48NORTH CANNABIS CORP.

Condensed Interim Consolidated Financial Statements
(Unaudited)
As at September 30, 2018

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48NORTH CANNABIS CORP.

Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2018 and June 30, 2018

(Unaudited – in Canadian dollars)

	September 30 2018	June 30 2017
	$	$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	**9,815,083**	12,231,484
Accounts and other receivables [note 6]	**390,882**	343,128
Prepaid expenses	**1,709,831**	156,518
Biological assets [note 5]	**545,189**	595,023
Inventory [note 5]	**1,455,476**	108,567
Total current assets	**13,916,461**	13,434,720
Property, plant and equipment, net [note 7]	**12,423,034**	12,428,150
Total assets	**26,339,495**	25,862,870
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**1,176,925**	1,439,292
Total current liabilities	**1,176,925**	1,439,292
Shareholders' equity		
Share capital [note 8]	**41,364,341**	40,876,340
Stock-based payments reserve [note 8]	**5,515,294**	4,209,648
Warrants reserve [note 9]	**5,358,545**	5,402,046
Contributed surplus	**160,525**	160,525
Deficit	**(27,236,135)**	(26,224,981)
Total shareholders' equity	**25,162,570**	24,423,578
Total liabilities and shareholders' equity	**26,339,495**	25,862,870

Continuance of operations and going concern [note 2]
Commitments [note 11]
Subsequent events [note 14]

On behalf of the Board:

/s/ *Martin Cauchon*	/s/ *William Assini*
Martin Cauchon, Chairman	William Assini, Director

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended September 30, 2018 and 2017
(Unaudited – in Canadian dollars)

	Three months ended September 30	
	2018	2017
	$	**$**
Revenue	**1,271,544**	—
Production costs	**406,834**	47,915
Gross margin (loss) before fair value adjustments	**864,710**	(47,915)
Unrealized fair value adjustment on growth of biological assets [note 5]	**(1,297,075)**	—
Realized fair value adjustment on inventory sold [note 5]	**—**	—
Gross margin (loss)	**2,161,785**	(47,915)
ADMINISTRATIVE EXPENSES		
General and administrative	**1,171,029**	1,164,851
Sales and marketing	**384,186**	47,931
Stock-based payments [note 8]	**1,305,646**	219,623
Depreciation [note 7]	**312,078**	177,578
	3,172,939	1,609,983
Loss before undernoted	**(1,011,154)**	(1,657,898)
Income taxes	**—**	—
Net and comprehensive loss for the period	**(1,011,154)**	(1,657,898)
Basic and fully diluted loss per share	**(0.013)**	(0.029)
Weighted average number of common shares outstanding *[000's]*	**79,006**	56,672

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended September 30, 2018 and 2017
(Unaudited – in Canadian dollars)

	Three months ended September 30	
	2018	2017
	$	$
OPERATING ACTIVITIES		
Net loss for the period	**(1,011,154)**	(1,657,898)
Add (deduct) items not involving cash		
Change in fair value on growth of biological assets	**(1,297,075)**	—
Depreciation	**312,078**	177,578
Stock-based payments [note 8]	**1,305,646**	219,623
	(690,505)	(1,260,697)
Changes in non-cash working capital:		
Net change in other receivables	**(47,753)**	376,890
Net change in prepaid expenses	**(1,553,313)**	(114,971)
Net change in inventory	**—**	16,200
Net change in accounts payable and accrued liabilities	**(262,368)**	64,468
Cash used operations	**(2,553,939)**	(918,110)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options and warrants	**444,500**	—
Cash provided by financing activities	**444,500**	—
INVESTING ACTIVITIES		
Acquisition of property plant and equipment	**(306,962)**	(255,251)
Cash used in investing activities	**(306,962)**	(255,251)
Net change in cash and cash equivalents during the period	**(2,416,401)**	(1,173,362)
Cash and cash equivalents, beginning of period	**12,231,484**	3,876,877
Cash and cash equivalents, end of period	**9,815,083**	2,703,515

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.

Condensed Interim Consolidated Statement of Changes in Equity

For the three months ended September 30, 2018 and 2017

(Unaudited – in Canadian dollars)

	Common shares		Warrants	Contributed Surplus	Deficit	Total shareholders' equity
	#	$	$	$	$	$
Balance at June 30, 2017	56,671,948	23,513,971	1,916,529	107,950	(13,804,650)	16,573,437
Stock-based compensation	—	—	219,623	—	—	219,623
Net loss for the period	—	—	—	—	(1,657,898)	(1,657,898)
Balance at September 30, 2017	56,671,948	23,513,971	2,136,152	107,950	(15,462,548)	15,135,162
Balance at June 30, 2018	**78,192,537**	**40,876,340**	**4,209,648**	**160,525**	**(26,224,981)**	**24,423,578**
Issued on exercise of warrants (net)	1,530,000	488,001	—	—	—	444,500
Stock-based compensation	—	—	1,305,646	—	—	1,305,646
Net loss for the period	—	—	—	—	(1,011,154)	(1,011,154)
Balance at September 30, 2018	**79,722,537**	**41,364,341**	**5,515,294**	**160,525**	**(27,236,135)**	**25,162,570**

See accompanying notes to unaudited condensed interim 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.

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 and has just started to generate revenues in this fiscal quarter, Q1 fiscal 2019. 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. On September 13, 2018, Health Canada granted the Company an extraction license.

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 unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim consolidated statements of financial position.

3. Basis of presentation and consolidation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the period ended September 30, 2018. The condensed interim consolidated financial statements are presented in Canadian dollars. The presentation currency and functional currency of the Company is the Canadian dollar.

These condensed interim consolidated financial statements should be read in conjunction with the Company's 2018 annual consolidated financial statements. These condensed interim consolidated financial statements have been prepared using accounting policies consistent with those used in the annual consolidated financial statements.

The financial statements of DelShen Therapeutics Corp., a wholly owned subsidiary, are included in these unaudited condensed interim consolidated financial statements. All inter-company transactions have been eliminated on consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

The Company's Board of Directors approved these unaudited condensed interim consolidated financial statements on November 22, 2018.

4. Significant accounting policies, judgements, estimates and assumptions

The preparation of these condensed interim 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) Significant accounting judgments, estimates and assumptions

Significant assumptions about sources of estimation uncertainty that management has made at the condensed interim consolidated 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 calculation of biological assets and inventories, including unrealized gains or losses arising from changes in fair value less cost to sell up to the point of harvest or the estimated selling prices in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
(ii) The inputs used in the calculations for the stock-based payments in the condensed interim consolidated statements of loss and comprehensive loss.
(iii) The inputs used in the valuation of warrants in the condensed interim consolidated statements of changes in equity.
(iv) The bifurcation of the convertible debentures payable into liability and equity components and the determination of a market rate of interest.
(v) The estimated useful lives and depreciation of the plant and equipment.
(vi) The inputs used in assessing the recoverability of deferred tax assets and liabilities.

b) 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 is effective for accounting periods beginning on January 1, 2018. The Company adopted IFRS 9 on July 1, 2018. The adoption of this standard did not have an impact on the Company's condensed interim 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 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company adopted IFRS 15 on July 1, 2018. The adoption of this standard did not have an impact on the Company's condensed interim consolidated financial statements.

The following is the Company's revenue recognition policy in accordance with IFRS 15:

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The Company's contracts with customers for the sales of dried cannabis include one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control of the assets is transferred to the customer, which is on shipment or delivery, depending on the contract. For wholesale sales to other licensed producers, 50% payment is due prior to transfer of control and 50% net 30 days.

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, 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.

IFRIC 23 Uncertainty over income tax treatments ("IFRIC 23")
IFRIC 23 clarifies the application of recognition and measurement requirements in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 will be effective for the Company's fiscal year beginning on January 1, 2019. The Company will adopt this interpretation as of its effective date. The Company is currently assessing the impact of the adoption of this standard on its unaudited condensed interim consolidated financial statements.

(Unaudited – Expressed in Canadian dollars)

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 three months ended September 30, 2018 are as follows:

	Cannabis plants
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
Carrying amount, June 30, 2018	595,023
Net change in fair value less costs to sell due to biological transformation	1,297,075
Transferred to inventory upon harvest	1,346,909
Balance at September 30, 2018	**$ 545,189**

All biological assets are presented as current assets on the statements of financial position. 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; and,
- 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 September 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.

Production costs represent the cash costs incurred by the Company to grow, harvest and transform biological assets into dried cannabis inventory. The Company elects to expense these costs in the period that they are incurred. These costs include such costs as direct labour, fertigation materials and production supplies, energy costs (lighting and HVAC) and quality control costs such as sanitation and lab work.

The following table quantifies each of the significant unobservable inputs above and provides a sensitivity analysis of the impact on fair value of biological assets. Sensitivity analysis for each significant input is performed by assuming a 5% decrease of the input while other significant inputs remain constant at the management estimates as of the period end date.

	5% decrease as at September 30, 2018			5% decrease as at June 30, 2018		
	As at September 30, 2018	Biological assets	Inventory	As at June 30, 2018	Biological assets	Inventory
Yield per plant	87 grams	$(27,259)	–	87 grams	$(29,751)	–
Percentage of costs	$1.60	$29,658	$37,260	$1.60	$32,369	$2,779
Stage of growth	6 weeks	$(27,259)	–	6.4 weeks	$(29,751)	–

b) Inventories

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

	September 30, 2018	June 30, 2018
Dried and drying Cannabis	**$1,455,476**	$108,567

(Unaudited – Expressed in Canadian dollars)

Dried and drying cannabis inventory consists of dried cannabis flower, shake and kief as well as the expected dried cannabis flower yield from recently harvested plant material. 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. Approximately 63 kilograms of dried flower that was harvested prior to June 22, 2018, remains in inventory as at September 30, 2018 at an expected value of $318,500.

6. Accounts and other receivables

	September 30, 2018	June 30, 2018
	$	$
Accounts receivable	**195,329**	–
GST/HST recoverable	**195,553**	211,628
Deposit refund due	**–**	131,500
	390,882	343,128

7. Property, plant and equipment

	Land	Building	Machinery and equipment	Furniture and fixtures	Vehicles	Construction in progress	Total
	$	$	$	$	$	$	$
Cost							
As at June 30, 2017	207,151	7,423,310	4,803,325	6,159	58,837	–	12,498,782
Additions during the period	–	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
Additions during the period	–	–	59,942	–	–	247,020	306,962
Allocation from construction in progress	–	–	538,354	–	–	(538,354)	–
As at September 30, 2018	207,151	7,791,293	5,502,547	6,159	58,837	–	13,569,362
Accumulated Amortization							
As at June 30, 2017	–	–	87,600	1,725	27,861	–	117,186
Depreciation for the period	–	168,978	537,906	887	9,293	–	717,064
As at June 30, 2018	–	168,978	625,506	2,612	37,154	–	834,250
Depreciation for the period	–	76,223	234,052	177	1,626	–	312,078
As at September 30, 2018	–	245,201	859,558	2,789	38,780	–	1,146,328
Net Book Value							
As at June 30, 2018	207,151	7,622,315	4,282,120	3,547	21,683	291,334	12,428,150
As at September 30, 2018	***207,151***	***7,546,091***	***4,646,364***	***3,370***	***20,057***	***-***	***12,423,034***

Construction in progress included 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.

8. 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:

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 (iv)	325,000	285,301

(Unaudited – Expressed in Canadian dollars)

Issuance of common shares upon conversion of debenture (ii)	17,788,897	15,765,073
Issuance of common shares as consideration (iii)	1,443,055	1,298,750
Issuance of common shares on exercise of warrants (iv)	100,000	13,245
Balance at June 30, 2018	78,192,536	$ 40,876,340
Issuance of common shares on exercise of warrants (iv)	1,530,000	488,001
Balance at September 30, 2018	79,722,536	$41,364,341

(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.

(ii) 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. 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.

(iii) 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.

(iv) 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 $3,245 for gross proceeds of $10,000. During the three months ended September 30, 2018, the Company issued 1,530,000 common shares upon the exercise of 1,530,000 warrants valued at $43,501 for gross proceeds of $444,500.

[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 option plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board.

During the three months ended September 30, 2018, the Company recorded $1,305,646 (2017 – $219,623) 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. 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:

	September 30, 2018	June 30, 2018
Risk-free interest rate	1.54% – 2.13%	1.54% – 2.14%
Expected life of options (years)	3 – 5	1 – 5
Expected annualized violability	100%	70%-100%

(Unaudited – Expressed in Canadian dollars)

Expected dividend yield	nil	nil
Black-Scholes value range	\$0.47 – \$0.64	\$0.47 – \$0.64

Volatility was estimated by reference to the historical volatility of comparable companies. The expected life in years represents the period 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 outstanding at September 30, 2018:

	Number of stock options	Weighted average exercise prices
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
Forfeited	(100,000)	0.90
Expired	(50,000)	0.90
Outstanding, September 30, 2018	**13,030,000**	**0.73**
Exercisable, September 30, 2018	**9,036,458**	**0.70**

The weighted average remaining life of the options is 2.8 years.

9. Warrant reserve

The continuity of share purchase warrants outstanding is as follows:

	Number	Amount \$
Balance at June 30, 2017	26,226,366	4,839,637
Warrants issued in private placement (i)	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
Expired warrants	(1,100,000)	-
Warrants exercised into common shares	(1,530,000)	(43,501)
Balance at September 30, 2018	32,397,926	5,358,545

(i) 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. 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.

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

Year of Issue	Exercise Price	Expiration	Underlying Shares	Exercisable
2014	\$0.10	January 7, 2019	4,400,000	4,400,000
2016	\$0.65	December 2, 2018	460,000	460,000
2016	\$0.75	December 2, 2020	18,636,364	18,636,364
2018	\$1.15	January 26, 2020	8,901,560	8,901,560

(Unaudited – Expressed in Canadian dollars)

10. Related party transactions

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

	Three months ended September 30, 2018	Three months ended September 30, 2017
Consulting, salaries and wages	$283,545	$229,772
Share-based payment	1,203,519	201,281
Total	$1,487,064	$431,052

11. Commitments

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

2019 (9 months)	$106,630
2020	121,970
	$228,600

Rental expense was $43,047.60 for the three months ended September 30, 2018 (2017 - $22,800).

12. 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.

13. Financial instruments

The Company's financial instruments are classified into one of the following categories: Other receivables and financial liabilities at amortized cost. The carrying values of the Company's financial instruments are summarized as follows:

	September 30, 2018	June 30, 2018
	$	$
Other receivables (1)	10,205,965	12,574,612
Financial liabilities (2)	1,176,924	1,261,796

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

The Company's financial instruments consist of cash and cash equivalents, accounts and 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 cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and advances from shareholder approximates 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 condensed interim 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 September 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 or Mexican pesos and the Company raises funds in Canadian dollars. As at September 30, 2018 the Company believes the currency risk is 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 is 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.

14. Subsequent events

(i) On October 30, 2018 the Company announced that it had entered into a letter agreement to acquired 100% of the outstanding shares of 2599708 Ontario Inc. doing business as Good & Green ("Good and Green"), a licensed producer under the *Cannabis Act*. Consideration for the acquisition is the issuance of 24,657,534 of the Company's common shares. Of the 24,657,534 common shares, 13,652,968 shares will be held in escrow for eighteen months, and released 25% on TSXV approval and 25% equally at 6, 12 and 18 months after closing, and 7,351,598 shares will be held in escrow for twelve months, and released 33% on TSXV approval and 33% equally at 6 and 12 months after closing.

(ii) On October 30, 2018 the Company announced a financing for minimum gross proceeds of $10,000,000 through the issuance of preferred units ("Preferred Units") and common share units ("Common Unit"). The Preferred Shares will be convertible into Common Shares of the Company and will rank *parri passu* with the Common Shares in all respects, other than the holder's right to redeem at par if certain provisions concerning confidentiality and restrictions against unlawful U.S. operations are breached by 48North. Additional information with respect to the Preferred Shares will be provided in the meeting materials to be delivered to shareholders of the Company in connection with the annual and special meeting of shareholders on January 7, 2019. Each Common Unit will be comprised of one Common Share and one quarter Common Share Purchase Warrant (each whole Common Share Purchase Warrant, a "Common Warrant"). Each full Common Warrant will entitle the holder to acquire an additional Common Share of 48North for a period of 12 months from the date of issue at a strike price of $1.15, provided that, the expiry of the warrants can be accelerated if the closing price of the Company's common shares on the TSX Venture Exchange ("TSXV") is at least $1.50 for a minimum of 10 consecutive trading days and a notice of acceleration is provided in accordance with the terms of the warrant, may accelerate the expiry date to the warrants to a date 30 days after the date of the notice.