exercisable to purchase one Common Share at a price of $0.085 for a period of 12 months.

(h) Extension of Unsecured Convertible Notes

In October 2020, the Company extended the maturity date of two of the unsecured convertible notes payable totaling $6,486,269 from October 17, 2020 to June 30, 2021. Additionally, the Company received an interim waiver from a third unsecured convertible note payable holder to defer the maturity of the maturity date to facilitate ongoing negotiations for the extension or settlement of the unsecured note payable totaling $2,635,047.

(i) Conversion of Secured Convertible Notes Payable

In October 2020, the noteholders of the secured convertible notes payable agreed to convert the outstanding principal and interest balance into common shares of the Company at a conversion price of $0.04794 per common share plus warrants with an exercise price of $0.06768, resulting in an issuance of 32,208,806 of common shares of the Company and 16,104,403 warrants.

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 Condensed Consolidated Interim Financial Statements of the Company for the three months ended September 30, 2020, 2019 and 2018, prepared in accordance with IFRS. The selected financial data should be read in conjunction with the Condensed Consolidated Interim Financial Statements.

Condensed Consolidated Interim Statements of Net Loss	**Three months ended**		
	Q3 | 2020	**Q3 | 2019**	**Q3 | 2018** (iii,iv)
Financial Results			
Gross revenue	$ 28,490,111	$ 13,423,175	$ 3,663,817
Net revenue (i)	23,722,382	12,001,692	3,581,705
Gross margin before fair value adjustments	10,146,703	5,060,709	794,095
Operating expenses	12,840,121	18,993,084	4,727,986
Operating loss	(7,861,272)	(980,967)	(2,352,414)
Other expenses	(8,650,714)	(5,018,699)	210,798
Net loss	(16,975,019)	(5,831,279)	(2,141,616)
Adjusted EBITDA income (loss) (ii)	3,463,577	(9,201,192)	(2,971,878)
Loss per share, basic and diluted	$ (0.03)	$ (0.03)	$ (0.01)

(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 $3,463,577 during Q3 2020 as compared to an Adjusted EBITDA of $3,437,254 during Q2 2020. The decrease in Adjusted EBITDA is attributed to the reduced revenue and income produced by the Company's Propagation segment in Q3 2020 compared to Q2 2020. The Company continued to see positive Adjusted EBITDA growth in the Cannabis segment which aligns with increased cannabis revenue in addition to the Company's continued efforts to improve its short-term and long-term profitability. This alignment of the Company's operations with its revised outlook have led to realized savings in operating costs, while maintaining the Company's current production levels at par with capacity.

Condensed Consolidated Interim Statements of Financial Position	Q3 | 2020	Q4 | 2019	Q4 | 2018 (i)
Total assets	$ 296,240,901	$ 301,095,515	$ 111,469,060
Total non-current liabilities	$ 110,591,597	$ 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	Q3 | 2020	Q2 | 2020	% Change
Financial Results - Cannabis			
Cannabis net revenue	$ 19,017,746	$ 11,796,177	**61**
Consumer net revenue	*12,061,908*	*8,486,628*	***42***
Wholesale revenue	*6,882,259*	*3,228,351*	***113***
Medical and other revenue	*73,579*	*81,198*	***(9)***
Cost of sales and inventory production costs expensed	(10,096,331)	(6,202,815)	**63**
Gross margin before FV adjustments on cannabis net revenue	$ 8,921,415	$ 5,593,362	**60**
Gross margin before FV adjustments on cannabis net revenue (%)	47	47	**(1)**
Balance Sheet			
Total assets	$ 296,240,901	$ 303,766,103	**(2)**
Property, plant and equipment	191,694,670	194,052,172	**(1)**
Cannabis inventory and biological assets	65,274,862	68,034,580	**(4)**
Total non-current liabilities	$ 110,591,597	$ 107,202,208	**3**
Operational Results - Cannabis (i)			
Grams of cannabis sold	7,819,372	3,954,388	**98**
Net revenue per gram of cannabis sold	$ 2.43	$ 2.98	**(18)**
Cost of sales per gram of cannabis sold	1.29	1.57	**(18)**
Cost to internally produce a gram of cannabis sold	$ 0.76	$ 0.70	**9**

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

During the three months ended Q3 2020, the Company reported gross margin before fair value adjustment in the Cannabis segment of $8,921,415 as compared to $5,593,362 reported during Q2 2020. The increase in gross margin before fair value adjustment is the result of higher sales volumes and lower cost of sales per gram of cannabis sold, which is the result of ongoing cost-saving measures put in place in the first half of 2020 as well as the Company selling more products during the quarter.

During the three months ended Q3 2020, the Company's cost to cultivate a gram of cannabis sold increased from $0.70 in Q2 2020 to $0.76. This increase in cultivation cost is due to the specific mix of products and strains sold during the quarter; however, the Company's cost of goods sold per gram of cannabis sold decreased to $1.29 from $1.57 in Q2 2020 as a result of on-going cost saving measures. The Company's net revenue per gram of cannabis sold saw a decrease from $2.98 in Q2 2020 to $2.43 due to a combination of product mix and sales channel mix. During the three months ended Q3 2020, the Company had higher sales volumes through bulk LP-to-LP sales which have a lower per gram selling price, in addition to sales price reductions with provincial wholesalers in comparison with Q2 2020. On a per gram of cannabis sold basis, while the Company saw declines of 18% in the net revenue per gram it also realized a reduction in the cost of sales per gram of 18%. These offsetting amounts allowed the Company to move significantly more product during the quarter while maintaining consistent margins. While net revenue and cost per gram will vary depending on product mix, the Company continues to focus on methods to improve crop yields, developing and implementing efficiencies in all facilities, and diversifying product mix to continue driving financial results.

Although the adult-use recreational 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 PAX product line as well as shipments of 510-Threaded vaporizers, the sale of Zenabis' own recreational cannabis oil and derivative products and expansion of the cannabis for medical purposes export market. These various revenue streams will allow the Company to diversify its revenue sources and will contribute to the growth of positive Adjusted EBITDA and cashflows in the coming quarters.

DISCUSSION OF OPERATIONS

CANNABIS

Gross Margin Components

Net revenue increased to $19,017,746 and $43,415,039 during the three and nine months ended September 30, 2020, respectively, compared to $7,086,258 and $18,437,092 during the respective periods in the prior year due to increased sales to provincial customers and the continued shipments of bulk cannabis to other LPs and international customers. Net revenue during Q3 2020 increased by 61% from $11,796,177 during Q2 20

20 due to increased sales volumes to provincial customers, including the introduction and sale of new products, as well as more than doubling bulk cannabis sales.

Cost of sales and inventory production costs expensed increased to $10,096,331 and $23,894,234 during the three and nine months ended September 30, 2020, respectively, compared to $3,462,998 and $9,130,527 during the respective periods in the prior year due to increased sales. Cost of sales and inventory production costs expensed during Q3 2020 increased by 63% from $6,202,815 during Q2 2020 due to proportionately increased sales.

Realized FV amounts included in inventory sold increased to $17,925,831 and $43,292,918 during the three and nine months ended September 30, 2020, respectively, compared to $5,667,501 and $13,607,448 during the respective periods in the prior year due to increased sales in addition to adjustments to the carrying value of inventory. Realized FV amounts included in inventory sold during Q3 2020 increased by 23% from $14,571,069 during Q2 2020 due to increased volume of sales, the increase is not to the same magnitude as the increase in revenue due to updates in the estimates used to calculate the FV adjustment of biological assets at harvest and included in inventory. Unrealized gain on changes in FV of biological assets increased to $12,605,796 and $49,450,179 during the three and nine months ended September 30, 2020, respectively, compared to $18,273,170 and $33,206,440 during the respective periods in the prior year due to the overall increase in cannabis in production during the comparative periods. Unrealized gain on changes in FV of biological assets during the three months ended Q3 2020 decreased by 37% from $19,937,487 during Q2 2020 due to a decline in expected selling prices.

Operating Expense Components

Salaries and benefits decreased to $2,827,799 and $10,410,182 during the three and nine months ended September 30, 2020 compared to $7,244,753 and $16,497,055 during the respective periods in the prior year due to decreased headcount as a result of restructuring efforts. Salaries and benefits during Q3 2020 decreased by 22% from $3,629,491 during Q2 2020 due to the Company's corporate restructuring efforts during Q2 2020.

During nine months ended September 30, 2020, the Company incurred $1,542,342 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 increased to $3,582,706 and decreased to $4,043,141 during the three and nine months ended September 30, 2020, respectively, compared to $2,041,145 and $7,559,286 during the respective periods in the prior year The increase in the expense amount for the three months ending is due to certain one-time costs incurred at the facilities. The overall decline in expenses year-over-year is 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 Q3 2020 increased from Q2 2020 due to certain one-time costs incurred at the facilities.

Professional fees decreased to $796,355 and $1,787,176 during the three and nine months ended September 30, 2020, respectively, compared to $995,517 and $4,204,642 during the respective periods in the prior year 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 Q3 2020 remained consistent with those incurred during Q2 2020.

Depreciation and amortization was $1,012,599 and $2,600,345 during the three and nine months ended September 30, 2020, respectively, compared to $1,458,770 and $2,855,394 during the respective periods in the prior year as the Company capitalized additional depreciation to inventory during Fiscal 2020 as part of full product cost absorption, as well as the cessation of depreciation of the right-of-use office lease asset upon lease termination in early Q2 2020. Depreciation and amortization during Q3 2020 decreased by 97% from $512,970 during Q2 2020 for the same reasons stated above.

Sales and marketing expense decreased to $39,440 and $317,830 during the three and nine months ended September 30, 2020, respectively, compared to $664,437 and $2,374,784 during the respective periods in the prior year 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 2020. Sales and marketing expense during Q3 2020 remained consistent with that incurred during Q2 2020.

The Company recorded an impairment of assets held-for-sale of $1,571,026 during the nine months ended September 30, 2020, pertaining to the decrease in selling price of its Delta Facility property and assets.

Other Income/Expense Components

The Company realized a loss on the revaluation of its embedded derivative assets of $2,164,449 during the nine months ended September 30, 2020 as a result of the probability of meeting the early prepayment on the Company's Senior Debt being re-estimated to nil.

Interest expense increased to $4,604,719 and $15,238,330 during the three and nine months ended September 30, 2020, respectively, compared to $3,290,377 and $8,259,059 during the respective periods in the prior year as the Company entered into new loan agreements during late Fiscal 2019 and during Fiscal 2020, resulting in additional interest expense. Interest expense during Q3 2020 decreased by 18% from $5,587,655 during Q2 2020, primarily due to the settlement of certain debts during Q2 2020. Included in interest expense is $2,952,350 and $10,433,699 related to non-cash accretion for the three and nine months ended September 30, 2020.

During the three and nine months ended September 30, 2020, the Company accrued and received government subsidies totaling $1,301,309 and $4,609,113, respectively, as part of COVID-19 wage subsidies to support businesses.

The Company recorded a loss on early conversion of debt of $9,956,483 during the nine months ended September 30, 2020, pertaining to the conversion of its subordinated secured convertible notes payable.

The Company recorded a loss on modification and extinguishment of debt of $10,653,156 during the nine months ended September 30, 2020, pertaining to the extension and adjustment of terms on certain debt balances.

The Company recorded a loss on remeasurement of royalty liability of $3,440,868 during the nine months ended September 30, 2020. The Company did not make the Trigger Payment on its Senior Debt which resulted in future royalty obligations being calculated on all non-prepaid supply agreement net cannabis revenue as opposed to on non-prepaid supply agreement net cannabis revenue in excess of $20,000,000, which significantly increased the future Royalty payments. The Company will make royalty payments to the senior note payable holders when the non-prepaid supply agreement net cannabis revenue for each quarter exceeds $20,000,000.

PROPAGATION

Gross Margin Components

Net revenue, excluding inter-segment amounts, remained consistent at $4,704,636 and $27,577,412 during the three and nine months ended September 30, 2020, respectively, compared to $4,493,893 and $29,078,148 during the respective periods in the prior year.

The remaining gross margin components, being cost of sales and inventory production costs expensed, realized fair value amounts included in inventory sold, and unrealized gain on changes in fair value of biological assets should be analyzed together for the Propagation segment due to the quick turn-over of plants in the Propagation segment and the short growing period. These component totals remained consistent at $3,327,167 and $19,272,754 during the three and nine months ended September 30, 2020, respectively, compared to $3,020,732 and $21,300,943 during the respective periods in the prior year.

Operating Expense Components

General and administrative expense remained consistent at $489,471 during the three months ended September 30, 2020 when compared to the $421,756 incurred in the respective period in the prior year. General and administrative expense decreased to $238,835 during the nine months ended September 30, 2020 compared to $1,182,131 during the respective period in the prior year due recoveries of certain expenses during 2020. Additionally, the Propagation segment started billing operating expenses that pertained to Zenabis' Cannabis segment's operations in Fiscal 2020.

Other Income/Expense Components

Interest expense decreased to $374,024 and $1,264,708 during the three and nine months ended September 30, 2020, respectively, compared to $558,873 and $3,081,659 during the respective periods in the prior year due to the Company incurring one-time deferred financing fees in the prior year, as well as lower bank interest rates in Fiscal 2020.

During the three and nine months ended September 30 2019, the Company incurred $1,186,692 and $4,270,485, respectively, in expenses and received insurance proceeds of $492,995 and $3,176,536, respectively, related the clean-up and replacement of damaged equipment pursuant to the fire at the Zenabis Langley Propagation facility. During the three and nine months ended September 30, 2020, the Company incurred $2,330 and $48,064, respectively, of additional expenses and received insurance proceeds of $445,268 and $470,268, respectively, in relation to the fire.

During the three and nine months ended September 30, 2020, the Company accrued and received government subsidies totaling $662,156 and $1,387,346, respectively, as part of COVID-19 wage subsidies to support businesses.

OTHER

Gross Margin Components

Gross margin, excluding inter-segment amounts, decreased to $nil and $nil during the three and nine months ended September 30, 2020, respectively, compared to $310,027 and $820,328 during the respective periods in the prior year as a result of the loss of control of True Büch.

Operating Expense Components

Acquisition costs decreased to $nil during the nine months ended September 30, 2020, as compared to $4,919,978 during the respective period in the prior year as there were no acquisitions during fiscal 2020.

General and administrative expense remained consistent at $655,726 during the three months ended September 30, 2020 when compared to the $747,523 incurred in the respective period in the prior year. General and administrative expense increased to $2,934,552 during the nine months ended September 30, 2020 compared to $1,947,130 during the respective period in the prior year, largely as a result of expenses picked up through the acquisition of ZenPharm during Fiscal 2020, as well as increased insurance expense and listing fees.

Professional fees decreased to $261,289 and $788,076 during the three and nine months ended September 30, 2020 as compared to $1,662,150 and $3,915,360 during the respective periods in the prior year as a result of the Company requiring third party consultants to establish its operations in the prior year. Professional fees during Q3 2020 increased slightly from the $178,141 recorded in Q2 2020.

Share-based compensation expense decreased to $1,266,986 and $2,621,742 during the three and nine months ended September 30, 2020 as compared to $2,004,544 and $6,225,613 during the respective periods in the prior year as a result of the forfeitures of unvested options in Fiscal 2020 and a general reduction in total number of options outstanding due to the staffing reductions. Share-based compensation expense during the three months ended Q3 2020 increased by 25% from $1,012,898 during Q2 2020 as a result of the issuance of Restricted Stock Units ("RSUs") to certain employees and directors.

Other Income/Expense Components

Interest expense increased to $871,653 and $3,663,318 during the three and nine months ended September 30, 2020 as compared to $839,874 and $1,652,860 during the respective periods in the prior year as the Company incurred accelerated accretion expense upon partial payment of its unsecured convertible debenture.

During the nine months ended September 30, 2020, the Company realized a gain on sale of assets of $566,759 pursuant to the termination of its right-of-use office lease and associated lease obligation.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Results	Q3 | 2020	Q2 | 2020	Q1 | 2020	Q4 | 2019
Cannabis gross revenue	$ 23,785,475	$ 14,720,068	$ 15,048,030	$ 13,064,477
Propagation revenue	4,704,636	15,559,432	7,313,344	6,989,084
Other revenue	—	—	—	269,482
Total gross revenue	28,490,111	30,279,500	22,361,374	20,323,043
Cannabis excise taxes	(4,767,729)	(2,923,891)	(2,446,914)	(2,426,442)
Net revenue	23,722,382	27,355,609	19,914,460	17,896,601
Operating (loss) income	(7,861,272)	4,549,472	5,189,328	(43,817,161)
Net loss	(16,975,019)	(15,781,932)	(7,702,835)	(98,714,311)
Loss per share, basic and diluted	$ (0.03)	$ (0.04)	$ (0.02)	$ (0.34)

Quarterly Results	Q3 | 2019	Q2 | 2019	Q1 | 2019	Q4 | 2018 (i)
Cannabis gross revenue	$ 8,507,742	$ 8,672,632	$ 4,825,249	$ 3,841,445
Propagation revenue	4,493,893	17,377,866	7,206,389	—
Other revenue	421,540	419,983	251,855	—
Total gross revenue	13,423,175	26,470,481	12,283,493	3,841,445
Cannabis excise taxes	(1,421,483)	(1,420,772)	(726,276)	(438,356)
Net revenue	12,001,692	25,049,709	11,557,217	3,403,089
Operating loss	(980,967)	(7,902,956)	(10,294,873)	(13,768,165)
Net loss	(5,831,279)	(18,498,388)	(4,005,815)	(24,884,485)
Loss per share, basic and diluted	$ (0.03)	$ (0.09)	$ (0.02)	$ (0.16)

(i) Fiscal 2018 periods include Cannabis operations only.

SUMMARY OF QUARTERLY RESULTS

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. Due to the ongoing COVID-19 pandemic the Company's Propagation seasonality trends may be more volatile than in previous years due to changes in consumer buying behavior.

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 inventory and biological assets; impairment of inventory; write-off of materials and supplies inventory; restructuring costs; share-based compensation; depreciation and amortization; impairment of assets held for sale; ZenPharm pre-commercialization costs; loss on revaluation of embedded derivative asset; loss (gain) on revaluation of derivative liabilities; finance and investment (income) expense; interest expense; (gain) loss 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; loss on extinguishment of debt; loss on remeasurement of royalty liability; other expense; current income tax expense; and deferred income tax (recovery) expense. 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			
	Q3 | 2020	Q2 | 2020 (i)	Q3 | 2019	Q3 | 2018
Net loss	$ (16,975,019)	$ (15,781,932)	$ (5,831,279)	$ (2,141,616)
Changes in fair value of inventory sold and other charges	19,114,863	19,252,057	6,760,956	748,576
Unrealized gain on changes in fair value of biological assets	(13,947,009)	(24,222,690)	(19,712,364)	(2,330,053)
Impairment of inventory	250,314	508,759	—	—
Write-off of materials and supplies inventory (ii)	1,851,536	—	—	—
Restructuring costs	—	483,890	—	—
Share-based compensation	1,266,986	1,012,898	2,004,544	662,205
Depreciation and amortization	911,015	1,490,680	2,726,639	299,808
Impairment of assets held for sale	1,571,026	—	—	—
ZenPharm pre-commercialization costs (iii)	306,118	362,188	—	—
Loss on revaluation of embedded derivative asset	2,070,193	94,256	—	—
Gain on revaluation of derivative liabilities	—	—	(497,789)	—
Finance and investment (income) expense	(9,695)	(7,095)	173,986	(277,565)
Interest expense	5,850,396	8,009,676	4,689,124	69,617
Loss (gain) on sale of assets	504,658	(482,067)	21,675	(2,850)
Loss due to an event	2,330	20,167	1,186,692	—
Insurance proceeds	(445,268)	(25,000)	(492,995)	—
Loss on deconsolidation of subsidiary	—	—	—	—
Government subsidies	(1,963,465)	(3,319,621)	—	—
Loss on early conversion of debt	—	4,331,680	—	—
Loss on modification and extinguishment of debt	—	10,653,156	—	—
Loss on remeasurement of royalty liability	3,440,868			
Other (income) expense	(799,303)	167,745	(61,994)	—
Current income tax expense	359,642	1,102,590	342,758	—
Deferred income tax recovery	103,391	(214,083)	(511,145)	—
Adjusted EBITDA income (loss)	**$ 3,463,577**	**$ 3,437,254**	**$ (9,201,192)**	**$ (2,971,878)**

(i) Figures have been updated to reflect current period presentation.
(ii) Amounts are included within the 'General and administrative' expense line item on the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss for the Cannabis segment.
(iii) Amounts are included within the 'General and administrative' and 'Salaries and benefits' expense line items on the Condensed Consolidated Interim Statements of Loss and Comprehensive Loss for the Other segment.

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:

		Q3 | 2020	Q2 | 2020
Revenue [i]			
Cannabis segment net revenue	(a)	$ 19,017,746	$ 11,796,177
Cost of Goods Sold			
Cannabis segment cost of goods sold	(b)	$ 10,096,331	$ 6,202,815
Less:			
Excess and obsolete inventory provision		(250,314)	(508,759)
Processing and packaging costs		(1,824,117)	(1,795,611)
Shipping costs		(783,110)	(631,984)
Cost of goods sold for oil products		(1,006,983)	(490,531)
Externally purchased cannabis sold		(842,434)	—
Cannabis segment cost of cultivation	(c)	$ 5,389,373	$ 2,775,930
Grams Sold [i]			
Grams of cannabis sold	(d)	7,819,372	3,954,388
Grams of internally produced cannabis sold	(e)	7,113,149	3,954,388
Per Gram Metrics			
Net revenue per gram of cannabis sold	(a/d)	**$ 2.43**	**$ 2.98**
Cost of goods sold per gram of cannabis sold	(b/d)	**1.29**	**1.57**
Cost to internally produce a gram of cannabis sold	(c/e)	**$ 0.76**	**$ 0.70**

(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 positive working capital of $17,399,225 as at September 30, 2020.

The increase in working capital is primarily due to an increase in inventory from $39,333,991 to $53,736,079 and biological assets from $14,481,409 to $16,660,460 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 $25,518,094. Further, the Company listed its Zenabis Delta facility for sale resulting in $7,594,993 being recorded as assets held for sale, and in connection with the refinancing and debt repayments the Company saw the current portion of loans and borrowings and convertible loans decrease to $13,205,738 and $10,577,379, respectively, from $51,361,197 and $28,076,753, respectively, as at December 31, 2019. Additionally, the Company has shifted its focus from facility construction during 2019 to steady-state operations., and the increase in working capital reflects 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 $21,560,661 during the nine months ended September 30, 2020 as compared to $45,269,304 during the respective period of the prior year. 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 $2,060,850 during the nine months ended September 30, 2020 as compared to $92,270,338 during the respective period of the prior year. 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 11,878,177 during the nine months ended September 30, 2020 as compared to 148,537,721 during the respective period of the prior year. The decrease in cash flows from financing is primarily due to the debt and customer deposit arrangements entered into by the Company during 2019 which were used for capital expenditures on the Company's facilities.

Capital Management

During Q3 2020, the Company primarily financed its operations and met its capital requirements through increasing revenues and equity financing. Additionally, the Company managed its capital resources by repaying and refinancing a large portion of its existing debts.

The Company’s objective when managing its liquidity and capital resources is to generate sufficient cash flows to fund the Company’s operating and working capital requirements. The Company reported a positive working capital of $17,399,225 at September 30, 2020, as compared to a working capital deficit of $58,474,484 at December 31, 2019, representing an increase in working capital of $75,873,709.

Cash on hand decreased from $16,574,203 as at December 31, 2019 to $4,830,869 as at September 30, 2020. The decrease in cash was mainly attributable to cash used in operating activities of $21,560,661, cash used in investing activities of $2,060,850, which was offset by cash provided from financing of $11,878,177.

The Company did not undertake any large capital expenditures during Q3 2020 as its facilities are substantially complete based on the current operational plan. The Company's principal capital requirements relate to the introduction of new and diversified products for the markets the Company serves.

As at September 30, 2020, the Company has the following contractual obligations:

	Total	Less Than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Accounts payable and accrued liabilities	**$ 25,518,094**	$ 25,518,094	$ —	$ —	$ —
Loans and borrowings	**101,861,139**	10,590,885	11,764,671	51,970,027	27,535,556
Royalty liability	**11,713,153**	2,703,063	2,263,530	4,357,181	2,389,379
Convertible loans	**14,307,026**	10,554,077	3,487,241	265,708	—
Lease obligations	**361,931**	226,360	81,184	54,387	—
Total	**$ 153,761,343**	**$ 49,592,479**	**$ 17,596,626**	**$ 56,647,303**	**$ 29,924,935**

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' non-equity financing as at September 30, 2020:

	Draw Date	Maturity Date as at September 30, 2020	Principal Amount as of September 30, 2020	Interest Rate	Financial Statements Note Reference
Secured Loans	Aug 2017	Sep 2027	$ 2,000,000	6.00 %	12(b)
	Jan 2019	Jan 2022	42,463,333	Prime + 0.75%	12(a)(i)
	Apr 2019	Dec 2021	40,000	— %	12(a)(v)
	Feb 2019	Mar 2025	26,644,737	14.00 %	12(c)
	Aug 2019	Mar 2025	24,769,737	14.00 %	12(c)
	Mar 2020	Dec 2020	7,460,526	14.00 %	12(d)
			$ 103,378,333		
Unsecured Convertible Debentures	Oct 2018	Oct 2020	$ 9,121,315	6.00 %	13(a)
	Oct 2019	Jun 2022	304,851	6.00 %	13(b)
	Mar 2019	Sep 2021	3,846,000	6.00 %	13(b)
			$ 13,272,166		
Customer Deposits	Jul 2019	N/A	$ 25,428,780	13.00 % (i)	11
	Sep 2019	N/A	5,417,919	N/A	11
			$ 30,846,699		
Secured Convertible Notes	Oct 2018	Mar 2021	**$ 1,477,686**	11.00 %	13(c)
Total			**$ 148,974,884**		

(i) Implied interest rate for accounting purposes only and represents a non-cash expense.

In addition to the progress made during Q3 2020 in extending, converting, or repaying short-term debt, the Company made subsequent advancements in supporting its capital requirements.

In October 2020, the Company has also extended the maturity of the unsecured convertible notes principal amount of $6,486,269 from October 2020 to June 2021, and entered into an agreement with the holders of subordinated secured convertible notes to convert 100% of the outstanding principal amount and interest into common shares of Zenabis.

During Q3 2020, the Company issued 89,317,747 units at a price of $0.085 per unit for gross proceeds of $7,592,009. The proceeds were used to make principal repayments on the Company's unsecured convertible debentures, repay certain accounts payable and contribute to cash on hand.

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.

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

For the three and nine months ended September 30, 2020, the Company reported a comprehensive loss of $17,003,500 and $40,492,161, respectively. For the nine months ended September 30, 2020, the Company reported negative cash flow from operations of $21,560,661 and an accumulated deficit of $202,208,723 as at September 30, 2020. Further, as at September 30, 2020, $23,783,117 of the Company's debt was due within the next 12 months. These conditions cast a material uncertainty on the Company's ability to continue as a going concern. The Condensed Consolidated Interim Financial Statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

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

RELATED PARTY TRANSACTIONS

Related Party and Services	Three months ended		Nine months ended	
	Q3 2020	Q3 2019	Q3 2020	Q3 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 June 30, 2020.	$ —	$ —	$ —	$ 382,500
On-going Advisory Fees (i) The Company agreed to a strategic consulting services agreement in October 2018 under which a business affiliated with the CEO dedicated the services of certain of its personnel to the Company based on fixed monthly rates for individuals of various levels.	—	183,624	—	539,714
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.	—	—	—	942,258
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 June 30, 2020.	—	—	—	26,247
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.	—	—	—	365,722
Office Rent Fees incurred for the use of office space.	—	60,000	—	398,912
Consulting Fees Construction management services related to the Delta Facility and executive management services related to general operations.	—	91,619	36,445	160,967
A company affiliated with the Chief Growing Officer				
Management Fees Fees for managing the propagation and cannabis growing operations, in lieu of salary.	10,083	126,000	57,270	336,000
	$ 10,083	**$ 461,243**	**$ 93,715**	**$ 3,152,320**

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

During the three and nine months ended Q3 2020, the Company's Propagation segment earned rental and other miscellaneous revenues totaling $23,723 and $29,723, respectively (Q3 2019 – $nil and $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.

RELATED PARTY TRANSACTIONS

	Three months ended		Nine months ended	
	Q3 | 2020	Q3 | 2019	Q3 | 2020	Q3 | 2019
Salaries and benefits	$ 558,801	$ 523,649	$ 1,623,971	$ 1,646,981
Share-based payments	439,445	960,373	(393,001)	3,022,496
Director fees	97,805	152,652	472,496	395,961
Total compensation of key management personnel	**$ 1,096,051**	**$ 1,636,674**	**$ 1,703,466**	**$ 5,065,438**

CRITICAL ACCOUNTING 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.

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 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.

Royalty Liability Estimate

As a result of the amended and restated senior debt in April 2020, the Company accounted for a Royalty Liability at amortized cost. To value the Royalty Liability, a Monte Carlo method was used which incorporated several scenarios and probabilities of meeting the Trigger Payment and Buy-Out requirements. It also incorporated a revenue forecast over the next 8 years based on estimated cannabis selling volume and selling prices.

NEW ACCOUNTING PRONOUNCEMENTS

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

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

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, 2023. The Company is currently evaluating the impact of these amendments on the Company's 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.

September 30, 2020	Classification	Fair Value Level	Carrying Value	Fair Value
Financial assets not measured at fair value				
Cash and cash equivalents	Amortized cost	1	$ 4,830,869	$ 4,830,869
Accounts receivable	Amortized cost	2	$ 14,260,922	$ 14,260,922
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	$ 25,518,094	$ 25,518,094
Loans and borrowings	Amortized cost	2	101,861,139	101,861,139
Royalty Liability	Amortized cost	3	11,713,153	11,713,153
Convertible loans	Amortized cost	2	$ 14,307,026	$ 14,307,026

Measurement of fair value:

The carrying value of cash, accounts receivable, accounts payable, accrued liabilities and due to related parties approximate their fair values as at September 30, 2020 and December 31, 2019 due to the relatively short maturity of these instruments.

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

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

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

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

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

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

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

(b) Financial instruments risk

(i) Credit risk:

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

(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 September 30, 2020, the Company has the following contractual obligations:

	Total	Less Than 1 Year	1 – 2 Years	2 – 5 Years	More Than 5 Years
Accounts payable and accrued liabilities	**$ 25,518,094**	$ 25,518,094	$ —	$ —	$ —
Loans and borrowings	**101,861,139**	10,590,885	11,764,671	51,970,027	27,535,556
Royalty Liability	**11,713,153**	2,703,063	2,263,530	4,357,181	2,389,379
Convertible loans	**14,307,026**	10,554,077	3,487,241	265,708	—
Lease obligations	**361,931**	226,360	81,184	54,387	—
Total	**$ 153,761,343**	**$ 49,592,479**	**$ 17,596,626**	**$ 56,647,303**	**$ 29,924,935**

(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).

SUMMARY OF OUTSTANDING SHARE DATA

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 September 30, 2020 and November 6, 2020:

	September 30, 2020	November 6, 2020
Common shares issued and outstanding	729,839,273	773,203,149
Deferred stock units	1,125,000	1,125,000
Restricted stock units	23,700,595	19,803,018
Options	27,249,966	27,182,883
Warrants at $0.07 to $2.68	382,308,171	400,887,574
Conversion options at $1.17	4,550,158	3,287,179
Conversion options at $1.91	4,783,823	4,783,823
Conversion options at volume weighted 5 day trading price	5,080,850	—
Total fully diluted shares	**1,178,637,836**	**1,230,272,626**

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	28,318,500		0.09
Forfeited/expired	(14,625,455)		1.83
Balance, September 30, 2020	**27,249,966**	**$**	**0.20**

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

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

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

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

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

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

(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	38,803,333	0.10
Vested, released and issued	(10,675,000)	0.12
Forfeited	(3,302,738)	0.12
Balance, September 30, 2020	**24,825,595**	**$ 0.09**

During the three and nine months ended September 30, 2020, share-based compensation recognized through net loss was $1,001,608 and $2,522,608 (September 30, 2019 – $nil and $nil) pertaining to RSUs and DSUs granted and vested during the period.

The following table summarizes the RSUs and DSUs that remain outstanding as at September 30, 2020:

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

Cash Settled

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

During the three and nine months ended September 30, 2020, cash-settled share-based compensation recovery recognized through net loss was $16,496 and $331,514 (September 30, 2019 – $nil and $nil). As at September 30, 2020, the carrying amount of the liability relating to the SARs was $nil (December 31, 2019 – $331,514), which has been included in accounts payable and accrued liabilities.

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

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