Consolidated Financial Statements of

48North Cannabis Corp.

June 30, 2018 and 2017

Independent Auditors' Report

To the Shareholders of 48North Cannabis Corp.:

We have audited the accompanying consolidated financial statements of 48North Cannabis Corp., which comprise the consolidated statements of financial position as at June 30, 2018 and June 30, 2017, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 48North Cannabis Corp. as at June 30, 2018 and June 30, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on 48North Cannabis Corp.'s ability to continue as a going concern.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

September 13, 2018 — Licensed Public Accountants

MNP

48NORTH CANNABIS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Expressed in Canadian dollars]

	June 30 2018 $	June 30 2017 $
ASSETS		
Current		
Cash and cash equivalents [note 4]	**12,231,484**	3,876,877
Other receivables [note 7]	**343,128**	1,169,307
Prepaid expenses	**156,518**	14,968
Biological assets [note 5]	**595,023**	—
Inventory [note 5]	**108,567**	43,627
Total current assets	**13,434,720**	5,104,779
Property, plant and equipment, net [note 8]	**12,428,150**	12,381,596
Total assets	**25,862,870**	17,486,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities [note 12]	**1,439,292**	912,938
Total current liabilities	**1,439,292**	912,938
Shareholders' equity		
Share capital [note 9]	**40,876,340**	23,513,971
Stock-based payments reserve [note 9]	**4,209,648**	1,916,529
Warrants reserve [note 10]	**5,402,046**	4,839,637
Contributed surplus	**160,525**	107,950
Deficit	**(26,224,981)**	(13,804,650)
Total shareholders' equity	**24,423,578**	16,573,437
Total liabilities and shareholders' equity	**25,862,870**	17,486,375

Continuance of operations and going concern *[note 2]*
Commitments *[note 13]*

On behalf of the Board:

/s/ *Martin Cauchon*
Martin Cauchon, Chairman

/s/ *William Assini*
William Assini, Director

The accompanying notes are an integral part of these consolidated financial statements.

48NORTH CANNABIS CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
[Expressed in Canadian dollars]

For the years ended June 30

	2018	2017
	$	$
Revenue	—	—
Production costs	**552,715**	10,602
Gross loss before fair value adjustments	**(552,715)**	(10,602)
Fair value adjustment on growth of biological assets [note 5]	**(703,590)**	—
Fair value adjustment on inventory sold	—	—
Gross margin (loss)	**150,875**	(10,602)
ADMINISTRATIVE EXPENSES		
General and administrative	**5,370,212**	5,208,412
Sales and marketing	**864,522**	567,598
Stock-based payments [note 9]	**1,666,535**	1,038,516
Interest and accretion [note 11]	**2,408,619**	194,380
Listing fees [note 6]	**1,544,254**	—
Depreciation [note 8]	**717,064**	83,070
	12,571,206	7,091,976
Loss before undernoted	**(12,420,331)**	(7,102,578)
Income taxes [note 16]	—	75,522
Net and comprehensive loss for the year	**(12,420,331)**	(7,178,100)
Basic and fully diluted loss per share	**(0.21)**	(0.18)
Weighted average number of common shares outstanding *[000's]*	**59,151**	40,137

The accompanying notes are an integral part of these consolidated financial statements.

48NORTH CANNABIS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
[Expressed in Canadian dollars]

For the years ended June 30	**2018**	2017
	$	$
OPERATING ACTIVITIES		
Net loss for the year	**(12,420,331)**	(7,178,100)
Add items not involving cash		
Change in fair value of biological assets	**(703,590)**	—
Depreciation	**717,064**	83,070
Interest and accretion	**2,408,619**	133,849
Share-based compensation	**1,666,535**	1,038,516
Listing fees	**1,351,250**	—
Future income tax expense	**—**	75,522
	(6,980,453)	(5,847,143)
Net change in non-cash working capital balances		
Decrease in other receivables	**826,179**	203,226
Decrease (increase) in prepaid expenses	**(141,550)**	263,725
Decrease in inventory supplies	**43,627**	(43,627)
Increase in accounts payable and accrued liabilities	**526,354**	246,695
Cash used operating activities	**(5,725,843)**	(5,177,124)
INVESTING ACTIVITIES		
Acquisition of property plant and equipment	**(763,618)**	(3,549,060)
Cash used in investing activities	**(763,618)**	(3,549,060)
FINANCING ACTIVITIES		
Proceeds from private placements (net of issuance costs)	—	9,668,588
Proceeds from issuance of convertible debentures (net of issuance costs)	**14,694,068**	—
Proceeds from exercise of stock options/warrants	**150,000**	70,251
Promissory note received	**—**	2,090,000
Promissory note repaid	**—**	(80,000)
Cash provided by financing activities	**14,844,068**	11,748,839
Net change in cash and cash equivalents during the year	**8,354,607**	3,022,655
Cash and cash equivalents, beginning of year	**3,876,877**	854,222
Cash and cash equivalents, end of year	**12,231,484**	3,876,877
Supplemental cash flow disclosures:		
Financing proceeds receivable	**—**	480,000
Promissory notes settled in shares	**—**	2,075,000
Payables settled in shares	**500,000**	50,000

The accompanying notes are an integral part of these consolidated financial statements.

48NORTH CANNABIS CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
[Expressed in Canadian dollars]

	Common shares		Shares to be issued		Warrants	Share based payment reserve	Contributed Surplus	Deficit	**Total shareholders' equity**
	#	$	#	$	$	$	$	$	**$**
Balance at June 30, 2016	25,486,966	9,904,135	4,124,747	1,795,225	178,474	1,023,463	323,568	(6,626,550)	6,598,315
Issuance of common shares (net)	20,576,364	7,542,757	—	—	4,615,831	—	—	—	12,158,588
Issuance of common shares for special warrants	4,124,747	1,795,225	(4,124,747)	(1,795,225)	—	—	—	—	—
Issuance of common shares for debt	50,000	50,000	—	—	—	—	—	—	50,000
Warrants issued for consideration	—	—	—	—	45,332	—	—	—	45,332
Exercise of options	280,025	122,751	—	—	—	(52,500)	—	—	70,251
Shares issued for convertible debt, net of tax	6,153,846	4,099,103	—	—	—	—	(308,568)	—	3,790,535
Stock-based compensation	—	—	—	—	—	1,038,516	—	—	1,038,516
Expiry of options	—	—	—	—	—	(92,950)	92,950	—	—
Net loss for the year	—	—	—	—	—	—	—	(7,178,100)	(7,178,100)
Balance at June 30, 2017	56,671,948	23,513,971	—	—	4,839,637	1,916,529	107,950	(13,804,650)	16,573,437

Balance at June 30, 2017	**56,671,948**	**23,513,971**	**—**	**—**	**4,839,637**	**1,916,529**	**107,950**	**(13,804,650)**	**16,573,437**
Common shares issued on exercise of warrants (net)	100,000	13,245	—	—	(3,245)	—	—	—	**10,000**
Common shares issued on exercise of options (net)	325,000	285,301	—	—	—	(145,301)	—	—	**140,000**
Common shares issued on conversion of debentures	17,788,897	15,765,073	—	—	—	—	(699,993)	—	**15,065,080**
Common shares issued on entitlement	1,863,636	—	—	—	—	—	—	—	**—**
Common shares issued as consideration	555,555	500,000	—	—	—	—	—	—	**500,000**
Common shares issued on RTO	887,500	798,750	—	—	—	52,500	—	—	**851,250**
Stock based compensation	—	—	—	—	—	1,666,535	—	—	**1,666,535**
Expiry of options	—	—	—	—	—	(52,575)	52,575	—	**—**
Issuance of warrants	—	—	—	—	565,654	—	—	—	**565,654**
Issuance of compensation options	—	—	—	—	—	771,960	—	—	**771,960**
Issuance of convertible debentures	—	—	—	—	—	—	699,993	—	**699,993**
Net loss for the year	—	—	—	—	—	—	—	(12,420,331)	**(12,420,331)**
Balance at June 30, 2018	**78,192,536**	**40,876,340**	**—**	**—**	**5,402,046**	**4,209,648**	**160,525**	**(26,224,981)**	**24,423,578**

The accompanying notes are an integral part of these consolidated financial statements.

1. Corporate information

48North Cannabis Corp., formerly Kramer Capital Corp. ("Company" or "48North"), currently has one wholly owned subsidiary, 48North Amalco Ltd. ("Amalco"). The Company, through DelShen Therapeutics Corp. ("DelShen"), a wholly-owned subsidiary of Amalco, is licensed to produce and sell medical cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). The head office, principal address, and records office is located at 243 Queen Street West, Suite 200, Toronto, Ontario, Canada, M5V 1Z4. 48North is a publicly traded corporation, incorporated in Canada. The Company's common shares are listed on the TSX Venture Exchange ("TSXV"), under the trading symbol "NRTH".

The Company was incorporated under the laws of Alberta on October 29, 2010, and continued into British Columbia in August 2016. The principal business of the Company at that time was to identify and evaluate business or assets with a view to completing a qualifying transaction ("Qualifying Transaction") under relevant policies of the TSXV. The Company had one wholly owned subsidiary, 2622752 Ontario Inc. ("752OI"), which was incorporated with the sole purpose of facilitating a future Qualifying Transaction.

On June 5, 2018, the Company completed its Qualifying Transaction with 2558107 Ontario Inc. (doing business as 48North Cannabis Corp.) ("48N"). As part of the Qualifying Transaction, the Company completed a continuance from the *Business Corporations Act (British Columbia)* to the *Canada Business Corporations Act*, changed its name to 48North Cannabis Corp. and consolidated its 1,775,000 shares on a 2 to 1 basis to 887,500 common shares. Following this change, 752OI amalgamated with 48N which resulted in the formation of Amalco. In connection with that amalgamation, Amalco acquired all of the issued and outstanding shares of 48N and the former shareholders and convertible debenture holders of 48N were issued a total of 76,930,037 post-consolidation common shares of the Company. Immediately following closing, 48North had a total 77,817,537 common shares outstanding.

Upon closing of the Qualifying Transaction, the shareholders of 48N owned 98.9% of the common shares of the Company and as a result, the Qualifying Transaction is considered a reverse acquisition of the Company by 48N. For accounting purposes 48N is considered the acquirer and the Company is considered the acquiree. Accordingly, the consolidated financial statements are in the name of 48North Cannabis Corp., however they are a continuation of the financial statements of 48N. Additional information on the transaction is disclosed in Note 6.

48N was incorporated on January 26, 2017 under the laws of the Province of Ontario and on December 14, 2017, changed its name to 48North Cannabis Corp. On June 1, 2018, the name was changed back to 2558107 Ontario Inc.

On July 1, 2017, 48N completed a corporate reorganization with DelShen. Each common share of DelShen was exchanged for one common share of 48N and DelShen became a wholly owned subsidiary of 48N. The Company's financial statements reflect the historical operations of DelShen. Prior to the reorganization, 48N was a shell company with no operations. The Health Canada licence pursuant to the ACMPR remained with DelShen.

2. Continuance of operations and going concern

The Company is in the development stage of its core business activity. On February 28, 2017, Health Canada granted a cultivation licence for the Company's Kirkland Lake facility to produce medicinal marijuana. On June 22, 2018, the Company obtained a sales license for the sale of medicinal marijuana. As of June 30, 2018, the Company had no sales.

The Company has financed its working capital requirements primarily through equity and debt financings. The Company's ability to continue as a going concern is dependent upon its ability to commence profitable operations, generate revenues there from and raise additional financing as needed to meet its obligations. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to successfully obtain additional financing as needed.

These factors cast significant doubt on the ability to continue as a going concern.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these consolidated financial statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the classifications used on the Consolidated Statements of Financial Position.

3. Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended June 30, 2018. The consolidated financial statements are presented in Canadian dollars. The presentation currency and functional currency of the Company is the Canadian dollar.

The Company's Board of Directors approved these consolidated financial statements on September 13, 2018.

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

4. Significant accounting policies, judgements, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires the use of critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term fixed income deposits with original maturity dates shorter than 90 days. At June 30, 2018, the Company had $10,000,027 (2017 - $nil) in short-term fixed income deposits.

b) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the Statements of Financial Position at the time the Company becomes a party to the contractual terms and provisions of the financial instrument.

Financial instruments are initially measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: fair value through profit or loss, loans and receivables, held-to-maturity, available-for-sale, and other financial liabilities.

The Company's financial instruments consist of cash and cash equivalents, other receivables, accounts payable and accrued liabilities. The Company has designated its cash and cash equivalents at fair value through profit or loss, which are measured at fair value. Other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and convertible debentures are classified as other financial liabilities, which are measured at amortized cost.

(i) Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(A) Fair value through profit or loss
This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are initially and subsequently carried in the Consolidated Statements of Financial Position at fair value with changes in fair value recognized in the Consolidated Statements of Loss and Comprehensive Loss. The Company has designated its cash and cash equivalents as Fair value through profit or loss.

(B) Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company has designated its others receivable as loans and receivables.

(C) Held-to-maturity investments
These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the Consolidated Statements of Loss and Comprehensive Loss. The Company does not have any held-to-maturity financial assets.

(D) Available-for-sale
These assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently carried at fair value with changes in fair value recognized directly in equity, presented in other reserve in the Statements of Changes in Equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is recognized in the Consolidated Statements of Loss and Comprehensive Loss. The Company does not have any available-for-sale financial assets.

(ii) Financial liabilities
The Company classifies its financial liabilities as other financial liabilities. The Company's non-derivative financial liabilities, which are classified as current liabilities include its accounts payable and accrued liabilities which are recognized at amortized cost.

(iii) Compound financial instruments
The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and any gains and losses relating to the financial liability are recognized in the Consolidated Statements of Loss and Comprehensive Loss. Upon conversion, the financial liability is reclassified to equity; no gains or losses are recognized upon conversion.

During the 2018 fiscal year the Company issued 16,010 convertible debenture units (see Note 11) which were converted into common shares during the year.

(iv) *Impairment of financial assets*
All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in the Consolidated Statements of Loss and Comprehensive Loss. Any decrease in impairment loss is reversed through the Consolidated Statements of Loss and Comprehensive Loss.

(v) *Determination of fair value*
The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of the fair value of financial assets and liabilities.

- Level one includes quoted prices in active markets for identical assets or liabilities.
- Level two includes inputs that are observable other than quoted prices included in level one.
- Level three includes inputs that are not based on observable market data.

The Company has determined that its cash and cash equivalents fall within level one of the fair value hierarchy and all other financial instruments are carried at amortized cost. The carrying value of all financial instruments approximates their fair value as a result of their short-term nature.

c) Biological assets
The Company measures biological assets consisting of cannabis plants from seed all the way through to mature plants at fair value less costs to sell up to the point of harvest. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related period.

d) Inventories
Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost of the inventory. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Packaging and supplies arc initially valued at cost and subsequently at the lower of cost and net realizable value.

Cost of sales includes the actual cost of production which includes direct expenses such as labor, materials, utilities. As well as overhead related to production and depreciation of manufacturing assets. The fair value adjustments added to the harvested cost prior to being transferred from biological assets to inventories are not charged to cost of sales but charged to fair value adjustments on biological assets and inventories on the statements of loss and comprehensive loss.

e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Costs include the purchase price and any costs directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be reliably measured.

Depreciation is provided at rates calculated to write off the cost of property and equipment, less their estimated residual value, over the expected useful life using the declining balance method and the following rates:

Machinery & Equipment	20% – 55%
Vehicles	30%
Furniture and fixtures	20%
Building	4%

If impairment factors are present, the Company compares the carrying value of capital assets to estimated net recoverable amounts, based on estimated future cash flows to determine whether there is any impairment. The depreciation method, useful life and residual value are assessed annually.

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized in the Consolidated Statements of Loss and Comprehensive Loss.

f) Foreign currency translation

Transactions in foreign currencies are translated at the exchange rates prevailing at the time of the transaction. Foreign exchange gains and losses resulting from settlement of such transactions and from translation at year- end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Consolidated Statements of Loss and Comprehensive Loss.

g) Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized in profit and loss as incurred. To date, no development costs have been capitalized.

h) Income taxes

Current income taxes are recognized for the estimated income taxes payable for the current year.

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to settle current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

i) Share based compensation

Share-based payments to employees are measured at the fair value of the instruments issued at the grant date and amortized over the vesting periods.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The amount expensed for stock option compensation is based on the application of the Black-Scholes option pricing model, which is highly dependent on the expected volatility of the Company's registered shares and the expected life of the options. Stock option compensation cost is based on the estimated number of options for which the requisite service is expected to be rendered. To date the Company does not have sufficient history to be able to adjust to the actual amounts incurred.

j) Loss per share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year.

k) Share capital

The Company's share capital, warrants and options are classified as equity. Share capital is measured at the consideration received for the shares that have been issued, net of incremental costs directly attributable to the issuance of shares.

l) Significant accounting judgments, estimates and assumptions

Significant assumptions about sources of estimation uncertainty that management has made at the Statements of Financial Position date, that could result in a material adjustment to the carrying amounts of the assets or liabilities in the event that actual results differ from the assumptions used, but are not limited to the following:

(i) The inputs used in the calculations for the share-based payments in the Statements of Loss and

Comprehensive Loss.

(ii) The inputs used in the valuation of warrants in the Consolidated Statements of Changes in Equity.
(iii) The bifurcation of the convertible debentures and notes payable into liability and equity components and the determination of a market rate of interest.
(iv) The estimated useful lives and depreciation of the plant and equipment.
(v) The inputs used in assessing the recoverability of deferred tax assets and liabilities.
(vi) Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell. As a result, critical estimates related to the valuation of biological assets are also applicable to inventory. Determining the fair value less costs to sell requires the Company to make assumptions about the expected future yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, costs to convert harvested cannabis into finished goods, and costs to sell. The Company's estimates are, by their nature, subject to change.

m) Recent accounting pronouncements and changes in accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for future accounting periods. Updates that are not applicable or are not consequential to the Company have been excluded.

IFRS 9 – Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39, Financial Instruments – Recognition and Measurement ("IAS 39") for debt instruments with a new mixed measurement model having only two categories; amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 will be effective for accounting periods beginning on January 1, 2018. The Company has determined the adoption of this standard will not have a significant impact on the consolidated financial statements. The Company will adopt IFRS 9 during fiscal 2019. Management has assessed that the adoption of this standard will have no impact on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contract with a customer, regardless of type of revenue transaction or the industry. IFRS 15 will also apply to the recognition and measurement of gains and losses on sale of certain non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has determined the adoption of this standard will not have a significant impact on the consolidated financial statements. The Company will adopt IFRS 15 during fiscal 2019. Management has assessed that the adoption of this standard will have no impact on the consolidated financial statements.

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued on January 13, 2016 to require lessees to recognize assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS17 – Leases. The IAS issued its standard as part of a joint project with the Financial Accounting Standards Board ("FASB"). The FASB has not yet issued its new standard, but it is also expected to require lessees to recognize most leases on their statement of financial position. The new standard will be effective for annual periods beginning on or after January 1,

(Expressed in Canadian dollars)

2019. Early application is permitted, provided the new revenue standard, IFRS 15 – Revenue from Contracts with Customers, has been applied or is applied at the same date as IFRS 16. The Company is still in the process of assessing the impact of this pronouncement.

5. Biological assets and inventories

a) Biological assets

The Company received its sales license on June 22, 2018, and is using this date to start recognition of value for the biological assets. The changes in the carrying value of biological assets for the year ended June 30, 2018 are as follows:

	Cannabis plants
Carrying amount, June 30, 2016	$ –
Net change in fair value less costs to sell due to biological transformation	–
Transferred to inventory upon harvest	–
Carrying amount, June 30, 2017	–
Net change in fair value less costs to sell due to biological transformation	703,590
Transferred to inventory upon harvest	108,567
Balance at June 30, 2018	**$595,023**

All biological assets are presented as current assets on the balance sheet. The significant assumptions used in determining the fair value of cannabis plants include:

- Yield per plant: average of 87 grams (with a range of 80 to 100 grams);
- Percentage of costs incurred to date compared to the total costs expected to be incurred are used to estimate the fair value of an in-process plant;
- During the propagative stage we allocate 5% of the estimated plant value, during the vegetative stage an additional 10%, during the first four week of flowering an additional 10% and during the final four weeks of flowering, we allocate an additional 10.75% of the estimated plant value per week. At the point of harvest, we have allocated 68% of the total plant value to biological assets.

The Company estimates the harvest yields for the cannabis on plants at various stages of growth. As of June 30, 2018, it is expected that the Company's biological assets will yield between 80 and 100 grams, depending on the cultivar, with an average of 87 grams (2017 - 0 grams) of cannabis when harvested. The Company's estimates are by their nature subject to change and differences from the anticipated yield will be reflected in the fair value adjustment to biological assets in future periods.

b) Inventories

The Company's inventory assets include the following as of June 30, 2018.

	June 30, 2018	June 30, 2017
Dry Cannabis	**$108,567**	$–
Other	**$-**	$43,427

Dry cannabis inventory consists of 321,066 grams as of June 30, 2018 (2017 – 0). The Company received its sales license on June 22, 2018, therefore, all inventories accumulated prior to June 22, 2018 have been ascribed a zero dollar valuation for accounting purposes.

6. Reverse takeover

In June 5, 2018, 48North and 48N completed their previously announced qualifying transaction consisting of the acquisition by 48North of all of the issued and outstanding securities in the capital of 48N by way of share exchange pursuant to which each 48N shareholder received common shares of 48North on the basis of one common shares for each common share of 48N held by them resulting in the issuance of 76,930,037 common shares. As part of the qualifying transaction, 16,010 convertible debenture units were converted into 17,788,897 common shares and 8,901,560 warrants.

(Expressed in Canadian dollars)

In addition, each convertible security of 48N was exchanged for a convertible security of 48North on a 1:1 basis, on substantially the same economic terms and conditions as the original convertible security of 48N resulting in the issuance of 35,127,824 warrants (including the 8,901,560 warrants from the convertible debenture) in respect to outstanding 48N warrants, 8,901,560 broker warrants in respect to outstanding 48N broker warrants and 13,305,000 options in exchange for certain options of 48N.

The transaction has been accounted for as a reverse acquisition that does not constitute a business combination; consequently, these consolidated financial statements are issued under the legal parent 48North but are deemed to be the continuation of the legal subsidiary, 48N which is deemed to be the acquirer for accounting purposes. Accordingly, all share and share amounts presented in these consolidated financial statements for the year ended June 30, 2018 have been retroactively restated to reflect the 1:1 exchange ratio of 48N for 48North shares in the reverse takeover acquisition.

The Company paid a finder's fee payable in 555,556 common shares in connection with the transaction. These shares were recorded at a fair value of $0.90 per share, or $500,000 and is included as additional listing expense on the Consolidated Statement of Loss and Comprehensive Loss during the year ended June 30, 2018. The Company incurred additional listing expenses for $196,213.

The total purchase price for the accounting acquisition of 48N by 48North is as follows:

Consideration paid	Number	$ per share	Amount
Common shares	887,500	0.90	$798,750
Options	75,000	0.70	$52,500
Total consideration			$851,250

Net assets acquired	Amount
Cash	$3,209
Net assets acquired	$3,209
Net consideration	$848,041
Additional listing fees	$696,213
	$1,547,463

7. Other receivables

	June 30, 2018	June 30, 2017
	$	$
GST/HST recoverable*	211,628	689,307
Deposit refund due*	131,500	–
Financing proceeds receivable*	–	480,000
	343,128	1,169,307

**Collected after the end of the reporting period.*

8. Property, plant and equipment

	Land	Building	Machinery and equipment	Furniture and fixtures	Vehicles	Construction in Progress	Total
	$	$	$	$	$	$	$
Cost							
As at June 30, 2016	207,151	657,631	175,183	6,159	58,837	7,844,761	8,949,722
Additions during the year	–	–	128,480	–	–	3,420,580	3,549,060

(Expressed in Canadian dollars)

Transfer from construction in progress	–	6,765,679	4,499,662	–	–	(11,265,341)	–
As at June 30, 2017	207,151	7,423,310	4,803,325	6,159	58,837	–	12,498,782
Additions during the year	–	367,983	104,301	–	–	291,334	763,618
As at June 30, 2018	207,151	7,791,293	4,907,626	6,159	58,837	291,334	13,262,400
Accumulated Amortization							
As at June 30, 2016	–	–	18,914	616	14,586	–	34,116
Depreciation for the year	–	–	68,686	1,109	13,275	–	83,070
As at June 30, 2017	–	–	87,600	1,725	27,861	–	117,186
Depreciation for the year	–	168,978	537,906	887	9,293	–	717,064
As at June 30, 2018	–	168,978	625,506	2,612	37,154	–	834,250
Net Book Value							
As at June 30, 2017	207,151	7,423,310	4,715,725	4,434	30,976	–	12,381,596
As at June 30, 2018	207,151	7,622,315	4,282,120	3,547	21,683	291,334	12,428,150

Construction in progress includes portions of equipment that have been purchased but not fully assembled and ready for its intended use. As such, no depreciation has been applied to the construction in process.

9. Shareholders' Equity

[a] Share capital

Authorized share capital consists of unlimited common shares with no par value. The continuity of share capital is as follows:

	Number	Amount
Balance, June 30, 2016	25,486,966	$ 9,904,135
Issuance of common shares (i)	18,636,364	10,250,000
Less allocated to warrants [note 10]	–	(4,615,832)
Less share issuance costs		(31,411)
Issuance of common shares (ii)	1,940,000	1,940,000
Issuance of common shares for debt (iii)	50,000	50,000
Issuance of common shares on the exercise of options (iv)	280,025	122,751
Issuance of common shares issued on conversion of special warrants (v)	4,124,747	1,795,225
Issuance of common share on the conversion of debentures (vi)	6,153,846	4,099,103
Balance at June 30, 2017	56,671,948	$ 23,513,971
Issuance of common shares for liquidity entitlement (i)	1,863,636	–
Issuance of common shares on the exercise of options (ix)	325,000	285,301
Issuance of common shares upon conversion of debenture (vii)	17,788,897	15,765,073
Issuance of common shares as consideration (viii)	1,443,055	1,298,750
Issuance of common shares on exercise of warrants (ix)	100,000	13,245
Balance at June 30, 2018	78,192,536	$ 40,876,340

(i) On December 2, 2016, the Company issued 18,636,864 units at a price of $0.55 per share raising gross proceeds of $10,250,000. Each unit comprised one common share and one common "Share Purchase Warrant". Each Share Purchase Warrant allows the holder to purchase one common share at a price of $0.75 per share at any time prior to December 2, 2020. The Company has the right to convert the Share Purchase Warrants prior to December 2, 2020 in the in the event that (a) the closing trading price of the Common Shares on a recognized Canadian stock exchange is $1.50 or greater for 20 consecutive trading days; or (b) the Company closes an arm's length third party financing for aggregate proceeds equal to or greater than $15,000,000 at an implied pre-money valuation of the Company equal to or greater than $60,000,000. Each purchaser of the Units received one liquidity entitlement ("Liquidity Entitlement") for each Unit purchased. Each Liquidity Entitlement entitles the holder to receive 0.1 of a Common Share for no additional consideration in the event that a Liquidity Event shall not have occurred on or before December 2, 2017. A "Liquidity Event" means either: (i) the Common Shares being listed on a recognized Canadian stock exchange; or (ii) all of the issued and outstanding Common Shares having been sold, transferred or exchanged, pursuant to a take-over bid, amalgamation, plan of arrangement or other business combination, for cash or securities that are listed on a recognized Canadian stock exchange; or (iii) any combination of the events or circumstances described in clauses (i) and (ii) such that all of the Common Shares shall be subject to one or more of clause (i) or (ii). As the original liquidity event did not happen before December 2, 2017, an additional 1,863,636 shares were issued to the holders.

(Expressed in Canadian dollars)

(ii) On June 30, 2017, the Company issued 1,940,000 common shares at a price of $1.00 per share for gross proceeds of $1,940,000.

(iii) During the year ended June 30, 2017, the Company settled an aggregate total debt of $50,000 through the issuance of 50,000 common shares.

(iv) During the year ended June 30, 2017, the Company issued 280,025 common shares upon the exercise of 280,025 valued at $52,500 for gross proceeds of $70,251.

(v) During the year ended June 30, 2017, the Company issued 4,124,747 common shares for the balance of the Special Warrants and allocated $1,795,225 to common shares from shares to be issued.

(vi) On February 28, 2017, the Company was granted a cultivation license for the Kirkland Lake facility. This event allowed for the early conversion of convertible debentures [note 11] with a face value totaling $4,000,000, and accordingly, the Company issued 6,153,846 common shares at a conversion price of $0.65 per share. On conversion, the amortized cost of the debentures of $3,715,013 and the fair value attributed to the conversion feature of $419,820 were reclassified to share capital.

(vii) On January 26, 2018, the Company raised gross proceeds of $16,010,000 by way of a brokered private placement of 16,010 convertible debenture units ("Unit") at a price of $1,000 per unit [note 11]. The convertible debentures were converted into common shares at $0.90 per each dollar of debenture on June 5, 2018 as part of the Qualifying Transaction on the TSX Venture Exchange.

(viii) As part of the Qualifying Transaction, existing shareholders in Kramer Capital Corp. received 887,500 48North shares in exchange for their 1,775,000 existing Kramer shares, valued at $0.90, being an amount equal to the January 2018 financing. The Company also agreed to a $500,000 finders fee for the shell company through the issuance of 555,555 common shares valued at $0.90, being an amount equal to the January 2018 financing.

(ix) During the year ended June 30, 2018, the Company issued 325,000 common shares upon the exercise of 325,000 options valued at $285,301 for gross proceeds of $140,000 and issued 100,000 common shares upon the exercise of 100,000 warrants valued at $13,245 for gross proceeds of $10,000.

[b] Stock options

The Company issues incentive stock options through option agreements administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at between three and five years from issuance. Options under the Plan may vest immediately, or become exercisable in various increments based on conditions as determined by the Board.

During the year ended June 30, 2018, the Company recorded $1,666,555 (2017 - $1,038,516) in stock-based payments expense related to employee and contractor options which are measured at fair value at the date of grant and are expensed over the option's vesting period. An additional amount of $771,960 was recorded to the reserve for the options granted as compensation related to the issuance of the convertible debentures. In determining the amount of stock-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

	June 30, 2018	June 30, 2017
Risk-free interest rate	1.54% – 2.14%	0.87% – 1.38%
Expected life of options (years)	1 – 5	3 – 5
Expected annualized volatility	70%-100%	70%
Expected dividend yield	nil	nil

Black-Scholes value range	\$0.47 – \$0.64	\$0.28 – \$0.63

Volatility was estimated by reference to the historical volatility of comparable companies. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

The following table reflects the continuity of stock options at June 30, 2018:

	Number of stock options	Weighted average exercise prices
Outstanding, June 30, 2016	4,215,197	0.37
Granted	3,549,902	0.89
Exercised	(280,025)	0.25
Expired	(715,074)	0.50
Outstanding, June 30, 2017	6,770,000	0.61
Granted	7,130,000	0.85
Assumed from Qualifying Transaction	75,000	0.20
Exercised	(325,000)	0.43
Cancelled	(470,000)	0.88
Outstanding, June 30, 2018	**13,180,000**	**0.74**
Exercisable, June 30, 2018	**6,741,666**	**0.70**

10. Warrant reserve

The continuity of share purchase warrants outstanding is as follows:

	Number	Amount $
Balance at June 30, 2016	5,500,000	178,474
Warrants issued with short term advances (i)	2,090,000	45,332
Warrants issued in private placement (ii)	18,636,366	4,615,831
Balance at June 30, 2017	26,226,366	4,839,637
Warrants issued in private placement (iii)	8,901,560	565,654
Warrants exercised into common shares	(100,000)	(3,245)
Balance at June 30, 2018	35,027,926	5,402,046

(i) In November 2016, the Company issued 2,090,0000 warrants in connection with short-term advances by related parties [note 12]. Each warrant allows the holder to purchase one common share at a price of \$0.65 per share, any time prior to November 11, 2018.

(ii) On December 2, 2016, the Company raised proceeds of \$10,250,000 by way of a brokered private placement of 18,636,364 Units at a price of \$0.55 per unit. Each unit comprised one common share and one common share purchase warrant. Each warrant allows the holder to purchase one common share at a price of \$0.75 per share anytime prior to December 2, 2020. The estimated fair value of the warrants of \$4,653,793 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 70%, a risk-free interest rate of 1.00% and an expected life of 4 years.

(iii) On January 26, 2018, the Company raised gross proceeds of \$16,010,000 by way of a brokered private placement of 16,010 convertible debenture units (“Unit”) at a price of \$1,000 per unit [note 11]. Each Unit was comprised of one 48North convertible debenture with a principal amount of \$1,000 and 556 warrants to purchase 556 common shares of 48North at a price of \$1.15 until the date that is 24 months following the completion of the Qualifying Transaction. Each Compensation Unit is comprised of one 48North Share and one-half of one warrant. Each full warrant allows the holder to purchase one common share of 48North at a price of \$1.15 per share until the date that is 24 months following the completion of the Qualifying Transaction. The estimated fair value of the warrants of $565,654 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 70%, a risk-free interest rate of 2.07% and an expected life of 2.5 years.

(Expressed in Canadian dollars)

As of June 30, 2018, the following warrants were outstanding:

Year of Issue	Exercise Price	Expiration	Underlying Shares	Exercisable
2014	$0.10	January 7, 2019	5,400,000	5,400,000
2016	$0.65	November 11, 2018	2,090,000	2,090,000
2016	$0.75	December 2, 2020	18,636,366	18,636,366
2018	$1.15	June 5, 2020	8,901,560	8,901,560
			35,027,926	35,027,926

11. Convertible debentures

[a] In April 2016, the Company completed a private placement (the "Offering") of secured convertible debentures in the principal amount of $2,000,000 (the "Debentures").

The Debentures had a term of 3 years and bore interest at 4% per annum, payable semi-annually. The Debentures were convertible, at the option of the holder, into common shares of the Company at a price of $0.65 per share ("Conversion Price"). They were also convertible at the option of the Company at the Conversion Price on and after April 27, 2018 up to and including April 27, 2019, in whole or from time to time in part if either of the following Conversion Events occurs:

(i) The Company completes a Going Public Transaction either by means of completing an Initial Public Offering ("IPO") and listing its common shares on a qualifying stock exchange as listed below or by completing a reverse take-over of a company that is already listed on a qualifying stock exchange.

(ii) The Company is issued a licence to grow marihuana for medical purposes in accordance with the *Controlled Drugs and Substances Act (Canada) and the Marihuana for Medical Purposes Regulations (Canada)*.

On February 28, 2017, the Company was issued a cultivation license from Health Canada and the Company converted the debentures into common shares of the Company.

In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, upon derecognition the debt component is updated to include any accrued interim interest up to the conversion debt. The debt amount is then derecognized through recognition of issuance of common shares as described in note 9.

[b] On January 26, 2018, the Company raised gross proceeds of $16,010,000 by way of a brokered private placement of 16,010 convertible debenture units ("Unit") at a price of $1,000 per unit. Each Unit was comprised of one 48North convertible debenture with a principal amount of $1,000 and 556 warrants to purchase 556 common shares of 48North at a price of $1.15 until the date that is 24 months following the completion of the Qualifying Transaction. The convertible debentures bear interest at 10% per annum, mature on July 26, 2018 and was converted into common shares at $0.90 per each dollar of debenture on completion of the transaction. 48North paid transaction costs of $1,342,398 in cash and issued 1,245,222 options ("Compensation Options") to brokers. Each Compensation Option is exercisable for one unit of 48North ("Compensation Unit") at an exercise price of $0.90 until the date that is 24 months following the completion of the Qualifying Transaction. Each Compensation Unit is comprised of one 48North Share and one-half of one warrant. Each full warrant allows the holder to purchase one common share of 48North at a price of $1.15 per share until the date that is 24 months following the completion of the Qualifying Transaction.

The debt components of the debentures were measured upon initial recognition based on the present value of the cash flows associated with the debentures, using an annualized discount rate of 20%. Subsequent to initial recognition, the debt components are accreted to the face value of the debentures using the effective interest rate through periodic charges to finance expense over the term of the debentures.

In accordance with IAS 39, the debt components of the debentures were measured upon initial recognition, based on the present value of the cash flows associated with the debentures, using a discount rate of 8%. Subsequent to initial recognition, the debt components are accreted to the face value of the debentures using the effective interest rate through periodic charges to finance expense over the term of the debentures.

(Expressed in Canadian dollars)

12. Related party transactions

The aggregate value of transactions relating to key management personnel were as follows:

Year ended	June 30, 2018	June 30, 2017
Consulting, salaries and wages	$986,480	$956,396
Share-based payment	$1,395,001	$748,300
Total	$2,381,481	$1,704,696

Included in consulting, salaries and wages are accrued severance expenses of $142,617 which are included in accrued liabilities at year end (2017 - $115,000).

13. Commitments

Lease commitments:
Total future minimum lease payments including operating costs are as follows:

2019	$125,532
2020	106,622
	$232,154

Rental expense was $86,425 for the year ended June 30, 2018 (2017 - $91,200).

14. Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes to the Company's capital management approach in the period.

15. Financial instruments

The Company's financial instruments are classified into one of the following categories: Other receivables and financial liabilities at fair value through profit and loss. The carrying values of the Company's financial instruments are summarized as follows:

	June 30, 2018	June 30, 2017
	$	$
Other receivables (1)	12,574,612	4,356,878
Financial liabilities (2)	1,261,796	912,937

(1) Includes cash and cash equivalents and other receivables
(2) Includes accounts payable and accrued liabilities

The Company's financial instruments consist of cash and cash equivalents, other receivables, accounts payable and accrued liabilities. Unless otherwise noted, the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

Fair value
The fair values of other receivables, accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity.

Credit risk
Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the consolidated statement of financial position dates.

(i) Cash
The Company minimizes its exposure to credit risk by keeping the majority of its cash as cash on deposit with a major Canadian chartered bank. Management expects the credit risk to be minimal.

(ii) Receivables
Management does not expect these counterparties to fail to meet their obligations. Accounts receivable are in good standing as of June 30, 2018. The Company does not have receivables that it considers impaired or otherwise uncollectible.

Foreign currency risk
The prices paid by the Company for some services and supplies are paid in U.S. dollars and the Company raises funds in Canadian dollars. As at June 30, 2018 and 2017, the Company believes the currency risk was limited and not a risk to be hedged at the present time.

Interest rate risk
Interest rate risk arises because of changes in market interest rates. The Company has been exposed to interest rate risk on short-term advances and convertible debentures. Due to the short-term nature of these borrowings and the fixed nature of their interest rates, the Company believes interest rate risk is minimal.

16. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 - 26.5%) to the effective tax rate is as follows:

	2018	2017
	$	$
Loss before income taxes	(12,420,331)	(7,102,578)
Statutory tax rate	26.50%	26.50%
Expected income tax expense (recovery)	(3,291,390)	(1,882,183)
Share based compensation and non-deductible expenses	443,950	300,960
Convertible debentures	638,280	(75,521)
Change in tax benefits not recognized	2,209,160	1,732,266
Total income tax expense (recovery)	–	75,522
Current tax expense (recovery)	–	–
Deferred tax expense (recovery)	–	75,522
	–	75,522

Deferred tax assets (liabilities):
The following table summarizes the components of deferred tax:

	2018	2017
	$	$
Non-capital losses carried forward	186,450	–
Biological assets	(157,680)	–
Inventory	(28,770)	–
	–	–

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in Canadian dollars)

Movement in net deferred tax:	2018	2017
	$	$
Balance, beginning of the year	–	–
Recognized in profit or loss	–	75,522
Recognized in equity	–	(75,522)
Balance, end of the year	–	–

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
	$	$
Non-capital losses carried forward - Canada	19,648,390	11,506,146
Share issue costs	2,091,490	–
Property, plant, and equipment	825,310	190,721

The Canadian non-capital loss carry-forwards expire as noted in the table below. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

	$
2034	712,920
2035	1,665,170
2036	3,250,720
2037	5,877,340
2038	8,142,240
	19,648,390