

48^N

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
("MD&A")**

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2019

48NORTH CANNABIS CORP.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the three and nine months ended March 31, 2019

This management discussion and analysis of the financial condition and results of operations ("MD&A") of 48North Cannabis Corp. ("Company" or "48North"), is for the three and nine months ended March 31, 2019 and is dated May 16, 2019. The MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended March 31, 2019.

This MD&A provides information that the management of the Company believes is important to assess and understand the results of operations and financial conditions of the Company. All amounts are presented in Canadian dollars, unless otherwise noted. The Company's condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports, annual information forms and prospectus are available on-line at www.sedar.com.

Forward-Looking Statements

This MD&A may contain statements that are "forward-looking statements". These include statements about the Company's expectations, beliefs, plans, objectives and assumptions about future events or performance. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to", "will continue", "anticipate", "believes", "estimate", "intend", "plan", "would", and "outlook" or statements to the effect that actions, events or results "will", "may", "should" or "would" be taken, occur or be achieved. Forward-looking statements are not historical facts, and are subject to a number of risks and uncertainties beyond the Company's control. Accordingly, the Company's actual results could differ materially from those suggested by these forward-looking statements for various reasons discussed throughout this analysis. Forward-looking statements are made on the basis of the beliefs, opinions and estimates of the Company's management on the date the statements are made and the Company does not undertake any obligation to update forward-looking statements if the circumstances or management's beliefs, opinions or estimates should change. Readers should not place undue reliance on forward-looking statements.

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 and extract 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". Some of the Company's warrants are listed on the TSXV under the trading symbol "NRTH.WT".

The Company was incorporated under the laws of Alberta on October 29, 2010, and continued into British Columbia on August 16, 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 that amalgamation, 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, 2018 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. 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.

Business Overview

48North is a vertically integrated cannabis company servicing the Canadian medical and recreational cannabis markets.

The Company primarily operates its cannabis business through two, indirect, wholly-owned subsidiaries, DelShen and G&G, both of which are licensed under the *Cannabis Act*. DelShen is licensed to produce, sell and extract cannabis pursuant to the Cannabis Act at DelShen's indoor cannabis production facility ("DelShen Facility"), located near Kirkland Lake, Ontario. G&G is licensed to produce cannabis pursuant to the *Cannabis Act* at G&G's indoor cannabis production facility ("G&G Facility"), located in Brantford, Ontario.

On February 28, 2017, Health Canada granted the Company's DelShen facility a cultivation license and subsequently extended the expiry of the license to February 26, 2021. DelShen planted its first two cannabis crops in June 2017 and harvested them in November 2017. The initial crops were submitted to Health Canada for testing. DelShen's license to sell was granted on June 22, 2018 and is valid until February 26, 2021. On September 13, 2018, Health Canada granted DelShen an extraction license.

On February 28, 2018, Kramer Capital Corp. ("Kramer") and the Company signed an Acquisition Agreement, pursuant to which Kramer acquired 100% of the issued and outstanding securities of the Company in exchange for the issuance by Kramer of economically equivalent securities to the former securityholders of the Company. Kramer was a Capital Pool Corporation and a reporting issuer on the TSXV. The acquisition of the Company by Kramer constituted a Qualifying Transaction under relevant policies of the TSXV. On June 5, 2018, the Exchange approved the Qualifying Transaction. On June 11, 2018, the Company started trading on the Exchange under the symbol "NRTH".

On October 12, 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 have been submitted for third party lab testing and the results sent to Health Canada. On March 8, 2019 Health Canada granted the G&G an extraction license. In October 2018, G&G applied for an outdoor grow cultivation license with Health Canada for 100 acres of farm land near the Brantford location ("G&G Farm").

As at June 30, 2018 the Company had no revenues from the sale of medical cannabis. During Q1 of fiscal 2019, the Company began selling to cannabis to other licensed producers. In November 2019, the Company entered into a twelve-month cannabis supply agreement with Canopy Growth Corporation for a minimum of 1,200 kilograms of

dried cannabis. The first 100-kilogram transfer under the supply agreement was shipped from 48North's DelShen facility to Canopy in December 2018.

The Company's business is focused on Canada. It is a policy of the Company that the Company will not invest, directly or indirectly, in any business that derives revenue from the sale of cannabis or cannabis products in the United States or in any other jurisdiction where the sale of cannabis is federally unlawful.

48North continues to invest significant time, effort, capital and resources in activities related to the Canadian recreational cannabis market. These investments cover the Company's entire business operations including cultivation, production, marketing, sales and general administration. With the passing of Bill C-45 (*Cannabis Act*) on June 19, 2018 and the roll out of the recreational market on October 17, 2018, the Company believes the selling of its cannabis production to other licensed producers will provide the Company with revenues until such times as ancillary product offering, such as edibles, cosmetics, and health and wellness products are able to be sold into the Canadian market.

Results of Operations

During the three months ended March 31, 2019 the Company generated revenues of \$689,203 (2018 - Nil) through sales with other licenced producers. During the nine months ended March 31, 2019 the Company generated revenues of \$4,347,652 (2018 - Nil). With legalization occurring on October 17, 2018, the Company believes that, for the short term, sales to other licensed producers provides better revenues net of sales costs per gram than can be obtained through the retail market. With the expected changes in legislation in October 2019 to allow for the sale of other cannabis forms, the Company is preparing to create, package and sell additional cannabis products. As such, inventories have increased as the Company believes that it will need additional cannabis to meet the October 2019 timelines.

The Company started growing plants and expanded production during the year ended June 30, 2018. During the second quarter of fiscal 2019, the Company 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 cost of sales before fair value adjustments as the inventory is sold. Non-recurring start-up costs are expensed directly through realized fair value on inventory sold. Unrealized fair value adjustment on growth of biological assets were \$(2,852,437) (2018 - \$nil) and \$(5,120,508) (2018 - \$nil) for the three and nine months ending March 31, 2019, respectively. This adjustment represents the increase in value of plants during the quarter. Realized fair market adjustment on inventory sold was \$(655,420) (2018 - \$nil) and \$(2,195,133) (2018 - \$nil) for the three and nine months ending March 31, 2019, respectively. This adjustment represents the recorded cost of the inventory sold during the quarter. During the three and nine months ending March 31, 2018, \$226,589 and \$324,876, 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 4 kilograms of dried flower that was harvested prior to June 22, 2018, remains in inventory as at March 31, 2019 at an expected value of \$20,425. Prior to the Company receiving its sales license on June 22, 2018, all DelShen inventories and biological assets were valued at zero (and therefore as the pre-sales license inventories were sold, their corresponding costs were zero).

General and administrative expenses were \$1,932,473 and \$4,347,692 for the three and nine months ended March 31, 2019, respectively compared to \$1,285,353 and \$3,697,511 for the similar periods in 2018. Salaries and benefits expense for the three and nine months ended March 31, 2019 increased to \$1,221,575, and \$2,746,726 respectively, from the \$746,731 and \$1,903,684 incurred in the similar period ended March 31, 2018. Direct labour production costs of \$182,648 and \$544,711 were capitalized to biological assets during the three and nine months ended March 31, 2019. The total costs associated with salaries and benefits therefore increased by \$657,492 and \$1,387,753 year over year for the three and nine month periods, which reflects additional staffing required to facilitate significant production increases along with additions to the corporate team. Furthermore, with the acquisition of G&GCC on November 30, 2018, the third quarter results include the G&GCC costs, however the nine month results only include four months of operations.

During December 2018, the Company began preparing the G&G Farm by installing security measures (fencing, cameras, and IT infrastructure). This has led to an increase of construction in process of approximately \$1,147,479.

Earnings before interest, tax, depreciation and amortization, and stock-based compensation expense (“EBITDA”) for the three and nine months ended March 31, 2019 was \$77,630 and \$695,783 compared to \$(1,811,181) and \$(4,429,265) for the similar periods in 2018. EBITDA is a non-IFRS measure and is not a recognized measure for financial statement presentation under IFRS. EBITDA is not intended to be considered as an alternative to net earnings, cash flow from operations, or any other measure of performance prescribed by IFRS. The Company’s EBITDA may also not be comparable to EBITDA used by other companies, which may be calculated differently. The Company considers EBITDA to be a meaningful measure to assess its operating performance in addition to standardized IFRS measures. It is included because the Company believes it can be useful in measuring its ability to fund capital expenditures and expand its business.

The following table provides a quantitative reconciliation between EBITDA and the most directly comparable IFRS measure:

	Three months ended March 31,		Nine months ended March 31,	
	2019	2018	2019	2018
Net and comprehensive loss for the period	\$(1,471,587)	\$(3,402,998)	\$(3,355,370)	\$(7,119,726)
Stock-based payments	1,145,632	225,843	2,985,095	969,332
Interest and accretion	—	1,185,782	—	1,185,782
Depreciation	403,585	180,192	1,066,058	535,347
EBITDA	\$77,630	\$(1,811,181)	695,783	\$(4,429,265)

The Company utilized incentive stock options and restricted share units to attract and maintain key personnel, increasing the stock-based payments expense to \$1,145,632 and \$2,985,095 for the three and nine months ended March 31, 2019 from \$225,843 and \$969,332 for the three and nine months ended March 31, 2018. Stock-based payments for options were valued using the Black-Scholes valuation model and represents a non-cash expense. In determining the amount of stock-based compensation for restricted share units, the Company uses the closing price of the common shares on the restricted share unit grant date.

Depreciation for the three and nine months ended March 31, 2019 was \$403,585 and \$1,066,058 compared to \$180,192 and \$535,347 for the three and nine months ended March 31, 2018. With the acquisition of G&GCC in November 2018, the Company set up a valuation for the license and will be depreciating the asset over a 25 year period.

The Company incurred a net and comprehensive loss of \$1,471,587 (2018 - \$3,402,998) and \$3,355,370 (2018 – \$7,119,726) for the three and nine months ended March 31, 2019, respectively. At March 31, 2019, the Company had an accumulated deficit of \$29,580,351.

The following table sets forth, for the quarter indicated, information relating to the Company’s revenue, net loss and loss per common share for the eight most recently completed fiscal quarters.

	Revenues \$	Net Loss \$	Basic and Diluted Net Loss / Share \$
March 31, 2017	nil	(1,783,379)	(0.044)
June 30, 2017	nil	(2,588,588)	(0.064)
September 30, 2017	nil	(1,657,898)	(0.029)
December 31, 2017	nil	(2,058,831)	(0.036)
March 31, 2018	nil	(3,402,998)	(0.058)
June 30, 2018	nil	(5,300,604)	(0.096)
September 30, 2018	1,271,544	(1,011,154)	(0.013)
December 31, 2018	2,386,905	(872,628)	(0.0096)
March 31, 2019	689,203	(1,471,587)	(0.012)

Construction of the Facilities

Construction of the DelShen facility was substantially completed in June 2017, and the Company planted the initial crops in June 2017. The Company transferred the assets on the statement of financial position from construction in progress to property, plant and equipment, reflecting a capitalized expenditure for the facility of approximately \$12.5 million. During the second quarter of fiscal 2019, with the acquisition of G&GCC, the Company began preparing the G&G Farm by installing security measures (fencing, cameras, and IT infrastructure). This has led to an increase of construction in process of \$1,133,572.

Liquidity and Capital Resources

On January 26, 2018, the Company completed a \$16,010,000 brokered private placement of units ("Unit") at a price of \$1,000 per unit. Each Unit was comprised of one senior unsecured convertible debenture with a principal amount of \$1,000 (each a "Debenture") and 556 common share purchase warrants (each a "Warrant"). Each Warrant will entitle the holder thereof to acquire one common share in the capital of the Company at a price of \$1.15 for a period of 24 months following the completion of a listing by the Company on a recognized Canadian stock exchange. On June 5, 2018 the Debentures were automatically converted into common shares at a price of \$0.90 per share with the completion of a listing by the Company on a recognized Canadian stock exchange (Transaction"). The Company issued compensation options to the brokers to purchase 1,245,222 Compensation Units. Each Compensation Option is exercisable to purchase one unit of 48North ("Compensation Unit") at an exercise price of \$0.90 until June 5, 2020, with each Compensation Unit being comprised of one 48North Common Share and one-half of one Unit Warrant. Each full Unit Warrant will entitle the holder thereof to acquire one common share in the capital of the Company at a price of \$1.15 for a period of 24 months following the completion of the Transaction.

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, 2019. The Company has the right to convert the Share Purchase Warrants prior to November 30, 2020 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.

On February 5, 2019, the Company raised gross proceeds of \$7,045,000 by way of a non-brokered private placement of 9,393,333 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 February 5, 2020. The Company has the right to convert the Share Purchase Warrants prior to February 5, 2020 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.

The Company continually monitors its capital resources to assess the liquidity necessary to fund operations and future strategy. As at March 31, 2019 the Company had a cash and cash equivalents balance of \$17,990,481. The Company anticipates it will require additional funding to finance future growth and expansion of production capacity, to expand marketing awareness for the Company's brands and products and to look for acquisition opportunities. The Company has historically financed its working capital requirements primarily through equity and debt financings. The Company's ability to continue as a going concern is dependent upon being able to sell cannabis to other licensed producers, sell into the medical and recreational markets, provide products and brands to the women's health and wellness market place and thus, 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.

Subsequent to quarter end, on April 2, 2019, the Company issued 21,139,760 units, including 2,757,360 units from the full exercise of an over-allotment option, at a price of \$1.36 per share raising gross proceeds of \$28,750,073.60. Each unit comprised one common share and one half common share purchase warrant ("Share Purchase Warrant").

Each whole Share Purchase Warrant allows the holder to purchase one common share at a price of \$1.72 per share at any time prior to April 2, 2024. The Company has the right to convert the Share Purchase Warrants prior to April 2, 2024 in the event that the closing trading price of the Common Shares on the TSX Venture Exchange is \$3.30 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. 48North paid transaction costs of \$1,937,849 in cash and issued 1,195,416 options (“Compensation Options”) to brokers. Each Compensation Option is exercisable for one unit of 48North (“Compensation Unit”) at an exercise price of \$1.36 until April 2, 2022. Each Compensation Unit is comprised of one common shares and one-half of one warrant. Each full warrant allows the holder to purchase one common share at a price of \$1.72 per share until April 2, 2024.

Related party transactions

The aggregate value of transactions relating to key management personnel for the nine months ended March 31, 2019 were as follows:

Three months ended	March 31, 2019	June 30, 2018
Consulting, salaries and wages	\$980,012	\$986,480
Share-based payments	2,478,400	1,395,001
	\$3,458,412	\$2,381,481

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect upon its results of operations or financial condition, including, and without limitation, such considerations as liquidity and capital resources.

Use of Estimates and New Accounting Standards

The Company’s significant accounting policies under IFRS are contained in note 4 of the unaudited condensed interim consolidated financial statements for the three and nine months ended March 31, 2019 and 2018. Certain of these policies require management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods. Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the unaudited condensed interim financial statements relate to going concern assumptions, the estimated useful lives and depreciation of property, plant and equipment, valuation of convertible instruments and share-based payments and fair value measurements for inventory and biological assets.

Summary of Outstanding Share Data

The authorized capital of the company consists of an unlimited number of common shares. As of the date of this MD&A, the Company had the following securities issued and outstanding:

<u>Securities</u>	<u>Number</u>
Shares	166,576,965
Warrants	22,586,072
Broker compensation units (underlying shares)	1,846,457
Restricted share units	2,785,000
Options	<u>14,274,410</u>
Total Outstanding	<u>208,068,904</u>

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 looked at other cannabis companies and regulator’s comments and has also

reviewed CSA Staff Notice 51-357 for ‘best practices’ when it comes to significant accounting policies. The Company believes that the new accounting policy provides more reliable and relevant information to users as the gross profit before fair value adjustments only considers the costs incurred on inventory sold during the year, and excludes costs incurred on the biological transformation until the related harvest is 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 in value of biological assets.

The Company has been looking at disclosure of other cannabis companies and regulator’s comments and has also reviewed CSA Staff Notice 51-357 for ‘best practices’ when it comes to significant accounting policies. The new accounting policy for biological assets provides more reliable and relevant information to users as the gross profit before fair value adjustments only considers the costs incurred on inventory sold during the year, and excludes costs incurred on the biological transformation until the related harvest is sold.

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)	—

(ii) Restricted Share Units (“RSU”)

In January 2019 the Company established an RSU plan. For each RSU granted under the plan, the Company recognizes an expense equal to the market value of a 48North common share at the date of grant based on the number of RSUs expected to vest, and recognized over the term of the vesting period, with a corresponding credit to reserve for share based compensation anticipated to be equity settled. Certain performance based RSUs are subject to market

based vesting conditions and have been valued using a Monte Carlo valuation model. Compensation expenses are adjusted for subsequent changes in management’s estimate of the number of RSUs that are expected to vest. The effect of these changes is recognized in the period of the change.

New Accounting Pronouncements

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
<i>Financial assets</i>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable excluding taxes receivable	Loans and receivables	Amortized cost
<i>Financial Liabilities</i>		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Mortgage payable	Amortized cost	Amortized cost
Convertible debentures	Amortized cost	Amortized cost

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")

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.

Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents, other receivables, and accounts payable and accrued liabilities. Cash and cash equivalents are classified as fair value through profit or loss or Other Comprehensive loss and recorded at fair value. Other receivables and accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost or amortized cost less any impairment losses related to other receivable. The fair value of cash and cash equivalents, accounts payable and accrued liabilities are equal to their carrying value due to their short-term maturity. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The fair value of arms-length financial instruments approximates their carrying value due to the relatively short-term to maturity.

Subsequent events

- (i) On April 2, 2019, the Company issued 21,139,760 units, including 2,757,360 units from the full exercise of an over-allotment option, at a price of \$1.36 per share raising gross proceeds of \$28,750,073.60. Each unit comprised one common share and one half common share purchase warrant (“Share Purchase Warrant”). Each whole Share Purchase Warrant allows the holder to purchase one common share at a price of \$1.72 per share at any time prior to April 2, 2024. The Company has the right to convert the Share Purchase Warrants prior to April 2, 2024 in the event that the closing trading price of the Common Shares on the TSX Venture Exchange is \$3.30 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. 48North paid transaction costs of \$1,937,849 in cash and issued 1,195,416 options (“Compensation Options”) to brokers. Each Compensation Option is exercisable for one unit of 48North (“Compensation Unit”) at an exercise price of \$1.36 until April 2, 2022. Each Compensation Unit is comprised of one common share and one-half of one warrant. Each full warrant allows the holder to purchase one common share at a price of \$1.72 per share until April 2, 2024. The estimated fair value of the warrants of \$10,121,963 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 1.63% and an expected life of 5 years.
- (ii) On April 2, 2019, the Company exercised its acceleration rights under the warrants expiring on December 2, 2020 and provided notice to those warrant holders that effective May 2, 2019, those warrants will automatically expire. As of May 2, 2019 18,091,427 warrants were exercised for proceeds of \$13,568,570 and 135,757 warrants expired unexercised.

Risk Factors

The Company will be subject to certain risk factors. These risks include, but are not limited to, the following: (i) general business risk and liability; (ii) reliance on licenses; (iii) volatile market price for Resulting Issuer shares; (iv) reliance on facilities; (v) expansion of facilities; (vi) holding company status; (vii) limited operating history; (viii) history of net losses; (ix) third party transportation; (x) management of growth; (xi) reliance on management; (xii) conflicts of interest; (xiii) limited market for securities; and (xiv) liquidity risk. Please see “*Risk Factors*” in the Company’s annual MD&A and final prospectus as filed on Sedar and dated September 17, 2018 and March , for a more detailed description.

Risks Relating to the Medical Cannabis Industry

The Company is subject to certain risk factors in the medical cannabis industry. These risks include, but are not limited to, the following: (i) regulatory risks; (ii) environmental and employee health and safety regulations; (iii) changes in laws, regulations and guidelines; (iv) restrictions on sales and marketing; (v) competition; (vi) risks inherent in an agricultural business; (vii) vulnerability to rising energy costs; (viii) product liability; (ix) product recalls; and (x) operating risks and insurance coverage. Please see “*Risk Factors*” in the Company’s annual MD&A as filed on Sedar and dated September 17, 2018, for a more detailed description.