48NORTH CANNABIS CORP.

Condensed Interim Consolidated Financial Statements
(Unaudited)
As at September 30, 2019

Condensed Interim Consolidated Financial Statements (Unaudited)	**Page**

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2019 and June 30, 2019
(Unaudited - in Canadian dollars)

	September 30 2019 $	June 30 2019 $
ASSETS		
Current		
Cash and cash equivalents	**40,392,298**	52,765,566
Accounts and other receivables [note 7]	**2,543,559**	1,028,770
Investments [note 13]	**1,250,000**	—
Prepaid expenses	**952,743**	770,168
Biological assets [note 6]	**10,697,201**	2,125,359
Inventory [note 6]	**6,726,177**	4,729,774
Total current assets	**62,561,978**	61,419,637
Long-term deposits	**239,588**	202,060
Property, plant and equipment, net [note 8]	**23,008,840**	21,127,366
Right of use assets [note 5]	**65,512**	—
License [note 9]	**5,083,660**	5,136,249
Intangibles [note 9 and 12]	**1,209,483**	—
Goodwill [note 9]	**7,068,409**	3,137,589
Total assets	**99,237,470**	91,022,901
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**4,469,784**	4,701,444
Current portion of contingent consideration [note 12]	**429,786**	—
Current portion of lease liabilities [note 5]	**15,768**	—
Total current liabilities	**4,915,338**	4,701,444
Contingent consideration [note 12]	**1,074,466**	—
Lease liabilities [note 5]	**49,962**	—
Deferred income tax liability	**2,292,491**	520,120
Total liabilities	**8,332,257**	5,221,564
Shareholders' equity		
Share capital [note 10]	**109,264,100**	106,946,724
Stock-based payments reserve [note 10]	**8,423,550**	7,838,404
Warrants reserve [note 11]	**4,927,607**	4,927,607
Contributed surplus	**440,657**	440,657
Deficit	**(32,110,449)**	(34,352,055)
Accumulated other comprehensive income	**(40,252)**	—
Total shareholders' equity	**90,905,213**	85,801,337
Total liabilities and shareholders' equity	**99,237,470**	91,022,901

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

On behalf of the Board:

/s/ *Martin Cauchon* — Martin Cauchon, Chairman

/s/ *William Assini* — William Assini, Director

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the three months ended September 30, 2019 and 2018
(Unaudited - in Canadian dollars)

For the three months ended September	**2019** **$**	2018 $
Revenue	**1,594,679**	1,271,544
Excise duties	**(143,513)**	—
Net revenue	**1,451,166**	1,271,544
Cost of sales		
Inventory expensed to cost of sales, before fair value adjustments	**666,162**	—
Other cost of sales	**49,662**	—
Gross profit (loss) before fair value adjustments	**735,342**	1,271,544
Unrealized fair value adjustment on growth of biological assets [note 6]	**9,639,900**	890,241
Realized fair value adjustment on inventory sold [note 6]	**(946,932)**	—
Gross profit	**9,428,310**	2,161,785
ADMINISTRATIVE EXPENSES		
General and administrative [note 14]	**3,199,414**	1,171,029
Sales and marketing	**1,904,205**	384,186
Share-based payments [note 10]	**806,841**	1,305,646
Depreciation and amortization [note 8]	**340,011**	312,078
Gain on change in fair value of contingent consideration [note 12]	**(533,767)**	—
	5,716,704	3,172,939
Loss before undernoted	**3,711,606**	(1,011,154)
Income tax provision – deferred	**1,470,000**	—
Net income (loss)	**2,241,606**	(1,011,154)
Other comprehensive income (loss)		
Currency translation adjustment	**(40,252)**	—
Comprehensive income (loss)	**2,201,354**	(1,011,154)
Basic earnings per share	**0.013**	(0.013)
Diluted earnings per share	**0.013**	(0.013)
Weighted average number of common shares outstanding *[000's]*		
Basic	**169,207**	79,006
Diluted	**173,221**	79,006

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended September 30, 2019 and 2018
(Unaudited - in Canadian dollars)

	Three months ended September 30	
	2019	2018
	$	$
OPERATING ACTIVITIES		
Net income (loss) for the period	**2,241,606**	(1,011,154)
Add (deduct) items not involving cash		
Change in fair value on growth of biological assets	**(9,639,900)**	(890,241)
Change in fair value of contingent consideration	**(533,767)**	—
Fair value change included in inventory sold	**946,932**	—
Depreciation included inventory expensed to cost of sales, before fair value adjustments	**107,897**	—
Depreciation and amortization	**340,011**	312,078
Stock-based payments [note 10]	**806,841**	1,305,646
Deferred tax expense	**1,470,000**	
	(4,260,380)	(283,672)
Changes in non-cash working capital:		
Net change in accounts and other receivables	**(1,465,281)**	(47,753)
Net change in prepaid expenses	**(182,575)**	(1,553,313)
Net change in capitalized costs of biological assets	**(928,068)**	(81,027)
Net change in inventory	**(696,128)**	(325,807)
Net change in accounts payable and accrued liabilities	**(521,387)**	(262,368)
Cash used operations	**(8,053,819)**	(2,553,939)
INVESTING ACTIVITIES		
Acquisition of property plant and equipment	**(2,385,338)**	(306,962)
Cash paid in acquisition of Rare Industries	**(416,568)**	—
Settlement of pre-existing relationship	**(437,228)**	—
Transaction costs	**(30,000)**	—
Acquisition of investment	**(1,250,000)**	—
Long-term deposits	**(37,528)**	—
Cash used in investing activities	**(4,556,662)**	(306,962)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options and warrants	**237,500**	444,500
Cash acquired on acquisition of Rare Industries	**5,653**	—
Payments towards principle portion of lease liability	**(3,983)**	
Cash provided by financing activities	**239,170**	444,500
Effect of foreign exchange rate changes on cash	**(1,957)**	—
Net change in cash and cash equivalents during the period	**(12,373,268)**	(2,416,401)
Cash and cash equivalents, beginning of period	**52,765,566**	12,231,484
Cash and cash equivalents, end of period	**40,392,298**	9,815,083

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statement of Changes in Equity
For the three months ended September 30, 2019 and 2018
(Unaudited - in Canadian dollars)

	Common shares		Warrants	Stock based payment reserve	Contributed surplus	Accumulated OCI	Deficit	Total shareholders' equity
	#	$	$	$	$	$	$	$
Balance at June 30, 2018	78,192,537	40,876,340	5,402,046	4,209,648	160,525	—	(26,224,981)	24,423,578
Issued on exercise of warrants (net)	1,530,000	488,001	(43,501)	—	—	—	—	444,500
Stock-based compensation	—	—	—	1,305,646	—	—	—	1,305,646
Net loss for the period	—	—	—	—	—	—	(1,011,154)	(1,011,154)
Balance at September 30, 2018	79,722,537	41,364,341	5,358,545	5,515,294	160,525	—	(27,236,135)	25,162,570
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**
Issued on exercise of stock options	502,000	389,195	—	(151,695)	—	—	—	237,500
Issued on exercise of RSUs	100,000	70,000	—	(70,000)	—	—	—	—
Common shares issued on acquisition	2,247,834	1,858,181	—	—	—	—	—	1,858,181
Stock-based compensation	—	—	—	806,841	—	—	—	806,841
Net income for the period	—	—	—	—	—	—	2,241,606	2,241,606
Other comprehensive income	—	—	—	—	—	(40,252)	—	(40,252)
Balance at September 30, 2019	**170,886,799**	**109,264,100**	**4,927,607**	**8,423,550**	**440,657**	**(40,252)**	**(32,110,449)**	**90,905,213**

See accompanying notes to unaudited condensed interim consolidated financial statements.

1. Corporate information

48North Cannabis 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.

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. 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.

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 12). Subsequent to quarter end, on October 9, 2019, the Company acquired 100% of Sackville & Co. Merchandising Ltd. ("Sackville"), a U.S.-based cannabis brand focused on design-forward cannabis accessories (see note 19). Sackville has one wholly owned subsidiary, Parlor (US) Ltd.

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 reported a comprehensive income of $2,201,354 and negative cash flows from operations of $8,053,819 during the three months ended September 30, 2019. As of September 30, 2019, the Company had a deficit in the amount of $32,110,449. 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 unaudited condensed interim consolidated financial statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. These unaudited condensed interim consolidated financial statements do not reflect any adjustments that would be necessary if the going concern basis was not appropriate. If the going concern basis was not appropriate for these unaudited condensed interim consolidated financial statements, significant adjustments would be necessary in the carrying value of assets and liabilities, the reported expenses and the classifications used on the unaudited condensed interim consolidated statements of financial position.

3. Basis of presentation, functional currency and consolidation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the period ended September 30, 2019.

The unaudited condensed interim consolidated financial statements are presented in Canadian dollars. The Company and its Canadian subsidiaries' functional currency, as determined by management, is the Canadian dollar. The functional currencies for its United States subsidiary is the United States dollar.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2019 annual consolidated financial statements. These unaudited condensed interim consolidated financial statements have been prepared using accounting policies consistent with those used in the annual consolidated financial statements. See note 4 for new accounting policies implemented after June 30, 2019.

The consolidated financial statements of the Company's wholly owned subsidiaries, Amalco, DelShen, G&GCC and its wholly owned subsidiaries; G&G, 2618351 Ontario Inc., 2656751 Ontario Ltd. and Rare Industries, Inc. are included in these unaudited condensed interim consolidated financial statements. All inter-company transactions have been eliminated on consolidation.

The unaudited condensed interim consolidated financial statements include the following subsidiaries:

Name of Subsidiary	% Ownership	Principal Activity	Incorporated
48North Amalco Ltd.	100% by Company	Holding company	Ontario
DelShen Therapeutics Corp.	100% by Amalco	Licensed producer	Ontario
Good & Green Cannabis Corp.	100% by Company	Holding company	Ontario
Good & Green Corp.	100% by G&GCC	Licensed producer	Ontario
2618351 Ontario Inc.	100% by G&GCC	Holding company	Ontario
2656751 Ontario Ltd.	100% by G&GCC	Holding company	Ontario
Rare Industries, Inc.	100% by Company	U.S. operations	Oregon

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

4. Significant accounting policies, judgements, estimates and assumptions

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

a) Significant accounting judgements, estimates and assumptions

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

(i) 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) 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 judgement, 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.

(iii) 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.

(iv) 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.

(v) 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 judgement about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

(vi) Business combinations

In determining the appropriate basis of accounting for an acquisition, judgement is used to determine if an acquisition is a business combination or an asset acquisition.

(vii) Impairment of cash-generating units and goodwill

(Unaudited - Expressed in Canadian dollars)

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.

b) Changes in accounting policies

During fiscal 2019, the Company changed its accounting policy with respect to production costs related to biological assets. Prior to this change, the Company expensed any costs related to production of biological assets in the period incurred. The Company now capitalizes production costs related to biological assets and expenses these costs to realized fair value on inventory sold as the inventory is sold. Non-recurring start-up costs are expensed directly through realized fair value on inventory sold. The Company also revised its presentation in the consolidated statements of income (loss) and comprehensive income (loss) to separate fair value adjustments for both biological assets and inventory sold in the period. The change in accounting policy has been applied retrospectively. The change in policy impacted the previously reported first quarter of fiscal 2019. The following table summarize the effect for the three months ended September 30, 2018.

Condensed interim consolidated statement of loss For the three months ended September 30, 2018	As previously reported	Adjustments	As restated
Production costs	406,834	(406,834)	—
Unrealized fair value adjustment on growth of biological assets	(1,297,075)	406,834	(890,241)

Condensed interim consolidated statement of cash flows For the three months ended September 30, 2018	As previously reported	Adjustments	As restated
Change in fair value of biological assets	(1,297,075)	406,834	(890,241)
Cash used in operating activities	(2,553,939)	—	(2,553,939)
Changes in capitalized costs of inventory	—	(325,807)	(325,807)
Changes in capitalized costs of biological assets	—	(81,027)	(81,027)

c) Recently adopted accounting policies

Privately-held investments

During the three months ended September 30, 2019, the Company made an investment in a private entity (note 13). All privately held investments (including conversion features) are initially recorded at the transaction price, being the fair value at the time of acquisition. At the end of each reporting period, the fair value of an investment (depending upon the circumstances) is adjusted using one or more of the valuation indicators described below. These are included in Level 3 of the fair value hierarchy (see note 18).

Use of the valuation approach described below may involve uncertainties and determinations based on management's judgement and any value estimated from these techniques may not be realized or realizable.

Company-specific information is considered when determining whether the fair value of a privately-held investment should be adjusted upward or downward at the end of each reporting period. In addition to company-specific information, the Company will also consider trends in general market conditions and the share performance of comparable publicly-traded companies when valuing privately-held investments.
The fair value of a privately-held investment may be adjusted if:

(i) There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place;
(ii) There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to the fair value of the investment will be based on management's judgement and any value estimated may not be realized or realizable;
(iii) The investee company is placed into receivership or bankruptcy;

(iv) Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern;
(v) Release by the investee company of positive/negative operational results; and
(vi) Important positive/negative management changes by the investee company that the Company's management believes will have a very positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

Adjustments to the fair value of a privately-held investment will be based upon management's judgement and any value estimated may not be realized or realizable. The resulting values for non-publicly traded investments may differ from values that would be realized if a ready market existed.

In addition, the amounts at which the Company's privately-held investments could be currently disposed of may differ from the carrying value assigned.

Segmented information
Operating segments are components of the Company that engage in business activities which generate revenues and incur expenses (including intercompany revenues and expenses related to transactions conducted with other components of the Company). The operations of an operating segment are distinct and the operating results are regularly reviewed by management for the purposes of resource allocation decisions and assessing its performance. Reportable segments are Operating segments whose revenues or profit/loss or total assets exceed ten percent or more of those of the combined entity. Key measures used by management to assess performance and make resource allocation decisions include revenues, gross profit and net income (loss). The Company's operating results are currently in one reportable segment and in two geographic markets, being Canada and the U.S.

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

IFRS 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 consolidated statements 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 was effective for fiscal years beginning on or after January 1, 2019. The Company elected to adopt IFRS 16 using the modified retrospective approach. Under this approach, the Company did not restate its comparative figures but will recognize the cumulative effect of adopting IFRS 16 as an adjustment to opening deficit 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 has elected 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 have not been reassessed for whether a lease exists. The Company has elected 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 has accounted for leases for which the lease term ends within 12 months of the date of initial application as short-term leases. The Company has adopted IFRS 16 as of July 1, 2019, and has assessed no changes to the opening consolidated statements of financial position as a result of the adoption of this new standard.

(Unaudited - Expressed in Canadian dollars)

5. Leases

Right of use assets

The Company leases assets, including land and vehicles. Information about leases for which the Company is a lessee is presented below:

	Right of use land	Right of use vehicles	Right of use total
Cost			
As at June 30, 2019	$—	$—	$—
Additions	57,242	12,471	69,713
As at September 30, 2019	**$57,242**	**$12,471**	**$69,713**
Accumulated depreciation			
As at June 30, 2019	$—	$—	$—
Expense for the period	2815	1,386	4,201
As at September 30, 2019	**$2,815**	**1,386**	**4,201**
Net book value			
At June 30, 2019	—	—	—
At September 30, 2019	**$54,427**	**$11,085**	**$65,512**

Lease liabilities

Minimum payments under lease liabilities	September 30, 2019
With in 1 year	$17,755
2 to 3 years	29,755
4 to 5 years	22,000
	69,510
Effect of discounting	(3,780)
Present value of lease payments	65,730
Less; current portion	15,768
Non-current portion of obligations under lease liabilities	**$49,962**

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. Where the lease contains a borrowing rate, the Company has used that rate. For the land lease, the Company has used a rate of 2.6%, representing a similar mortgage rate. The interest expense for the three months ending September 30, 2019 was $456 (September 30, 2018 - $nil).

6. 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 three months ended September 30, 2019 are as follows:

	Cannabis plants
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)
Carrying amount, June 30, 2019	2,125,359
Net change in fair value less costs to sell due to biological transformation	9,639,900
Production costs capitalized to biological assets	1,902,049
Transferred to inventory upon harvest	(2,970,107)

(Unaudited - Expressed in Canadian dollars)

Balance at September 30, 2019	**$10,697,201**

All biological assets are presented as current assets on the consolidated 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; and
- 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 18.5 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; and,
- Attrition rate - represents weighted average number of plants culled at each stage of production.

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 September 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 (September 30, 2018 - 87 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 (September 30, 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.

(Unaudited - Expressed in Canadian dollars)

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 September 30, 2019			5% decrease as at June 30, 2019		
	As at June 30, 2019	Biological assets	Inventory	As at June 30, 2019	Biological assets	Inventory
Selling price/gram	$5.00	(45,808)	(204,852)	$5.00	($63,489)	($224,937)
Yield per plant	70 grams	($45,808)	—	70 grams	($63,589)	—
Production/processing costs/gram	$0.40	$18,323	—	$0.40	$25,396	—
Average stage of growth	7.2 weeks	($45,808)	—	9.7 weeks	($63,489)	—

Outdoor	5% decrease as at September 30, 2019			5% decrease as at June 30, 2019		
	As at June 30, 2019	Biological assets	Inventory	As at June 30, 2019	Biological assets	Inventory
Selling price/gram	$2.50	(489,052)	(104,665)	$2.50	($33,122)	—
Yield per plant	40 grams	($489,052)	—	40 grams	($33,122)	—
Production/processing costs/gram	$0.23	$112,482	—	$0.23	$13,248	—
Average stage of growth	15 weeks	($489,052)	—	1 week	($33,122)	—

b) Inventories

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

	September 30, 2019	June 30, 2019
Dried and drying cannabis	**$5,689,518**	$3,945,121
Packaging supplies	**317,508**	142,090
Work in progress cannabis products	**218,777**	311,503
Cannabis packaged products	**282,045**	242,976
Cannabis accessories	**218,329**	88,084
	$6,726,177	$4,729,774

Dried and drying cannabis inventory includes 893,036 grams of equivalent flower as of September 30, 2019 (June 30, 2019 - 485,595 grams). Dried and drying cannabis inventory includes dried cannabis flower, shake and kief as well as the expected dried cannabis flower yield from recently harvested plant material. During the quarter ending September 30, 2019, the Company transferred $1,613,094 (September 30, 2019 - $nil) from inventory to the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

(Unaudited - Expressed in Canadian dollars)

7. Trade and other receivables

	September 30, 2019	June 30, 2019
	$	$
Accounts receivable	**1,007,142**	94,795
GST/HST recoverable	**1,536,417**	933,975
	2,543,559	1,028,770

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, 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
Additions during the period		129,491	827,106		821	—	1,428,742	2,386,160
Allocation from in construction progress	—	696,140	362,561	—	—	—	(1,058,701)	—
Disposals during the period	—	—	—	—	—	—	—	—
As at September 30, 2019	2,430,151	11,506,312	9,784,726	221,784	12,678	42,837	1,906,939	25,905,427
Accumulated Amortization								
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
Depreciation for the period	—	116,141	375,882	10,687	1,039	937	—	504,686
Disposal during the period	—	—	—	—	—	—	—	—
As at September 30, 2019	—	657,488	2,048,135	154,748	4,930	31,286	—	2,896,587
Net Book Value								
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
As at September 30, 2019	**2,430,151**	**10,848,824**	**7,736,591**	**67,036**	**7,748**	**11,551**	**1,906,939**	**23,008,840**

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. During the three months ended September 30, 2019, $220,824 of depreciation was capitalized to the production of dried cannabis, of which $107,897 was included in cost of sales.

9. License, intangibles and goodwill

	License	Goodwill	Intangibles (note 12)	Total
Cost				
As at June 30, 2018	$—	$—	$—	$—
Additions	5,258,958	3,137,589	—	8,396,547
As at June 30, 2019	5,258,958	3,137,589	—	8,396,547
Additions	—	3,967,745	1,220,845	5,188,590
Effect of changes in exchange rates	—	(36,925)	(11,362)	(48,287)

(Unaudited - Expressed in Canadian dollars)

As at September 30, 2019	**$5,258,958**	**$7,068,409**	**1,209,483**	**13,536,850**
Accumulated amortization				
As at June 30, 2018	$—	$—	$—	$—
Expense for the period	122,709	—		122,709
As at June 30, 2019	122,709	—	—	—
Expense for the period	52,589	—	—	52,589
As at September 30, 2019	**$175,298**	**$—**	**$—**	**$175,298**
Net book value				
At June 30, 2019	$5,136,249	$3,137,589	$—	$8,273,838
At September 30, 2019	**$5,083,660**	**$7,068,409**	**$1,209,483**	**$13,361,552**

10. Shareholders' equity

[a] Share capital

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

Balance at June 30, 2018	78,192,536	$ 40,876,340
Issuance of common shares for cash (iii)	4,000,000	2,848,697
Issuance of common shares on acquisition (iv)	24,657,525	9,558,205
Issuance of common shares for cash (v)	9,393,333	6,554,189
Issuance of common shares on the exercise of options and RSUs (ii)	4,175,000	2,904,084
Issuance of common shares on the exercise of broker options (ii)	1,209,667	1,715,046
Issuance of common shares on exercise of warrants (i), (ii)	25,269,144	20,549,142
Issuance of common shares for cash (vi)	21,139,760	21,941,021
Balance at June 30, 2019	168,036,965	$106,946,724
Issuance of common shares on acquisition (vii)	2,247,834	1,858,181
Issuance of common shares on the exercise of options and RSUs (ii)	602,000	459,195
Balance at September 30, 2019	170,886,799	$109,264,100

(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) 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 RSUs valued at $520,389 for gross proceeds of $287,500. During the three months ended September 30, 2019, the

Company issued 602,000 common shares upon the exercise of 502,000 options valued at $151,695 for gross proceeds of $237,500 and 100,000 RSUs valued at $70,000

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

(vii) On August 28, 2018, the Company acquired 100% of the issued and outstanding common 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. Consideration for the acquisition at closing included the cash payment of U.S.$312,645 ($416,568) and the issuance of 2,247,834 of the Company's common shares, at a price of approximately $0.84 per common share. The Company's common shares were valued at $0.76, being the market close price on August 27, 2019. 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 4,852,460 common shares of the Company.

[b] Stock options

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

During the three months ended September 30, 2019, the Company recorded $468,786 (2018 - $1,305,646) in stock-based payments expense related to employee and contractor options which are measured at fair value at the date of grant and are expensed over the option's vesting period. In determining the amount of stock-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

(Unaudited - Expressed in Canadian dollars)

	September 30, 2019	June 30, 2019
Risk-free interest rate	1.17% - 1.43%	1.34% - 2.20%
Expected life of options (years)	3	3
Expected annualized violability	90%	70%-100%
Expected dividend yield	nil	nil
Black-Scholes value range	$0.44 - $0.50	$0.29 - $0.63
Share price range	$0.78 - $0.87	$0.47 - $1.09

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

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

	Number of stock options	Weighted average exercise prices
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
Granted	1,236,000	0.84
Exercised	(502,000)	0.47
Forfeited	(51,987)	0.89
Outstanding, September 30, 2019	**14,861,673**	**0.80**
Exercisable, September 30, 2019	**11,541,499**	**0.80**

The weighted average remaining life of the options is 2.05 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 September 30, 2019:

	Number of RSUs	Weighted average grant date fair value	Average remaining contractual life in years
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	0.72
Granted	100,000	$0.70	
Vested and exercised	(100,000)	$0.70	
Outstanding, September 30, 2019	**2,725,000**	**$0.65**	**0.57**

Time-based RSUs

(Unaudited - Expressed in Canadian dollars)

As at September 30, 2019, the time-based equity award consisted of 2,433,333 RSUs (September 30, 2018 - $nil) that will vest annually in two or three equal tranches after the date of RSU grant. For the three months ended September 30, 2019, the Company recorded $280,388 (2018 - $nil) in share-based payments expense related to these RSUs.

Performance-based RSUs
As at September 30, 2019, the performance-based equity award consisted of 291,667 RSUs (September 30, 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 three months ended September 30, 2019, the Company recorded $57,667 (2018 - $nil) in share-based payments expense related to these RSUs.

Market performance-based RSUs
As at September 30, 2019, the market performance-based equity award consisted of $nil RSUs (September 30, 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 three months ended September 30, 2019, the Company recorded $nil (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%.

11. Warrant reserve

The continuity of share purchase warrants outstanding is as follows:

	Number	Amount ($)
Balance at June 30, 2018	35,027,926	5,402,046
Expired warrants	(1,695,756)	(67,455)
Warrants issued in private placement (i)	1,000,000	110,230
Warrants issued in private placement (ii)	2,348,333	340,811
Warrants issued in private placement (iii)	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
Balance at September 30, 2019	22,586,072	4,927,607

(i) 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.

(ii) 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.

(iii) 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.

(Unaudited - Expressed in Canadian dollars)

As of September 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

12. Acquisition of Rare Industries, Inc.

On August 28, 2019, the Company acquired all of the shares of Rare Industries, Inc ("Rare). For accounting purposes, the acquisition is being treated as a business combination.

The purchase price was satisfied through the cash payment of U.S.$312,645 ($416,568) and the issuance of 2,247,834 of the Company's common shares, at a price of approximately $0.84 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 4,852,460 common shares of the Company (with 1,386,407 shares allocated to the first year earnout and 3,466,018 shares allocated to the second year earnout). This has been recorded as a contingent consideration. For the contingent consideration, the Company has applied a weighted average of probabilities of certain milestones having been achieved over the two-year earnout period. Of the $2,038,019 allocated to the contingent consideration, $582,291 is allocated to the first year and $1,455,738 is allocated to the second-year milestones. At September 30, 2019, the Company recorded a gain on the change in contingent consideration liability of $533,767 based on the change in the Company share price from the acquisition date to the reporting date.

The Company is in the process of determining the fair market value of the net assets acquired. The final purchase price allocation will be adjusted as needed, pending the finalization of customary post-close adjustments and continued review of the estimates and assumptions used in valuing intangible assets, among other identifiable assets acquired and liabilities assumed, which is expected to be finalized no later than one year after the acquisition date. The table below summarizes the preliminary fair value of the assets acquired and the liabilities assumed at the acquisition date:

Consideration paid	Amount
Cash paid	$416,568
Settlement of pre-existing relationships	437,227
Common shares issued 2,247,834 shares (at closing price of $0.84)	1,888,181
Contingent consideration	2,038,019
Total consideration paid	$4,779,995
Net assets acquired	
Cash and cash equivalents	$5,653
Inventory	132,958
Other receivables	49,967
Current Assets	188,577
Property, plant and equipment	183
Intangibles	1,220,845
Goodwill	3,967,745
Total assets	5,377,350

(Unaudited - Expressed in Canadian dollars)

Current liabilities	
Accounts payable and accrued liabilities	292,144
Deferred income tax liability	305,211
Total liabilities	597,355
Total net assets acquired	$4,779,995

For the three months ended September 30, 2019, acquisition-related costs of $30,000 have been included as transaction costs. During the period from August 28, 2019 to September 30, 2019, the Company recognized $8,264 in revenues and a net loss of $73,864 from Rare. If the acquisition had occurred on July 1, 2019, the Company estimates it would have recorded an increase of $10,979 in revenues and an increase of $(82,601) in net income (loss) for the three months ended September 30, 2019.

13. Investments

On July 17, 2019, the Company purchased 187,500 Class A common shares of Friendly Stranger Holdings Corp. ("Friendly Stranger") for $750,000 and a convertible debenture in the principal amount $500,000 from Friendly Stranger. The debenture matures on June 19, 2021, bears interest at the rate of 6.0% per annum, and is convertible into Class A common shares of Friendly Stranger at a conversion price of $5.00 per share. The conversion may be forced by Friendly Stranger upon obtaining authorization for a second retail store location. The company measures the investment at fair value.

14. Related party transactions

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

	Three months ended September 30, 2019	Three months ended September 30, 2018
Consulting, salaries and wages	$511,844	$283,545
Share-based payment	511,180	1,203,519
Total	$1,023,024	$1,487,064

Included in accounts payable and accrued liabilities is $188,319 relating to the separation agreement of a former management individual.

15. Commitments

Lease commitments:

Total future minimum lease payments including operating costs for leases exempt from recognition under IFRS 16 as right-of-use assets and lease liabilities for leases that have a term under 12 months are as follows:

2020	$98,695
2021	17,755
2022	13,439
2023	12,000
2024	12,000
	$153,888

Rental expense was $41,030 for the three months ended September 30, 2019 (2018 - $43,048). Additional lease commitments have been disclosed in note 5.

16. Capital management

The Company defines capital as its net assets, total assets less total liabilities. 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.

(Unaudited - Expressed in Canadian dollars)

17. Segmented geographic information

Geographical segments	Canada	U.S.	Total
	$	$	$
Total assets at June 30, 2019	91,022,901	—	91,022,901
Total assets at September 30, 2019	**93,829,377**	**5,408,093**	**99,237,470**
Net revenues at June 30, 2019	4,819,788	—	4,819,788
Net revenues at September 30, 2019	**1,442,902**	**8,264**	**1,451,166**
Comprehensive income (loss) at June 30, 2019	(8,127,074)	—	(8,127,074)
Comprehensive income (loss) at September 30, 2019	**2,315,470**	**(114,116)**	**2,201,354**

18. Financial instruments

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

	September 30, 2019	June 30, 2019
	$	$
Financial assets at amortized cost [1]	**43,437,908**	53,794,336
Financial assets at fair value through profit and loss ("FVTPL") [2]	**1,250,000**	—
Financial liabilities at amortized cost [3]	**3,873,086**	4,701,444

(1) Includes cash and cash equivalents and trade receivables
(2) Includes investment in privately-held entity
(3) Includes accounts payable and accrued liabilities and lease liabilities

Fair value

The fair values of financial instruments classified at amortized cost approximate their carrying values due to their short-term maturity. The Company's investments classified at FVTPL consisted of the following as at September 30, 2019:

	Cost	Level 1	Level 2	Level 3	Total fair value
	$	$	$	$	$
Common shares of Friendly Stranger	750,000	—	—	750,000	—
Convertible debenture of Friendly Stranger	500,000	—	—	500,000	—

The Company did not hold any investments as at June 30, 2019. Within Level 3, the Company included its investment in Friendly Stranger (note 13) which are not quoted on a recognized securities exchange. The key assumptions used in the valuation of these instruments include, but are not limited to, the value at which a recent financing was done by the investee, company-specific information, trends in general market conditions and the share performance of comparable publicly-traded companies.

Credit risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and accounts and other receivables. The risk exposure is limited to their carrying amounts reflected on the consolidated statement of financial position. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian financial institutions. As the Company does not invest in asset-backed deposits or investments, it does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of the financial institutions and the investment grade of its money market funds. Accounts receivable primarily consist of trade accounts receivable and sales tax receivable. The Company provides credit to certain customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Credit risk is generally limited for receivables from government bodies, which generally have low default risk. Credit risk for non-government wholesale customers is assessed on a case-by-case basis and a provision is recorded where required and 50%

payment is required prior to the delivery of goods and 50% is required within 30 days of delivery. As of September 30, 2019, $1,007,142 of accounts receivable are from provincial regulators and wholesale customers. As of September 30, 2019, the Company recognized a $nil provision for expected credit losses.

The Company aging of receivables is as follows:	**September 30, 2019**	June 30, 2019
	$	$
0-60 days	**997,583**	—
61-120 days	**9,559**	94,795
	1,007,142	94,795

Foreign currency risk

The operating results and financial position of the Company are reported in Canadian dollars. With the acquisition of Rare during the three months ended September 30, 2019, the Company now operates internationally, and certain of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are, therefore, subject to currency transaction and translation risks. The Company's main risk is associated with fluctuations in U.S. dollars. The Company holds cash in Canadian dollars and U.S. dollars. Assets and liabilities are translated based on the Company's foreign currency translation policy. The Company has determined that as at September 30, 2019, the effect of a 10% increase or decrease in U.S. dollars against the Canadian dollar on financial assets and liabilities would result in an increase or decrease of approximately $422,865 (September 30, 2018 - $nil) to net income (loss). At September 30, 2019, the Company has not entered into any hedging agreements to mitigate currency risks, respect to foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company is exposed to interest rate risk on short-term advances and convertible debentures. Due to the short-term nature of these borrowings and the fixed nature of their interest rates, the Company believes interest rate risk is minimal.

Liquidity risk

The composition of the Company's accounts payable and accrued liabilities was as follows:

	September 30, 2019	June 30, 2019
	$	$
Trade payables	**3,188,924**	3,235,085
Accrued liabilities	**1,260,354**	1,466,359
Other payables	**20,506**	—
	4,469,784	4,701,444

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities when they are due. The Company manages liquidity risk through the management of its capital structure and resources to ensure that it has sufficient liquidity to settle obligations and liabilities when they are due. The Company has the following gross contractual obligations as at September 30, 2019, which are expected to be payable in the following respective periods:

	Total	<1 year	1-3 years	3-5 years
	$	$	$	$
Accounts payable and accrued liabilities	**4,469,784**	4,469,784	—	—
Contingent consideration payable	**1,504,252**	429,786	1,504,252	—
	5,974,036	4,899,570	1,504,252	—

19. Subsequent events

(i) On October 9, 2019, the Company entered into a definitive agreement to acquire 100% of the outstanding shares of Sackville & Co. Merchandising Ltd. ("Sackville"), a cannabis brand focused on design-forward cannabis accessories. The total consideration payable on closing was approximately USD$789,735 consisting of the following: (i) U.S.$150,000 ($201,570) paid in cash; and (ii) 1,060,368 Company common shares. In addition, 48North will pay a conditional earn-out in common shares based on the operating performance of Sackville for a 12-month period following closing in an amount up to 4,756,624 common shares.