Consolidated Financial Statements of

48North Cannabis Corp.

June 30, 2019 and 2018

Independent Auditor's Report

To the Shareholders of 48North Cannabis Corp.:

Opinion

We have audited the consolidated financial statements of 48North Cannabis Corp. and its subsidiaries ("Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and June 30, 2018, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2019 and June 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $8,127,074 and negative cash flows from operations of $5,329,845 during the year ended June 30, 2019 and, as of that date, the Company had a deficit in the amount of $34,352,055. As stated in Note 2, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

MNP

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Patrycja Anna Kajda.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

September 27, 2019 — Licensed Public Accountants

48NORTH CANNABIS CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[Expressed in Canadian dollars]

	As at June 30 2019 $	As at June 30 2018 $
ASSETS		
Current		
Cash and cash equivalents [note 4]	**52,765,566**	12,231,484
Trade and other receivables [note 7]	**1,028,770**	343,128
Prepaid expenses	**770,168**	156,518
Biological assets [note 5]	**2,125,359**	595,023
Inventory [note 5]	**4,729,774**	108,567
Total current assets	**61,419,637**	13,434,720
Long-term deposits	**202,060**	—
Property, plant and equipment, net [note 8]	**21,127,366**	12,428,150
License [note 11]	**5,136,249**	—
Goodwill [note 11]	**3,137,589**	—
Total assets	**91,022,901**	25,862,870
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities [note 14]	**4,701,444**	1,439,292
Total current liabilities	**4,701,444**	1,439,292
Deferred income tax liability [note 18]	**520,120**	—
Total liabilities	**5,221,564**	1,439,292
Shareholders' equity		
Share capital [note 9]	**106,946,724**	40,876,340
Share-based payments reserve [note 9]	**7,838,404**	4,209,648
Warrants reserve [note 10]	**4,927,607**	5,402,046
Contributed surplus	**440,657**	160,525
Deficit	**(34,352,055)**	(26,224,981)
Total shareholders' equity	**85,801,337**	24,423,578
Total liabilities and shareholders' equity	**91,022,901**	25,862,870

Continuance of operations and going concern [note 2]
Commitments [note 15]
Subsequent events [note 19]

On behalf of the Board:

/s/ *Martin Cauchon* — /s/ *William Assini*

Martin Cauchon, Chairman — William Assini, Director

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

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

For the years ended June 30	2019 $	2018 $
Revenue	**4,832,150**	—
Excise duties	**(12,362)**	—
Net revenue	**4,819,788**	—
Cost of sales		
Inventory expensed to cost of sales, before fair value adjustments	**1,298,733**	—
Other cost of sales	**142,725**	
Inventory impairment costs [note 5]	—	377,604
Gross profit (loss) before fair value adjustments	**3,378,330**	(377,604)
Unrealized fair value adjustment on growth of biological assets [note 5]	**6,210,328**	528,479
Realized fair value adjustment on inventory sold [note 5]	**(2,162,782)**	—
Gross profit	**7,425,876**	150,875
ADMINISTRATIVE EXPENSES		
General and administrative [note 14]	**6,827,098**	5,370,212
Sales and marketing	**2,167,673**	864,522
Share-based payments [note 9]	**5,758,890**	1,666,535
Interest and accretion	—	2,408,619
Listing fees [note 6]	—	1,544,254
Depreciation [note 8]	**1,149,812**	717,064
	15,903,473	12,571,206
Loss before undernoted	**(8,477,597)**	(12,420,331)
Income tax recovery – deferred [note 18]	**(350,523)**	—
Net loss and comprehensive loss	**(8,127,074)**	(12,420,331)
Basic and fully diluted loss per share	**(0.072)**	(0.21)
Weighted average number of common shares outstanding basis and diluted *[000's]*	**112,300**	59,151

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

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

For the years ended June 30	**2019** **$**	2018 $
OPERATING ACTIVITIES		
Net loss	**(8,127,074)**	(12,420,331)
Add items not involving cash		
Change in fair value of biological assets	**(6,210,328)**	(528,479)
Depreciation	**1,149,812**	717,064
Interest and accretion	—	2,408,619
Share-based payments	**5,758,890**	1,666,535
Listing fees	—	1,351,250
Fair value change included in inventory sold	**2,162,782**	—
Depreciation included in inventory expensed to cost of sales before fair value adjustments	**251,915**	—
Deferred income tax liability	**(350,523)**	—
	(5,364,526)	(6,805,342)
Net change in non-cash working capital balances		
Decrease (increase) in trade and other receivables	**(685,642)**	826,179
Decrease (increase) in prepaid expenses	**(592,567)**	(141,550)
Decrease (increase) in biological assets	**(828,694)**	(139,961)
Decrease (increase) in inventory supplies	**(984,225)**	8,477
Increase in accounts payable and accrued liabilities	**3,125,808**	526,354
Cash used operating activities	**(5,329,845)**	(5,725,843)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	**(4,269,140)**	(763,618)
Long-term deposits towards capital equipment	**(202,060)**	—
Settlement of pre-existing relationship (note 11)	**(1,645,005)**	—
Cash used in investing activities	**(6,116,205)**	(763,618)
FINANCING ACTIVITIES		
Cash acquired on acquisition of Good & Green Cannabis Corp.	**92,394**	—
Proceeds from private placements (net of issuance costs)	**36,562,210**	—
Proceeds from issuance of convertible debentures (net of issuance costs)	—	14,694,068
Proceeds from exercise of stock options and warrants	**17,625,529**	150,000
Repayment of mortgage principal	**(2,300,000)**	—
Cash provided by financing activities	**51,980,133**	14,844,068
Net change in cash and cash equivalents during the year	**40,534,082**	8,354,607
Cash and cash equivalents, beginning of year	**12,231,484**	3,876,877
Cash and cash equivalents, end of year	**52,765,566**	12,231,484
Supplemental cash flow disclosures:		
Payables settled in shares	—	500,000
Depreciation included in biological assets and inventory	**291,103**	—
Total	**291,103**	500,000

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

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

	Common shares		Warrants	Share based payment 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
Common shares issued on exercise of warrants (net)	100,000	13,245	(3,245)	—	—	—	10,000
Common shares issued on exercise of options (net)	325,000	285,301	—	(145,301)	—	—	140,000
Common shares issued on conversion of debentures	17,788,897	15,765,073	—	—	(699,993)	—	15,065,080
Common shares issued on entitlement	1,863,636	—	—	—	—	—	—
Common shares issued as consideration for settlement of debt	555,555	500,000	—	—	—	—	500,000
Common shares issued on RTO	887,500	798,750	—	52,500	—	—	851,250
Share-based payments	—	—	—	1,666,535	—	—	1,666,535
Expiry of options	—	—	—	(52,575)	52,575	—	—
Issuance of warrants	—	—	565,654	—	—	—	565,654
Issuance of compensation options	—	—	—	771,960	—	—	771,960
Issuance of convertible debentures	—	—	—	—	699,993	—	699,993
Net loss for the year	—	—	—	—	—	(12,420,331)	(12,420,331)
Balance at June 30, 2018	78,192,536	40,876,340	5,402,046	4,209,648	160,525	(26,224,981)	24,423,578

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**
Issuance of common shares for cash	34,533,093	31,343,907	4,294,258	924,045	—	—	36,562,210
Common shares issued on exercise of warrants (net)	25,269,144	20,549,142	(4,824,814)	—	—	—	15,724,328
Common shares issued on exercise of options (net)	3,509,667	3,134,130	123,572	(1,356,502)	—	—	1,901,200
Common shares issued on exercise of RSUs (net)	1,875,000	1,485,000	—	(1,485,000)	—	—	—
Common shares issued on acquisition	24,657,525	9,558,205	—	—	—	—	9,558,205
Share-based payments	—	—	—	5,758,890	—	—	5,758,890
Expiry of options	—	—	—	(212,677)	212,677	—	—
Expiry of warrants	—	—	(67,455)	—	67,455	—	—
Net loss for the year	—	—	—	—	—	(8,127,074)	(8,127,074)
Balance at June 30, 2019	**168,036,965**	**106,946,724**	**4,927,607**	**7,838,404**	**440,657**	**(34,352,055)**	**85,801,337**

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

1. Corporate information

48North Cannabis Corp., formerly Kramer Capital Corp. ("Company" or "48North"), 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 process 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 process 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 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 was considered a reverse acquisition of the Company by 48N. For accounting purposes 48N was considered the acquirer and the Company was 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 consolidated 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 2599708 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 12). Subsequent to year end, on July 3, 2019 2599760 Ontario Corp. changed its name to Good & Green Corp. 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.

Subsequent to year end, on August 28, 2019, the Company acquired 100% of Rare Industries, Inc. a U.S. multi-state vape technology brand with product distribution in Oregon and Washington state (see note 19).

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, DelShen obtained a sales license for the sale of medicinal marijuana. On September 13, 2018, Health Canada granted DelShen an extraction license. On October 17, 2018, the *Cannabis Act* including the Cannabis Regulations, the new *Industrial Hemp Regulations* (Canada) came into effect and now govern the licensing process.

On November 8, 2018, Health Canada granted the Company's G&G Brantford facility a cultivation license with an expiry of October 12, 2021. On March 8, 2019 Health Canada granted the G&G a processing 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 facility. On May 19, 2019 Health Canada granted G&G an outdoor cultivation license for the farm.

The Company has financed its working capital requirements primarily through equity and debt financings. The Company incurred a net loss of $8,127,074 and negative cash flows from operations of $5,329,845 during the year ended June 30, 2019 and, as of that date, the Company had a deficit in the amount of $34,352,055. 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 events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

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

3. Basis of presentation and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended June 30, 2019. The consolidated financial statements are presented in Canadian dollars. The presentation currency and functional currency of the Company and its subsidiaries is the Canadian dollar.

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 consolidated financial statements. All inter-company transactions have been eliminated on consolidation.

The 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
Good & Green Corp. (formerly 2599760 Ontario Corp.)	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 consolidated financial statements on September 27, 2019.

4. Significant accounting policies, judgements, estimates and assumptions

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

a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term fixed income deposits with original maturity dates shorter than 90 days. At June 30, 2019, the Company had $50,341,685 (2018 - $10,000,027) in short-term fixed income deposits.

b) Revenue recognition

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Net revenue from sale of goods, as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue.

The Company's contracts with customers for the sales of dried cannabis consist of one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer, which is on shipment or delivery, depending on the contract.

The Company's payment terms vary by the type of customer. For sales to other licensed producers, payment is due 30 days after the transfer of control. Sales to provincial cannabis crown corporations is recognized either on delivery or on consignment basis with payment due 30 - 60 days after the transfer of control.

c) Financial assets and instruments

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

Financial assets

Non-derivative financial assets within the IFRS 9 are classified as "financial assets at fair value" (either through Fair Value through Other Comprehensive Income ("FVOCI") or through fair value through profit or loss ("FVPL")), and "financial assets at amortized costs" as appropriate. The Company determines the classification of its financial assets at initial recognition based on the Company's business model and contractual terms of cash flows.

All financial assets are recognized initially at fair value plus, in the case of investments not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Where the fair values of financial assets recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of earnings (loss). The Company has no financial assets designated at FVPL.

Financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company has no financial assets designated at FVOCI. After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of loss and comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the asset.

Impairment of financial assets

The impairment model under IFRS 9 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. The Company's only financial assets subject to impairment are amounts receivable and convertible loan receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized. The Company has measured the lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to debtors and other relevant factors.

Financial liabilities

Non-derivative financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

Financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of earnings (loss).

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gains or losses reported in other income or expense in the consolidated statements of loss and comprehensive loss.

Determination of fair value

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

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

The carrying value of all financial instruments approximates their fair value as a result of their short-term nature.

d) Impairment of non-financial assets

The carrying value of property, plant and equipment and intangible assets are assessed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Events or changes in circumstances which may indicate impairment include: a significant change to the Company's operations, significant decline in performance, or a change in market conditions which adversely affect the Company. The recoverable amount is determined as the higher of the fair value less costs of disposal ("FVLCD") and its value in use based on discounted cash flows. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded.

e) Biological assets

During the second quarter of fiscal 2019 the Company changed how it accounts for 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 and allocate overhead 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. In fiscal 2018, the Company expensed these costs directly to the consolidated statements of loss.

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 statements 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 new accounting policy for biological assets provides more reliable and relevant information to users of the consolidated statements as the gross profit before fair value adjustments only considers the costs incurred on inventory sold during the period, 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 was no value assigned to 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.

(Expressed in Canadian dollars)

The change in policy noted above will impact the previously reported periods in fiscal 2019. The following table summarize the effect.

Consolidated statement of loss For the year ended June 30, 2018	As previously reported	Adjustments	As restated
Production costs	552,715	(175,111)	377,604
Unrealized fair value adjustment on growth of biological assets	(703,590)	175,111	(528,479)

Consolidated statement of cash flows For the year ended June 30, 2018	As previously reported	Adjustments	As restated
Change in fair value of biological assets	(703,590)	175,111	(528,479)
Cash used in operating activities	(5,725,843)	—	(5,725,843)
Changes in capitalized costs of inventory	43,627	(35,150)	8,477
Changes in capitalized costs of biological assets	—	(139,961)	(139,961)

f) Inventories

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.

g) Property, plant and equipment

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

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

	Method	Rate
Machinery & equipment	Declining Balance	20% – 55%
Vehicles	Declining Balance	30%
Furniture and fixtures	Declining Balance	20%
Building	Declining Balance	4%

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

Gains and losses on disposal of an asset are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized in the consolidated statements of loss and comprehensive Loss.

h) Intangible assets

Intangible assets are recorded at cost less any accumulated amortization and accumulated impairment losses. Impairment for intangible assets with finite lives is tested if there is any indication of impairment. Intangible assets acquired through a business combination are measured at fair value at the acquisition date.

Intangible assets with finite useful lives are amortized over their estimated useful lives using the following methods and rates:

	Method	Rate
Health Canada License	Straight-line	Useful life of corresponding facility

Amortization begins when assets become available for use. The estimated useful life, amortization method, and rate are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

i) Foreign currency translation

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

j) Research and development

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

k) Income taxes

The Company accounts for its income taxes using the liability method. Deferred income tax assets and liabilities are determined based on the difference between the carrying amount and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in profit or loss, except for changes related to the components of other comprehensive income or equity, in which case the tax expense is recognized in other comprehensive income or equity, respectively. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable profit for the years in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period. Deferred income tax assets and liabilities are not discounted.

l) Share-based compensation

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

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

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 over the term of the vesting period, with a corresponding credit to reserves for share-based payments 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 expense is 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.

m) Loss per share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. As at June 30, 2019, the effect of convertible instruments was antidilutive and not included in the loss per share calculation.

n) Share capital

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

o) Business combinations and consolidation

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at fair value at acquisition date, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred. All intercompany transactions and balances are eliminated upon consolidation.

o) Significant accounting judgments, estimates and assumptions

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

(i) Warrants and stock options

Warrants and stock options are initially valued at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield, expected term of the warrant or stock option and expected risk-free interest rate.

(ii) Convertible debentures

On initial recognition, the bifurcation of the convertible debentures into liability and equity components requires the determination of a market rate of interest.

(iii) Useful lives and impairment of long-lived assets

Long-lived assets are defined as property, plant and equipment and intangible assets with finite lives. Depreciation and amortization are dependent upon estimates of useful lives and impairment is dependent upon estimates of recoverable amounts. These are determined through the exercise of judgment, and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws, and technological improvements.

(iv) Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

(v) Biological assets
Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell. As a result, critical estimates related to the valuation of biological assets are also applicable to inventory. Determining the fair value less costs to sell requires the Company to make assumptions about the expected harvest yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, processing costs to convert harvested cannabis into finished goods, selling costs, the equivalency factor to convert dry cannabis into cannabis oil and the multiples of crude extract and isolate mass in diluted cannabis oil. The Company's estimates are, by their nature, subject to change. Refer to Note 5. Inventory is valued at the lower of cost and net realizable value. Determining the net realizable value requires the Company to make assumptions about the estimated selling price in the ordinary course of business, the estimated costs of completion and the estimated variable costs to sell.

(vi) Expected credit losses on financial assets
Determining an allowance for expected credit losses ("ECLs") for all debt financial assets not held at fair value through profit or loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

(vii) Business combinations
In determining the appropriate basis of accounting for an acquisition, judgment is used to determine if an acquisition is a business combination or an asset acquisition.

(viii) Impairment of cash-generating units and goodwill
The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate. The Company exercises significant judgement in determining CGUs. The Company has identified two CGUs based on its wholly owned subsidiaries with cannabis licenses.

p) 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. 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 the Company's financial assets and liabilities on the adoption date.

(Expressed in Canadian dollars)

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

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

IFRS 15 – Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 became effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has adopted this new standard as of its effective date using the full retrospective method of adoption, and has assessed no significant changes as a result of the adoption of this new standard.

Under IFRS 15, the revenue recognition model has changed from one based on the transfer of risks and rewards of ownership, to one based on the transfer of control. The Company's contracts with customers for the sales of dried cannabis and cannabis oil include one performance obligation, a promise in a contract with a customer to transfer a good. As the transfer of risks and rewards generally coincides with the transfer of control at a point in time, upon shipment or delivery, depending on the contract, the timing and amount of revenue considering discounts, returns, and variable consideration, recognized from this principal revenue stream has not changed as a result of the adoption of this new standard.

IFRS 16 – Leases ("IFRS 16")
IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease.

The date of initial application of IFRS 16 is January 1, 2019. The Company has elected to adopt IFRS 16 using the modified retrospective approach. Under this approach, the Company will not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening retained earnings at the beginning of the 2020 fiscal year. The Company leases its head office building. The Company's current office lease extends to April, 2020. On transition to IFRS 16, the Company will elect to apply the practical expedient to grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 Leases will not be reassessed for whether a lease exists. The Company will elect to not recognize right-of-use assets and lease liabilities for leases that have a lease term of 12 months or less and for leases of low-value assets. The Company will also account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. Accordingly, the Company does not expect significant adjustments to opening retained earnings at the beginning of the 2020 fiscal year.

(Expressed in Canadian dollars)

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 year ended June 30, 2019 are as follows:

	Cannabis plants
Carrying amount, June 30, 2017	$ —
Net change in fair value less costs to sell due to biological transformation	528,479
Production costs capitalized to biological assets	175,111
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	6,210,328
Production costs capitalized to biological assets	2,583,926
Transferred to inventory upon harvest	(7,263,918)
Balance at June 30, 2019	**$ 2,125,359**

All biological assets are presented as current assets on the statements of financial position. The significant assumptions used in determining the fair value of indoor cannabis plants include:

- Net revenue price per gram - $5.00 per gram - estimated selling price per gram of dry cannabis based on historical sales and anticipated prices;
- Harvest yield per plant - 70 grams per plant - represents the expected grams of dry cannabis to be harvested from a cannabis plant, based on the weighted average historical yields by plant strain;
- Stage of growth - represents the weighted average plants' age (in weeks) out of the 18.5 week growing cycle as of the period end date;
- Processing and selling costs per gram - $0.40 per gram - represents estimated post-harvest costs per gram to bring a gram of harvested cannabis to its saleable condition, including drying, curing, testing and packaging and overhead allocation, estimated based on post-harvest costs incurred during the period divided by number of grams processed during the period;
- Attrition rate - represents weighted average number of plants culled at each stage of production.

Stage	Attrition rate
Propagative	50%
Vegetative	20%
Flowering	2%

The significant assumptions used in determining the fair value of outdoor cannabis plants include:

- Selling price per gram - $2.50 per gram - estimated selling price per gram of dry cannabis based on anticipated prices;
- Harvest yield per plant - 40 grams per plant - represents the expected grams of dry cannabis to be harvested from a cannabis plant, based on the anticipated yields by plant strain;
- Stage of growth - represents the weighted average plants' age (in weeks) out of the 16 weeks growing cycle as of the period end date;
- Processing and selling costs of $0.23 per gram - represents estimated post-harvest costs per gram to bring a gram of harvested cannabis to its saleable condition, including drying, curing, testing and packaging and overhead allocation, estimated based on post-harvest costs incurred during the period divided by number of grams processed during the period
- Attrition rate - represents weighted average number of plants culled at each stage of production.

(Expressed in Canadian dollars)

Stage	Attrition rate
Propagative	50%
Vegetative	20%
Flowering	2%

The Company estimates the harvest yields for the cannabis on indoor and outdoor plants at various stages of growth. As of June 30, 2019, it is expected that the Company's indoor biological assets will yield between 65 and 75 grams per plant, depending on the cultivar, with an average of 70 grams (2018 - 0 grams) of cannabis when harvested and outdoor biological assets will yield between 30 and 50 grams, depending on the cultivar, with an average of 40 grams (2018 - 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 are expensed to cost of goods sold in the period in which the costs are incurred. These costs include such costs as direct labour, fertigation materials and production supplies, energy costs (lighting and HVAC), quality control costs such as sanitation and lab work, and an allocation of overhead costs.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. These inputs are subject to volatility and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The fair value was determined using an expected cash flow model which assumes the biological assets at the consolidated statements of financial position date will grow to maturity, be harvested and converted into finished goods inventory and sold in the recreational cannabis market. The Company's method of accounting for biological assets is to attribute value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

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 year end date.

Indoor	5% decrease as at June 30, 2019			5% decrease as at June 30, 2018		
	As at June 30, 2019	Biological assets	Inventory	As at June 30, 2018	Biological assets	Inventory
Selling price/gram	$5.00	$63,489	$224,937	$5.00	$(29,751)	$(5,428)
Yield per plant	70 grams	($63,589)	—	87grams	$(29,751)	—
Production/processing costs/gram	$0.40	$25,396	$28,792	$1.60	$32,369	$2,779
Average stage of growth	9.7 weeks	($63,489)	—	6.4weeks	$(29,751)	—

Outdoor	5% decrease as at June 30, 2019			5% decrease as at June 30, 2018		
	As at June 30, 2019	Biological assets	Inventory	As at June 30, 2018	Biological assets	Inventory
Selling price/gram	$2.50	$33,122	—	—	—	—
Yield per plant	40 grams	($33,122)	—	—	—	—
Production/processing costs/gram	$0.23	$13,248	—	—	—	—

(Expressed in Canadian dollars)

Average stage of growth	1 week	($33,122)	—	—	—	—

b) Inventories

The Company's inventory assets include the following as of June 30, 2019.

	June 30, 2019	June 30, 2018
Dried and drying cannabis	$3,945,121	$108,567
Packaging supplies	142,090	—
Work in progress cannabis products	311,503	—
Cannabis packaged products	242,976	—
Cannabis accessories	88,084	—
	$4,729,774	$108,657

Dried and drying cannabis inventory consists of 485,595 grams of flower as of June 30, 2019 (2018 – 321,066). 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 fiscal 2019, the Company transferred $1,123,622 (2018 – nil) from inventory to the consolidated statements of loss and comprehensive loss.

6. Reverse takeover

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

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

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

The Company paid a finder's fee payable in 555,556 common shares in connection with the transaction. These shares were recorded at a fair value of $0.90 per share, or $500,000 and is included as additional listing expense on the Consolidated Statement of Loss and Comprehensive Loss during the year ended June 30, 2018. The Company incurred additional listing expenses for $696,213.

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

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

Net assets acquired	Amount
Cash	$3,209

(Expressed in Canadian dollars)

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

7. Trade and other receivables

	June 30, 2019	June 30, 2018
	$	$
Accounts receivable	**94,795**	–
GST/HST recoverable	**933,975**	211,628
Deposit refund due	**–**	131,500
	1,028,770	343,128

8. Property, plant and equipment

	Land $	Building $	Machinery and equipment $	Computer equipment $	Furniture and fixtures $	Vehicles $	Construction in progress $	Total $
Cost								
As at June 30, 2017	207,151	7,423,310	4,666,624	136,701	6,159	58,837	–	12,498,782
Additions during the year	–	367,983	99,982	4,319	–	–	291,334	763,618
As at June 30, 2018	207,151	7,791,293	4,766,606	141,020	6,159	58,837	291,334	13,262,400
Additions during the year	2,223,000	2,855,123	1,660,402	80,764	5,698	–	3,447,880	10,272,867
Allocation from in construction progress	–	34,265	2,168,051	–	–	–	(2,202,316)	–
Disposals during the year	–	–	–	–	–	(16,000)	–	(16,000)
As at June 30, 2019	2,430,151	10,680,681	8,595,059	221,784	11,857	42,837	1,536,898	23,519,267
Accumulated Amortization								
As at June 30, 2017	–	–	46,729	40,871	1,725	27,861	–	117,186
Depreciation for the year	–	168,978	484,012	53,894	887	9,293	–	717,064
As at June 30, 2018	–	168,978	530,741	94,765	2,612	37,154	–	834,250
Depreciation for the year	–	372,369	1,141,512	49,296	1,279	5,641	–	1,570,097
Disposal during the year	–	–	–		–	(12,446)	–	(12,446)
As at June 30, 2019	–	541,347	1,672,253	144,061	3,891	30,349	–	2,391,901
Net Book Value								
As at June 30, 2018	207,151	7,622,315	4,235,865	46,255	3,547	21,683	291,334	12,428,150
As at June 30, 2019	2,430,151	10,139,334	6,922,806	77,723	7,966	12,488	1,536,898	21,127,366

Construction in progress includes portions of equipment that have been purchased but not fully assembled and ready for its intended use. As such, no depreciation has been applied to the construction in process. In 2019, $542,994 of depreciation was capitalized to the production of dried cannabis, of which $251,915 was included in cost of sales. At June 30, 2019, the Company has outstanding capital commitments of $89,478 (2018 – nil).

9. Shareholders' Equity

[a] Share capital

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

(Expressed in Canadian dollars)

	Number	Amount
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 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 the exercise of options (iv)	325,000	285,301
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	2,848,697
Issuance of common shares on acquisition (vi)	24,657,525	9,558,205
Issuance of common shares for cash (vii)	9,393,333	6,554,189
Issuance of common shares on the exercise of options and RSUs (iv)	4,175,000	2,904,084
Issuance of common shares on the exercise of broker options (iv)	1,209,667	1,715,046
Issuance of common shares on exercise of warrants (i), (iv)	25,269,144	20,549,142
Issuance of common shares for cash (viii)	21,139,760	21,941,021
Balance at June 30, 2019	168,036,965	$106,946,724

At June 30, 2019, there were 166,322 escrowed common shares.

(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. 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. Each purchaser of the Units received one liquidity entitlement (“Liquidity Entitlement”) for each Unit purchased. Each Liquidity Entitlement entitles the holder to receive 0.1 of a Common Share for no additional consideration in the event that a Liquidity Event shall not have occurred on or before December 2, 2017. A “Liquidity Event” means either: (i) the Common Shares being listed on a recognized Canadian stock exchange; or (ii) all of the issued and outstanding Common Shares having been sold, transferred or exchanged, pursuant to a take-over bid, amalgamation, plan of arrangement or other business combination, for cash or securities that are listed on a recognized Canadian stock exchange; or (iii) any combination of the events or circumstances described in clauses (i) and (ii) such that all of the Common Shares shall be subject to one or more of clause (i) or (ii). As the original liquidity event did not happen before December 2, 2017, an additional 1,863,636 shares were issued to the holders.

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

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

(iv) During the year ended June 30, 2018, the Company issued 325,000 common shares upon the exercise of 325,000 options valued at $145,301 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 year ended June 30, 2019, the Company issued 25,269,144 common shares upon the exercise of 25,269,144 warrants valued at $4,824,814 for gross proceeds of $15,724,329 and issued 1,209,667 common shares upon the exercise of 1,209,667 broker compensation options valued at $626,346 for gross proceeds of $1,088,700. The Company issued 1,760,000 common shares on the exercise of 1,250,000 options and RSU’s valued at $520,389 for gross proceeds of $287,500.

(Expressed in Canadian dollars)

(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, 2019. The Company has the right to convert the Share Purchase Warrants prior to November 30, 2019 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. 48North paid transaction costs of $41,073 in cash.

(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 11 for further acquisition details.

(vii) 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 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. 48North paid transaction costs of $150,000 in cash.

(viii) 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 $28,750,074. Each unit comprised one common share and one half common spare 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.

[b] Stock options

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

During the year ended June 30, 2019, the Company recorded $5,758,890 (2018 - $1,666,535) in share-based payments expense related to Board, management, employee and contractor options and restricted share units which are measured at fair value at the date of grant and are expensed over the option’s and RSU’s vesting period. In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

	June 30, 2019	June 30, 2018
Risk-free interest rate	1.34% – 2.20%	1.54% – 2.14%
Expected life of options (years)	3	1 – 5
Expected annualized volatility	70%-100%	70%-100%
Expected dividend yield	nil	nil

Black-Scholes value range	\$0.29 - \$0.63	\$0.47 – \$0.64
Share price range	\$0.47 - \$1.09	\$0.77 – \$1.00

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

The following table reflects the continuity of stock options at June 30, 2019:

	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
Forfeited, expired	(470,000)	0.88
Outstanding, June 30, 2018	13,180,000	0.74
Granted	4,509,660	0.64
Exercised	(2,300,000)	0.37
Forfeited, expired	(1,210,000)	0.49
Outstanding, June 30, 2019	**14,179,660**	**0.79**
Exercisable, June 30, 2019	**11,670,833**	**0.79**

The weighted average remaining contractual life of the options is 2.23 years.

[c] Restricted share units

On January 7, 2019, at the annual and general meeting of shareholders, disinterested shareholders approved the Company's RSUs. The Board of Directors uses RSUs, as well as Options, as part of the Company's overall Board and executive compensation plan. The RSU Plan is more fully described in the Company's Management Information Circular dated December 3, 2018 and available on sedar.com. RSUs under the RSU plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board. In determining the amount of share-based compensation, the Company used the closing price of the common shares on the RSU grant date.

The following table reflects the continuity of RSUs outstanding at June 30, 2019:

	Number of RSUs	Weighted average grant date fair value	Average remaining contractual life in years
Outstanding, June 30, 2017	-	-	-
Outstanding, June 30, 2018	-	-	
Granted	5,000,000	\$0.70	
Forfeited/cancelled during period	(400,000)	\$0.60	
Vested and exercised	(1,875,000)	\$0.79	
Outstanding, June 30, 2019	**2,725,000**	**\$0.65**	**2.39**

Time-based RSUs

As at June 30, 2019, the time-based equity award consists of 2,433,333 RSUs (2018 – nil) that will vest annually in two or three equal tranches after the date of RSU grant. For the year ended June 30, 2019, the Company recorded \$1,334,944 (2018 – nil) in share-based payments expense related to these RSUs.

Performance-based RSUs

As at June 30, 2019, the performance-based equity award consists of 291,667 RSUs (2018 – nil) that will vest upon achievement of certain performance criteria. The Company estimates when the performance criteria should be achieved and expenses the RSUs over that time period. Should the criteria be reached prior to or after the derived service date, the remaining unrecognized compensation cost for the award will be accelerated or deferred and recorded at that time. For the year ended June 30, 2019, the Company recorded $542,667 (2018 – nil) in share-based payments expense related to these RSUs.

(Expressed in Canadian dollars)

Market performance-based RSUs
As at June 30, 2019, the market performance-based equity award consists of nil RSUs (2018 – nil). For market performance-based RSUs the grant date fair value and the derived time period for each of the market condition equity awards was determined through the use of a Monte Carlo simulation model utilizing Level 2 inputs. The Company expenses the full amount on the RSU grant date. For the year ended June 30, 2019, the Company recorded $153,000 (2018 – nil) in share-based payments expense related to these RSUs. In determining the amount of share-based compensation, the following assumptions were used: stock price $0.60, expected life of 3 years, risk-free interest rate 1.93%, and expected annualized volatility of 90%.

10. 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	(1,695,756)	(67,455)
Warrants issued in private placement (ii)	1,000,000	110,230
Warrants issued in private placement (iii)	2,348,333	340,811
Warrants issued in private placement (iv)	10,569,880	3,843,217
Issuance of warrants on conversion of broker compensation options	604,833	123,572
Warrants exercised into common shares	(25,269,144)	(4,824,814)
Balance at June 30, 2019	22,586,072	4,927,607

(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%, an expected life of 2.5 years and a share price of $0.90.

(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, 2019. The estimated fair value of the warrants of $110,230 was estimated using the Black-Scholes option pricing model with the following assumptions: the share price at issuance $0.57 an expected dividend yield of 0%, expected volatility of 90%, a risk-free interest rate of 2.18%, an expected life of 1.0 year and a share price of $0.57.

(iii) 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 estimated fair value of the warrants of $340,811 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 1.85%, an expected life of 1.0 year and a share price of $0.71.

(Expressed in Canadian dollars)

(iv) 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 $28,750,074. Each unit comprised one common share and one half common spare 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 $3,843,217 is based on the relative value of the warrants in the active trading market on the day following the close of the transaction of $0.45 per warrant.

As of June 30, 2019, the following warrants were outstanding:

Year of Issue	Exercise Price	Expiration	Underlying Shares	Exercisable
2018	$1.15	June 5, 2020	8,667,959	8,667,959
2018	$1.15	November 30, 2019	1,000,000	1,000,000
2019	$1.15	February 5, 2020	2,348,333	2,348,333
2019	$1.72	April 2, 2024	10,569,780	10,569,780
			22,586,072	22,586,072

11. Acquisition of 25599708 Ontario Inc. (Good & Green Cannabis Corp.)

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. For accounting purposes, the acquisition is being treated as a business combination. G&GCC has three wholly owned subsidiaries; Good & Green (formerly 2599760 Ontario Corp., a licensed entity under the *Cannabis Act*), 2618351 Ontario Inc., and 2656751 Ontario Ltd.

The purchase price was satisfied through the settlement of a pre-existing loan from the Company of $1,645,005 and the issuance of 24,657,525 common shares in the Company. The discount for lack of marketability of the common shares was calculated based on the trading restrictions placed on 15,158,296 of the Company's common shares issued to the vendor. The hold periods range from 6 to 18 months and the discount has been determined using the Black-Scholes model, with a stock price of $0.48, an exercise price of $0.48, an expected life ranging between 6 and 18 months, a volatility range of 88 - 91%, and a risk-free rate range 1.9-2.2%.

The excess of the purchase price over the net assets acquired has been allocated to the license granted under the Cannabis Act and to goodwill. The license is being amortized using the declining balance method at a rate of 4% per year. During 2019, $122,733 was amortized (2018 - $nil). Goodwill of $3,137,589 was recognized upon the acquisition of G&GGC, of which $870,643 arose due to the recognition of a deferred tax liability on the date of the acquisition. None of the goodwill is expected to be deductible for tax purposes.

Consideration paid	Amount
Settlement of pre-existing loan	$1,645,005
Common shares issued (24,657,525 shares at closing price of $0.48)	11,835,612
Discount for lack of marketability of common shares	(2,277,408)
Total consideration paid	$11,203,209
Net assets acquired	
Cash and cash equivalents	$92,394

(Expressed in Canadian dollars)

Prepaid expenses	21,084
Current Assets	113,478
Property, plant and equipment	6,000,172
License	5,258,958
Goodwill	3,137,589
Total assets	14,510,197
Current liabilities	
Accounts payable and accrued liabilities	136,345
Mortgage payable	2,300,000
Deferred income tax liability	870,643
Total liabilities	3,306,988
Total net assets acquired	$11,203,209

For the purposes of goodwill impairment tests, the Company considered the G&GGC acquisition as one cash generating unit ("CGU"). The recoverable amount of the CGU was estimated based on a value in use model. The most critical assumptions used was production capability, the discount rates used, and selling prices. The discount rate used was 41%. The recoverable amount of all the CGUs was estimated to be higher than its carrying amount. As a result, no impairment was required. A 10% change in these various inputs would not impact the result.

12. Mortgage payable

As part of the G&GCC acquisition, there was a $2,300,000 principal mortgage on the Morton Avenue property that is owned by 2618351 Ontario Inc. Interest was 10% per annum. Monthly interest payments of $19,167 were payable and the principal balance matured, and was repaid in full, on February 6, 2019.

13. Convertible debentures

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

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

14. Related party transactions

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

Year ended	June 30, 2019	June 30, 2018
Consulting, salaries and wages	$1,646,325	$986,480
Share-based payment	3,598,853	1,395,001
Total	$5,245,178	$2,381,481

(Expressed in Canadian dollars)

Included in consulting, salaries and wages are accrued severance expenses of $109,279 which are included in accrued liabilities at year end (2018 - $142,617). Included in accounts payable and accrued liabilities is $59,291 (2018 - $6,865) due to key management.

Total salaries and benefits for the year ended June 30, 2019 was $5,121,873. Included in G&A is $4,248,700 and $873,173 has been capitalized to the production and subsequent sale of dried cannabis.

15. Commitments

Lease commitments:

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

2020	$122,620
Total	$122,620

Rental expense was $144,273 for the year ended June 30, 2019 (2018 - $86,425).

16. Capital management

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

17. Financial instruments

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

	June 30, 2019	June 30, 2018
	$	$
Financial assets (1)	53,794,336	12,574,612
Financial liabilities (2)	4,701,444	1,439,292

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

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

Fair value

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

Credit risk

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

(i) Cash

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

(ii) Receivables

Management does not expect these counterparties to fail to meet their obligations. Accounts receivable are in good standing as of June 30, 2019. The Company does not have receivables that it considers impaired or otherwise uncollectible.

Foreign currency risk
The prices paid by the Company for some services and supplies are paid in U.S. dollars and the Company raises funds in Canadian dollars. As at June 30, 2019 and 2018, the Company believes the currency risk was limited and not a risk to be hedged at the present time.

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

18. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 - 26.5%) to the effective tax rate is as follows:

	2019	2018
	$	$
Loss before income taxes	(8,477,597)	(12,420,331)
Statutory tax rate	26.50%	26.50%
Expected income tax expense (recovery)	(2,246,560)	(3,291,390)
Share based compensation and non-deductible expenses	1,536,055	443,950
Share issuance cost booked directly to equity	(839,370)	–
Other adjustments	(408,140)	–
Convertible debentures	–	638,280
Change in tax benefits not recognized	1,607,492	2,209,160
Total income tax expense (recovery)	(350,523)	–
Current tax expense (recovery)	–	–
Deferred tax expense (recovery)	(350,523)	–
	(350,523)	–

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

	2019	2018
	$	$
Non-capital losses carried forward	2,490,930	186,450
Property, plant and equipment and intangibles	(1,752,000)	–
Capital lease obligation	(1,156,040)	–
Biological assets	(103,010)	(157,680)
Inventory	–	(28,770)
	(520,120)	–

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

Movement in net deferred tax:	2019	2018
	$	$
Balance, beginning of the year	–	–
Recognized in profit or loss	350,523	–
Goodwill	(870,643)	–
Balance, end of the year	(520,120)	–

(Expressed in Canadian dollars)

Unrecognized deferred tax assets

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

	2019	2018
	$	$
Non-capital losses carried forward - Canada	24,531,040	19,648,390
Share issue costs	4,102,570	2,091,490
Property, plant, and equipment	–	825,310

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

	$
2034	456,040
2035	1,665,170
2036	3,250,720
2037	5,930,590
2038	13,657,300
2039	8,970,970
	33,930,790

19. Subsequent events

(i) On August 28, 2019, the Company entered into a definitive agreement to acquire 100% of the outstanding shares of Rare Industries, Inc. (“Rare”), a U.S. multi-state vape technology brand with product distribution in Oregon and Washington and near-term expansion plans for California and Nevada. The acquisition marks 48North’s first foray into the United States. Consideration for the acquisition at closing includes the cash payment of U.S.$640,796 and the issuance of 2,247,834 of the Company’s common shares, at a price of approximately $0.86 per common share. In addition, 48North will pay a conditional earn-out in common shares based on overall operating performance of Rare over the next two years of up to U.S.$3,150,000 representing up to 4,852,460 common shares of the Company.

(ii) On August 7, 2019, the Company made a strategic investment of $1.25 million in Friendly Stranger Holdings Corp., a cannabis accessories retailer in Ontario that has been operating for 25 years and aims to add legal cannabis to its offerings after receiving a licence.

(iii) On September 12, 2019, the Company secured 1,000,000,000 mg of high-quality active CBD oil from Iverson Family Farms Inc. (“Iverson”) through an industrial hemp production contract. Under the terms of the contract, Iverson will harvest industrial hemp on 33 acres of land in 2019 for 48North for the purposes of providing the Company with high-quality active CBD oil.