ZENABIS GLOBAL INC.
(FORMERLY BEVO AGRO INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three months ended March 31, 2019

Management's Discussion and Analysis of Financial Results of Operations for the Three Months Ended March 31, 2019

This Management's Discussion and Analysis ("MD&A") is dated as of May 30, 2019 and reports on the operating results and financial condition of Zenabis Global Inc. (formerly Bevo Agro Inc.) ("Zenabis" or the "Company") for the three months ended March 31, 2019. This MD&A should be read in conjunction with the Company's condensed consolidated interim financial statements for the three months ended March 31, 2019 and 2018, including the related notes thereto (the "Condensed Consolidated Interim Financial Statements"). The Condensed Consolidated Interim Financial Statements have been prepared in accordance and in compliance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

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 short-form prospectus dated April 10, 2019 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.

The Company, while primarily focused on cannabis (the "Cannabis" segment), also operates in two other segments: "Propagation" and "Other".

Cannabis

Zenabis is a Canada-based, licensed producer of cannabis, whose current focus is the conversion or expansion of four cannabis growing facilities. Upon completion of these projects, Zenabis expects to be a large-scale, vertically integrated and low-cost cannabis producer with experience in cultivation and a portfolio of products and brands.

Zenabis' vision is to become one of the largest licensed producers of medical and adult-use recreational cannabis in Canada. Zenabis' strategy is built on the foundation of offering consumers high-quality cannabis products combined with tailor-made brands that cater to medical and adult-use recreational customer bases. The Company expects that the scale of its projected production capacity will allow Zenabis to become a low-cost producer. Additionally, Zenabis will seek to drive long-term growth through innovation and technology, which it plans to achieve via additional investment in research and development and partnerships with credible organizations.

Zenabis currently produces cannabis and cannabis products in three indoor facilities (with approximately 660,000 square feet of indoor space) and expects to begin producing cannabis at its greenhouse facility (with approximately 2,100,000 square feet of space under glass) in late 2019. Zenabis has a current run-rate production capacity (Zenabis' production capacity as of the date hereof projected over the next 12 months) of 13,400 kilograms ("kg") of dried cannabis equivalent per year within approximately 263,500 square feet of licensed and operational space across three of its facilities, namely Zenabis Atholville, Zenabis Stellarton and Zenabis Delta. Zenabis is in the process of constructing and licensing additional flower rooms and support space to expand its Atholville facility's cultivation capacity. This project has been divided into two blocks: "Phase 2B" which consists of 76,700 square feet and "Phase 2C", consisting of 118,000 square feet. Zenabis has submitted a license amendment for Phase 2B and will submit an amendment for Phase 2C in June 2019 at Zenabis Atholville for 24 additional flower rooms, which is expected to increase Zenabis' run-rate production capacity to 35,200 kg. In the third quarter of 2019, through the initial conversion of 450,000 square feet at Zenabis Langley and completion of Zenabis Atholville, total run-rate production capacity over the 12 months following such completion and conversion is expected to increase to 131,300 kg of dried cannabis equivalent per year across approximately 918,000 square feet of operational space. If all four cannabis growing facilities are fully built out and converted, Zenabis expects it would be capable of producing 479,300 kg of dried cannabis equivalent per year, which would make it one of the largest cannabis producers in Canada.

While cannabis continues to be subject to a number of legal restrictions and is heavily regulated in jurisdictions where it is legal, an increasing number of countries are legalizing cannabis, both for medical and adult-use recreational purposes. As a result, Zenabis is exploring expansion into international markets, primarily in Europe and Latin America, through partnerships and new licenses. However, Zenabis will only pursue international cannabis opportunities in accordance and compliance with all applicable laws.

Propagation

Zenabis also operates a Propagation business in Langley, British Columbia, with the main activity being the propagation of vegetable plants (such as tomatoes, peppers and cucumbers) and other plants (such as bedding plants, flowers and poinsettias). Since incorporation in 1989, planned expansions have grown Bevo Farms Ltd.'s ("Bevo Farms") propagation greenhouses to become one of the largest suppliers of propagated plants in North America, providing greenhouses, field farms, nurseries and wholesalers across the continent with healthy, vigorous and pest-and-disease-free plants. With more than 100 years of cumulative growing experience held by three key management personnel, the merger of Bevo Farms brings the Company a wealth of experience to drive continual improvement in Zenabis' cannabis growing operations.

Other

Zenabis also intends to operate in other cannabis-related segments such as food and beverages. Its first such business, carried out through its subsidiary Hillsboro Corporation Inc. (doing business as "True Büch"), operates a cultured tea beverage business in Calgary, Alberta. Zenabis intends to work with True Büch to create CBD infused beverages.

Included in its Other segment is Zenabis' head office, located in Vancouver, British Columbia, which provides financial, administrative and other support to the Company's Cannabis and Propagation businesses.

OVERALL PERFORMANCE

Financial results for the three months ended March 31, 2019 are the first financial statements of the newly formed Zenabis entity, subsequent to the merger of Sun Pharm Investment Ltd.'s ("Sum Pharm") Cannabis operations with Bevo Farms' greenhouse Propagation operations and Zenabis' acquisition of a majority ownership in True Büch.

The Company's focus during the first quarter was raising funds for, and carrying out, the conversion or expansion of its cannabis growing facilities. During the quarter, the Company completed debt and equity financings totaling $93,062,485 and spent $22,438,562 on its facilities program: completing phase one construction at Zenabis Stellarton (for which it has received a cultivation license and placed the new space into production); continuing the expansion of the production space at Zenabis Atholville, the completion of which remains on time and on budget; and commenced conversion of Zenabis Langley Site A.

In terms of cannabis cultivation, the continued information and knowledge transfer achieved via the successful combination of Sun Pharm's Cannabis operations and Bevo Farms' experience with its commercial-scale greenhouse Propagation business has led to excellent cultivation results during the quarter, primarily due to the strong leadership of Zenabis' Chief Growing Officer, Leo Benne, and the diligent efforts of the cultivation team. The Cannabis operations' increase in harvest yields were highlighted by Zenabis outperforming the design capacity of its licensed production facilities by an average of 11% during the three months ended March 31, 2019. The grow teams continue to further improve and refine their processes through the use of an alternative growing approach with the aim of maximizing yield per day. The first harvest using this approach was completed in late March 2019 and yielded 225 kg of cannabis, as compared to the room's design capacity harvest weight of 153 kg, reflecting an outperformance of 47%.

During the three months ended March 31, 2019, Zenabis' total net revenue was $11,557,217. The Company saw cannabis revenue increase during the three months ended March 31, 2019 to $4,098,973 compared to $3,841,445 for the three months ended December 31, 2018. This increase is the result of ongoing improvements to harvest yields, increases in production capacity and increased shipments to customers. Gross margin before fair value adjustment increased to $3,876,874 during the three months ended March 31, 2019 from $1,710,273 during the three months ended December 31, 2018.

Zenabis also benefited from the positive results of its Propagation business, highlighted by the realization of net revenues of $7,206,389 and a gross margin before fair value adjustment of $1,588,791. Results from this business segment continue to be positive, with no interruption to existing customers and operations during the conversion of its greenhouses from vegetable and flower propagation to cannabis cultivation.

FACILITIES

Zenabis owns four facilities intended for the cultivation of cannabis: Zenabis Langley, Zenabis Atholville, Zenabis Stellarton and Zenabis Delta. Zenabis also has two additional sites, Zenabis Aldergrove and Zenabis Pitt Meadows, that are currently used for Zenabis' vegetable propagation and floral business but could be available for cannabis cultivation in the future. The table below outlines, for each of the four main facilities, the current (as at the date of the MD&A) and forecast design capacity (dried cannabis equivalent production per year) and the expenditures required to build out the facilities to achieve these design capacities:

Operational and Under Construction		Facility Size (square feet)	Current Capacity (kg)(i)	Total Design Capacity (kg)(ii)	Estimated Expenditures to Complete(iii)	Target Construction Completion Date
Zenabis Langley	**Site A**	450,000	–	96,100	$ 18,300,000	Aug 2019
Zenabis Atholville		380,000	12,500	34,300	33,600,000	June 2019
Zenabis Stellarton		255,000	800	18,500	–	Completed
Zenabis Delta		25,000	100	500	1,600,000	Sept 2019
		1,110,000	**13,400**	**149,400**	**$ 53,500,000**	
Under Consideration						
Zenabis Langley	**Site B**	**1,650,000**	**–**	**329,900**	**$ 120,000,000**	TBD
Total		**2,760,000**	**13,400**	**479,300**	**$ 173,500,000**	

(i) Licensed capacity is currently 12,500 kg at Zenabis Atholville. As at the date of this MD&A, Zenabis had submitted license amendments for an additional 9,800 kg of production capacity at Zenabis Atholville.

(ii) The forward-looking estimates of future maximum production capacity at Zenabis' four facilities are based on the material assumption that the ratio of dried cannabis equivalent cultivated per square foot of bench space at each facility will be consistent with the output, on a per crop, per square foot of bench space basis, that the Company has historically achieved at Zenabis Atholville through Sept 2018.

(iii) Estimated expenditures to complete are as at April 30, 2019.

The 380,000 square foot Zenabis Atholville indoor facility is currently licensed to produce cannabis from a 174,900 square foot production area, with a design capacity of 12,500 kg. Zenabis has submitted a license amendment for Phase 2B and will submit an amendment for Phase 2C in June 2019 for 24 additional flower rooms, which are expected to increase Zenabis' run-rate production capacity to 35,200 kg in the third quarter of 2019.

Phase 2B: Zenabis submitted license amendments to Health Canada in April 2019 to commence production which, when granted, will expand the facility's licensed design capacity by 9,800 kg.

Phase 2C: Room construction and lighting are complete for this phase, while HVAC and electrical are nearly complete and the installation of benches and irrigation equipment is ongoing. Zenabis intends to submit its license amendment to Health Canada to commence production in Phase 2C in June of 2019. Licensing of this phase will expand the facility's licensed design capacity by 12,000 kg.

Zenabis is currently converting 10 acres of Zenabis Langley ("Site A") to cannabis production. Construction at Zenabis Langley is progressing on time and on budget. As of May 28, 2019, Zenabis has completed the construction of all interior and exterior insulated wall panels, offices and staff support areas, and the majority of operational workspaces. The security and HVAC work are ongoing and are expected to be completed in June 2019.

Site A: This space is divided into six flower zones, which are similar to those of an indoor facility but on a much larger scale. Construction of the flower rooms is expected to be completed between June and August of 2019, with the first phase of construction completed by the end of June 2019, and construction substantially complete for all rooms by the end of July 2019. Site A has a design capacity of 96,100 kg.

Acquisitions

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

On January 8, 2019, Bevo acquired all of the outstanding shares of Sun Pharm by way of a three-cornered amalgamation to form Zenabis Global Inc. (the "Transaction"). In accordance with IFRS 3 – Business Combinations, the Transaction is a reverse takeover of an operating company, Bevo, and thus management has determined that the definition of a business under the standard has been met (the "RTO"). Bevo operates 53 acres of propagation greenhouse facilities on 98 acres of land in Langley, British Columbia and 20 acres of land in Pitt Meadows, British Columbia.

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

On January 22, 2019, Zenabis completed the acquisition of Topgro and its wholly-owned subsidiary, Topgro Greenhouses Ltd., for total consideration of $12,067,928 comprised of cash of $9,401,096, a loan settlement of $2,691,582 and working capital adjustments of $(24,750).

The Topgro Acquisition included 10.4 acres of greenhouse space on 50 acres of land in Aldergrove, British Columbia, which Zenabis intends to use for the propagation of vegetable plants and other plants. This facility ensures continuity for existing Propagation customers while the initial 10 acres of the Zenabis Langley facility is converted for cannabis cultivation.

(c) Acquisition of True Büch

On January 22, 2019, Zenabis completed the acquisition of 51% of True Büch through the issuance of 455,947 common shares of the Company. True Büch is a beverage company with expertise in the creation of cultured tea beverages, widely known as kombucha. True Büch kombucha is raw, unpasteurized, gluten free and non-GMO and comes in over 11 distinct flavours.

When permitted under applicable laws and regulations, Zenabis and True Büch intend to draw upon each other's expertise to infuse cannabis into True Büch beverages, creating a cultured CBD tea beverage.

In addition to the equity consideration, True Büch shareholders are entitled to cash earn-out payments based on the future financial results of True Büch exceeding the forecast on which the closing payment was based. Zenabis also has the option, on or after the second anniversary of the date of the acquisition, to purchase the remaining 49% of the equity in True Büch, at a predefined multiple of earnings for the preceding 12 months payable in cash.

Financing Activities

(a) 2018 secured convertible note financings

In October 2018, Sun Pharm completed a number of secured convertible note financings, providing total proceeds of $31,650,000, which are convertible into Zenabis common shares at prices ranging from $1.69 per share to $4.04 per share. After conversions during Q1 2019, the aggregate remaining principal balance of $29,007,012 matures in October 2019. As discussed in the "Liquidity and Capital Resources" section below, Zenabis is currently pursuing a wide range of alternatives and intends to either refinance or repay the amounts maturing on October 17, 2019.

(b) Credit facilities

On January 20, 2019, Bevo Farms entered into a credit agreement for an aggregate of $51,000,000 in credit facilities (the "Facilities") with a major Canadian chartered bank. The Facilities are comprised of a $46,700,000 term loan, a $2,000,000 revolving line of credit, a $2,000,000 hedging facility and a $300,000 credit card. Zenabis drew approximately $33,700,000 on the Facilities for the purpose of refinancing existing debt and to fund the Topgro Acquisition. The Facilities mature on January 21, 2022.

(c) Amendment of secured convertible note

In February 2019, the Company agreed with the lender to amend the terms of the undrawn balance of the $25,000,000 secured convertible note ("Secured Note") entered into in October 2018. The agreed amendment relating to the undrawn amount of $20,850,000 are such that, if drawn will not be convertible, in exchange for the issuance to the lender of 2,593,283 warrants, each entitling the lender to acquire one common share for a period of one year from February 8, 2019 at a price of $4.02 per common share. The Company drew the remainder of the Secured Note on February 19, 2019, which matures in October 2019.

(d) Unsecured convertible debenture financing

On March 27, 2019, the Company issued 15,000 unsecured convertible debenture units at a price of $1,000 per unit for gross proceeds of $15,000,000. The debentures have a conversion price of $3.62 per common share. Purchasers of the debentures also received, for no additional consideration, 55 warrants of the Company for every unit purchased. Each warrant is exercisable to purchase one common share at an exercise price of $3.62 per share, for a period of 30 months from the date of issue.

The Company subsequently entered into an investment agreement with counterparties who agreed to purchase an additional 60,000 unsecured convertible debenture units (the "Additional Offering") at a price of $1,000 per unit for gross proceeds of $60,000,000. The Additional Offering will be issuable in tranches at the option of the Company. Each tranche of additional debentures shall have a conversion price equal to a 15% premium to the volume-weighted average price of the common shares during the 5 trading-day period immediately preceding their date of issue. Purchasers of the additional debentures receive, for no additional consideration, that number of warrants that is equal to 20% of the number of Common Shares issuable upon conversion of the additional debentures at an exercise price that is equal to a 15% premium to the applicable conversion price.

All of the above unsecured convertible debentures have a maturity date of 30 months from the date of issue and will bear interest (payable in cash only) from their date of issue at 6.0% per annum. Convertible debentures will be convertible, at the option of the holder, into common shares at any time prior to the maturity date.

To the extent the Company issues any additional tranches of unsecured convertible debentures, the Company expects that the net proceeds would be utilized to fund facility conversion costs and for working capital.

(e) Capital raise

On April 9, 2019, Zenabis filed a short form base shelf prospectus which allows the Company to raise up to $100,000,000 during a 25-month period through the issuance of common shares, preferred shares, debt securities, warrants to purchase shares or debt securities, or any combination thereof, of the Company.

On April 17, 2019, Zenabis completed a fully-marketed, "best efforts" offering (the "Offering") of 12,777,777 units of the Company (each, a "Unit"), which includes the exercise of the agents' over-allotment option in full, at a price of $2.25 per Unit, for aggregate gross proceeds to the Company of approximately $28,750,000, before deducting commissions and expenses of the Offering. Each Unit consists of one common share of the Company (each, a "Common Share") and one common share purchase warrant to purchase a Common Share at a price of $2.75 for a period of 36 months from the date of closing.

After the issuance of the above noted Units, the Company retains the ability to raise additional financing of approximately $71,250,000 through the issuance of common shares, preferred shares, debt securities, warrants to purchase shares or debt securities, or any combination thereof, of the Company if it is deemed to be required.

The table below reflects Zenabis' debt financing outstanding as at March 31, 2019:

	Draw Date	Maturity Date	Principal Amount as of March 31, 2019	Interest Rate	Financial Statements Note Reference
Secured Loans	Sept 27, 2017	Sept 27, 2027	$ 2,000,000	6.00%	10(c)
	Jan 21, 2019	Jan 21, 2022	40,221,353	Prime + 0.75%	10(a)
	Jan 22, 2019(i)	Sept 30, 2022	80,641	Prime + 2.50%	10(b)
	Feb 19, 2019	Oct 17, 2019	20,850,000	Prime + 9.00%	10(d)
			$ 63,151,994		
Revolving Line of Credit	Jan 21, 2019	Jan 21, 2022	$ 984,927	Prime + 0.75%	10(a)
	Jan 22, 2019(i)	On demand	19,110	Prime + 3.75%	10(b)
			$ 1,004,037		
Unsecured Convertible Debentures	Oct 17, 2018	Oct 17, 2020	$ 11,899,925	6.00%	11(a)
	March 27, 2019	Sept 27, 2021	15,000,000	6.00%	11(c)
			$ 26,899,925		
Secured Convertible Notes	Oct 17, 2018	Oct 17, 2019	$ 24,857,012	6.00%	11(d)
	Oct 17, 2018	Oct 17, 2019	4,150,000	Prime + 9.00%	11(e)
			$ 29,007,012		
Total			**$ 120,062,968**		

(i) Loans assumed on the acquisition of True Büch.

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

SELECTED FINANCIAL INFORMATION

The following selected financial data with respect to the Company's financial condition and results of operations have been derived from the Condensed Consolidated Interim Financial Statements of the Company for the three months ended March 31, 2019 and 2018, and December 31, 2018, prepared in accordance with International Financial Reporting Standards ("IFRS"). The selected financial data should be read in conjunction with the Condensed Consolidated Interim Financial Statements and the notes thereto.

Financial Results(i)	Q1 | 2019	Q4 | 2018(iii)	% Change	Q1 | 2018(iii)	% Change
Gross revenue	$ 12,283,493	$ 3,841,445	220	$ –	N/A
Net revenue	11,557,217	3,403,089	240	–	N/A
Gross margin before fair value adjustment	3,876,874	1,710,273	127	–	N/A
Operating expenses	18,763,281	12,664,651	48	2,552,311	635
Operating loss	10,294,873	8,543,407	21	2,552,311	303
Other income (expenses)	4,447,081	(16,254,109)	N/A	(43,576)	N/A
Net loss	4,005,815	24,884,485	(84)	2,595,887	54
Adjusted EBITDA(ii)	(6,425,716)	(5,947,942)	(8)	(2,067,396)	(211)
Loss per share, basic and diluted	$ (0.02)	$ (0.16)	88	$ (0.02)	–
Balance Sheet					
Total assets	$ 309,204,757	$ 111,469,060	177	$ 66,610,776	364
Total non-current liabilities	78,981,478	2,119,158	3,627	12,830,628	516
Property, plant and equipment	$ 165,116,799	$ 67,855,776	143	$ 44,247,850	273

(i) Due to the accounting presentation resulting from the RTO, no comparable information is presented for the Propagation business even though Bevo Farms has been operating since 1989. For prior period information please refer to the financial statements previously filed by Bevo Agro Inc. on SEDAR.

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

(iii) Period includes Cannabis operations only.

The Company's financial results for the first quarter of 2019 showed continued growth in its Cannabis operations and incorporates the results of the Bevo Farms, Topgro and True Büch acquisitions.

The ongoing expansion at Zenabis Atholville continued through the first quarter of 2019, with construction adhering to the timeline and budget. During the three months ended March 31, 2019, the Company capitalized $19,455,299 in expansion costs.

During the three months ended March 31, 2019, the Company also began the 10-acre conversion of Zenabis Langley Site A. Construction of the Zenabis Langley Site A project continues on-time and on budget. During the three-months ended March 31, 2019, the Company capitalized $8,952,620 in ongoing conversion costs.

During the three months ended March 31, 2019, the Company completed construction of the initial Zenabis Stellarton construction project, capitalizing $1,730,410 in costs. The Zenabis Stellarton facility received a cultivation license from Health Canada on March 4, 2019.

Additionally, the Company's property, plant and equipment increased by $64,683,135 due to the Bevo Farms, Topgro and True Büch acquisitions.

During the three months ended March 31, 2019, the Company recorded net revenues of $11,557,217 which was comprised primarily of $4,098,973 and $7,529,160 in Cannabis and Propagation segments respectively, less inter-segment revenue of $322,771. Comparatively, in the three months ended December 31, 2018, the Company recorded net Cannabis revenue of $3,403,089, and in the three months ended March 31, 2018, the Company had not yet begun Cannabis sales.

Gross margin before fair value during the three months ended March 31, 2019 includes $2,089,813 and $1,588,791 in Cannabis and Propagation gross margin, respectively, before fair value adjustments (51% and 21% of net revenue by segment, respectively). Comparatively, in the three months ended December 31, 2018, the Company recorded a Cannabis gross margin before fair value adjustments of $1,710,273 (50% of net revenue).

In addition to the above noted variances, net loss changed due to following quarter-over-quarter variances:

Positive income impacts:

- Gain on the revaluation of derivative liability was $7,891,451 in the current quarter compared to a loss of $13,131,068 for Q4 2018, which was the result of fluctuations in the Company's share price.
- Share-based compensation was $2,078,636 in Q1 2019 compared to $4,600,719 in Q4 2018, due to various options that were vested on an accelerated basis in the previous quarter, which was not the case in the current quarter.
- Finance and investment income was $1,116,320 in Q1 2019 compared to a loss of $1,924,319 in Q4 2018, the change was due to an increase in the market value of investments held by the Company.

Negative income impacts:

- The current quarter included $4,919,978 in acquisition costs related to the RTO and other business acquisition transactions, compared to $74,900 in Q4 2018.
- Interest expense in the current quarter was $4,553,288 compared to $1,193,367 in Q4 2018, which was due to the additional debt the Company issued or assumed in late Q4 2018 and in Q1 2019.
- Depreciation and amortization was $1,462,077 in Q1 2019 compared to $330,817 in Q4 2018, which was primarily the result of the various facilities being ready and available for use.

Adjusted EBITDA has continued to show a loss due to the operational costs incurred by the Company to build-out its operational capacity to achieve the planned production capacity of its various facilities. Adjusted EBITDA has not improved in comparison to the three months ending December 31, 2018 due to the increase in operating costs which are primarily due to the development and implementation of the resources and capacity needed by the Cannabis segment to support the facilities under construction that will be producing in 2019. The additional expenses are partially offset by the increase in sales and margins realized through the Company's Cannabis and Propagation segments.

Other income increased significantly compared to the previous quarters due to the revaluation of the derivative liabilities associated with the convertible loans outstanding.

The Company reports in three segments: **(C)**annabis**, (P)**ropagation and **(O)**ther.

							%	
Gross Revenue								
C	Q1 2019: $	4,825,249	Q1 2018: $	–	**Change: $**	**4,825,249**	**N/A**	**(ii)**
P	Q1 2019: $	7,206,389	Q1 2018: $	–	**Change: $**	**7,206,389**	**N/A**	**(i)**
O	Q1 2019: $	251,855	Q1 2018: $	–	**Change: $**	**251,855**	**N/A**	**(i)**
Net Revenue								
C	Q1 2019: $	4,098,973	Q1 2018: $	–	**Change: $**	**4,098,973**	**N/A**	**(ii)**
P	Q1 2019: $	7,206,389	Q1 2018: $	–	**Change: $**	**7,206,389**	**N/A**	**(i)**
O	Q1 2019: $	251,855	Q1 2018: $	–	**Change: $**	**251,855**	**N/A**	**(i)**
Cost of Sales								
C	Q1 2019: $	2,009,160	Q1 2018: $	–	**Change: $**	**2,009,160**	**N/A**	**(ii)**
P	Q1 2019: $	5,617,598	Q1 2018: $	–	**Change: $**	**5,617,598**	**N/A**	**(i)**
O	Q1 2019: $	53,585	Q1 2018: $	–	**Change: $**	**53,585**	**N/A**	**(i)**
Realized Fair Value Amounts Included in Inventory Sold								
C	Q1 2019: $	2,590,943	Q1 2018: $	–	**Change: $**	**2,590,943**	**N/A**	**(ii)**
P	Q1 2019: $	811,376	Q1 2018: $	–	**Change: $**	**811,376**	**N/A**	**(i)**
O	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	**(i)**
Unrealized Gain on Changes in Fair Value of Biological Assets								
C	Q1 2019: $	5,237,741	Q1 2018: $	–	**Change: $**	**5,237,741**	**N/A**	**(ii)**
P	Q1 2019: $	2,756,112	Q1 2018: $	–	**Change: $**	**2,756,112**	**N/A**	**(i)**
O	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	**(i)**
Gross Margin								
C	Q1 2019: $	4,736,611	Q1 2018: $	–	**Change: $**	**4,736,611**	**N/A**	**(ii)**
P	Q1 2019: $	3,533,527	Q1 2018: $	–	**Change: $**	**3,533,527**	**N/A**	**(i)**
O	Q1 2019: $	198,270	Q1 2018: $	–	**Change: $**	**198,270**	**N/A**	**(i)**
Salaries and Benefits								
C	Q1 2019: $	3,598,670	Q1 2018: $	711,517	**Change: $**	**2,887,153**	**406**	
P	Q1 2019: $	237,836	Q1 2018: $	–	**Change: $**	**237,836**	**N/A**	**(i)**
O	Q1 2019: $	32,913	Q1 2018: $	–	**Change: $**	**32,913**	**N/A**	**(i)**
The increase in the expenditure in the Cannabis segment is primarily due to an increase in employee headcount to 371 personnel as at March 31, 2019 compared to 57 as at March 31, 2018.								
Professional Fees								
C	Q1 2019: $	1,493,118	Q1 2018: $	184,150	**Change: $**	**1,308,968**	**711**	
P	Q1 2019: $	425,987	Q1 2018: $	–	**Change: $**	**425,987**	**N/A**	**(i)**
O	Q1 2019: $	249,015	Q1 2018: $	–	**Change: $**	**249,015**	**N/A**	**(i)**
The increase in the Cannabis segment is primarily due to contracting an external staffing company and other consultants required to facilitate the Company's rapid expansion during the three months ended March 31, 2019. The Company incurred costs related to startup and transition services upon completion of the RTO, and such services will be phased out in subsequent quarters.								
Acquisition Costs								
C	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	
P	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	**(i)**
O	Q1 2019: $	4,919,978	Q1 2018: $	–	**Change: $**	**4,919,978**	**N/A**	**(i)**
The increase in the Cannabis segment is primarily due to financial advisory and legal fees incurred pursuant to the RTO and acquisitions in Q1 2019.								

(i) Business combinations occurred during Q1 of fiscal 2019, and thus prior year comparatives do not exist for these specific segments.
(ii) Changes are primarily due to the legalization of adult-use recreational cannabis commencing in late-2018, and thus the Company increasing production and sales at this time.

General and Administrative								%	
C	Q1 2019: $	1,962,398	Q1 2018: $	788,821	**Change: $**	**1,173,577**	**149**	
P	Q1 2019: $	(4,107)	Q1 2018: $	–	**Change: $**	**(4,107)**	**N/A**	**(i)**
O	Q1 2019: $	641,710	Q1 2018: $	–	**Change: $**	**641,710**	**N/A**	**(i)**

The increase in the Cannabis segment is primarily due to additional employee headcount, leading to higher travel expenses and general office expenditures. Due to current executive travel required between facilities in Western and Eastern Canada for facility expansions, the Company has incurred additional travel expenses. The increase is also due to cannabis license fees incurred in 2019 and increased utility costs.

Depreciation and Amortization								
C	Q1 2019: $	562,523	Q1 2018: $	238,386	**Change: $**	**324,137**	**135**	
P	Q1 2019: $	789,141	Q1 2018: $	–	**Change: $**	**789,141**	**N/A**	**(i)**
O	Q1 2019: $	110,413	Q1 2018: $	–	**Change: $**	**110,413**	**N/A**	**(i)**

The increase is primarily due to the acquisition of $64,683,135 in capital assets upon business combinations, along with a significant increase in buildings and leasehold improvement expenses capitalized at the Atholville facility.

Share-based Compensation								
C	Q1 2019: $	–	Q1 2018: $	246,529	**Change: $**	**(246,529)**	**(100)**	
P	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	**(i)**
O	Q1 2019: $	2,078,636	Q1 2018: $	–	**Change: $**	**2,078,636**	**N/A**	**(i)**

The decrease in the Cannabis segment is due to the Company electing to record share-based compensation in the Other segment. The increase in consolidated share-based compensation of $1,832,107 is primarily due to the ongoing vesting of 15,993,407 options outstanding as at March 31, 2019, as compared to 3,252,814 options outstanding as at March 31, 2018.

Gain on Revaluation of Derivative Liability								
C	Q1 2019: $	7,891,451	Q1 2018: $	110,286	**Change: $**	**7,781,165**	**7,055**	
P	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	**(i)**
O	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	**–**	**–**	**(i)**

The increase in the Cannabis segment is primarily due to a decrease in Zenabis' share price, leading to a lower derivative liability fair value.

Interest Expense								
C	Q1 2019: $	2,529,600	Q1 2018: $	251,460	**Change: $**	**2,278,140**	**906**	
P	Q1 2019: $	1,940,296	Q1 2018: $	–	**Change: $**	**1,964,763**	**N/A**	**(i)**
O	Q1 2019: $	83,392	Q1 2018: $	–	**Change: $**	**83,392**	**N/A**	**(i)**

The increase in the Cannabis segment is primarily due to the amortization of accrued interest on various convertible loans entered in late-2018, which did not exist in the prior year.

Finance and Investment Income								
C	Q1 2019: $	1,115,916	Q1 2018: $	97,598	**Change: $**	**1,018,318**	**1,043**	
P	Q1 2019: $	404	Q1 2018: $	–	**Change: $**	**404**	**N/A**	**(i)**
O	Q1 2019: $	–	Q1 2018: $	–	**Change: $**	–	–	**(i)**

The increase in the Cannabis segment is primarily due to the increase in fair value of the Company's investments.

Deferred Tax Recovery (Expense)								
C	Q1 2019: $	(27,735)	Q1 2018: $	–	**Change: $**	**(27,735)**	**N/A**	
P	Q1 2019: $	821,355	Q1 2018: $	–	**Change: $**	**821,355**	**N/A**	**(i)**
O	Q1 2019: $	1,109,834	Q1 2018: $	–	**Change: $**	**1,109,834**	**N/A**	**(i)**

The increase is primarily due to the acquisition of Bevo.

Net Income (Loss)								
C	Q1 2019: $	1,861,070	Q1 2018: $	(2,595,887)	**Change: $**	**4,456,957**	**N/A**	
P	Q1 2019: $	952,801	Q1 2018: $	–	**Change: $**	**952,801**	**N/A**	**(i)**
O	Q1 2019: $	(6,819,686)	Q1 2018: $	–	**Change: $**	**(6,819,686)**	**N/A**	**(i)**

The change in net income (loss) in the Cannabis segment is the result of the various changes discussed above.

(i) Business combinations occurred during Q1 of fiscal 2019, and thus prior year comparatives do not exist for these specific segments.

SUMMARY OF QUARTERLY RESULTS

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

Quarterly Results	Q1 | 2019	Q4 | 2018(ii)	Q3 | 2018(ii)	Q2 | 2018(ii)
Gross revenue	$ 12,283,493	$ 3,841,445	$ 3,663,817	$ 962
Excise taxes	(726,276)	(438,356)	(82,112)	–
Net revenue	11,557,217	3,403,089	3,581,705	962
Net loss	4,005,815	24,884,485	2,141,616	2,899,772
Adjusted EBITDA(i)	(6,425,716)	(5,947,942)	(3,087,672)	(2,771,011)
Loss per share, basic and diluted	$ (0.02)	$ (0.16)	$ (0.01)	$ (0.02)

Quarterly Results	Q1 | 2018(ii)	Q4 | 2017(ii)	Q3 | 2017(ii)	Q2 | 2017(ii)
Gross revenue	$ –	$ –	$ –	$ –
Excise taxes	–	–	–	–
Net revenue	–	–	–	–
Net loss	2,595,887	1,606,354	1,443,188	1,150,595
Adjusted EBITDA(i)	(2,067,396)	(1,665,986)	(1,402,789)	(852,693)
Loss per share, basic and diluted	$ (0.02)	$ (0.01)	$ (0.01)	$ (0.01)

(i) Refer to the "Non-GAAP Financial Measures" section for reconciliation to the IFRS equivalent.
(ii) Period includes Cannabis operations only.

Included in the Company's results are the operations of its two main operating segments, Cannabis and Propagation. To date, the Company's Cannabis operations have shown consistent growth in revenue since commencing medical cannabis sales in Q2 2018, which have continued to increase in each subsequent quarter as a result of the legalization of adult-use recreational cannabis in Canada. To date, the Company has not noted any seasonality in the Cannabis segment; however, there is currently not enough market data to draw any definitive conclusions on the effects of seasonality on this industry.

The Company's Propagation operating results are seasonal, driven by the varying levels of activity in the growing cycles of the vegetable greenhouse crops, the bedding plant and flower seasons as well as the timing of customer orders, the varying cycles of the greenhouse vegetable industry and the seasonality of the customer's planting season. Based on previous results from Bevo Farms, sales in the quarter ending June 30 are typically stronger than the other three quarters as this is the period where Bevo Farms expands its production of bedding plants to meet market demand. Sales in the remaining quarters can vary by approximately 20%, depending on the timing of schedules and customer requirements.

NON-GAAP FINANCIAL MEASURES

Adjusted EBITDA

Adjusted EBITDA is not a recognized, defined, or standardized measure under IFRS and may not be compared to similar measures presented by other issuers. Adjusted EBITDA is a metric used by management, calculated as net income (loss) before interest expense; finance and investment income; gain (loss) on revaluation of derivative liability; loss on sale of assets; current income tax expense; deferred income tax recovery; depreciation and amortization; share-based compensation; acquisition costs; and the fair value adjustment to biological assets and inventory. 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.

	Q1 | 2019	Q4 | 2018	Q3 | 2018	Q2 | 2018
Net loss	$ (4,005,815)	$ (24,884,485)	$ (2,141,616)	$ (2,899,772)
Realized fair value amounts included in inventory sold	3,402,319	1,734,445	748,576	–
Unrealized gain on changes in fair value of biological assets	(7,993,853)	(4,145,416)	(2,330,053)	(850,246)
Depreciation and amortization	1,462,077	330,817	299,808	258,030
Share-based compensation	2,078,636	4,600,719	546,411	493,652
Acquisition costs	4,919,978	74,900	–	–
Gain/loss on revaluation of embedded derivative liability	(7,891,451)	13,131,068	–	(78,009)
Interest expense	4,553,288	1,193,367	69,617	228,531
(Gain) loss on sale of assets	7,402	5,355	(2,850)	–
Finance and investment (income) expense	(1,116,320)	1,924,319	(277,565)	76,803
Current income tax expense	61,477	86,969	–	–
Deferred income tax recovery	(1,903,454)	–	–	–
Adjusted EBITDA	**$ (6,425,716)**	**$ (5,947,942)**	**$ (3,087,672)**	**$ (2,771,011)**

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Q1 2019: $ (16,871,911) Q4 2018: $ (39,077,415) **Change: $ 22,205,504**

The positive change in working capital is primarily due to:

- the positive change in cash-on-hand discussed below;
- an increase in inventory and biological assets from $8,654,686 to $26,272,812;
- an increase in accounts receivable from $4,994,271 to $12,524,444;
- an increase in prepaid assets and other from $2,836,737 to $7,587,437;
- a decrease in derivative liability from $17,769,562 to $1,837,576; and
- a decrease in the current portion of convertible loans from $43,485,222 to $27,317,364

These positive aspects are offset by:

- an increase in accounts payable and accrued liabilities from $13,200,699 to $38,925,033. A significant portion of this change relates to construction costs, as well as payables assumed on acquisitions that remain in accounts payable and accrued liabilities as at March 31, 2019; and
- an increase in current portion of loans and borrowings from $51,788 to $23,782.760.

Predominately, these changes are the result of the ongoing increase in the volume of business in the Cannabis segment, in addition to the inclusion of results from Bevo Farms arising from the RTO.

Cash-on-hand

Q1 2019: $ 25,567,059 Q4 2018: $ 16,966,803 **Change: $ 8,600,256**

The positive change in cash on hand is due to the financing activities undertaken by the Company to fund ongoing facility construction and expansion, as well as operations.

Cash Flows – Operating

Q1 2019: $ (17,643,566) Q1 2018: $ (3,827,529) **Change: $ (13,816,037)**

The decrease in cashflows from operations is primarily due to the costs incurred to develop and implement the resources and capacity needed by the Cannabis segment to support the facilities under construction that will be producing in 2019. Additionally, the Company incurred various costs related to the acquisitions during Q1 2019.

Cash Flows – Investing

Q1 2019: $ (30,308,083) Q1 2018: $ (2,431,682) **Change: $ (27,876,401)**

The decrease in cashflows from investing activities is primarily due to the purchase of property, plant and equipment, as well as the acquisitions concluded in Q1 2019.

Cash Flows – Financing

Q1 2019: $ 56,551,905 Q1 2018: $ 8,515,105 **Change: $ 48,036,800**

The increase in cashflows from financing activities is primarily due to the issuance of various debt and equity instruments during Q1 2019 which resulted in significant cash inflows for the Company.

As of March 31, 2019, the Company has primarily financed its operations and met its capital requirements through equity and debt financings, although it has generated revenues from operations.

The Company's objective when managing its liquidity and capital resources is to generate sufficient cash to fund the Company's operating and working capital requirements. The Company reported a working capital deficit of $16,871,911 at March 31, 2019 as compared to a working capital deficit of $39,077,415 at December 31, 2018, representing an increase in working capital of $22,205,504.

Cash on hand increased from $16,966,803 as at December 31, 2018 to $25,567,059 at March 31, 2019. The increase in cash was mainly attributable to cash received from financing of $56,551,905, offset by cash used in operating activities of $17,643,566 and investing activities of $30,308,083.

Financing Activities

Zenabis has raised, or has secured, significant capital to fund its operations, development and expansion plans for the next twelve months, including the right to issue $60,000,000 via the Additional Offering. Zenabis has secured sufficient financing in order to achieve its announced third quarter of 2019 design capacity at its Zenabis Atholville, Zenabis Stellarton, Zenabis Delta and Zenabis Langley facilities (the "Current Capital Plan"), upon which Zenabis expects to be both cashflow and earnings positive on an ongoing quarterly basis taking into account the following:

- **(i)** Zenabis' existing disclosed design capacity;
- **(ii)** Zenabis' disclosed timelines for construction completion and timelines for Health Canada licensing consistent with past timelines;
- **(iii)** Costs of cultivation consistent with Zenabis' prior disclosure on a per gram basis for Zenabis Atholville, and consistent with Zenabis' current projected non-cultivation operating expenditures; and
- **(iv)** Indications of purchase intent from existing customers for Zenabis' recreational cannabis and medical cannabis products.

Zenabis is currently pursuing a wide range of alternatives with regards to its capital structure in order to:

- **(i)** Achieve an optimal approach to completing the Current Capital Plan that minimizes both dilution to equity holders and limits future financing risk; and
- **(ii)** Address all upcoming debt financing maturities, currently $49,857,012 due as of October 17, 2019.

Zenabis expects to address upcoming debt financing maturities through the replacement of the existing debt on Zenabis Atholville, Zenabis Langley, Zenabis Stellarton and Zenabis Delta with financing from a syndicate led by a Canadian chartered bank. Such financing is expected to be available upon or prior to achieving substantial completion of the Zenabis Atholville facility and demonstration of successful harvests in line with, or greater than, design capacity at a portion of the facility, which has now occurred. Zenabis expects to achieve substantial completion of the Zenabis Atholville facility early in the third quarter of 2019 and has continued to outperform design capacity from a harvest standpoint. As an alternative, Zenabis is also in discussions to address such upcoming maturities by securing financing with non-bank lenders as a result of the significant increase in collateral value of Zenabis Atholville, Zenabis Langley, Zenabis Stellarton and Zenabis Delta given progress in construction and operations.

In addition to considering financing from a syndicate led by a Canadian chartered bank and other non-bank lenders on the Zenabis Atholville, Zenabis Langley, Zenabis Stellarton and Zenabis Delta, Zenabis is also consistently evaluating the following alternatives for incremental capital:

- **(i)** Convertible or non-convertible senior, subordinated, or unsecured debt financing;
- **(ii)** Streaming or royalty transactions; and
- **(iii)** Equity investments from strategic investors, from both within or outside of the cannabis industry.

Liquidity and Capital Resource Measures

Zenabis' major capital expenditures in 2019 will consist of the ongoing expansion of existing facilities, purchase of additional facility equipment that will increase Zenabis' production efficiencies, the conversion of the Zenabis Langley facility and the hiring of new personnel. As discussed in the "Facilities" section above, the Company will incur significant capital expenditures to complete the facilities currently under construction, Zenabis has secured sufficient financing to bring the facilities currently under construction to completion.

RELATED PARTY TRANSACTIONS

The Company has a number of contracts or arrangements with related parties under which payments were made during the three months ended March 31, 2019. These contracts or arrangements can be classified into the following categories:

Start-up Services	During the phase when the Company's Cannabis operations were being undertaken by a private enterprise controlled by its founders, the Company obtained a variety of services from companies affiliated with certain of its founders, including, its (shared) office premises, IT services and other administrative services. The services provided were typically in areas in which the scale of the business was not sufficient to support the business hiring dedicated full-time personnel to provide the services. The services were provided on a cost-plus basis and had no minimum or fixed term. As a result, after completion of the RTO, the Company has been replacing the services (including its office premises lease) through in-sourcing and with services provided by arm's-length parties.
Temporary Advisory Services	Prior to the time at which Mr. Grieve was hired as our Chief Executive Officer ("CEO"), the Company entered into certain contracts and arrangements with entities affiliated with Mr. Grieve. At the time these contracts or arrangements were negotiated or entered into, they were not related party transactions and were entered into on commercially reasonable arm's-length terms. These services primarily related to financial advisory services provided by a business that is an affiliate of the CEO, but also include human resource services from a separate company affiliated with the CEO. For certain advisory services and staffing services, the affiliated company is being replaced through in-sourcing as the Company continues to increase the number of its full-time personnel. Finally, since Mr. Grieve became the CEO, the Company has implemented procedures designed to ensure that there is independent review and approval of all payments made under these contracts or arrangements, and to ensure that these services are in-sourced or terminated as soon as possible.
Ongoing Consulting Arrangements	The Company has entered into consulting arrangements with certain companies through which it obtains the services of some of its personnel (as opposed to entering into employment agreements directly with those personnel). The Company intends to convert these consulting contracts into employment contracts.

Related Party and Services	March 31, 2019	March 31, 2018
Entities affiliated with the CEO		
Debt Issuance Costs(i) The Company agreed to a success fee based strategic services agreement with a business affiliated with the CEO in October 2018 under which a success fee was payable. These services were completed, and the fee relates to the successful completion on January 20, 2019 of the $51,000,000 Financing. Costs have been capitalized in loans and borrowing as at March 31, 2019. There are no further success fees payable for the completion of any financing following Mr. Grieve becoming the CEO.	$ 382,500	$ –
On-going Advisory Fees(i) The Company agreed to a strategic consulting services agreement in October 2018 under which a business affiliated with the CEO dedicated the services of certain of its personnel to the Company based on fixed monthly rates for individuals of various levels. This agreement included an obligation to train internal personnel to replace these external services. These services are being replaced with an internal strategy team, with contracted staffing decreasing from seven personnel as at December 31, 2018 to two personnel as at May 30, 2019. All services were provided at market rates.	130,508	–
Human Resources and Staffing Services(i) The Company commenced utilizing HR and recruitment services in Q4 2018 from a company affiliated with the CEO to implement the Company's rapid expansion during Q1 and Q2 of fiscal 2019, during which period employee headcount at the Company's Cannabis segment increased from approximately 200 as at December 31, 2018 to 371 as at March 31, 2019. These services have since been in-sourced and Zenabis' relationship with the company affiliated with the CEO has been terminated, as Zenabis has grown its internal HR function.	512,707	–
Construction Bevo previous purchased garage doors from a company affiliated with the CEO, and Zenabis has continued with such purchases where appropriate for use in the Zenabis Langley facility. Costs have been capitalized in property, plant and equipment as at March 31, 2019.	20,144	–

	March 31, 2019	March 31, 2018
Entities affiliated with the Chairman of the Board		
Contract Employees Employees initially contracted to Zenabis to facilitate Zenabis' rapid production expansion. Certain of these contractors have either been hired by the Company or replaced through in-sourcing the related activities.	207,621	187,110
Office Rent Fees incurred for the use of office space prior to the signing of Zenabis' new office lease.	105,000	15,000
Consulting Fees Construction management services related to Zenabis Delta and retail operations.	27,985	7,900
A company affiliated with the Chief Growing Officer		
Management Fees Fees paid for managing Bevo Farms' operations. This fee will transition to an employment contract in the second quarter of 2019.	84,000	–
	$ 1,470,465	**$ 210,010**

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the Condensed Consolidated Interim Financial Statements are consistent with those applied in the annual consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

IFRS 16 – Leases ("IFRS 16")

IFRS 16, issued in January 2016, introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12-months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The right-of-use asset is initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application. The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application. This standard substantially carries forward the lessor accounting requirements of IAS 17 – Leases, while requiring enhanced disclosures to be provided by lessors.

IFRS 16 was adopted by the Company effective January 1, 2019 under the modified retrospective approach. Under the modified retrospective approach, the right-of-use asset is initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application. The lease liability is measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(a) Fair value of financial instruments

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

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

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

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

Measurement of fair value:

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

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

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

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

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

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

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

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

(b) Financial instruments risk

(i) Credit risk:

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

(ii) Liquidity risk:

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

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

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

(iii) Interest rate risk:

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

(iv) Price risk:

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

If the fair value of these financial assets were to increase or decrease by 10%, the Company would incur an associated increase or decrease in net loss and comprehensive loss of approximately $445,000 and $49,000, respectively (March 31, 2018 – $310,000 and $40,000).

SUMMARY OF OUTSTANDING SHARE DATA

As at May 28, 2019, Zenabis had the following common shares and options outstanding:

(a) Authorized:

Unlimited number of common shares without par value and unlimited number of preferred shares.

(b) Issued and fully paid:

203,304,681 common shares and no preferred shares were issued and outstanding.

(c) Stock options outstanding:

19,472,392 stock options were issued and outstanding with a weighted average exercise price of $2.41 and expiring between 2019 and 2024.

DISCLOSURE CONTROLS AND PROCEDURES

As a venture issuer prior to May 27, 2019, the Company was not historically required its CEO and Chief Financial Officer ("CFO") to certify the effectiveness and maintenance of, internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"). The Company is intending to design and implement ICFR and DC&P by the end of Q2 2019 so that its CEO and CFO can certify that those ICFR and DC&P have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. During the quarter, the Company has been working with a third party to improve the design of its ICFR and DC&P. During the second half of 2019 the Company will evaluate the design and implementation of those controls, allowing the CEO and CFO to certify on the operating effectiveness of its ICFR and DC&P as at December 31, 2019.