



48NORTH CANNABIS CORP.

Condensed Interim Consolidated Financial Statements

(Unaudited)

As at March 31, 2020

<u>Condensed Interim Consolidated Financial Statements (Unaudited)</u>	<u>Page</u>
Unaudited Condensed Interim Consolidated Statements of Financial Position	2
Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss	3
Unaudited Condensed Interim Consolidated Statements of Cash Flows	4
Unaudited Condensed Interim Consolidated Statements of Changes in Equity	5
Notes to the Unaudited Condensed Interim Consolidated Financial Statements	6

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Financial Position
As at March 31, 2020 and June 30, 2019
(Unaudited - in Canadian dollars)

	March 31	June 30
	2020	2019
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	17,821,274	52,765,566
Trade and other receivables [note 7]	3,405,781	1,028,770
Prepaid expenses	1,362,612	770,168
Biological assets [note 6]	1,207,523	2,125,359
Inventory [note 6]	15,456,512	4,729,774
Total current assets	39,253,702	61,419,637
Long-term deposits	758,381	202,060
Long term investments [note 14]	1,268,004	—
Property, plant and equipment, net [note 8]	27,391,111	21,127,366
Right of use assets [note 5]	865,374	—
License [note 9]	4,978,480	5,136,249
Intangibles [note 9]	283,146	—
Goodwill [note 9, 12 and 13]	3,137,589	3,137,589
Total assets	77,935,787	91,022,901
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities [note 15]	7,843,422	4,701,444
Current portion of contingent consideration [note 12 and 13]	441,917	—
Current portion of lease liabilities [note 5]	163,793	—
Total current liabilities	8,449,132	4,701,444
Lease liabilities [note 5]	787,415	—
Deferred income tax liability [note 19]	130,781	520,120
Total liabilities	9,367,328	5,221,564
Shareholders' equity		
Share capital [note 10]	110,482,323	106,946,724
Share-based payments reserve [note 10]	8,390,355	7,838,404
Warrant reserve [note 11]	4,476,566	4,927,607
Contributed surplus	1,061,827	440,657
Deficit	(55,939,390)	(34,352,055)
Accumulated other comprehensive income	96,778	—
Total shareholders' equity	68,568,459	85,801,337
Total liabilities and shareholders' equity	77,935,787	91,022,901

Continuance of operations and going concern [note 2]
Subsequent events [note 20]

On behalf of the Board:

/s/ Martin Cauchon
Martin Cauchon, Chairman

/s/ William Assini
William Assini, Director

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - in Canadian dollars)

	Three months ended		Nine months ended	
	March 31		March 31	
	2020	2019	2020	2019
	\$	\$	\$	\$
Revenue	2,805,875	689,203	6,208,656	4,347,652
Excise duties	(537,241)	—	(869,333)	—
Net revenue	2,268,634	689,203	5,339,323	4,347,652
Cost of sales				
Inventory expensed to cost of sales, before fair value adjustments	1,694,819	199,479	3,370,020	723,842
Other cost of sales	113,122	88,155	251,230	88,155
Gross profit before fair value adjustments	460,693	401,569	1,718,073	3,535,655
Unrealized fair value adjustment on growth of biological assets [note 6]	754,908	2,852,437	9,002,965	5,120,508
Realized fair value adjustment on inventory sold [note 6]	(6,106,357)	(655,420)	(8,462,796)	(2,195,133)
Gross profit (loss)	(4,890,756)	2,598,586	2,258,242	6,461,030
ADMINISTRATIVE EXPENSES				
General and administrative [note 15]	5,656,666	1,932,475	12,804,775	4,347,689
Sales and marketing [note 15]	915,060	588,483	4,243,004	1,417,558
Share-based payments [note 10 and 15]	288,995	1,145,632	1,568,192	2,985,095
Depreciation and amortization [note 5, 8 and 9]	677,108	403,583	1,359,140	1,066,058
Unrealized gain on other investments [note 14]	(18,004)	—	(18,004)	—
Loss on change in fair value of contingent consideration [note 12 and 13]	2,224,741	—	194,333	—
	9,744,566	4,070,173	20,151,440	9,816,400
Loss before undernoted	(14,635,322)	(1,471,587)	(17,893,198)	(3,355,370)
Impairment of goodwill [note 9, 12, 13]	(4,139,747)	—	(4,139,747)	—
Income tax provision – deferred [note 19]	978,921	—	445,609	—
Net loss	(17,796,148)	(1,471,587)	(21,587,336)	(3,355,370)
Other comprehensive loss				
Currency translation adjustment	71,452	—	96,778	—
Comprehensive loss	(17,724,696)	(1,471,587)	(21,490,558)	(3,355,370)
Basic and fully diluted loss per share	(0.100)	(0.012)	(0.124)	(0.035)
Weighted average number of common shares outstanding [000's]	177,554	119,815	173,442	96,465

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.**Condensed Interim Consolidated Statements of Cash Flows**

For the nine months ended March 31, 2020 and 2019

(Unaudited - in Canadian dollars)

	Nine months ended March 31	
	2020	2019
	\$	\$
OPERATING ACTIVITIES		
Net (loss) for the period	(21,587,336)	(3,355,370)
Add (deduct) items not involving cash		
Change in fair value on growth of biological assets	(9,002,965)	(5,120,509)
Change in fair value of contingent consideration	194,333	—
Change in fair value of other investments	(18,004)	—
Change in impairment of goodwill	4,139,747	—
Fair value change included in inventory sold	8,462,796	2,195,133
Depreciation included inventory expensed to cost of sales, before fair value adjustments	349,019	—
Depreciation and amortization	1,359,140	1,066,058
Interest from lease obligations	48,192	—
Share-based payments [note 10]	1,568,192	2,985,095
Deferred tax expense	(445,609)	—
	(14,932,494)	(2,229,593)
Changes in non-cash working capital:		
Net change in accounts and other receivables	(2,310,143)	(201,501)
Net change in prepaid expenses	(583,142)	(282,396)
Net change in capitalized costs of biological assets	462,835	(306,658)
Net change in inventory	(9,110,609)	(414,731)
Net change in accounts payable and accrued liabilities	2,855,506	1,072,687
Cash used operations	(23,618,047)	(2,362,192)
INVESTING ACTIVITIES		
Acquisition of property plant and equipment	(8,109,891)	(1,411,274)
Cash paid in acquisition of Rare Industries, Inc.	(416,568)	—
Cash paid in acquisition of Sackville & Co. Merchandising Ltd.	(411,353)	—
Cash acquired on acquisition of Good & Green Cannabis Corp.	—	92,394
Cash acquired on acquisition of Rare Industries, Inc.	5,653	—
Cash acquired on acquisition of Sackville & Co. Ltd.	2,095	—
Settlement of pre-existing relationship	(437,228)	—
Acquisition of Apothecanna brand rights	(339,775)	—
Transaction costs	(30,000)	—
Acquisition of investment	(1,250,000)	—
Long-term deposits	(556,321)	—
Payment towards farm purchase	—	(1,645,005)
Cash used in investing activities	(11,543,388)	(2,963,885)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options and warrants	237,500	3,531,147
Payments towards principal portion of lease liability	(50,193)	—
Repayment of mortgage payable	—	(2,300,000)
Proceeds from private placements (net of issuance costs)	—	9,853,927
Cash provided by financing activities	187,307	11,085,074
Effect of foreign exchange rate changes on cash	29,836	—
Net change in cash and cash equivalents during the period	(34,944,292)	5,758,997
Cash and cash equivalents, beginning of period	52,765,566	12,231,484
Cash and cash equivalents, end of period	17,821,274	17,990,481

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Changes in Equity
For the nine months ended March 31, 2020 and 2019
(Unaudited - in Canadian dollars)

	Common shares		Warrant reserve	Share-based payment reserve	Contributed surplus	Accumulated OCI	Deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$	\$	\$
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	13,393,333	8,270,853	1,583,074	—	—	—	—	9,853,927
Issuance on exercise of warrants (net)	7,177,060	2,498,769	(343,821)	—	—	—	—	2,154,948
Share-based payments	—	—	—	2,985,095	—	—	—	2,985,095
Issuance on exercise of options	2,459,667	2,216,935	123,572	(964,309)	—	—	—	1,376,198
Issuance on vesting of restricted share units	510,000	306,000	—	(306,000)	—	—	—	—
Issuance of common shares on acquisition	24,657,525	11,835,612	—	—	—	—	—	11,835,612
Expiry of options	—	—	—	(23,650)	23,650	—	—	—
Expiry of warrants	—	—	(33,831)	—	33,831	—	—	—
Net loss for the period	—	—	—	—	—	—	(3,355,370)	(3,355,370)
Balance at March 31, 2019	126,390,121	66,004,509	6,731,040	5,900,784	218,006	—	(29,580,351)	49,273,988
Balance at June 30, 2019	168,036,965	106,946,724	4,927,607	7,838,404	440,657	—	(34,352,054)	85,801,337
Issued on exercise of stock options	502,000	389,195	—	(151,695)	—	—	—	237,500
Issued on exercise of RSUs	1,138,333	694,416	—	(694,416)	—	—	—	—
Expiry of warrants	—	—	(451,041)	—	451,041	—	—	—
Expiry of options	—	—	—	(74,130)	74,130	—	—	—
Expiry of RSU's	—	—	—	(96,000)	96,000	—	—	—
Common shares issued on acquisition	2,247,834	1,858,181	—	—	—	—	—	1,858,181
Common shares in escrow classified as a liability	4,756,624	—	—	—	—	—	—	—
Common shares on acquisition	1,060,368	593,806	—	—	—	—	—	593,806
Share-based payments	—	—	—	1,568,192	—	—	—	1,568,192
Net loss for the period	—	—	—	—	—	—	(21,587,336)	(21,587,336)
Other comprehensive income	—	—	—	—	—	96,778	—	96,778
Balance at March 31, 2020	177,742,124	110,482,323	4,476,566	8,390,355	1,061,827	96,778	(55,939,390)	68,568,458

See accompanying notes to unaudited condensed interim consolidated financial statements.

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited — Expressed in Canadian dollars)

1. Corporate information

48North Cannabis Corp. (“Company” or “48North”), has four wholly owned subsidiaries, 48North Amalco Ltd. (“Amalco”), Good & Green Cannabis Corp. (“G&GCC”), Rare Industries, Inc. (“Rare”) and Sackville & Co. Merchandising Ltd. (“Sackville”). 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 Good & Green Corp. (“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.

Amalco 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, Amalco completed a corporate reorganization with DelShen. Each common share of DelShen was exchanged for one common share of Amalco and DelShen became a wholly owned subsidiary of Amalco. The Company’s consolidated financial statements reflect the historical operations of DelShen. Prior to the reorganization, 48North 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, a U.S. multi-state vape technology brand with product distribution in Oregon and Washington state (see note 12 and 20). On October 9, 2019, the Company acquired 100% of Sackville, a U.S.-based cannabis brand focused on design-forward cannabis accessories (see note 13, 19 and 20). 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 October 16, 2019, DelShen received its processing license amendment and on October 16, 2019, DelShen received an amendment to authorize the sale of cannabis oil products. On October 23, 2019, the conditions on DelShen’s license were amended to permit the sales of cannabis extracts, topicals and edible cannabis products.

On October 12, 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

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

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 17, 2019, Health Canada granted G&G an outdoor cultivation license for the farm. On January 17, 2020, Health Canada licensed the extraction space within the Brantford facility.

The Company has financed its working capital requirements primarily through equity and debt financings. The Company reported a comprehensive loss of \$21,490,558 and negative cash flows from operations of \$23,618,047 during the nine months ended March 31, 2020. As of March 31, 2020, the Company had a deficit in the amount of \$55,939,390. 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 March 31, 2020.

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 Rare Industries, Inc. 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 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
Sackville & Co. Merchandising Ltd.	100% by Company	Canada and U.S. operations	British Columbia
Parlor (US) Ltd.	100% by Sackville	U.S. operations	Delaware

In addition, the Company's participation in a joint arrangement classified as a joint operation, is accounted for in the unaudited condensed interim consolidated financial statements by reflecting the Company's share of the assets, liabilities, revenues and expenses arising from the joint operations.

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

The Company's Board of Directors approved these unaudited condensed interim consolidated financial statements on May 21, 2020.

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) Biological assets and inventory

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.

(ii) 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.

(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 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.

(iv) Income taxes

Income taxes and tax exposures recognized in the unaudited condensed interim 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) 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) Impairment of cash-generating units and goodwill

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(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.

(vii) Lease arrangements

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to 48North’s company-specific incremental borrowing rate. This rate represents the rate that 48North would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

(viii) Business combinations

Management applies judgement in determining whether an acquisition is a business combination or an asset acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, estimates including market based and appraisal values are considered. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognized in the statement of loss. The Company measures all assets acquired and liabilities assumed at their acquisition date fair values. Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements). The excess of the aggregate of (a) the consideration provided and (b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

(ix) 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.

b) Recently adopted accounting policies

Privately-held investments

On July 17, 2019, the Company made an investment in a private entity (note 14). 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

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

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.

Joint operations

The Company applies IFRS 11 to joint arrangements. A joint arrangement is defined as one set of operations over which two or more parties have joint control. This exists when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

In January 2020, the Company entered into a supply and services agreement with a subsidiary of Humble + Fume Inc., whereby the parties agreed to collaborate regarding the extraction of cannabis distillate, including the manufacturing and ultimately the sale of cannabis distillate products. Under the agreement the Company provides cannabis biomass and is responsible for selling of the products. The Company and Humble + Fume Inc. have joint control over the arrangement as all major decisions of the relevant activities require consent of both parties. The Company has assessed the nature of this joint arrangement and determined it to be a joint operation.

As a joint operator, the Company holds a 50% interest in the joint arrangement and recognizes its share of assets, liabilities, revenues and expenses arising from the arrangement.

c) **New accounting pronouncements**

Right of use assets

The Company recognizes right-of-use assets at the commencement date of the lease. Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized at the inception of the lease, initial direct costs incurred, and lease payments made at or before the lease commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right of use assets are

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The useful life of leases range from 2.25 – 5.37 years.

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. There was no cumulative effect of adopting IFRS 16 on the 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. As a practical expedient, the Company elected to separate non-lease components from lease components, and account for each lease component and any associated non-lease component separately. 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.

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 building leases	Right of use total
Cost				
As at June 30, 2019	\$ —	\$ —	\$ —	\$ —
Additions	57,242	12,471	880,315	950,028
As at March 31, 2020	\$57,242	\$12,471	\$880,315	\$950,028
Accumulated depreciation				
As at June 30, 2019	\$ —	\$ —	\$ —	\$ —
Expense for the period	8,446	4,157	72,051	84,854
As at March 31, 2020	\$8,446	\$4,157	\$72,051	\$84,654
Net book value				
At June 30, 2019	—	—	—	—
At March 31, 2020	\$48,796	\$8,314	\$808,264	\$865,374

Lease liabilities

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

Minimum payments under lease liabilities	March 31, 2020
Within 1 year	\$285,377
2 to 3 years	574,215
Over 4 years	468,709
	1,328,301
Effect of discounting	(377,093)
Present value of lease payments	951,208
Less; current portion	163,793
Non-current portion of obligations under lease liabilities	\$737,908

The Company has elected not to recognize 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 2.49%, representing a similar mortgage rate. The Company used a rate of 15% in the valuation of the building leases. The interest expense for the nine months ending March 31, 2020 was \$48,192 (March 31, 2019 - \$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 nine months ended March 31, 2020 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	9,002,965
Production costs capitalized to biological assets	4,069,412
Transferred to inventory upon harvest	(13,990,213)
Balance at March 31, 2020	\$1,207,523

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

- Net revenue price per gram - \$3.00 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 bulk 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%

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

While the Company anticipates growing outdoor cannabis plants during 2020, as at March 31, 2020, the Company did not have any outdoor cannabis plants growing. The Company expects that as the outdoor cultivation starts, that the Company will provide significant assumptions used in determining the fair value of outdoor cannabis plants.

The Company estimates the harvest yields for the cannabis on indoor and outdoor plants at various stages of growth. As of March 31, 2020, 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 (March 31, 2019 - 87 grams) of cannabis when harvested. As of March 31, 2020 the Company did not have any outdoor plants.

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. 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. Shipping and fulfillment charges are expensed to cost of goods sold in the period in which the costs are incurred.

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 condensed interim 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.

	<u>5% decrease as at March 31, 2020</u>			<u>5% decrease as at June 30, 2019</u>		
	As at March 31, 2020	Biological assets	Inventory	As at June 30, 2019	Biological assets	Inventory
<u>Indoor</u>						
Selling price/gram	\$3.00	(\$52,665)	(284,809)	\$5.00	(\$63,489)	(\$224,937)
Average attrition rate	82%	(\$52,665)	—	77%	(\$63,489)	—
Yield per plant	70 grams	(\$52,665)	—	70 grams	(\$63,589)	—
Production/processing costs/gram	\$0.40	\$8,105	—	\$0.40	\$25,396	\$9,712
Average stage of growth	10.11 weeks	(\$52,665)	—	9.7 weeks	(\$63,489)	—
<u>Outdoor</u>						
Selling price/gram	\$0.50	\$0	(274,561)	\$2.50	(\$33,122)	—
Attrition rate	N/A	\$0	—	50%	(\$33,122)	—
Yield per plant	N/A	\$0	—	40 grams	(\$33,122)	—
Production/processing costs/gram	N/A	N/A	N/A	\$0.23	\$13,248	—
Average stage of growth	N/A	N/A	N/A	1 week	(\$33,122)	—

b) Inventories

The Company's inventory assets include the following as of March 31, 2020.

March 31, 2020 June 30, 2019

48NORTH CANNABIS CORP.
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

Dried and drying cannabis	\$12,046,086	\$3,945,121
Packaging supplies	1,952,246	142,090
Work in progress cannabis products	888,639	311,503
Cannabis packaged products	219,414	242,976
Cannabis accessories	350,127	88,084
	\$15,456,512	\$4,729,774

Dried and drying cannabis inventory includes 10,475,258 grams of equivalent dried cannabis as of March 31, 2020 (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 nine months ending March 31, 2020, the Company transferred \$8,462,796 (March 31, 2019 - \$nil) from inventory to realized fair value adjustment on inventory sold in the condensed interim consolidated statements of loss and comprehensive loss. During the current quarter, the Company reviewed its estimated fair market value of its inventory and determined that the average selling price per gram of its outdoor cannabis should be reduced from \$1.00 per gram to \$0.50 per gram, resulting in a reduction in non-cash inventory value of \$5,444,047 in the current quarter.

7. Trade and other receivables

	March 31, 2020	June 30, 2019
	\$	\$
Accounts receivable	1,562,584	94,795
GST/HST recoverable	1,843,197	933,975
	3,405,781	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 construction in 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	—	674,312	1,053,727	104,634	882	—	6,277,217	8,110,772
Allocation from construction in progress	—	1,607,571	2,332,785	—	6,835	—	(3,947,191)	—
Disposals during the period	—	—	—	—	—	—	—	—
As at March 31, 2020	2,430,151	12,962,564	11,981,571	326,418	19,574	42,837	3,866,924	31,630,039

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	—	495,772	1,292,409	53,641	2,395	2,810	—	1,847,027
Disposal during the period	—	—	—	—	—	—	—	—
As at March 31, 2020	—	1,037,119	2,964,662	197,702	6,286	33,159	—	4,238,928

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
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48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

As at **March 31, 2020** **2,430,151** **11,925,445** **9,016,909** **128,716** **13,288** **9,678** **3,866,924** **27,391,111**

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 nine months ended March 31, 2020, \$786,252 of depreciation was capitalized to the production of dried cannabis, of which \$349,019 was included in cost of sales (2019 -\$nil).

9. License, intangibles and goodwill

Cost	License	Goodwill (note 12 and 13)	Intangibles	Total
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	—	4,139,748	339,775	4,479,523
Impairment	—	(4,139,748)	—	(4,139,748)
Disposal	—	—	—	—
Effect of changes in exchange rates	—	—	—	—
As at March 31, 2020	\$5,258,958	3,137,589	339,775	8,736,322
Accumulated amortization				
As at June 30, 2018	\$—	\$—	\$—	\$—
Expense for the period	122,709	—	—	122,709
As at June 30, 2019	122,709	—	—	122,709
Expense for the period	157,769	—	56,630	214,399
As at March 31, 2020	\$280,478	\$—	\$56,630	\$337,108
Net book value				
At June 30, 2019	\$5,136,249	\$3,137,589	\$—	\$8,273,838
At March 31, 2020	\$4,978,480	\$3,137,589	\$283,146	\$8,399,215

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 acquisition (viii)	5,816,992	593,806
Issuance of common shares on the exercise of options and RSUs (ii)	1,640,333	1,083,612
Balance at March 31, 2020	177,742,124	\$110,482,323

- (i) On December 2, 2016, the Company issued 18,636,864 units ("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

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

- 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 nine months ended March, 2020, the Company issued 1,640,333 common shares upon the exercise of 502,000 options valued at \$151,695 for gross proceeds of \$237,500 and 1,138,333 RSUs valued at \$694,416.
 - (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,

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

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. 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 [see note 20].
- (viii) On October 9, 2019, the Company acquired all of the shares of Sackville & Co. Merchandising Ltd. (“Sackville”). For accounting purposes, the acquisition is being treated as a business combination. Consideration for the acquisition at closing included the cash payment of U.S.\$150,000 (\$201,570) and the issuance of 1,060,368 of the Company’s common shares, at a price of approximately \$0.56 per common share, being the Company’s market close price on October 9, 2019. In addition, 48North will pay a conditional earn-out in common shares based on overall operating performance of Sackville a 12-month period following closing in an amount up to 4,756,624 common shares of the Company [see note 20].

[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 nine months ended March 31, 2020, the Company recorded \$934,128 (2019 - \$ 1,839,463) in share-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 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:

	March 31, 2020	June 30, 2019
Risk-free interest rate	1.17% - 1.64%	1.34% - 2.20%
Expected life of options (years)	3	3
Expected annualized volatility	90-146%	70%-100%
Expected dividend yield	nil	nil
Black-Scholes value range	\$0.26 - \$0.50	\$0.29 - \$0.63
Share price range	\$0.34 - \$0.88	\$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 March 31, 2020:

	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	2,039,250	0.69
Exercised	(502,000)	0.47
Forfeited, expired	(283,864)	0.79
Outstanding, March 31, 2020	15,433,046	\$0.79
Exercisable, March 31, 2020	12,967,405	\$0.80

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

The weighted average remaining life of the options is 1.82 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. 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 March 31, 2020:

	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 year	(400,000)	\$0.60	
Vested and exercised	(1,875,000)	\$0.79	
Outstanding, June 30, 2019	2,725,000	\$0.65	0.72
Granted	300,000	\$0.57	
Forfeited/cancelled during period	(620,000)	\$0.66	
Vested and exercised	(1,138,333)	\$0.61	
Outstanding, March 31, 2020	1,266,667	\$0.67	1.66

Time-based RSUs

As at March 31, 2020, the time-based equity award consisted of 1,161,667 RSUs (March 31, 2019 - \$nil) that will vest annually in two or three equal tranches after the date of RSU grant. For the nine months ended March 31, 2020, the Company recorded \$599,281 (2019 - \$nil) in share-based payments expense related to these RSUs.

Performance-based RSUs

As at March 31, 2020, the performance-based equity award consisted of 105,000 RSUs (March 31, 2019 - \$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 nine months ended March 31, 2020, the Company recorded \$34,783 (2019 - \$nil) in share-based payments expense related to these RSUs.

Market performance-based RSUs

As at March 31, 2020, the market performance-based equity award consisted of \$nil RSUs (March 31, 2019 - \$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 nine months ended March 31, 2020, the Company recorded \$nil (2019 - \$nil) in share-based payments expense related to these RSUs.

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
Expired warrants	(3,348,333)	(451,041)
Balance at March 31, 2020	19,237,739	4,476,566

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

- (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. The warrants expired unexercised on November 30, 2019.
- (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. Subsequent to quarter end, the warrants expired unexercised on February 5, 2020.
- (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.

As of March 31, 2020, 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
2019	\$1.72	April 2, 2024	10,569,780	10,569,780
			<u>19,237,739</u>	<u>19,237,739</u>

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 settlement of a pre-existing Rare loans and accounts payable of \$437,227 (which include payments for indebtedness and to Rare shareholders), 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 was obligated to pay a conditional earn-out in common shares based on revenue targets 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 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 \$205,768 allocated to the contingent consideration, \$3,027 is allocated to the first year and \$202,741 is allocated to the second-year milestones. The Company recorded a loss on the change in contingent consideration liability of \$1,713,107 for the three months and gain of \$236,150 for the nine months ending March 31, 2020 based on the change in the Company share price from the acquisition date to the reporting date along with changes to the expected probability of meeting the revenue targets.

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

The purchase price allocation was finalized in the third quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired. As a result of the finalization of the purchase price, the following amounts were changed from what was previously reported: contingent consideration decreased by \$1,832,251 from what was previously reported; intangibles decreased by \$1,220,845; deferred income tax liability decreased \$305,211; and goodwill decreased \$916,617. The excess of the purchase price over the net assets acquired has been allocated to goodwill. Goodwill of \$3,051,128 was recognized upon the acquisition of Rare. None of the goodwill is expected to be deductible for tax purposes.

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	205,767
Total consideration paid	\$2,947,745
Net assets acquired	
Cash and cash equivalents	\$5,653
Inventory	132,958
Other receivables	49,967
Current assets	188,578
Property, plant and equipment	182
Goodwill	3,051,128
Total assets	3,239,888
Current liabilities	
Accounts payable and accrued liabilities	292,143
Total liabilities	292,143
Total net assets acquired	\$2,947,745

For the nine months ended March 31, 2020, acquisition-related costs of \$30,000 have been included as legal fees. During the period from August 28, 2019 to March 31, 2020, the Company recognized \$66,491 in revenues and a net loss of \$301,160 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 loss for the nine months ended March 31, 2020. At March 31, 2020 the Company reviewed its assumptions regarding the goodwill amounts, specifically, whether there was any impairment to the reporting date values. As such and given that Rare was sold subsequent to March 31, 2020, the Company determined that the goodwill relating to the Rare acquisition was impaired and have been written off at quarter end based on the realized sale proceeds. This has resulted in an impairment of goodwill charge of \$3,051,128 (2019 - \$nil). (See subsequent event note 20.)

13. Acquisition of Sackville & Co. Merchandising Ltd.

On October 9, 2019, the Company acquired all of the shares of Sackville & Co. Merchandising Ltd. ("Sackville). For accounting purposes, the acquisition is being treated as a business combination.

The purchase price was satisfied through the settlement of a pre-existing loan from the Company of \$209,793, cash payment of U.S.\$150,000 (\$201,570), the forgiveness of \$209,783 that the Company had loaned to Sackville during the acquisition process and the issuance of 1,060,368 of the Company's common shares, at a price of approximately \$0.56 per common share. In addition, 48North will pay a conditional earn-out in common shares based on the revenue targets of Sackville for a 12-month period following closing in an amount up to 4,756,624 common shares. 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 twelve month earnout period. At March 31, 2020, the Company recorded a loss on the change in contingent consideration liability of \$511,635 for the 3 months and a gain of \$41,817 for the year to date based on the change in the Company share price and probability of achieving the targets from the acquisition date to the reporting date.

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

The purchase price allocation was finalized in the third quarter of 2020 to reflect the final determination of the fair value of assets and liabilities acquired. As a result of the finalization of the purchase price, the following amounts were changed from what was previously reported: contingent consideration decreased by \$1,589,407; intangibles decreased by \$691,938; deferred income tax liability decreased \$172,985; and goodwill decreased \$1,070,454. The excess of the purchase price over the net assets acquired has been allocated to goodwill. Goodwill of \$1,088,619 was recognized upon the acquisition of Sackville. None of the goodwill is expected to be deductible for tax purposes.

Consideration paid	Amount
Cash paid	\$201,570
Settlement of pre-existing relationships	209,783
Common shares issued 1,060,368 shares (at closing price of \$0.56)	593,806
Contingent consideration	41,816
Total consideration paid	\$1,046,975
Net assets acquired	
Cash and cash equivalents	\$2,095
Accounts receivable	10,019
Inventory	65,754
Prepaid expenses	9,303
Current assets	87,171
Right of use assets	109,743
Goodwill	1,088,619
Total assets	1,285,532
Current liabilities	
Accounts payable and accrued liabilities	40,426
Current portion of lease liabilities	32,813
Shareholder loans	89,726
Lease liabilities	75,992
Total liabilities	238,557
Total net assets acquired	\$1,046,975

For the three months ended March 31, 2020, acquisition-related costs of \$26,837 have been included as transaction costs. During the period from October 9, 2019 to March 31, 2020, the Company recognized \$34,611 in revenues and a net loss of \$345,044 from Sackville. If the acquisition had occurred on July 1, 2019, the Company estimates it would have recorded an increase of \$12,894 in revenues and an increase of \$54,006 in net loss for the nine months ended March 31, 2020. At March 31, 2020 the Company reviewed its assumptions regarding the goodwill amounts, specifically, whether there was any impairment to the reporting date values. As such and given that Sackville was sold subsequent to March 31, 2020, the Company determined that the goodwill relating to the Sackville acquisition was impaired and have been written off at quarter end based on the realized sale proceeds. This has resulted in an impairment of goodwill charge of \$1,088,619 (2019 - \$nil). (See subsequent event note 20.)

14. Investments

On July 17, 2019, the Company purchased 187,500 Class A common shares in the capital 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.

The Class A common shares were measured at fair value through profit or loss. Friendly Stranger is not a publicly traded company, therefore, the fair value was classified as level 3 within the fair value hierarchy. As at March

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

31, 2020, the Company determined the best information to assess the fair value of the investment was the share price of Friendly Stranger's most recent financing of \$4.00. A change in this assumption of plus or minus 10% would result in a corresponding change in fair value of the investment of approximately \$75,000.

The convertible debenture is measured at fair value through profit or loss. The fair value was classified as level 3 within the fair value hierarchy. The fair value of the debt component was calculated using a discount rate of 29.5% at date of issuance. The conversion feature was calculated using the Black-Scholes model with the following assumptions: share price of \$4.00, exercise price of \$5.00, risk free rate of 1.5%, expected volatility of 90%, expected remaining life of 2 years and expected dividend yield of 0%. As at March 31, 2020, the convertible debenture had a fair value of \$518,004. The debt component was calculated based on a discount rate of 29.5%, while the conversion feature was calculated using the Black-Scholes model with the following assumptions: exercise price of \$5.00, risk free rate of 0.55%, expected volatility of 90%, expected life of 1.25 years and expected dividend yield of 0%.

15. Related party transactions and balances

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

	Nine months ended March 31, 2020	Year ended June 30, 2019
Consulting, salaries and wages	\$2,402,256	\$1,646,325
Share-based payments	983,969	3,598,853
Total	\$3,386,226	\$5,245,178

Included in accounts payable and accrued liabilities is \$1,170,032 relating to the separation agreements with former management individuals. Consulting, salaries and wages of \$436,627 is included in sales and marketing and \$1,965,629 is included in general and administrative.

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.

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 March 31, 2020	77,709,739	226,048	77,935,787
Net revenues at March 31, 2019	4,347,653	—	4,347,653
Net revenues at March 31, 2020	5,237,277	102,045	5,339,322
Comprehensive income (loss) at March 31, 2019	(3,355,370)	—	(3,355,370)
Comprehensive income (loss) at March 31, 2020	(18,074,714)	(3,415,844)	(21,490,558)

18. Financial instruments and risk management

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:

	March 31, 2020	June 30, 2019
	\$	\$
Financial assets at amortized cost ⁽¹⁾	21,227,055	53,794,336

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

Financial assets at fair value through profit and loss (“FVTPL”) ⁽²⁾	1,268,004	—
Financial liabilities at amortized cost ⁽³⁾	8,007,216	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 March 31, 2020:

	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	—	—	518,004	—

The Company did not hold any investments as at June 30, 2019. Within Level 3, the Company included its investment in Friendly Stranger (note 14) 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 condensed interim 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 March 31, 2020, \$1,493,725 of accounts receivable are from provincial regulators and wholesale customers. As of March 31, 2020, the Company recognized a \$8,760 provision for expected credit losses.

The Company aging of receivables is as follows:	March 31, 2020	June 30, 2019
	\$	\$
0-60 days	1,534,276	—
61-120 days	28,308	94,795
	1,562,584	94,795

Foreign currency risk

The operating results and financial position of the Company are reported in Canadian dollars. With the acquisition of Rare and Sackville during the nine months ended March 31, 2020, 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 March 31, 2020, 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 \$32,139 (March 31, 2019 - \$nil) to net income (loss). At March 31, 2020, the

48NORTH CANNABIS CORP.**NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

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:

	<u>March 31, 2020</u>	<u>June 30, 2019</u>
	\$	\$
Trade payables	4,672,959	3,235,085
Accrued liabilities	3,170,464	1,466,359
	<u>7,843,423</u>	<u>4,701,444</u>

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 March 31, 2020, which are expected to be payable in the following respective periods:

	<u>Total</u>	<u><1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	7,843,423	7,843,423	—	—

COVID-19

The Company's business is dependant on a number of factors which could be adversely disrupted by, among others, major health issues or pandemics and in particular, the global impact of COVID-19. While the situation is changing quickly, and the ultimate impact on the Company's business is, as yet, unknown, the pandemic may result in staff shortages, decreased consumer demand, supply chain issues, transportation delays, changes to governmental regulation and ongoing economic uncertainty, any of which may have a material and adverse effect on the Company's business, financial condition and results of operations. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the COVID-19 outbreak on our business. These factors are beyond the Company's control, and may adversely affect the Company and its suppliers or cause disruptions to their and the Company's businesses and may impact their ability to supply the Company. The Company continues to evaluate the effects of COVID-19 on the health and safety of employees, customers and communities, business and supply chain disruption, the nature and impact of government measures, customer demand and commodity prices.

19. Deferred tax

The following table summarizes the components of deferred tax.

	<u>March 31, 2020</u>	<u>June 30, 2019</u>
Non-capital loss carry forwards	\$3,108,660	\$2,490,930
Biological assets and inventory	(749,500)	(103,010)
Property, plant and equipment and intangibles	(2,489,941)	(2,908,040)
	<u>\$(130,781)</u>	<u>\$(520,120)</u>

20. Subsequent events

- (i) On March 16, 2020, The COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company's business is not known at this time. These impacts could include an impact on the Company's ability to obtain debt or equity financing, increased credit risk on receivables, impairment of investments, impairments in the value of our long-lived assets, or potential future decreases in revenue or profitability of the Company's ongoing operations.

48NORTH CANNABIS CORP.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended March 31, 2020 and 2019

(Unaudited - Expressed in Canadian dollars)

- (ii) On October 9, 2019, as described in Note 13 above, the Company purchased Sackville. As part of the Company's revised focus on the Canadian marketplace, during May, 2020, the Company entered into a minutes of settlement agreement ("Settlement") whereby it sold all of the issued and outstanding shares of Sackville back to its founders for US\$1.00 through a share purchase agreement. As part of the Settlement, the Company sold Sackville 'as is, where is' and agreed to certain working capital amounts at closing and 4,756,624 48North common shares held in escrow will be returned to the Company for cancellation. Furthermore, the Company accepted the resignations of the Sackville founders from 48North. The Settlement also contained standard mutual releases.
- (iii) On August 28, 2019, as described in Note 12 above, the Company purchased Rare. As part of the Company's revised focus on the Canadian marketplace, during May, 2020, the Company entered into a separation agreement ("Separation") whereby it sold all of the issued and outstanding shares of Rare back to its founders for US\$1.00. The Company will issue 2,900,000 common shares as part of the original purchase agreement to the Rare founders. As part of the Separation, the Company sold Rare 'as is, where is' and agreed to certain working capital amounts at closing. Furthermore, the Company accepted the resignations of the Rare founders from 48North. The Separation also contained standard mutual releases.