



48NORTH CANNABIS CORP.

Condensed Interim Consolidated Financial Statements

(Unaudited)

As at December 31, 2018

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48NORTH CANNABIS CORP.

Condensed Interim Consolidated Statements of Financial Position

As at December 31, 2018 and June 30, 2018

(Unaudited – in Canadian dollars)

	December 31	June 30
	2018	2018
	\$	\$
	(unaudited)	
ASSETS		
Current		
Cash and cash equivalents	12,042,072	12,231,484
Accounts and other receivables [note 6]	1,239,472	343,128
Prepaid expenses	179,863	156,518
Biological assets [note 5]	890,740	595,023
Inventory [note 5]	928,285	108,567
Total current assets	15,280,432	13,434,720
Property, plant and equipment, net [note 7]	19,111,568	12,428,150
License [note 10]	9,803,312	—
Goodwill [note 10]	2,074,897	—
Total assets	46,270,209	25,862,870
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	1,937,015	1,439,292
Mortgage payable [note 11]	2,300,000	—
Total current liabilities	4,237,015	1,439,292
Deferred income tax liability [note 10]	2,074,897	—
Total liabilities	6,311,912	1,439,292
Shareholders' equity		
Share capital [note 8]	56,211,957	40,876,340
Stock-based payments reserve [note 8]	6,025,461	4,209,648
Warrants reserve [note 9]	5,645,468	5,402,046
Contributed surplus	184,175	160,525
Deficit	(28,108,764)	(26,224,981)
Total shareholders' equity	39,958,297	24,423,578
Total liabilities and shareholders' equity	46,270,209	25,862,870

Continuance of operations and going concern [note 2]

Commitments [note 13]

Subsequent events [note 16]

On behalf of the Board:

/s/ Martin Cauchon

Martin Cauchon, Chairman

/s/ William Assini

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 and six months ended December 31, 2018 and 2017*

(Unaudited – in Canadian dollars)

	Three months ended		Six months ended	
	December 31		December 31	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue	2,386,905	—	3,658,449	—
Cost of sales				
Inventory expensed to cost of sales, before fair value adjustments	524,364	—	524,364	—
Inventory impairment costs [note 5]	—	50,372	—	98,287
Gross profit (loss) before fair value adjustments	1,862,541	(50,372)	3,134,085	(98,287)
Unrealized fair value adjustment on growth of biological assets [note 5]	1,377,829	(50,372)	2,268,071	(98,287)
Realized fair value adjustment on inventory sold [note 5]	(1,539,713)	—	(1,539,713)	—
Gross profit (loss)	1,700,657	(50,372)	3,862,443	(98,287)
ADMINISTRATIVE EXPENSES				
General and administrative	1,244,186	1,247,308	2,415,215	2,412,159
Sales and marketing	444,888	59,708	829,075	107,638
Stock-based payments [note 8]	533,817	523,866	1,839,463	743,489
Depreciation [note 7]	350,394	177,577	662,473	355,155
	2,573,285	2,008,459	5,746,226	3,618,442
Loss before undernoted	(872,628)	(2,058,831)	(1,883,783)	(3,716,729)
Income taxes	—	—	—	—
Net and comprehensive loss for the period	(872,628)	(2,058,831)	(1,883,783)	(3,716,729)
Basic and fully diluted loss per share	(0.0096)	(0.0359)	(0.0222)	(0.0652)
Weighted average number of common shares outstanding [000's]	90,892	57,280	84,982	56,967

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.**Condensed Interim Consolidated Statements of Cash Flows***For the six months ended December 31, 2018 and 2017*

(Unaudited - in Canadian dollars)

	Six months ended December 31	
	2018	2017
	\$	\$
OPERATING ACTIVITIES		
Net loss for the period	(1,883,783)	(3,716,729)
Add (deduct) items not involving cash		
Unrealized fair value adjustment on growth of biological assets	(2,268,071)	98,287
Realized fair value adjustment on inventory sold	1,539,713	—
Inventory expensed to cost of sales, before fair value adjustments	524,364	
Depreciation	662,473	355,155
Stock-based payments	1,839,463	743,489
	414,158	(2,519,798)
Changes in non-cash working capital:		
Net change in accounts receivables	(896,346)	285,188
Net change in prepaid expenses	(2,262)	(128,514)
Net change in cash inventory purchases	(112,811)	12,467
Net change in biological assets associated with cash	(798,629)	(98,287)
Net change in accounts payable and accrued liabilities	361,377	(241,512)
Cash used operating activities	(1,034,513)	(2,690,456)
FINANCING ACTIVITIES		
Cash acquired on acquisition of Good & Green Cannabis Corp.	92,394	
Proceeds from private placements (net of issuance costs)	2,958,927	—
Proceeds from exercise of stock options and warrants	784,500	—
Cash provided by financing activities	3,835,821	—
INVESTING ACTIVITIES		
Acquisition of property plant and equipment	(1,345,715)	(370,932)
Payment towards farm purchase	(1,645,005)	—
Advanced subscription received	—	109,000
Cash used in investing activities	(2,990,720)	(261,932)
Net change in cash and cash equivalents during the period	(189,412)	(2,952,388)
Cash and cash equivalents, beginning of period	12,231,484	3,876,877
Cash and cash equivalents, end of period	12,042,072	924,489

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.**Condensed Interim Consolidated Statement of Changes in Equity***For the six months ended December 31, 2018 and 2017*

(Unaudited – in Canadian dollars)

	Common shares		Warrants	Stock - based reserve	Contributed surplus	Deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$	\$
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
Issuance of shares on liquidity entitlement	1,863,636	—	—	—	—	—	—
Stock-based compensation	—	—	—	743,489	—	—	743,489
Expiry of Options	—	—	—	(52,575)	52,575	—	—
Net loss for the period	—	—	—	—	—	(3,716,729)	(3,716,729)
Balance at December 31, 2017	58,535,584	23,513,971	4,839,637	2,607,443	160,525	(17,521,379)	13,600,197
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
Issued on exercise of warrants (net)	4,930,000	936,801	(152,301)	—	—	—	784,500
Stock-based compensation	—	—	—	1,839,463	—	—	1,839,463
Expired Options	—	—	—	(23,650)	23,650	—	—
Issuance of common shares for cash	4,000,000	2,563,204	395,723	—	—	—	2,958,927
Issuance of common shares on acquisition	24,657,525	11,835,612	—	—	—	—	11,835,612
Net loss for the period	—	—	—	—	—	(1,883,783)	(1,883,783)
Balance at December 31, 2018	111,780,061	56,211,957	5,645,468	6,025,461	184,175	(28,108,764)	39,958,297

See accompanying notes to unaudited condensed interim consolidated financial statements.

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NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended December 31, 2018 and 2017

(Unaudited – Expressed in Canadian dollars)

1. Corporate information

48North Cannabis Corp., formerly Kramer Capital Corp. (“Company” or “48North”), has two wholly owned subsidiaries, 48North Amalco Ltd. (“Amalco”) and Good & Green Cannabis Corp. (“G&GCC”). The Company, through DelShen Therapeutics Corp. (“DelShen”), a wholly-owned subsidiary of Amalco, is licensed to produce, sell and extract cannabis pursuant to the Cannabis Act. The Company, through 2599760 Ontario Corp. d/b/a Good & Green (“G&G”), a wholly-owned subsidiary of G&GCC is licensed to produce cannabis pursuant to the Cannabis Act. 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 Cannabis Act remained with DelShen.

On November 23, 2019, the Company incorporated 2667087 Ontario Inc. as a holding company to affect the Good & Green transaction. On November 30, 2018, 2667087 Ontario Inc. acquired 100% of 25599708 Ontario Inc. through an amalgamation and changed its name to Good & Green Cannabis Corp. G&GCC owns 100% of the issued and outstanding shares of 2599760 Ontario Corp. d/b/a Good & Green, 2618351 Ontario Inc., and 2656751 Ontario Ltd. (see note 10). 2618351 Ontario Inc. is a holding company for the indoor Brantford facility and 2656751 Ontario Ltd. is a holding company for a 100 acre farm near Brantford.

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 fiscal 2019. On February 28, 2017, Health Canada granted a cultivation licence for the Company’s DelShen 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.

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On November 8, 2018, Health Canada granted the Company's G&G Brantford facility a cultivation license with an expiry of October 12, 2021. G&G planted its first two initial crops in October 2018 and harvested the initial crops in January 2019. As of February 2019, the initial crops results have been submitted to Health Canada for testing. In October 2018, G&G applied for an outdoor grow cultivation license with Health Canada for 100 acres of farm land near the Brantford facility.

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 December 31, 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 the Company's wholly owned subsidiaries, Amalco, DelShen, G&GCC and its wholly owned subsidiaries; G&G, 2618351 Ontario Inc., and 2656751 Ontario Ltd. 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 condensed interim consolidated financial statements include the following subsidiaries:

Name of Subsidiary	% Ownership	Principal Activity
48North Amalco Ltd.	100% by Company	Holding company
DelShen Therapeutics Corp.	100% by Amalco	Licensed producer
Good & Green Cannabis Corp.	100% by Company	Holding company
2599760 Ontario Corp. dba Good & Green	100% by G&GCC	Licensed producer
2618351 Ontario Inc.	100% by G&GCC	Holding company
2656751 Ontario Ltd.	100% by G&GCC	Holding company

The Company's Board of Directors approved these unaudited condensed interim consolidated financial statements on February 21, 2019.

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) Changes in accounting policies

The Company has changed its accounting policy with respect to production costs related to biological assets. Prior to this change, the Company expensed any costs related to production of biological assets in the period incurred. The Company now capitalizes production costs related to biological assets and expenses these costs to realized fair value on inventory sold as the inventory is sold. Non-recurring start-up costs are expensed directly through realized fair value on inventory sold. The Company also revised its presentation in the consolidated statement of loss to separate fair value adjustments for both biological assets and inventory sold in the period. The amended policy is as follows:

(i) Biological assets

While the Company's biological assets, consisting of cannabis plants, are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, utilities, facilities costs. Capitalized costs are subsequently recorded within realized fair value on inventory sold in the consolidated statements of loss in the period that the related product is sold.

The Company measures biological assets, at fair value less cost to sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are separately recorded in the consolidated statement of loss for the related period.

Biological assets were measured at a fair value of nil in reporting periods prior to the Company obtaining its sales license on June 22, 2018, as management could not reasonably assess the likelihood of obtaining the sales license from Health Canada at the time. As a result, all capitalized costs related to biological assets were expensed through changes in fair value of biological assets.

(ii) Inventory

Inventory of harvested bulk cannabis and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. 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.

Supplies and consumables are valued at the lower of costs and net realizable value, with cost determined based on an average cost basis.

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(Unaudited – Expressed in Canadian dollars)

The change in accounting policy has been applied retrospectively. As there were no biological assets and cannabis inventory prior to June 22, 2018, comparatives were not impacted by this change in policy. However, the presentation of production costs in fiscal 2018 is now captured as unrealized fair value adjustment on growth of biological assets in the comparative period.

The change in policy noted in (i) and (ii) above will impact the previously reported periods in fiscal 2019. The following table summarize the effect.

Condensed interim consolidated statement of loss For the three months ended September 30, 2018	As previously reported	Adjustments	As Restated
Production costs	406,834	(406,834)	—
Unrealized fair value adjustment on growth of biological assets	(1,297,075)	406,834	(890,241)
Condensed interim consolidated statement of cash flows For the three months ended September 30, 2018	As previously reported	Adjustments	As Restated
Items not affecting cash	(1,297,075)	406,834	(890,241)
Changes in non-cash working capital	406,834	(406,834)	—

c) 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 Financial Instruments replaced IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The Company adopted IFRS 9 using the retrospective approach where the cumulative impact of adoption was recognized in retained earnings as at July 1, 2018 and comparatives were not restated.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company’s business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest (“SPPI”). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income (“FVTOCI”), or (iii) at fair value through profit or loss (“FVTPL”). Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost. The change did not impact the carrying amounts of any of our financial assets and liabilities on the adoption date.

The following table summarizes the classification of the Company’s financial instruments under IAS 39 and IFRS 9:

	IAS 39 Classification	IFRS 9 Classification
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable excluding taxes receivable	Loans and receivables	Amortized cost
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Mortgage payable	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost

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(Unaudited – Expressed in Canadian dollars)

The adoption of IFRS 9 did not have an impact on the Company's classification and measurement of financial assets and liabilities.

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date. For trade accounts receivable, the Company utilized a provision matrix, as permitted under the simplified approach, and has measured the expected credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to debtors and other relevant factors. The carrying amount of trade receivables is reduced for any expected credit losses through the use of an allowance for doubtful accounts ("AFDA") provision. Changes in the carrying amount of the AFDA provision are recognized in the statement of comprehensive income. When the Company determines that no recovery of the amount owing is possible, the amount is deemed irrecoverable and the financial asset is written off. The adoption of the new expected credit loss impairment model had a negligible impact on the carrying amounts of financial assets recognized at amortized cost.

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

The IASB replaced IAS 18 Revenue in its entirety with IFRS 15 Revenue from Contracts with Customers. The Company adopted IFRS 15 using the modified retrospective approach, where the cumulative impact of adoption was required to be recognized in retained earnings as of July 1, 2018 and comparatives were not required to be restated.

The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time or over time, the assessment of which requires judgment. The model features the following five-step contract-based analysis of transactions to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer;
2. Identify the performance obligation(s) in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligation(s) in the contract; and
5. Recognize revenue when or as the Company satisfies the performance obligation(s).

In accordance with IFRS 15, revenue from the sale of cannabis is generally recognized when control over the goods has been transferred to the customer. Payment is typically due prior to shipment or shortly after shipment and is recognized into revenue upon the satisfaction of the performance obligation. The Company satisfies its performance obligation and transfers control to the customer upon delivery and acceptance by the customer, the timing of which is consistent with the Company's previous revenue recognition policy under IAS 18.

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the end-user customer. The excise taxes payable is the higher of (i) a flat-rate duty which is imposed when a cannabis product is packaged, and (ii) an *ad valorem* duty that is imposed when a cannabis product is delivered to the end-user customer. Where the excise tax has been billed to end-user customers, the Company would reflect the excise tax as part of revenue in accordance with IFRS 15. Net revenue from sale of goods, as presented on the Condensed Interim Consolidated Statements of Comprehensive (Loss) Income, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers. To date the Company has been selling to other licensed producers and therefore has not incurred any excise taxes. The adoption of this new standard had no impact on the amounts recognized in its condensed consolidated interim financial statements.

IFRS 16 – Leases ("IFRS 16")

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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.

5. Biological assets and inventories

a) Biological assets

The Company received its DelShen 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 six months ended December 31, 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	2,268,071
Production costs capitalized to biological assets	794,734
Transferred to inventory upon harvest	(2,767,088)
Balance at December 31, 2018	\$890,740

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 December 31, 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 capitalize production costs related to biological assets and expenses these costs to realized fair value on inventory sold as the inventory is sold. Shipping and fulfillment charges and any related depreciation are expensed to cost of goods sold in the period in which

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the costs 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.

	<u>5% decrease as at December 31, 2018</u>			<u>5% decrease as at June 30, 2018</u>		
	As at December 31, 2018	Biological assets	Inventory	As at June 30, 2018	Biological assets	Inventory
Yield per plant	87 grams	\$(44,537)	–	87 grams	\$(29,751)	–
Percentage of costs	\$1.60	\$48,456	\$20,876	\$1.60	\$32,369	\$2,779
Stage of growth	6 weeks	\$(44,537)	–	6.4 weeks	\$(29,751)	–

b) Inventories

The Company's inventory assets include the following as of December 31, 2018.

	December 31, 2018	June 30, 2018
Dried and drying Cannabis	\$815,474	\$108,567
Cannabis Accessories	112,811	—
	\$928,285	\$108,657

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. During the three and six months ending December 31, 2017, \$50,372 and \$98,287, respectively, of costs were capitalized and as the Company did not have a sales license, the inventory amounts were determined to be impaired and expensed in the period. Approximately 13 kilograms of dried flower that was harvested prior to June 22, 2018, remains in inventory as at December 31, 2018 at an expected value of \$63,355.

6. Accounts and other receivables

	December 31, 2018	June 30, 2018
	\$	\$
Accounts receivable	1,073,769	–
GST/HST recoverable	165,703	211,628
Deposit refund due	—	131,500
	1,239,472	343,128

7. Property, plant and equipment

	Land	Building	Machinery and equipment	Furniture and fixtures	Vehicle	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	104,300	-	-	291,334	763,617
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	1,498,000	3,250,000	1,220,854	-	-	1,380,592	7,349,446
Allocation from construction in progress	-	-	538,354	-	-	(538,354)	-
Disposals during the period	-	-	-	-	(16,000)	-	(16,000)

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As at December 31, 2018	1,705,151	11,041,293	6,666,833	6,159	42,837	1,133,572	20,595,846
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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
Adjustments	-	-	-	-	-	-	-
As at June 30, 2018	-	168,978	625,506	2,612	37,154	-	834,250
Depreciation for the period	-	163,280	495,875	355	2,964	-	662,474
Disposals during the period	-	-	-	-	(12,446)	-	(12,446)
As at December 31, 2018	-	332,258	1,121,381	2,966	27,672	-	1,484,278

Net Book Value

As at June 30, 2018	207,151	7,622,314	4,282,120	3,547	21,683	291,334	12,428,150
As at December 31, 2018	1,705,151	10,709,035	5,545,453	3,193	15,165	1,133,572	19,111,568

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
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 for cash (v)	4,000,000	2,563,204
Issuance of common shares on acquisition (vi)	24,657,525	11,835,612
Issuance of common shares on exercise of warrants (iv)	4,930,000	936,801
Balance at December 31, 2018	111,780,061	\$ 56,211,957

- (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 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

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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 six months ended December 31, 2018, the Company issued 4,930,000 common shares upon the exercise of 4,930,000 warrants valued at \$152,301 for gross proceeds of \$936,801.
- (v) On November 30, 2018, the Company issued 4,000,000 units at a price of \$0.75 per share raising gross proceeds of \$3,000,000. Each unit comprised one common share and one quarter common “Share Purchase Warrant”. Each whole Share Purchase Warrant allows the holder to purchase one common share at a price of \$1.15 per share at any time prior to November 30, 2020. The Company has the right to convert the Share Purchase Warrants prior to November 30, 2020 in the in the event that the closing trading price of the Common Shares on the TSX Venture Exchange is \$1.50 or greater for 10 consecutive trading days.
- (vi) On November 30, 2018, the Company acquired 100% of the issued and outstanding common shares of 2599708 Ontario Inc., the parent company of G&G, a licensed producer and its subsidiaries through the issuance of 24,657,525 common shares of the Company. The Company’s common shares were valued at \$0.48, being the market close price on November 29, 2019. See note 10 for further acquisition details.

[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 and six months ended December 31, 2018, the Company recorded \$533,817 (2017 – \$523,866) and \$1,839,463 (2017 – \$743,489), respectively 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:

	December 31, 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 volatility	90%-100%	70%-100%
Expected dividend yield	nil	nil
Black-Scholes value range	\$0.29 – \$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 December 31, 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
Granted	2,410,000	0.47
Cancelled	(150,000)	0.90

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Outstanding, December 31, 2018	15,440,000	0.69
Exercisable, December 31, 2018	10,473,333	0.69

The weighted average remaining life of the options is 2.2 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	(1,560,000)	-
Warrants issued in private placement (ii)	1,000,000	395,723
Warrants exercised into common shares	(4,930,000)	(152,301)
Balance at December 31, 2018	29,537,926	5,645,468

(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.

(ii) On November 30, 2018, the Company raised gross proceeds of \$3,000,000 by way of a non-brokered private placement of 4,000,000 units (“Unit”) at a price of \$0.75 per share. Each Unit comprised one common share and one quarter common “Share Purchase Warrant”. Each whole Share Purchase Warrant allows the holder to purchase one common share at a price of \$1.15 per share at any time prior to November 30, 2020. The estimated fair value of the warrants of \$395,723 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 90%, a risk-free interest rate of 2.18% and an expected life of 1.0 year.

As of December 31, 2018, the following warrants were outstanding:

Year of Issue	Exercise Price	Expiration	Underlying Shares	Exercisable
2014	\$0.10	January 7, 2019	1,000,000	1,000,000
2016	\$0.75	December 2, 2020	18,636,366	18,636,366
2018	\$1.15	January 26, 2020	8,901,560	8,901,560
2018	\$1.15	November 30, 2019	1,000,000	1,000,000

10. Acquisition of 25599708 Ontario Inc. d/b/a Good & Green

On November 30, 2018, the Company acquired all of the shares of 25599708 Ontario Inc. through an amalgamation of 2667087 Ontario Inc. and 25599708 Ontario Inc. and changed the amalgamated name to Good & Green Cannabis Corp. G&GCC has three wholly owned subsidiaries; 2599760 Ontario Corp. dba Good & Green (a licensed entity under the Cannabis Act), 2618351 Ontario Inc., and 2656751 Ontario Ltd. The purchase price was \$11,835,612 and satisfied through the issuance of 24,657,525 common shares in the Company.

The Company is in the process of determining the fair market value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations. The table below summarizes the preliminary fair value of the assets acquired and the liabilities assumed at the acquisition date:

Consideration paid	Number of shares	Share price (1)	Amount
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Shares issued	24,657,525	\$0.48	\$11,835,612
Total consideration paid			\$11,835,612
Net Assets acquired			
Cash and cash equivalents			63,341
Prepaid expenses			21,083
Accounts and other receivables			29,054
Current Assets			113,478
Property, plant and equipment			6,000,172
License			9,803,312
Goodwill			2,074,897
Total assets			17,991,859
Current liabilities			
Accounts payable and accrued liabilities			136,345
Mortgage payable			2,300,000
Deferred income tax liability			2,074,897
Due to 48North Cannabis Corp.			1,645,005
Total liabilities			6,156,247
Total net assets acquired			\$11,835,612

(1) Share price based on the price of the shares on November 30, 2018.

The deferred income taxes of \$2,074,897 is calculated by multiplying the non-deductibility of licenses acquired for tax purposes times the combined Canadian federal and provincial statutory income tax rate of 26.5%. Deferred tax 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. A corresponding amount has been recorded as goodwill.

11. Mortgage payable

As part of the G&GCC acquisition, there is a \$2,300,000 principal mortgage on the Morton Avenue property that is owned by 2618351 Ontario Inc. Interest is 10% per annum. Monthly interest payments of \$19,166.67 are payable and the principal balance was repaid in full on February 6, 2019.

12. Related party transactions

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

	Six months ended December 31, 2018	Six months ended December 31, 2017
Consulting, salaries and wages	\$632,575	\$466,233
Share-based payments	1,545,794	596,412
Total	\$2,178,369	\$1,062,645

13. Commitments

Lease commitments:

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

2019 (6 months)	\$ 72,186
2020	121,970
	\$194,156

Rental expense for the three and six months ended December 31, 2018 was \$35,844 (2017 - \$27,661) and 78,891 (2017 - \$50,461) respectively.

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

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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 amortized cost. The carrying values of the Company's financial instruments are summarized as follows:

	December 31, 2018	June 30, 2018
	\$	\$
Other receivables ⁽¹⁾	13,281,544	12,574,612
Financial liabilities ⁽²⁾	4,237,014	1,439,292

⁽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 December 31, 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 December 31, 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.

16. Subsequent events

- (i) On January 7, 2019, at the annual and general meeting of shareholders, disinterested shareholders approved the Company's Restricted Share Unit ("RSU"). The Board intends to use RSU's, as well as Options, as part of the Company's overall Board and executive compensation plan. Since the value of RSUs increase or decrease with the price of the Common Shares, RSUs reflect a philosophy of aligning the interests of holders there with those of the shareholders by tying compensation to share price performance. In addition, RSUs assist in the retention

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of qualified and experienced persons by rewarding those individuals who make a long term commitment. The RSU Plan is more fully described in the Company's Management Information Circular dated December 3, 2018 and available on sedar.com.

- (ii) On February 5, 2019, the Company issued 9,393,333 units at a price of \$0.75 per share raising gross proceeds of \$7,045,000. Each unit comprised one common share and one quarter common "Share Purchase Warrant". Each whole Share Purchase Warrant allows the holder to purchase one common share at a price of \$1.15 per share at any time prior to February 5, 2020. The Company has the right to convert the Share Purchase Warrants prior to February 5, 2020 in the in the event that the closing trading price of the Common Shares on the TSX Venture Exchange is \$1.50 or greater for 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. The Company and the holder have entered into an agreement that provides the holder a right to require the Company to repurchase its Common Shares at the Company's 5-day VWAP if certain provisions concerning confidentiality and restrictions against unlawful U.S. operations are breached by 48North.