ZENABIS GLOBAL INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

Management's Discussion and Analysis of Financial Results of Operations for the Year Ended December 31, 2020

This Management's Discussion and Analysis ("MD&A") is prepared as of March 31, 2021 and reports on the financial performance and financial condition of Zenabis Global Inc. ("Zenabis" or the "Company") for the years ended December 31, 2020 and 2019. This MD&A should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019, including the related notes thereto (the "Consolidated Financial Statements"). The Consolidated Financial Statements of the Company have been prepared in accordance and in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

This MD&A provides additional comparative disclosures related to the three months ended December 31, 2020 ("Q4 2020") in comparison to the three months ended December 31, 2019 ("Q4 2019") and the three months ended September 30, 2020 ("Q3 2020"), given that management believes this provides more relevant and contextual information.

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, 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 31, 2021 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 Consolidated 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:

- 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 added cannabis products (the "Cannabis" segment), operates an "Other" segment, and has also operated the "Propagation" segment prior to the disposition of this segment in December 2020.

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, operates three facilities across Canada for the purpose of the production and sale of cannabis and value added 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 with the ongoing development of 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 after the initial RTO and transferred this to the cannabis cultivation operations, which has allowed Zenabis to deliver consistent, high-quality crop yields 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;
- 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.

Propagation

Prior to the sale of the Company's wholly-owned subsidiary Bevo Farms Ltd. ("Bevo Farms") on December 31, 2020, the Company operated a segment whose main activity was the propagation of vegetable plants (such as tomatoes, peppers and cucumbers) and the cultivation of other plants (such as bedding plants, flowers and poinsettias). As this segment was sold as of December 31, 2020, all results for the fiscal years ended December 31, 2020 and December 31, 2019, have been included in the Loss from discontinued operations, net of tax on the Company's Consolidated Statements of Loss and Comprehensive Loss and the related asset and liability balances have been derecognized from the December 31, 2020 Consolidated Statement of Financial Position. This segment is no longer presented due to the segment's sale on December 31, 2020.

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 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 former 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 11** of the Consolidated 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, medical, and export markets.

The Company is focused on:

- Consistency: steady state production with the ongoing development of innovative ways to refine cannabis cultivation to increase yields of its leading Cannabis cultivars, reduce cost, and increase 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 future product launches; and
- Focus: by establishing partnerships with third parties for new product launches, 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 to the Company.

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, adult-use 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 adult-use recreational market. These investments resulted in retail sales of Zenabis products increasing 223%[1] when comparing Q4 2020 retail sales to the three months ended December 31, 2019 ("Q4 2019"), additionally Zenabis' overall market share of retail sales increased from 1.0% to 1.7%[2] during the same period. Zenabis' market share of cannabis flower sales in Canada increased from 1.5% to 2.1%[3] when comparing Q4 2019 retail sale to Q4 2020 retail sales.

[1] Changes in retail sales obtained from 'Hifyre IQ'

[2] Changes in overall market share of retail sales obtained from 'Hifyre IQ'

[3] Changes in market share of retail flower sales obtained from 'Hifyre IQ'

Zenabis has developed a portfolio of adult-use recreational brands to meet the demands of various consumer segments: Namaste and Re-Up. 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 and territory distribution channels to meet their product needs, may bring new products, product configurations, 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 2021 after receipt of all licensing and regulatory approvals by ZenPharm. The receipt of European Union Good Manufacturing Practice ("EU GMP") certification for Zenabis' Atholville facility in May 2020 and ZenPharm 's receipt of EU GMP certification in February 2021 is a significant milestone in being able to regularly supply medical cannabis to the European market.

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, 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 an 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, partially related to COVID-19 related travel restrictions, HYTN has requested to exit their contract with the Company. The Company is re-evaluating its strategy with respect to beverages given the delays and changing market landscape.

Zenabis expects to be able to launch its line of cannabis-infused gummies when it has determined that there is a sufficient market and margin availability that would warrant such a product launch. Zenabis has completed the selection process for a third-party manufacturing partner to produce gummies for the Adult-Use recreational market at an existing production facility and can begin production shortly after the timing is deemed to be appropriate.

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 no plans for further construction and conversion projects until such time as the market demand requires additional production capacity.

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 with a larger shipment completed in Q4 2020. Regular recurring commercial shipments to ZenPharm are expected to begin in 2021 after receipt of all licensing and regulatory approvals by ZenPharm.

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 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.

Stellarton Facility

Zenabis owns and operates the Stellarton Facility, a 255,000 sq. ft. indoor facility in Stellarton, Nova Scotia, and is currently used as a packaging, processing and value added Cannabis 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.

Extraction

Zenabis is currently utilizing and optimizing its extraction capacity at the Atholville Facility by exploring various strategies to increase throughput of cannabis material and distillate output using the currently commissioned equipment and infrastructure. The extraction process at Zenabis consumes cannabis biomass produced at Zenabis' cannabis-focused facilities in order to supply extracts for its derivative products.

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 has opportunities for continued growth in 2021, with the addition of new retail stores throughout the country, providing increased access to cannabis products in each province and territory. Additionally, the increasing availability of edible and derivative products is also expected to significantly expand the Canadian adult-use recreational market.

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. During the three months ending March 31, 2021 ("Q1 2021"), the Company launched and shipped its large format pre-roll offering with selected provincial retail partners which will provide consumers a convenient and high-value format for enjoying Zenabis products.

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.

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.

In the cannabis derivatives market, during 2020 Zenabis has focused on vaporizers for its product launch. 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' planned entry into the beverage market with its beverage partner, HYTN, was cancelled due to significant delays in the commissioning of HYTN's production line, partially related to COVID-19 related travel restrictions,. The Company is re-evaluating its strategy with respect to beverages given the market results of this product segment during 2020. Additionally, Zenabis has completed the selection process for a third-party manufacturing partner to produce cannabis-infused gummies and is well position to do so in 2021 when the Company will make the strategic decision to enter this product category.

Zenabis is focused on building on the moves towards operational excellence it accomplished in Fiscal 2020 by focusing on core operations and assets while divesting from non-core operations and monetizing non-core assets, such as the sale of the Propagation segment and the Zenabis Delta facility. The Company successfully implemented various initiatives that resulted in positive Adjusted EBITDA in 2020, significant growth in net revenue, reductions in operating expenses, 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. 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.

During 2020, the Company took multiple steps to reduce the overall debt load of the Company through debt conversions and early repayments. From December 31, 2019 to December 31, 2020, the Company successfully reduced its loans and borrowings by $55,208,020. The various steps taken in relation to the Company's debt have been done to ensure working capital flexibility, to execute its strategic plan, and achieve success in 2020 and beyond. The ongoing strategic plan consists of continuing to grow revenue, maintain product profit margins, focus on key product categories, operating efficiencies, and moving to lower cost financing. As with any plan, its success continues to be dependent on dutiful execution by the Company and navigating the ever-changing landscape of the Cannabis industry. Zenabis believes that the changes undertaken during the current year have positioned 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 or extinguish its debt maturing in Fiscal 2021. While the Company has been successful in renegotiating its debt in the past and raising additional capital, there is no assurance that it will be successful in doing so in the future.

The COVID-19 outbreak was declared a pandemic by the World Health Organization in 2020. For the year ended December 31, 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 or cancelled 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, the delay and subsequent cancellation in the commissioning of the beverage operations by HYTN, and the launch of its cannabis-infused beverage products.

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.

CANNABIS PRODUCTION & SALES

	Year ended	Three months ended			
	2020	Q4 | 20	Q3 | 20	Q2 | 20	Q1 | 20
Harvest weight (kg)	45,956	13,506	12,083	12,640	7,727
Weight sold (kg)	20,843	5,340	7,819	3,954	3,730
Net revenue (i)	$ 59,302,831	$ 15,887,792	$ 19,017,746	$ 11,796,177	$ 12,601,116
Consumer net revenue	*43,567,658*	*13,242,982*	*12,061,908*	*8,486,628*	*9,776,140*
Wholesale bulk revenue	*15,407,670*	*2,519,007*	*6,882,259*	*3,228,351*	*2,778,053*
Other revenue	*327,503*	*125,803*	*73,579*	*81,198*	*46,923*
Gross margin before FV adjustment	$ 24,812,594	$ 5,291,789	$ 8,921,415	$ 5,593,362	$ 5,006,028
Gross margin before FV adjustment (%)	42	33	47	47	40

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

Q4 | 2020 - *Three months ended Q4 2020*

During Q4 2020, the overall kg of cannabis harvested increased compared to the prior periods as a result of improvements in the cultivation practices and improved utilization of licensed space. As a result of the changes in the regulations surrounding exports of cannabis products to Israel which required additional test and facility certifications, the Company saw a decrease in the total weight sold during Q4 2020 as well as the wholesale bulk revenue amounts. The Company continues to work with its international partners in order to resume shipments to Israel in Q2 2021 as well as expand sales into Europe via ZenPharm. The Company expects that the resumption and expansion of international sales, in addition to planned product launches in 2021 will close the gap between harvested and sold weight of cannabis material.

Comparing Q4 2020 to Q4 2019, the Company saw a 44% increase in weight sold and a 54% increase in net revenue. Further, comparing total sales for 2020 to 2019 the Company saw a 174% increase in weight sold and a 106% increase in net revenue. These increases in weight sold and net revenue are indicative of the growing cannabis market as well as the continued market uptake of Zenabis products. Comparing Q4 2020 to Q3 2020, the reduction in revenue was due to the decrease in wholesale bulk revenue as previously discussed.

In regards to revenue, Zenabis saw a 59% growth in its adult-use recreational revenue category over Q4 2019, attributable to the launches of the large format Re-Up packaged flower product and Re-Up 510-Threaded vaporizer line, revenue growth was achieved despite the downward pressure on pricing during 2020 with the revenue growth being driven by volume of product sold. Zenabis also experienced year-over-year growth of 78% in its adult-use recreational revenue category when comparing 2020 to 2019.

Additionally, the wholesale revenue category experienced year-over-year revenue growth of 252% when comparing 2020 to 2019. The increase is due largely to international shipments of product to Israel and Australia, despite sales to Israel ceasing in Q4 2020 due to regulatory changes. The Company expects to continue expanding its wholesale customer base as more export opportunities are realized and converted into recurring orders.

The Company also achieved consistent gross margins during the first three quarters of 2020, despite the decreasing sales prices of cannabis with part of the reasoning for the consistent margins being the growth of the higher margin export business. The decrease in the margin realized by the Company during Q4 2020 is due to the decrease in export sales which resulted from regulatory changes that the Company is in the process of addressing, the Company expects this margin reduction to be temporary while it obtains the required certifications and infrastructure to resume exports of cannabis to Israel. The ongoing cost-saving measures put in place during 2020, the continual ongoing review of operating costs, and continued operational improvements remain a key component of the Company's ongoing strategic plan as the downward pressure on cannabis pricing is expected to continue.

INCOME/LOSS FROM OPERATIONS

	Q4 | 2020	Q3 | 2020	% Change
Gross margin	**$ 8,186,003**	**$ 3,601,380**	**127**
Operating expenses			
Salaries and benefits	2,807,252	2,868,688	**(2)**
General and administrative	1,744,237	4,238,432	**(59)**
Professional fees	1,644,084	1,057,644	**55**
Share-based compensation	1,093,347	1,266,986	**(14)**
Depreciation and amortization	516,145	74,730	**591**
Sales and marketing	188,253	56,289	**234**
Impairment of assets held for sale	—	1,571,026	**N/A**
Total operating expenses	**7,993,318**	**11,133,795**	
Income (loss) from operations	**$ 192,685**	**$ (7,532,415)**	

During 2020, the Company has been continually reviewing and analyzing its operating procedures, supply chain, and operations with the purpose of improving cost efficiencies and pursuing profitability and positive cash flows from operations. The staffing reductions, curtailment of the Delta Facility's operations and the cessation of non-core activities have resulted in reductions in the Company's overall operating expenses. During Q4 2020, the Company noted an increase in professional fees relating to the various transactions undertaken during Q4 2020. 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 Fiscal 2020 was a year of growth and transformation for the Company.

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 EU GMP approval for its Atholville Facility and in February 2021 the Company announced that its ZenPharm facility has also received EU GMP certification. With both facilities having received EU GMP certification Zenabis expects to commence recurring commercial exports to the European Union during Q2 2021 with regional sales in Europe by ZenPharm commencing soon after.

(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 did not occur during Q4 2020 but are expected to resume in 2021. The Company made significant progress during Q4 2020 in meeting the requirements to resume cannabis exports to Israel, including receiving certification of Good Agricultural and Collecting Practices by the Control Union Medical Cannabis Standard. The remaining requirement is to identify a testing laboratory that can provide the testing as required by Israel.

(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. After completion of the initial shipments, Zenabis has made recurring shipments during Q3 and Q4 of 2020.

(e) Cost Reductions

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

- reduction of head office staff;
- 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 closing the sale of the Delta Facility in 2020; and
- a thorough review of all of the Company's operations and projects, and implementing a cessation of non-core activities.

(f) Sale of Bevo Farms Ltd.

In December 2020, Zenabis sold its propagation segment for a combination of cash-consideration, forgiveness of rent payable arrears, and long-term rental rebates over the life of the lease of the Zenabis Langley facility. The sale of this facility allows Zenabis to focus solely on its cannabis segment, reduce future cannabis operating costs, reduce the overall loans and borrowings of the Company, and unlock short-term capital. For accounting purposes, the forgiveness of rent payable in arrears and long-term rental rebates are treated as reductions in the right-of-use asset and right-of-use liability, and are included in the loss on sale of the propagation segment.

(g) Sale of Zenabis Delta Facility

In December 2020, the Company sold the Zenabis Delta facility it had listed for sale during 2020. The facility had a limited licensed capacity of 100 kg that was non-core for the Company, and the Company was able to effectively relocate the planned extraction process to the Zenabis Atholville facility without issue. The sale of this facility allowed the Company to benefit from the unlocked capital the accompanied the sale of an asset that was determined to no longer be core to the planned business operations.

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. The $7,000,000 was settled on December 31, 2020 through payment to the lenders.

(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 $60,750,000. 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

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. 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 to the broker, 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 to the broker, 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.

In November 2020, the Company converted $1,300,000 of the unsecured convertible notes payable into common shares of the Company at a conversion price of $0.04862 per common share, resulting in an issuance of 26,737,967 common shares of the Company. The maturity date of remaining unsecured convertible notes payable totaling $1,365,047 was extended to June 30, 2021.

(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 common shares of the Company and 16,104,403 warrants.

(j) Repayment of Tranche 3 of the Senior Notes Payable

In December 2020, the Company repaid the $7,000,000 borrowed from the Senior Debt lenders that was borrowed in March 2020, in accordance with the debt repayment schedule.

(k) Committed $60,000,000 Revolving Credit Facility to Refinance Senior Notes Payable

In January 2021, the Company announced that it had secured a committed $60,000,000 revolving credit facility from a Canadian private debt fund in order to refinance the Senior Notes Payable and provide additional capital into the Company. The revolving credit facility would bear interest at the greater of 10% or the Toronto-Dominion Bank's prime rate plus 7.55% compared to the current Senior Notes Payable which bear interest at 14% plus other fees. To date, the Company has not drawn on this facility to repay the Senior Debt lenders. In February 2021, the Company filed a petition with the Supreme Court of British Columbia for a determination of the amount required to repay and terminate the Senior Notes Payable, including the Amended Royalty amount in order to draw on the revolving credit facility and repay the Senior Notes Payable.

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 financial performance have been derived from the Consolidated Financial Statements as well as the interim consolidated financial statements for the three months ended December 31, 2020, 2019 and 2018, prepared in accordance with IFRS. The selected financial data should be read in conjunction with the Consolidated Financial Statements.

Consolidated Statements of Net Loss	Three months ended			Year ended		
	Q4 | 2020	Q4 | 2019	Q4 | 2018 (iii,iv)	2020	2019	2018 (iii,iv)
Financial Results						
Gross revenue	$ 21,486,058	$ 13,333,959	$ 3,841,445	$ 75,039,631	$ 36,432,960	$ 7,506,224
Net revenue (i)	15,887,792	10,907,517	3,403,089	59,302,831	30,437,987	6,985,756
Gross margin before fair value adjustments	5,291,789	3,551,859	1,710,273	24,812,594	13,678,753	2,454,037
Operating expenses	7,993,318	43,980,163	12,664,651	36,141,539	95,745,489	23,417,310
Operating income (loss)	192,685	(37,187,869)	(8,543,407)	(2,277,470)	(59,227,308)	(16,120,579)
Other expenses	(9,756,092)	(8,612,237)	(16,254,109)	(52,583,035)	(13,959,616)	(16,314,212)
Net loss from continuing operations	(9,919,216)	(46,210,335)	(24,884,485)	(54,874,435)	(72,570,382)	(32,521,760)
Adjusted EBITDA income (loss) from continuing operations (ii)	672,108	(11,231,553)	(5,947,942)	3,515,341	(38,731,598)	(13,758,227)
Loss from continuing operations per share, basic and diluted	$ (0.01)	$ (0.18)	$ (0.16)	$ (0.10)	$ (0.30)	$ (0.22)

(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 Other segment.

(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 $672,108 during Q4 2020 as compared to an Adjusted EBITDA of $3,108,330 during Q3 2020 (Q3 2020 has been restated to remove the Propagation Segment). The decrease in Adjusted EBITDA is attributed to the reduced revenue from bulk sales in Q4 2020 compared to Q3 2020. The Company continued to see positive Adjusted EBITDA being generated by the Cannabis segment which aligns with overall increased cannabis revenue in addition to the Company's continued efforts to reduce expenses and 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.

Consolidated Statements of Financial Position	2020	2019	2018 (i)
Total assets	$ 237,791,893	$ 301,095,515	$ 111,469,060
Total non-current liabilities	$ 25,467,855	$ 66,983,618	$ 2,119,158

(i) Due to the accounting presentation resulting from the RTO, no comparable information is presented for the Other segment for 2018.

Key Quarterly Financial and Operating Results	Q4 | 2020	Q3 | 2020	% Change
Financial Results - Cannabis			
Cannabis net revenue	$ 15,887,792	$ 19,017,746	**(16)**
Consumer net revenue	*13,242,982*	*12,061,908*	***10***
Wholesale revenue	*2,519,007*	*6,882,259*	***(63)***
Medical and other revenue	*125,803*	*73,579*	***71***
Cost of sales and inventory production expenses	(10,596,003)	(10,096,331)	**5**
Gross margin before FV adjustments on cannabis net revenue	$ 5,291,789	$ 8,921,415	**(41)**
Gross margin before FV adjustments on cannabis net revenue (%)	33	47	**(30)**
Balance Sheet			
Total assets	$ 237,791,893	$ 296,240,901	**(20)**
Property, plant and equipment	121,920,346	191,694,670	**(36)**
Cannabis inventory and biological assets	72,501,341	65,274,862	**11**
Total non-current liabilities	$ 25,467,855	$ 110,591,597	**(77)**

During the three months ended Q4 2020, the Company reported gross margin before fair value adjustment in the Cannabis segment of $5,291,789 compared to $8,921,415 reported during Q3 2020. The decrease during Q4 2020 is due to the decrease in export sales which resulted from regulatory changes that the Company is in the process of addressing, the Company expects this margin reduction to be temporary while it obtains the required certifications and infrastructure to resume certain exports of cannabis. The ongoing cost-saving measures put in place during 2020, the continual ongoing review of operating costs, and continued operational improvements remain a key component of the Company's ongoing strategic plan as the downward pressure on cannabis pricing is expected continue.

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 Era 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 cash flows in the coming quarters.

DISCUSSION OF OPERATIONS

CANNABIS

Gross Margin Components

Net revenue increased to $15,887,792 and $59,302,831 during the three and twelve months ended December 31, 2020, respectively, compared to $10,638,035 and $29,075,127 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 Q4 2020 decreased by 16% from $19,017,746 during Q3 2020 due to lower volumes of international bulk sales as a result of changes in regulations that the Company is in the process of addressing so as to resume shipments to Israel.

Cost of sales and inventory production costs expensed increased to $10,596,003 and $34,490,237 during the three and twelve months ended December 31, 2020, respectively, compared to $7,273,757 and $16,404,283 during the respective periods in the prior year due to increased sales. Cost of sales and inventory production costs expensed during Q4 2020 increased by 5% from $10,096,331 during Q3 2020 due to changes in product sales mix with packaged adult-use recreational products representing a larger proportion of overall sales compared to Q3 2020.

Realized fair value amounts included in inventory sold decreased to $15,805,636 and increased to $59,098,554 during the three and twelve months ended December 31, 2020, respectively, compared to $18,384,249 and $31,991,696 during the respective periods in the prior year due to lower fair value write downs in the three months ended Q4 2020 but was higher for the full year due to higher sales volumes. Realized fair value amounts included in inventory sold during Q4 2020 decreased by 12% from $17,925,831 during Q3 2020 due to lower quantities of product sold as a result of the decrease in wholesale bulk sales in the quarter. Unrealized gain on changes in fair value of biological assets decreased to $18,699,850 and increased to $68,150,029 during the three and twelve months ended December 31, 2020, respectively, compared to $21,624,684 and $54,831,124 during the respective periods in the prior year due to variance in quantity and stage of cannabis plants in production during the comparative periods. Unrealized gain on changes in fair value of biological assets during the three months ended Q4 2020 increased by 48% from $12,605,796 during Q3 2020 due to variance in quantity and stage of cannabis plants in production.

Operating Expense Components

Salaries and benefits decreased to $2,752,302 and $13,162,484 during the three and twelve months ended December 31, 2020 compared to $6,755,779 and $23,252,834 during the respective periods in the prior year due to decreased headcount as a result of restructuring efforts. Salaries and benefits during Q4 2020 remained consistent with those incurred during Q3 2020.

During twelve months ended December 31, 2020, the Company incurred $1,542,342 in restructuring costs related to severance and other employee benefits for terminated employees, which spanned two separate waves of staffing reductions in an effort to right size the Company's operations in order to match the current and anticipated demand of the Canadian adult-use recreational and medical cannabis markets.

General and administrative expense decreased to $711,067 and $4,754,208 during the three and twelve months ended December 31, 2020, respectively, compared to $2,750,722 and $10,310,010 during the respective periods in the prior year 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 Q4 2020 decreased by 80% from $3,582,706 during Q3 2020 due to certain one-time costs incurred at the facilities during Q3 2020.

Professional fees decreased to $862,656 and $2,649,832 during the three and twelve months ended December 31, 2020, respectively, compared to $1,001,572 and $5,206,215 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 Q4 2020 remained consistent with those incurred during Q3 2020.

Depreciation and amortization was a recovery of $461,532 and an expense of $2,138,813 during the three and twelve months ended December 31, 2020, respectively, compared to $839,826 and $3,695,221 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.

Sales and marketing expense decreased to $177,926 and $495,756 during the three and twelve months ended December 31, 2020, respectively, compared to $332,844 and $2,707,629 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 Q4 2020 remained consistent with that incurred during Q3 2020.

The Company recorded an impairment of assets held-for-sale of $1,571,026 during the twelve months ended December 31, 2020, pertaining to the decrease in selling price of its Delta Facility property and assets.

During the twelve months ended December 31, 2020, the Company did not record any impairment on property, plant and equipment, where as it had recognized an impairment of $21,231,483 in the prior year.

Other Income/Expense Components

The Company realized a loss on the revaluation of its embedded derivative assets of $2,164,449 during the twelve months ended December 31, 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 $4,755,972 and $19,994,302 during the three and twelve months ended December 31, 2020, respectively, compared to $1,682,739 and $6,576,321 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 Q4 2020 increased by 3% from $4,604,719 during Q3 2020, primarily due to the settlement of certain debts during Q3 2020. Included in interest expense is $8,585,529 related to non-cash accretion for the twelve months ended December 31, 2020.

During the three and twelve months ended December 31, 2020, the Company accrued and received government subsidies totaling $315,860 and $4,924,973, respectively, as part of COVID-19 wage subsidies to support businesses. No similar amounts were recognized in Q4 2019 or fiscal 2019.

The Company recorded a loss on early conversion of debt of $3,967,788 and $13,924,271 during the three and twelve months ended December 31, 2020, pertaining to the early conversion of its subordinated secured convertible notes payable. No similar amounts were recognized in Q4 2019 or fiscal 2019.

The Company recorded a gain on modification and extinguishment of debt of $222,807 and a loss of $10,430,349 during the three and twelve months ended December 31, 2020, pertaining to the extension and adjustment of terms on certain debt balances. No similar amounts were recognized in Q4 2019 or fiscal 2019.

The Company recorded a loss on remeasurement of royalty liability of $1,307,007 and $4,747,875 during the three and twelve months ended December 31, 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 estimate of 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.

During the twelve months ended December 31, 2020, the Company did not record any impairment on intangible assets and goodwill, where as it had recognized an impairment of $6,688,711 in the prior year.

OTHER

Gross Margin Components

Net revenue, excluding inter-segment amounts, decreased to $nil during the three and twelve months ended December 31, 2020, compared to $269,482 and $1,362,860 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 twelve months ended December 31, 2020, as compared to $4,398,646 during the respective period in the prior year as there were no acquisitions during fiscal 2020.

General and administrative expense decreased to $1,033,170 and increased to $3,967,722 during the three and twelve months ended December 31, 2020, respectively, compared to $1,536,778 and $3,483,908 during the respective periods in the prior year. The increase in general and administrative expense during the twelve months ended December 31, 2020 was largely the 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 $781,428 and $1,569,504 during the three and twelve months ended December 31, 2020 as compared to $2,846,919 and $7,283,611 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 Q4 2020 increased by 199% from $261,289 during Q3 2020 due to additional expenses incurred for year-end activities.

Share-based compensation expense decreased to $1,093,347 and $3,715,089 during the three and twelve months ended December 31, 2020 as compared to $5,995,345 and $12,220,958 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.

Other Income/Expense Components

Interest expense decreased to $145,022 and increased to $3,808,340 during the three and twelve months ended December 31, 2020 as compared to $787,866 and $2,440,726 during the respective periods in the prior year. The decrease during Q4 2020 compared to the respective period of the prior year is the result of the Company holding a lower unsecured convertible debenture balance during 2020, and thus incurring less interest expense. The increase during the twelve months ended December 31, 2020 was due to the Company incurring accelerated accretion expense upon partial payment of its unsecured convertible debenture during Fiscal 2020.

During the twelve months ended December 31, 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.

During the twelve months ended December 31, 2020, the Company disposed of Bevo Farms and its entire Propagation segment, leading to the recognition of a loss from discontinued operations of $15,582,224, compared to $54,108,183 in the prior year. The decrease in loss was largely due to the Company recording impairment of property, plant and equipment of $6,609,782, as well as impairment of intangible assets and goodwill of $52,275,191 in the prior year.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Results	Q4 | 2020	Q3 | 2020	Q2 | 2020	Q1 | 2020
Cannabis gross revenue	$ 21,486,058	$ 23,785,475	$ 14,720,068	$ 15,048,030
Other revenue	—	—	—	—
Total gross revenue	21,486,058	23,785,475	14,720,068	15,048,030
Cannabis excise taxes	(5,598,266)	(4,767,729)	(2,923,891)	(2,446,914)
Net revenue	15,887,792	19,017,746	11,796,177	12,601,116
Operating income (loss)	192,685	(7,532,415)	2,834,509	2,227,751
Net loss from continuing operations	(11,381,181)	(16,561,514)	(17,516,830)	(9,414,910)
Loss from continuing operations per share, basic and diluted	$ (0.01)	$ (0.03)	$ (0.04)	$ (0.03)

Quarterly Results	Q4 | 2019	Q3 | 2019	Q2 | 2019	Q1 | 2019
Cannabis gross revenue	$ 13,064,477	$ 8,507,742	$ 8,672,632	$ 4,825,249
Other revenue	269,482	421,541	419,982	251,855
Total gross revenue	13,333,959	8,929,283	9,092,614	5,077,104
Cannabis excise taxes	(2,426,442)	(1,421,483)	(1,420,772)	(726,276)
Net revenue	10,907,517	7,507,800	7,671,842	4,350,828
Operating loss	(37,187,869)	(915,163)	(8,758,556)	(12,365,720)
Net loss from continuing operations	(45,839,107)	(4,497,253)	(17,275,406)	(4,958,616)
Loss from continuing operations per share, basic and diluted	$ (0.18)	$ (0.02)	$ (0.09)	$ (0.03)

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 and the Company's expansion of its wholesale and export operations. 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 as the industry as a whole continues to expand.

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; acquisition costs; 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 (recovery); loss on sale of assets; loss from loss of control of a former subsidiary; government subsidies; loss on early conversion of debt; loss on modification and extinguishment of debt; loss on remeasurement of royalty liability; other (income) 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 from continuing operations, being the closest GAAP financial measure, for the periods outlined:

	Three months ended			Year ended		
	Q4 | 2020	Q4 | 2019	Q4 | 2018	2020	2019	2018
Net loss from continuing operations	$ (11,381,181)	$ (45,839,107)	$(24,884,485)	$(54,874,435)	$ (72,570,382)	$ (32,521,760)
Changes in fair value of inventory sold and other charges	15,805,636	18,384,249	1,734,445	59,098,554	31,991,696	2,483,021
Unrealized gain on changes in fair value of biological assets	(18,699,850)	(21,624,684)	(4,145,416)	(68,150,029)	(54,831,124)	(7,325,715)
Impairment of inventory	1,146,230	874,734	—	1,905,303	874,734	—
Write-off of materials and supplies inventory (i)	—	—	—	1,851,536	—	—
Acquisition costs	—	—	74,900	—	4,398,646	74,900
Restructuring costs	—	—	—	1,542,342	—	—
Share-based compensation	1,093,347	5,995,345	4,600,719	3,715,089	12,220,958	6,003,105
Depreciation and amortization	516,145	1,095,189	330,817	2,520,624	4,609,317	1,127,041
Impairment of assets held for sale	—	—	—	1,571,026	—	—
Impairment of property, plant and equipment	—	21,231,483	—	—	21,231,483	—
ZenPharm pre-commercialization costs (ii)	617,915	—	—	1,738,366	—	—
Loss on revaluation of embedded derivative asset	—	—	—	2,164,449	—	—
(Gain) loss on revaluation of derivative liabilities	—	(22,993)	13,131,068	—	(3,860,426)	12,942,773
Finance and investment expense (income)	501,866	42,749	1,924,319	490,185	(638,307)	1,625,959
Interest expense (recovery)	4,900,994	(894,873)	1,193,367	23,802,642	9,017,047	1,742,975
Loss on sale of assets	1,245,336	218,456	5,355	1,186,264	213,599	2,505
Loss from loss of control of a former subsidiary	—	—	—	668,562	—	—
Government subsidies	(315,860)	—	—	(4,924,973)	—	—
Loss on early conversion of debt	3,967,788	—	—	13,924,271	—	—
(Gain) loss on modification and extinguishment of debt	(222,807)	—	—	10,430,349	—	—
Loss on remeasurement of royalty liability	1,307,007	—	—	4,747,875	—	—
Other (income) expense	(47,441)	63,840	—	93,411	22,645	—
Impairment of intangible assets and goodwill	—	9,205,058	—	—	9,205,058	—
Current income tax (recovery) expense	(16,760)	571,704	86,969	16,034	798,750	86,969
Deferred income tax expense (recovery)	253,743	(532,703)	—	(2,104)	(1,415,292)	—
Adjusted EBITDA income (loss)	**$ 672,108**	**$ (11,231,553)**	**$ (5,947,942)**	**$ 3,515,341**	**$ (38,731,598)**	**$ (13,758,227)**

(i) Amounts are included within the 'General and administrative' expense line item on the Consolidated Statements of Loss and Comprehensive Loss for the Cannabis segment.
(ii) Amounts are included within the 'General and administrative' and 'Salaries and benefits' expense line items on the Consolidated Statements of Loss and Comprehensive Loss for the Other segment.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Working capital increased from a deficit of $58,474,484 as at December 31, 2019 to a deficit of $37,337,492 as at December 31, 2020.

The increase in working capital is primarily due to an increase in inventory from $39,333,991 to $59,312,308 due to the higher production of cannabis resulting from operational efficiencies in the facilities and a year of full operations at all facilities performing cultivation activities.

Additionally, the Company saw the current portion of convertible loans and borrowings decrease from $28,076,753 to $11,346,007 resulting from various debt conversion and repayments throughout 2020, significantly reducing the Company's debt obligations.

Further, as a result of the disposal of the Company's Propagation business in December 2020, there was a further reduction in the current debt of the Company and overall an improved working capital position which included the recognition of a current loan receivable for $2,966,069.

Overall, the Company implemented its 2020 shift from facility construction in 2019 to steady-state operations. The increase in working capital reflects the Company's focus on operational efficiencies in 2020 and the drive to improve the Company's financial position throughout Fiscal 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 $17,459,506 during the twelve months ended December 31, 2020 as compared to $78,617,240 during the respective period of the prior year. The improvement in cash flows from operations is primarily due the Company taking substantial measures in 2020 to reduce its costs to improve profitability and the Company's overall financial position. 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 from investing activities decreased from an outflow of $92,303,297 during 2019 to an inflow of $1,076,162 during the twelve months ended December 31, 2020. The increase in cash inflows from investing activities is primarily due to a dramatic reduction in capital expenditures due to the Company's facilities substantially completing construction projects in Fiscal 2019 in addition to cash received from the sale of the Company's Delta Facility in Q4 2020.

Cash Flows | Financing

Cash inflows from financing activities decreased to $5,542,431 during the twelve months ended December 31, 2020 as compared to $170,527,937 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. Furthermore, the financing received from the unit offerings was offset by a large amount of debt repayments made during 2020.

Capital Management

During 2020, the Company primarily financed its operations and met its capital requirements through increasing revenues, cost reductions, 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 working capital deficit of $37,337,492 at December 31, 2020, as compared to a working capital deficit of $58,474,484 at December 31, 2019, representing an increase in working capital of $21,136,992.

Cash on hand decreased from $16,574,203 as at December 31, 2019 to $5,733,290 as at December 31, 2020. The decrease in cash was mainly attributable to cash used in operating activities of $17,459,506, which was offset by cash provided by investing activities of $1,076,162, and cash provided from financing of $5,542,431.

The Company did not undertake any large capital expenditures during 2020 as its facilities were substantially complete based on the Company's 2020 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 December 31, 2020, the Company has the following contractual obligations:

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

FINANCING ACTIVITIES

The table below reflects Zenabis' non-equity financing as at December 31, 2020:

	Draw Date	Maturity Date as at December 31, 2020	Principal Amount as of December 31, 2020	Contractual Interest Rate	Financial Statements Note Reference
Secured Loans	Aug 2017	Sep 2027	$ 2,000,000	6.00 %	15(a)
	Feb 2019	Mar 2025	26,875,000	14.00 %	15(b)
	Aug 2019	Mar 2025	25,000,000	14.00 %	15(c)
			$ 53,875,000		
Unsecured Convertible Debentures	Oct 2018	Jun 2021	$ 7,821,316	6.00 %	16(a)
	Mar 2019	Sep 2021	3,846,000	6.00 %	16(b)
			$ 11,667,316		
Customer Deposits	Jul 2019	N/A	$ 25,428,780	13.00 % (i)	14
	Sep 2019	N/A	4,264,585	N/A	14
			$ 29,693,365		
Secured Convertible Notes	Oct 2018	Mar 2021	**$ 116,622**	11.00 %	16(c)
Total			**$ 95,352,303**		

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

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

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

For the twelve months ended December 31, 2020, the Company reported a comprehensive loss of $70,493,460. For the twelve months ended December 31, 2020, the Company reported negative cash flow from operations of $17,459,506, working capital deficiency of $58,474,484 and an accumulated deficit of $231,958,430 as at December 31, 2020. Further, as at December 31, 2020, $66,128,180 of the Company's debt was due within the next 12 months. These conditions cast a material uncertainty on the Company’s ability to continue as a going concern. The Consolidated Financial Statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company acknowledges that there is material uncertainty over the Company's ability to meet its funding requirements as they fall due. The Company’s ability to continue in the normal course of operations is dependent on its ability to extend its debt maturing in Fiscal 2021. While the Company has been successful in renegotiating its debt in the past, there is no assurance that it will be successful in doing so in the future. The Company has established and put into motion various initiatives to reduce costs and expand revenues as part of the Company's strategic plan to attain profitability and positive cash flows in Fiscal 2021.

RELATED PARTY TRANSACTIONS

Related Party and Services	Three months ended Q4 | 2020	Three months ended Q4 | 2019	Year ended 2020	Year ended 2019
Entities affiliated with the former CEO and Former 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 former CEO dedicated the services of certain of its personnel to the Company based on fixed monthly rates for individuals of various levels.	—	359,667	—	892,356
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.	—	—	—	976,357
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.	—	—	—	308,616
Office Rent				
Fees incurred for the use of office space.	—	96,000	—	434,912
Consulting Fees				
Construction management services related to the Delta Facility and executive management services related to general operations.	—	186,438	36,445	329,679
A company affiliated with the Chief Growing Officer				
Management Fees				
Fees for managing the propagation and cannabis growing operations, in lieu of salary.	—	126,000	57,270	462,000
A company with mutual board members and/or key management personnel				
Purchase of equipment, capitalized to property, plant and equipment as at December 31, 2020 and 2019	—	157,131	—	157,131
	$ —	**$ 925,236**	**$ 93,715**	**$ 3,969,798**

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

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

	Three months ended Q4 | 2020	Three months ended Q4 | 2019	Year ended 2020	Year ended 2019
Salaries and benefits	$ 356,135	$ 458,401	$ 1,980,106	$ 2,105,382
Share-based payments	1,502,703	921,162	1,109,702	3,943,658
Director fees	106,250	198,606	578,746	594,567
Total compensation of key management personnel	**$ 1,965,088**	**$ 1,578,169**	**$ 3,668,554**	**$ 6,643,607**

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's Consolidated 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 Consolidated Financial Statements. The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. See **Note 2(d)** of the Consolidated Financial Statements for additional information.

NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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 Consolidated 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.

December 31, 2020	Classification	Fair Value Level	Carrying Value	Fair Value
Financial assets not measured at fair value				
Cash and cash equivalents	Amortized cost	1	$ 5,733,290	$ 5,733,290
Accounts receivable	Amortized cost	2	8,501,738	8,501,738
Loan receivable	Amortized cost	2	$ 265,103	$ 265,103
Financial assets measured at fair value				
Investments	Financial assets at FVTPL	3	$ 160,316	$ 160,316
Financial liabilities not measured at fair value				
Accounts payable and accrued liabilities	Amortized cost	2	$ 32,910,854	$ 32,910,854
Loans and borrowings	Amortized cost	2	54,024,284	54,024,284
Royalty liability	Amortized cost	3	13,604,419	13,604,419
Convertible loans	Amortized cost	2	$ 11,346,007	$ 11,346,007

Measurement of fair value:

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

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

The fair value of the embedded debt prepayment option is determined using an amortizing callable bond model where prepayment was allowed anytime at par and without penalty, and the 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:

- 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.

(a) Fair value of financial instruments (continued)

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

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

(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 $16,032 (December 31, 2019 – $nil).

OUTSTANDING SHARES, WARRANTS, OPTIONS AND OTHER SECURITIES

The Company's common shares trade on the TSX under the symbol "ZENA". The following table sets out the number of common shares, warrants, options, stock units and conversion options outstanding of the Company as at December 31, 2020 and March 25, 2021:

	December 31, 2020	March 25, 2021
Common shares issued and outstanding	799,983,791	901,283,161
Deferred stock units	1,125,000	1,125,000
Restricted stock units	22,525,140	17,488,852
Options	55,827,768	52,948,305
Warrants at $0.07 to $2.68	394,877,959	341,484,517
Conversion options at $1.17	4,102,017	4,102,017
Conversion options at $1.91	3,287,179	3,287,179
Conversion options at volume weighted 5 day trading price	2,482,879	870,209
Total fully diluted shares	**1,284,211,733**	**1,322,589,240**

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

(a) Stock Options (continued)

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

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

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

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

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

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

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

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

	RSUs and DSUs	
	Number	**Weighted Average Issue Price**
Balance, December 31, 2019	—	\$ —
Granted	51,991,945	0.08
Vested, released and issued	(15,733,724)	0.10
Forfeited	(12,608,081)	0.08
Balance, December 31, 2020	**23,650,140**	**\$ 0.08**

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

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

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

Weighted Average Issue Price	Number Outstanding	Number Vested
$0.05	11,222,220	—
$0.08	10,927,920	10,927,920
$0.15	375,000	375,000
$0.16	1,125,000	1,125,000

Cash Settled

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

During the year ended December 31, 2020, cash-settled share-based compensation recovery recognized through net loss was $331,514 (December 31, 2019 – expense of $331,514). This was the result of a lower valuation of the stock appreciation rights liability due to a decrease in the Company's share price from December 31, 2019 to December 31, 2020. As at December 31, 2020, the carrying amount of the liability relating to the SARs was $nil (December 31, 2019 – $331,514).

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

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