Consolidated Financial Statements of

48North Cannabis Corp.

June 30, 2020 and 2019

MNP LLP

Independent Auditor's Report

To the Shareholders of 48North Cannabis Corp.:

Opinion
We have audited the consolidated financial statements of 48North Cannabis Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2020 and June 30, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at June 30, 2020 and June 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

Material Uncertainty Related to Going Concern
We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of $40,273,758 and negative cash flows from operations of $30,367,470 during the year ended June 30, 2019 and, as of that date, the Company had a deficit in the amount of $74,625,813. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

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

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

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

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

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

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

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

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

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

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

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

November 1, 2020 — Licensed Public Accountants

48North Cannabis Corp.
Consolidated Statements of Financial Position
[Expressed in Canadian dollars]

	As at June 30 2020 $	As at June 30 2019 $
ASSETS		
Current		
Cash and cash equivalents [note 4]	**9,271,683**	52,765,566
Trade and other receivables [note 7, 23]	**3,362,412**	1,028,770
Prepaid expenses	**1,454,794**	770,168
Biological assets [note 6]	**1,699,828**	2,125,359
Inventory [note 6]	**9,252,227**	4,729,774
Total current assets	**25,040,944**	61,419,637
Long-term deposits	**40,000**	202,060
Long-term investments [note 19]	**800,438**	—
Property, plant and equipment, net [note 8]	**28,433,070**	21,127,366
Right of use assets [note 5]	**733,880**	—
Licence [note 9]	**2,500,000**	5,136,249
Intangibles [note 9]	**226,517**	—
Goodwill [notes 9, 13, 14, 15]	**—**	3,137,589
Total assets	**57,774,849**	91,022,901
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities [note 23]	**6,192,722**	4,701,444
Current portion of lease liabilities [note 5, 23]	**131,364**	—
Total current liabilities	**6,324,086**	4,701,444
Lease liabilities [note 5]	**692,315**	—
Deferred income tax liability [note 24]	**98,670**	520,120
Total liabilities	**7,115,071**	5,221,564
Shareholders' equity		
Share capital [note 10]	**111,463,473**	106,946,724
Share-based payments reserve [note 10]	**4,039,241**	7,838,404
Warrants reserve [note 11]	**3,843,122**	4,927,607
Contributed surplus	**5,939,755**	440,657
Deficit	**(74,625,813)**	(34,352,055)
Total shareholders' equity	**50,659,778**	85,801,337
Total liabilities and shareholders' equity	**57,774,849**	91,022,901

Continuance of operations and going concern [note 2]

On behalf of the Board:

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

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

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

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

For the years ended June 30	2020 $	2019 $
Revenue [note 18]	**10,471,728**	4,832,150
Excise duties	**(1,753,705)**	(12,362)
Net revenue	**8,718,023**	4,819,788
Cost of sales		
Inventory expensed to cost of sales, before fair value adjustments	**9,253,199**	1,441,458
Inventory impairment costs	**2,957,631**	—
Gross profit (loss) before fair value adjustments	**(3,492,807)**	3,378,330
Unrealized fair value adjustment on growth of biological assets [note 6]	**(585,317)**	6,210,328
Realized fair value adjustment on inventory sold [note 6]	**(3,558,381)**	(2,162,782)
Gross profit	**(7,636,505)**	7,425,876
ADMINISTRATIVE EXPENSES		
General and administrative [note 20]	**12,235,448**	6,827,098
Sales and marketing [note 20]	**4,672,848**	2,167,673
Share-based payments [note 10 and 20]	**1,587,212**	5,758,890
Depreciation and amortization [note 4, 5 and 8]	**1,360,116**	1,149,812
Impairment of construction in progress [note 8]	**614,758**	—
Unrealized loss on long-term investments [note 19]	**449,562**	—
Loss on change in fair value of contingent consideration [note 14 and 15]	**607,916**	—
	21,527,860	15,903,473
Loss from continuing operations before impairment, loss on disposal and income tax recovery	**(29,164,366)**	(8,477,597)
Impairment of licence [note 9]	**2,425,891**	—
Impairment of goodwill [note 9]	**3,137,589**	—
Income tax recovery – deferred [note 24]	**(421,450)**	(350,523)
Loss from continuing operations [note 14, 15, 16]	**(34,306,396)**	(8,127,074)
Loss from discontinued operations [note 16]	**(5,967,362)**	—
Net loss and comprehensive loss	**(40,273,758)**	(8,127,074)
Basic and fully diluted loss per share, continuing operations [note 4]	**(0.197)**	(0.072)
Basic and fully diluted loss per share, discontinued operations [note 4]	**(0.034)**	—.
Basic and fully diluted loss per share [note 4]	**(0.231)**	(0.072)
Weighted average number of common shares outstanding basis and diluted *[000's]*	**174,319**	112,300

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

48North Cannabis Corp.
Consolidated Statements of Cash Flows
[Expressed in Canadian dollars]

For the years ended June 30	**2020** **$**	2019 $
OPERATING ACTIVITIES		
Net loss and comprehensive loss	**(40,273,758)**	(8,127,074)
Add items not involving cash		
Unrealized fair value adjustment on growth of biological assets	**585,317**	(6,210,328)
Loss on change in fair value of contingent consideration	**607,916**	—
Unrealized loss on long-term investments	**449,562**	—
Realized fair value adjustment on inventory sold	**3,558,381**	2,162,782
Impairment of Inventory	**2,957,631**	—
Depreciation included inventory expensed to cost of sales, before fair value adjustments	**727,675**	251,915
Depreciation and amortization	**1,360,116**	1,149,812
Impairment of construction in progress	**299,495**	—
Share-based payments	**1,587,212**	5,758,890
Loss on disposal of subsidiaries	**4,654,311**	—
Impairment of goodwill and licences	**5,563,480**	—
Income tax recovery - deferred	**(421,450)**	(350,523)
	(18,344,112)	(5,364,526)
Net change in non-cash working capital balances		
Decrease (increase) in trade and other receivables	**(2,544,922)**	(685,642)
Decrease (increase) in prepaid expenses	**(800,569)**	(592,567)
Decrease (increase) in biological assets	**(7,255,572)**	(828,694)
Decrease (increase) in inventory supplies	**(3,100,778)**	(984,225)
Increase in accounts payable and accrued liabilities	**1,678,483**	3,125,808
Cash used in operating activities	**(30,367,470)**	(5,329,846)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment [note 8]	**(10,272,867)**	(4,269,140)
Net cash paid in acquisition of Rare Industries, Inc. [note 14]	**(848,142)**	—
Net cash paid in acquisition of Sackville & Co. Merchandising Ltd. [note 15]	**(360,653)**	—
Cash acquired on acquisition of Good & Green Cannabis Corp. [note 13]	—	92,394
Settlement of pre-existing relationship	—	(1,645,005)
Acquisition of Apothecanna brand rights [note 9]	**(339,775)**	—
Acquisition of investment [note 19]	**(1,250,000)**	—
Long-term deposits	**113,455**	(202,060)
Net cash used in divestiture of Rare Industries, Inc. and Sackville & Co. Merchandising Ltd.	**(313,820)**	-
Cash used in investing activities	**(13,271,802)**	(6,023,811)
FINANCING ACTIVITIES		
Proceeds from private placements (net of issuance costs) [note 10]	—	36,562,210
Payments towards principal portion of lease liability [note 9]	**(92,112)**	—
Proceeds from exercise of stock options and warrants [note 10 and 11]	**237,501**	17,625,529
Repayment of mortgage principal [note 17]	—	(2,300,000)
Cash provided by financing activities	**145,389**	51,887,739
Net change in cash and cash equivalents	**(43,493,883)**	40,534,082
Cash and cash equivalents, beginning of year	**52,765,566**	12,231,484
Cash and cash equivalents, end of year	**9,271,683**	52,765,566

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

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

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

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	389,196	—	(151,695)	—	—	237,501
Issued on vesting of RSUs	1,283,333	820,066	—	(820,066)	—	—	—
Expiry of warrants	—	—	(1,084,485)	—	1,084,485	—	—
Expiry of options				(4,198,614)	4,198,614	—	—
Expiry of RSU's	—	—	—	(216,000)	216,000	—	—
Common shares issued on acquisition	2,247,834	1,858,181	—	—	—	—	1,858,181
Common shares issued for contingent consideration	2,900,000	855,500	—	—	—	—	855,500
Common shares issued on acquisition	1,060,368	593,806	—	—	—	—	593,806
Share-based payments	—	—	—	1,587,212	—	—	1,587,212
Net loss for the year	—	—	—	—	—	(40,273,758)	(40,273,758)
Balance at June 30, 2020	**176,030,500**	**111,463,473**	**3,843,122**	**4,039,241**	**5,939,755**	**(74,625,813)**	**50,659,778**

The accompanying notes are an integral part of these 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 licenced 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 licenced to produce and process cannabis pursuant to the Cannabis Act. The head office, principal address, and records office is located at 257 Adelaide Street West, Suite 500, Toronto, Ontario, Canada, M5H 1X9. 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". Certain warrants of the Company 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 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 effect 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. ("Rare"), a U.S. multi-state vape technology brand with product distribution in Oregon and Washington state (see note 14). On May 22, 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 issued 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. The Company has disclosed the Rare operations as discontinued operations for fiscal 2020 (note 14).

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 15). Sackville had one wholly owned subsidiary, Parlor (US) Ltd. On May 11, 2020, the Company entered into a 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 common shares of the Company that were held in escrow have been 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. The Company has disclosed the Sackville operations as discontinued operations for fiscal 2020 (note 15).

2. Continuance of operations and going concern

The Company is in the development stage of its core business activity and 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 licence for the sale of medicinal marijuana. On September 13, 2018, Health Canada granted DelShen an extraction licence. 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 licence 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 licence 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 licence with an expiry of October 12, 2021. On March 8, 2019, Health Canada granted the G&G a processing licence. In October 2018, G&G applied for an outdoor grow cultivation licence 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 licence for the farm. On January 17, 2020, Health Canada licenced the extraction space within the Brantford facility.

The Company anticipates it will require additional funding to finance future growth and expansion of production capacity, to expand marketing awareness for the Company's brands and products and to look for acquisition opportunities. The Company has financed its working capital requirements primarily through equity and debt financings. The Company reported a comprehensive loss of $40,273,758 and negative cash flows from operations of $30,367,470 during the year ended June 30, 2020. As of June 30, 2020, the Company had a deficit in the amount of $74,625,813. 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. The Company's ability to continue as a going concern is dependent upon being able to sell cannabis to other licenced producers, sell into the medical and recreational markets, provide products and brands and thus, its ability to commence profitable operations, generate revenues there from and raise additional financing as needed to meet its obligations. While the Company has been successful in raising financing in the past, there is no assurance that it will be able to successfully obtain additional financing as needed. The Company continually monitors its capital resources to assess the liquidity necessary to fund operations and future strategy. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

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

3. Basis of presentation, functional currency and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended June 30, 2020. The consolidated financial statements are presented in Canadian dollars. The functional currencies for Rare Industries, Inc. was the United States dollar. The presentation currency and functional currency of the Company and its other subsidiaries is the Canadian dollar.

(Expressed in Canadian dollars)

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

The consolidated financial statements include the following subsidiaries:

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

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

As part of the Company's revised focus on the Canadian marketplace, during May, 2020, the Company sold Sackville and Rare back to their respective founders. Revenue and expenses, and gains and losses relating to the discontinued operations have been removed from the results of continuing operations and are shown as a single line item on the face of the consolidated statement of comprehensive loss.

The Company's Board of Directors approved these consolidated financial statements on November 1, 2020.

4. Significant accounting policies, judgements, estimates and assumptions

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

a) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term fixed income deposits with original maturity dates shorter than 90 days. At June 30, 2020, the Company had $6,875,952 (2019 - $50,341,685) in short-term fixed income deposits.

b) Revenue recognition

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

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

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

c) Financial assets and instruments

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

Financial assets

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

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

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

Financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of earnings (loss). The Company's long-term investments are designated at FVPL.

Financial assets at FVOCI

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

Derecognition

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

Impairment of financial assets

The impairment model under IFRS 9 is applicable to financial assets measured at amortized cost where any expected credit losses ("ECL's") are provided for, irrespective of whether a loss event has occurred as at the reporting date. The Company's financial assets subject to impairment are amounts receivable which are measured at amortized cost. The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. The Company recognizes ECLs for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Amounts receivables are reviewed qualitatively on a case by case basis to determine whether they need to be written off. The Company recognizes loss allowances for ECLs on its financial assets. ECLs are a probability-weighted estimate of credit losses. The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the loans receivable to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

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

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

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

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

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

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

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 during 2020, in two geographic markets, being Canada and the U.S.

Privately-held investments
On July 17, 2019, the Company made an investment in a private entity (note 18). 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 23).

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.

d) Joint operations
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. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. When a joint arrangement undertakes its activities under joint operations, the party recognizes, in relation to its interest, in the joint operation; (i) its assets, including its share of any assets held jointly, (ii) its liabilities, including its share of any liabilities incurred jointly, (iii) its revenue from the sale of its share of the output arising from the joint operation, and (iv) its expense, including its share of any expenses incurred jointly.

The Company applies IFRS 11, 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.

The Company recognizes only its direct assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of join operations are included within the respective line items of the consolidated statements of financial position and consolidated statements of loss and comprehensive loss. The Company accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

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

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

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

g) Inventories
Inventory of harvested bulk cannabis and finished goods are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Supplies and consumables are valued at the lower of costs and net realizable value, with cost determined based on an average cost basis.

h) Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment

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

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

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

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

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

i) 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.

j) Intangible assets

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

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

	Method	Rate
Health Canada Licence	Straight-line	Useful life of corresponding facility (25 years)
Apothecanna brand rights	Straight-line	Life of licence agreement (18 months)

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

k) Foreign currency translation

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

l) Research and development

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

m) Impairment of licence and goodwill

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

n) Income taxes

Tax expense comprises current and deferred tax. Current tax expense is based on the results for the year as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that are enacted or substantively enacted at the end of the year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising from investments in subsidiaries that are not expected to reverse in the foreseeable future. Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

o) Share-based compensation

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

The amount expensed for stock option compensation is based on the application of the Black-Scholes option pricing model, which is highly dependent on the expected volatility of the Company's registered shares and the expected life of the options. Stock option compensation cost is based on the estimated number of options for which the requisite service is expected to be rendered.

In January 2019, the Company established a Restricted Share Units ("RSU") plan. For each RSU granted under the plan, the Company recognizes an expense equal to the market value of a 48North common share at the date of grant based on the number of RSUs expected to vest over the term of the vesting period, with a corresponding credit to reserves for share-based payments anticipated to be equity settled. Certain performance based RSUs are subject to market based vesting conditions and have been valued using a Monte Carlo valuation model. Compensation expense is adjusted for subsequent changes in management's estimate of the number of RSUs that are expected to vest. The effect of these changes is recognized in the period of the change.

p) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted loss per share is computed similarly to basic loss per share except that the weighted average number of shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The average number of shares is calculated by assuming that outstanding conversions were exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the year.

q) Share capital

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

r) Business combinations and consolidation

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

s) Significant accounting judgments, estimates and assumptions

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

(i) 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 6. 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 judgment, and are dependent upon estimates that take into account factors such as economic and market conditions, frequency of use, anticipated changes in laws, and technological improvements.

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

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

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

(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

(Expressed in Canadian dollars)

the acquisition date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

t) Recent accounting pronouncements and changes in accounting policies

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

IFRS 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. As a result of the adoption of the new standard, there was only one office lease that was included under the 12 month practical expedient.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after annual reporting periods beginning January 1, 2020 and apply prospectively.

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
Disposal (note 15)			(109,743)	(109,743)
As at June 30, 2020	**$57,242**	**$12,471**	**$770,572**	**$840,285**

(Expressed in Canadian dollars)

Accumulated depreciation				
As at June 30, 2019	$ —	$ —	$ —	$ —
Expense for the year	11,261	5,543	117,037	133,841
Disposal (note 15)			(27,436)	(27,436)
As at June 30, 2020	**$11,261**	**$5,543**	**$89,601**	**$106,405**
Net book value				
At June 30, 2019	—	—	—	—
At June 30, 2020	**$45,981**	**$6,929**	**$680,971**	**$733,880**

Lease liabilities

Minimum payments under lease liabilities	**June 30, 2020**
Within 1 year	$214,423
2 to 3 years	506,891
Over 4 years	406,660
	1,127,974
Effect of discounting	(304,295)
Present value of lease payments	823,679
Less; current portion	131,364
Non-current portion of obligations under lease liabilities	**$692,315**

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. Under the 12 month practical expedient method, the Company recognized $117,502 for the office lease in fiscal 2020. 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 year ended June 30, 2020 was $82,564 (June 30, 2019 - $nil), of which $75,052 was from continuing operations and $7,512 from discontinued operations.

6. Biological assets and inventories

a) Biological assets

The Company received its DelShen sales licence 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 years ended June 30, 2020 and 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	(585,317)
Production costs capitalized to biological assets	7,369,188
Transferred to inventory upon harvest	(7,209,402)
Balance at June 30, 2020	**$1,699,828**

Fair Value Measurement Disclosure

The fair value of biological assets are categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

(Expressed in Canadian dollars)

(a) Selling price per gram;	Level 3 input
(b) Average yield per plant;	Level 3 input
(c) Standard cost per gram to compete production	Level 3 input
(d) Cumulative stage of completion in production process	Level 3 input

Sensitivity Analysis
Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets, are as follows:

Outdoor Production

Significant inputs & assumptions	**Weighted Average Inputs**	**Sensitivity**	**Effect on Biological Asset Balance**
Selling price per gram	$0.90	Increase/decrease $0.1/gram	Increase/decrease $101,249
Average yield per plant	78 grams	Increase/decrease 10%	Increase/decrease $102,884
Post-harvest cost per gram	$0.90	Increase/decrease $0.5/gram	Decrease/increase $421,968
Cumulative stage of completion	12%	Increase/decrease by 1 percentage point	Increase/decrease $72,344

Indoor Production

Significant inputs & assumptions	**Weighted Average Inputs**	**Sensitivity**	**Effect on Biological Asset Balance**
Selling price per gram	$5.89	Increase/decrease $1.00/gram	Increase/decrease $163,445
Average yield per plant	85 grams	Increase/decrease 10%	Increase/decrease $67,099
Post-harvest cost per gram	$1.13	Increase/decrease $0.50/gram	Decrease/increase $105,384
Cumulative stage of completion	45%	Increase/decrease by 5 percentage point	Increase/decrease $18,717

b) Inventories

The Company's inventory assets include the following as of June 30, 2020 and 2019.

As of June 30, 2020	Capitalized costs	Fair Value Transferred from Biological Assets	Impairment	Carrying Value
	$	$	$	$
Dried Cannabis				
Work-in-process	4,964,259	1,016,820	(296,842)	5,684,237
Finished goods	39,451	126,108	(142,302)	23,257
Cannabis derivative products				
Work-in-process	1,561,463	6,284	—	1,567,747
Finished goods	322,853	3,003	(202,372)	123,484
Packaging and supplies	1,771,600	—	—	1,771,600
Non-cannabis merchandise	81,902	—	—	—
Inventory	**8,741,528**	**1,152,215**	**(641,516)**	**9,252,227**

(Expressed in Canadian dollars)

As of June 30, 2019	Capitalized costs	Fair Value Transferred from Biological Assets	Impairment	Carrying Value
	$	$	$	$
Dried Cannabis				
Work-in-process	886,735	1,803,726	—	2,690,461
Finished goods	128,479	114,496	—	242,976
Cannabis derivative products				
Work-in-process	—	1,566,163	—	1,566,163
Finished goods				-
Packaging and supplies	142,090	—	—	142,090
Non-cannabis merchandise	88,084	—	—	88,084
Inventory	**1,245,389**	**3,484,385**	**—**	**4,729,774**

7. Trade and other receivables

	June 30, 2020	June 30, 2019
	$	$
Accounts receivable	**2,613,788**	94,795
GST/HST recoverable	**748,624**	933,975
	3,362,412	1,028,770

The Company largely sells to provincial bodies, representing 76% of the accounts receivable at year end. Subsequent to year end, the Company has received 96% of the accounts receivable due at year end.

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 year		838,321	986,703	136,757		—	8,048,980	10,010,761
Allocation from construction in progress	—	4,007,823	3,565,449	—	6,834	—	(6,965,348)	614,758
Impairment of construction in progress	—	—	—	—	—	—	(614,758)	(614,758)
Disposals during the year	—	—	(37,400)	—	—	—	—	(37,400)
As at June 30, 2020	2,430,151	15,526,825	13,109,811	358,541	18,691	42,837	2,005,772	33,492,628
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

(Expressed in Canadian dollars)

Depreciation for the year	—	722,298	1,862,720	80,356	2,277	3,746	—	2,671,397
Disposal during the year	—	—	(3,740)	—	—	—	—	(3,740)
As at June 30, 2020	—	1,263,645	3,531,233	224,417	6,168	34,095	—	5,059,558
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 June 30, 2020	**2,430,151**	**14,263,180**	**9,578,578**	**134,124**	**12,523**	**8,742**	**2,005,772**	**28,433,070**

Depreciation	**June 30, 2020**	June 30, 2019
	$	$
Capitalized to inventory and biological assets	907,222	291,079
Included in cost of sales	727,675	251,915
Depreciation and amortization expense	1,360,116	1,149,812
Total Depreciation and amortization	**2,995,013**	**1,692,806**

Construction in progress includes portions of equipment that have been purchased but not fully assembled and ready for its intended use. As such, no depreciation has been applied to the construction in process. In 2020, $1,634,897 (2019 - $542,994) of depreciation was capitalized to the production of dried cannabis, of which $727,675 (2019 - $251,915) was included in cost of sales. During the year, the Company determined that certain construction in process assets had been impaired and the Company has expensed $614,758 (2019 – nil) to reflect this adjustment. At June 30, 2020, the Company had outstanding capital commitments of $169,109 (2019 – $89,478).

During the year ended June 30, 2020, assets with a cost of $37,400 and accumulated depreciation of $3,740 were disposed for proceeds of nil. Included in depreciation and amortization expense for the year ended June 30, 2020 is $2,650,059 (2019 – $1,570,097) from continuing operations and $21,339 (2019 - nil) from discontinued operations.

9. Licence, intangibles and goodwill

Cost	Licence	Goodwill	Intangibles	Total
As at June 30, 2018	$—	$—	$—	$—
Additions (note 13)	5,258,958	3,137,589	—	8,396,547
As at June 30, 2019	5,258,958	3,137,589	—	8,396,547
Additions (note 14 and 15)	—	4,139,748	339,775	8,379,377
Impairment (note 13, 14 and 15)	(2,425,891)	(7,277,337)	—	(13,603,082)
As at June 30, 2020	**$2,833,067**	—	**339,775**	**3,172,842**
Accumulated amortization				
As at June 30, 2018	$—	$—	$—	$—
Expense for the year	122,709	—		122,709
As at June 30, 2019	122,709	—	—	122,709
Expense for the year	210,358	—	113,258	323,616
As at June 30, 2020	**$333,067**	**$—**	**$113,258**	**$446,325**
Net book value				
At June 30, 2019	$5,136,249	$3,137,589	$—	$8,273,838
At June 30, 2020	**$2,500,000**	**$—**	**$226,517**	**$2,726,517**

In October 2019, the Company signed a licensing agreement with U.S.-based APCNA Holdings LLC. (“Apothecanna”), to bring its topicals brand to Canadian consumers. The agreement included payment of US$250,000 (Cdn$339,775) for brand fees. The brand fees are being amortized over 18 months, consistent with the agreement term.

(Expressed in Canadian dollars)

At the end of each reporting period, the Company assesses whether there were events or changes in circumstances that would indicate that a Cash Generating Unit ("CGU") was impaired. The Company considers external and internal factors, including overall financial performance and relevant entity-specific factors, as part of this assessment. The following significant assumptions were identified as impairment indicators:

i. Anticipated sales growth – While the Company has shown a year over year increase in overall revenues, constraints in the retail distribution network, including a slower than expected roll-out of retail stores and regulations impacting recreational vape sales, has resulted in a decrease of expected sales and profitability as compared to outcomes initially forecasted by management;
ii. Decline in stock price and market capitalization – As at June 30, 2020, the carrying value of the CGU exceeded the Company's market capitalization.

The recoverable amount of the CGU was determined based on the value in use method using level 3 inputs in a discounted cash flow ("DCF") model. The significant assumptions applied in the determination of the recoverable amount are described as follows:

i. Cash flows: Estimated cash flows were projected based on actual operating results from internal sources as well as industry and market trends. The forecasts were extended to a total of five years (with a terminal year thereafter);
ii. Terminal value growth rate: The terminal growth rate was based on historical and projected consumer price inflation, historical and projected economic indicators, and projected industry growth;
iii. Post-tax discount rate: The post-tax discount rate is reflective of the CGUs Weighted Average Cost of Capital ("WACC"). The WACC was estimated based on the risk-free rate, equity risk premium, beta adjustment to the equity risk premium based on a direct comparison approach, an unsystematic risk premium, and after-tax cost of debt based on corporate bond yields; and
iv. Tax rate: The tax rates used in determining the future cash flows were those substantively enacted at the respective valuation date.

For the year ended June 30, 2020, management has determined that there were indicators of impairment and as a result recorded an impairment of licence of $2,425,891 (2019 – $nil) and impairment of goodwill of $3,137,589 (2019 – $nil) that arose from the Good & Green Cannabis Corp. acquisition (note 13). The discount rate used was 30% (2019 – 41%), the growth rate was 30% in year 1 and 20% thereafter (2019 – 5% per year), the tax rate was 26.5%, and the terminal value rate was 2% (2019 – 2.6%). A decrease of 1% to the discount rate would result in a reduction to impairment of $561,000. An increase of 1% to the discount rate would result in an additional impairment of $581,000.

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:

	Number	Amount
Balance at June 30, 2018	78,192,536	$ 40,876,340
Issuance of common shares for cash (ii)	4,000,000	2,848,697
Issuance of common shares on acquisition (iii)	24,657,525	9,558,205
Issuance of common shares for cash (iv)	9,393,333	6,554,189
Issuance of common shares on the exercise of options and RSUs (i)	4,175,000	2,904,084
Issuance of common shares on the exercise of broker options (i)	1,209,667	1,715,046
Issuance of common shares on exercise of warrants (i)	25,269,144	20,549,142
Issuance of common shares for cash (iv)	21,139,760	21,941,021
Balance at June 30, 2019	168,036,965	$106,946,724
Issuance of common shares on acquisition/divestiture (vi)	5,147,834	2,713,681
Issuance of common shares on acquisition/divestiture (vii)	1,060,368	593,806

(Expressed in Canadian dollars)

Issuance of common shares on the exercise of options and RSUs (i)	1,785,333	1,209,262
Balance at June 30, 2020	176,030,500	$111,463,473

At June 30, 2020, there were nil escrowed common shares (2019 - 166,322).

(i) During the year ended June 30, 2019, the Company issued 25,269,144 common shares upon the exercise of 25,269,144 warrants valued at $4,824,814 for gross proceeds of $15,724,329 and issued 1,209,667 common shares upon the exercise of 1,209,667 broker compensation options valued at $626,346 for gross proceeds of $1,088,700. The Company issued 1,760,000 common shares on the exercise of 1,250,000 options and RSU's valued at $520,389 for gross proceeds of $287,500. During the year ended June 30, 2020, the Company issued 1,785,333 common shares upon the exercise of 502,000 options valued at $151,695 for gross proceeds of $237,500 and 1,283,333 RSUs valued at $820,066.

(ii) 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.

(iii) On November 30, 2018, the Company acquired 100% of the issued and outstanding common shares of 2599708 Ontario Inc., the parent company of G&G, a licensed producer and its subsidiaries through the issuance of 24,657,525 common shares of the Company. The Company's common shares were valued at $0.48, being the market close price on November 29, 2019. See note 11 for further acquisition details.

(iv) 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.

(v) 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.

(vi) On August 28, 2019, the Company acquired 100% of the issued and outstanding common shares of 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 was to 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. 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 issued 2,900,000 common shares as contingent consideration 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 as employees from 48North. The Separation also contained mutual releases.

(Expressed in Canadian dollars)

(vii) On October 9, 2019, the Company acquired all of the shares of 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 was to pay a conditional earn-out in common shares based on overall operating performance of Sackville over 12-month period following closing in an amount up to 4,756,624 common shares of the Company. 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 were returned to the Company for cancellation. Furthermore, the Company accepted the resignations of the Sackville founders from 48North. The Settlement also contained mutual releases.

[b] Stock options

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

During the year ended June 30, 2020, the Company recorded $1,587,212 (2019 - $5,758,890) in share-based payments expense related to Board, management, employee and contractor options and restricted share units which are measured at fair value at the date of grant and are expensed over the option's and RSU's vesting period. In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

	June 30, 2020	June 30, 2019
Risk-free interest rate	0.36% – 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	$0.12 - $0.50	$0.29 - $0.63
Share price range	$0.145 - $0.87	$0.47 - $1.09

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

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

(Expressed in Canadian dollars)

Granted	4,158,750	0.44
Exercised	502,000	0.47
Forfeited, expired	(9,348,350)	0.79
Outstanding, June 30, 2020	**8,488,060**	**0.65**
Exercisable, June 30, 2020	**4,816,938**	**0.86**

The weighted average remaining contractual life of the options is 1.75 years.

[c] Restricted share units

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

The following table reflects the continuity of RSUs outstanding at June 30, 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 period	(400,000)	$0.60	
Vested	(1,875,000)	$0.79	
Outstanding, June 30, 2019	2,725,000	$0.65	
Granted	300,000	$0.61	
Forfeited/cancelled during period	(820,000)	$0.64	
Vested	(1,283,333)	$0.73	
Outstanding, June 30, 2019	**921,667**	**$0.64**	**1.70**

Time-based RSUs

As at June 30, 2020, the time-based equity award consists of 921,667 RSUs (2019 – 2,433,333) that will vest annually in two or three equal tranches after the date of RSU grant. For the year ended June 30, 2020, the Company recorded $734,456 (2019 – $1,334,944) in share-based payments expense related to these RSUs.

Performance-based RSUs

As at June 30, 2020, the performance-based equity award consists of nil RSUs (2019 – 291,667) that will vest upon achievement of certain performance criteria. The Company estimates when the performance criteria should be achieved and expenses the RSUs over that time period. Should the criteria be reached prior to or after the derived service date, the remaining unrecognized compensation cost for the award will be accelerated or deferred and recorded at that time. For the year ended June 30, 2020, the Company recorded $41,053 (2018 – $542,667) in share-based payments expense related to these RSUs.

Market performance-based RSUs

As at June 30, 2019, the market performance-based equity award consists of nil RSUs (2018 – nil). For market performance-based RSUs the grant date fair value and the derived time period for each of the market condition equity awards was determined through the use of a Monte Carlo simulation model utilizing Level 2 inputs. The Company expenses the full amount on the RSU grant date. For the year ended June 30, 2020, the Company recorded nil (2019 – $153,000) in share-based payments expense related to these RSUs. In determining the amount of share-based compensation, the following assumptions were used for 2019: stock price $0.60, expected life of 3 years, risk-free interest rate 1.93%, and expected annualized volatility of 90%.

11. Warrant reserve

(Expressed in Canadian dollars)

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	(12,016,292)	(1,084,485)
Balance at June 30, 2020	10,569,780	3,843,122

(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. 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 June 30, 2020, the following warrants were outstanding:

Year of Issue	Exercise Price	Expiration	Underlying Shares	Exercisable
2019	$1.72	April 2, 2024	10,569,780	10,569,780
			10,569,780	10,569,780

12. Joint operations

In January 2020, the Company entered into a supply and services agreement with a subsidiary of Humble + Fume Inc., with its principal place of business in the Toronto, ON, 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.

(Expressed in Canadian dollars)

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

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

On November 30, 2018, the Company acquired all of the shares of 25599708 Ontario Inc. through an amalgamation of 2667087 Ontario Inc. and 25599708 Ontario Inc. and changed the amalgamated name to Good & Green Cannabis Corp. For accounting purposes, the acquisition was treated as a business combination. G&GCC has three wholly owned subsidiaries; Good & Green (formerly 2599760 Ontario Corp., a licensed entity under the *Cannabis Act*), 2618351 Ontario Inc., and 2656751 Ontario Ltd.

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

The excess of the purchase price over the net assets acquired has been allocated to the licence granted under the Cannabis Act and to goodwill. The licence is being amortized using the declining balance method at a rate of 4% per year. During 2020, $210,318 was amortized (2019 - $122,733). Goodwill of $3,137,589 was recognized upon the acquisition of G&GCC, of which $870,643 arose due to the recognition of a deferred tax liability on the date of the acquisition. None of the goodwill is expected to be deductible for tax purposes.

Consideration paid	Amount
Settlement of pre-existing loan	$1,645,005
Common shares issued (24,657,525 shares at closing price of $0.48)	11,835,612
Discount for lack of marketability of common shares	(2,277,408)
Total consideration paid	$11,203,209
Net assets acquired	
Cash and cash equivalents	$92,394
Prepaid expenses	21,084
Current Assets	113,478
Property, plant and equipment	6,000,172
Licence	5,258,958
Goodwill	3,137,589
Total assets	14,510,197
Current liabilities	
Accounts payable and accrued liabilities	136,345
Mortgage payable	2,300,000
Deferred income tax liability	870,643
Total liabilities	3,306,988
Total net assets acquired	$11,203,209

14. Acquisition and divestiture of Rare Industries, Inc.

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

(Expressed in Canadian dollars)

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 3,466,053 shares allocated to the second year earnout). This was recorded as contingent consideration. For the contingent consideration, the Company had 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 was 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 $649,732 for the year ended June 30, 2020 (2019 – nil) based on the issuance of 2,900,000 common shares at $0.295 per share for a total value of $855,500 as part of the disposition settlement. As the Company has disposed of Rare, the Company no longer has a contingent consideration and the liability has been derecognized.

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	$2,947,743
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	292,145
Total liabilities	292,145
Total net assets acquired	$2,947,743

For the year ended June 30, 2020, acquisition-related costs of $30,000 have been included as legal fees. During the period from August 28, 2019 to May 22, 2020, the Company recognized $123,715 in revenues and a net loss of $636,362 from Rare. 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, on May 22, 2020, subsequent to March 31, 2020, the Company determined that the goodwill relating to the Rare acquisition was impaired and hence, written off at March 31, 2020 based on the realized sale proceeds. This resulted in an impairment of goodwill charge of $3,051,128 (2019 - $nil), see note 9. Refer to note 16 for the loss on disposal of the Rare subsidiary.

(Expressed in Canadian dollars)

15. Acquisition and divestiture of Sackville & Co. Merchandising Ltd.

On October 9, 2019, the Company acquired all of the shares of Sackville & Co. Merchandising Ltd. 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 (of which $48,606 was paid in 2019), 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. In addition, 48North was to 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. The Company recorded a gain on the change in contingent consideration liability of $41,817 for the year ended June 30, 2020 (2019 – nil). As the Company has disposed of Sackville, with no additional contingent consideration, the Company no longer has a contingent consideration and the liability has been derecognized.

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	40,026
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 year ended June 30, 2020, acquisition-related costs of $26,837 have been included as transaction costs. During the period from October 9, 2019 to May 11, 2020, the Company recognized $181,303 in revenues and a net loss of $577,417 from Sackville. 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, on May 11, 2020, subsequent to March 31, 2020, the Company determined that the goodwill relating to the Sackville acquisition was impaired and hence, written off at March 31, 2020 based on the realized sale proceeds. This resulted in an impairment of goodwill charge of $1,088,619 (2019 - $nil), see note 9. Refer to note 16 for the loss on disposal of the Sackville subsidiary.

(Expressed in Canadian dollars)

16. Discontinued operations

As part of the Company's revised focus on the Canadian marketplace, during May, 2020, the Company entered into a settlement agreement 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. The Company paid a working capital amount of $212,730 and forgave $523,443 in loans previously advanced to Sackville.

Additionally, during May, 2020, the Company entered into a separation agreement whereby it sold all of the issued and outstanding shares of Rare back to its founders for US$1.00. In addition, the Company forgave $1,627,880 in loans previously advanced to Rare.

Revenue and expenses, and gains and losses relating to the discontinued operations have been removed from the results of continuing operations and are shown as a single line item on the face of the consolidated statement of comprehensive loss. The operating results of the discontinued operations can be analysed as follows:

For the years ended June 30	**2020**	2019
	$	$
Revenue	**124,479**	—
Cost of sales	**(12,370)**	—
Gross profit	**112,110**	—
ADMINISTRATIVE EXPENSES		
General and administrative	**1,005,463**	—
Sales and marketing	**398,359**	—
Depreciation and amortization	**21,339**	—
	1,425,161	—
Loss on disposal of subsidiaries	**4,654,311**	—
Net loss from discontinued operations	**(5,967,362)**	—

Effect of the disposition on the Financial Position is as follows:

	Rare	**Sackville**	**Total**
	$	$	$
Consideration received	1	1	2
Net assets disposed of			
Cash	68,902	32,190	101,092
Accounts receivable	235,134	36,132	271,266
Inventory	119,725	216,974	336,699
Prepaids	—	125,246	125,246
Right of use assets	—	88,404	88,404
Plant, property and equipment	192	—	192
Total assets	423,953	498,946	922,889
Net liabilities disposed of			
Accounts payable and accrued liabilities	26,498	497,337	523,835
Lease liabilities	—	97,228	97,228
Total liabilities	26,498	594,565	621,063

(Expressed in Canadian dollars)

Net (assets) liabilities disposed of	(397,455)	95,619	(301,836)
Working capital payout	—	(212,730)	(212,730)
Goodwill write down	(3,051,127)	(1,088,619)	(4,139,746)
Loss on disposition	(3,448,581)	(1,205,729)	(4,654,311)

Effect of the disposition on the Statement of Cash Flows is as follows:

Net cash provided by operating activities	**$(1,654,984)**
Cash used in investing activities	**$(313,820)**

17. Mortgage payable

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

18. Revenue

For the years ended June 30	**2020** **$**	2019 $
Sale of cannabis	**10,548,204**	4,876,920
Other	**12,156**	28,635
Discounts	**(88,632)**	(73,405)
Excise duties	**(1,753,705)**	(12,362)
Net Revenue	**8,718,023**	4,819,788

For the years ended June 30, sale of cannabis by customer type	**2020** **$**	2019 $
Sales to provincial bodies		
Ontario	**1,379,025**	—
Quebec	**3,503,096**	76,150
Alberta	**3,182,600**	—
British Columbia	**120,900**	—
Manitoba	**609**	—
Saskatchewan	**252,596**	—
Sales to other licenced producers	**2,032,902**	4,800,770
Revenue	**10,471,728**	4,876,920

19. 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 June 30, 2020, the Company determined the best information to assess the fair value of the investment was based on the share price of Friendly Stranger’s most recent convertible debt financing which indicated a share price of $1.99. A change in this assumption of plus or minus 10% would result in a corresponding change in fair value of the investment of approximately $37,313. As at June 30, 2020, the Class A common shares had a fair value of

(Expressed in Canadian dollars)

$373,125.

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 32.02% at date of issuance. The conversion feature was calculated using the Black-Scholes model with the following assumptions: share price of $1.99, exercise price of $5.00, risk free rate of 0.28%, expected volatility of 100%, expected remaining life of 1.05 year and expected dividend yield of 0%. As at June 30, 2020, the convertible debenture had a fair value of $427,313.

During fiscal 2020, based on the revaluation, the Company has recognized a loss of $449,562 relating to this investment.

20. Related party transactions

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

Year ended	June 30, 2020	June 30, 2019
Consulting, salaries and wages	$2,934,317	$1,646,325
Share-based payments	1,098,311	3,598,853
Total	$4,032,628	$5,245,178

Included in consulting, salaries and wages is $1,332,708 relating to the severance agreements with key management personnel (2019 - $109,279). Consulting, salaries, and wages of $661,032 is included in sales and marketing and $2,273,285 is included in general and administrative. Included in accounts payable and accrued liabilities is $109,203 (2019 - $59,291) due to key management.

21. 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.

22. Segmented geographic information

Geographical segments	Canada	U.S.	Total
	$	$	$
Total assets at June 30, 2019	91,022,901	—	91,022,901
Total assets at June 30, 2020	**57,774,848**	—	**57,774,848**
Net revenues at June 30, 2019	4,819,788	—	4,819,788
Net revenues at June 30, 2020	**8,718,023**	**—**	**8,718,023**
Comprehensive income (loss) at June 30, 2019	(8,127,074)	—	(8,127,074)
Comprehensive income (loss) at June 30, 2020	**(38,960,707)**	**(1,313,051)**	**(40,273,758)**

23. Financial instruments and risk management

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

	June 30, 2020	June 30, 2019

	$	$
Financial assets [1]	13,061,408	53,794,336
Financial liabilities [2]	7,016,400	4,701,444

[1] Includes cash and cash equivalents, trade receivables and convertible debenture portion of the long-term investment
[2] Includes accounts payable, accrued liabilities, lease liabilities

Unless otherwise noted, the Company is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

Fair value
The fair values of financial instruments classified at amortized cost approximate their carrying values due to their short-term maturity. The Company's long-term investments classified at FVTPL consisted of the following as at June 30, 2020:

	Cost	Level 1	Level 2	Level 3	Total fair value
	$	$	$	$	$
Common shares of Friendly Stranger	750,000	—	—	373,125	—
Convertible debenture of Friendly Stranger	500,000	—	—	427,313	—

The Company did not hold any investments as at June 30, 2019. Within Level 3, the Company included its investment in Friendly Stranger (note 19) 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 June 30, 2020, $2,522,953 (2019 - $1,493,725) of accounts receivable are from provincial regulators and wholesale customers. As of June 30, 2020, the Company recognized a nil (2019 - $8,760) provision for expected credit losses.

The Company aging of receivables is as follows:	**June 30, 2020**	June 30, 2019
	$	$
0-60 days	**2,522,953**	901,567
61-120 days	—	127,203
	2,522,953	1,028,770

Foreign currency risk
The operating results and financial position of the Company are reported in Canadian dollars. With the acquisition and subsequent divestiture of Rare and Sackville during the year ended June 30, 2020, the Company operated

internationally during the year, and certain of the Company's financial instruments and transactions were denominated in currencies other than the Canadian dollar. The results of the Company's operations have been, therefore, subject to currency transaction and translation risks. The Company's main risk is associated with fluctuations in U.S. dollars. At year end, the Company holds cash in Canadian dollars. Assets and liabilities are translated based on the Company's foreign currency translation policy. The Company has determined that as at June 30, 2020, with the divestitures completed, that the effect of a 10% increase or decrease in U.S. dollars against the Canadian dollar on financial assets and liabilities would not result in an increase or decrease to net income (loss). At June 30, 2020, 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:

	June 30, 2020	June 30, 2019
	$	$
Trade payables	**3,892,443**	3,235,085
Accrued liabilities	**2,300,279**	1,466,359
	6,192,722	4,701,444
Current portion of lease liabilities	**131,364**	—
Total current liabilities	**6,324,086**	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 March 31, 2020, 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	6,192,722	6,192,722	—	—

COVID-19
The global pandemic related to an outbreak of COVID-19 has cast uncertainty on many of the Company's assumptions and estimates. There can be no assurance that such assumptions and estimates continue to be valid. Given the rapid pace of change in the severity of and response to the COVID-19 outbreak, it is premature for the Company make further assumptions or estimates. The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on the business is not known at this time. These impacts could include, amongst others, 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 the long-lived assets, or potential future decreases in revenue or profitability of the Company's ongoing operations.

The Company's business is dependant on a number of factors which could be adversely disrupted by, among others, major health issues or pandemics. In particular, major health issues and pandemics, such as the global impact of COVID-19. Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the impact of the COVID-19 outbreak on the Company's business. These factors are beyond the Company's control, may adversely affect us and our suppliers or cause disruptions to their and the Company's businesses and may impact their ability to supply us.

(Expressed in Canadian dollars)

The Company has taken a number of precautions with the intention of mitigating COVID-19 risk at its facilities and corporate office. On March 12, 2020, the Company required that all non-essential production employees work from home, where their duties with the Company allowed. This measure helps minimize the number of potential COVID-19 exposures on a daily basis. At the facilities, the Company has staggered start times, implemented a dual-shift program, prohibited social gatherings (i.e. lunch), and implemented increased sanitation programmes. Further, the Company instituted mandatory health checks, which included thermometer checks daily, prior to the commencement of work. If any employee exhibited any symptoms, had encountered someone with symptoms in their private life, or had travelled, they were sent home for a mandatory two-week self-isolation quarantine. These health checks and standards were also implemented for any outside contractor needing to enter the facility. While at work, physical distancing measures were enacted, personal protective equipment ("PPE") (such as mask, gloves, hair nets, booties and Tyvek suits) was made mandatory both inside the production area and outside in office spaces, and a third-party disaster relief cleaners were hired to institute a deep-clean on a weekly basis. As of the date hereof, the above measures remain in place and to the knowledge of the Company, no employee has tested positive for COVID-19. The Company will continually review the above measures in conjunction with the measures deemed appropriate by Ontario Public Health.

Business and Supply Chain Disruption: While it may be too early to fully understand the severity of COVID-19 and its long-term implications, there have been a number of challenges that the Company is facing. At the Company's production facilities, staff are required to wear PPE. Ensuring that the Company has adequate supplies of PPE at reasonable prices has presented challenges as supply has been curtailed. During Q3 2020, the Company started its extraction operations, which relies on third party suppliers. To date, there have not been any disruptions, however, there could be a time when those third-party suppliers have reduced access or may be unable to work at the Good House facility.

Nature and Impact of Government Measures: The federal government has announced a number of measures to support workers and businesses, however, to date we have not been eligible for additional support. That said, the Company continues to investigate and monitor the activities of the federal and provincial governments and will apply for support wherever possible.

Borrowing and Lending Issues: Currently, the Company does not have imminent debt obligations (other than normal trade payables and accruals).

Sales: Since the start of the COVID-19 pandemic, sales have continued to grow and demand for product has increased. Initially, the production and sale of cannabis was deemed an essential service by the provincial governments of Ontario, Alberta, and Quebec and thus were permitted to stay open and continue operations. Approximately two weeks into the pandemic, the Government of Ontario delisted the store-front retail sale of cannabis as an essential service which resulted in the temporary closure of brick and mortar retailers in the province of Ontario. However, within one-week this order was revised, and retail locations were able to re-open, under the condition that the retail location could provide click-and-collect or delivery services. While there was a temporary lag in retailers re-opening, as a result of retail locations having inadequate technology to provide "click and collect" or "delivery", that lag has since been corrected.

Commodity Prices: As a cannabis company, the prices of cannabis flower and derivative products have seen an oversupply, leading to reduced expectations on commodity prices. During the third quarter of fiscal 2020, the Company reviewed it 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.

24. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2019 - 26.5%) to the effective tax rate is as follows:

	2020	2019
	$	$
Net loss and comprehensive loss before recovery of income taxes	(40,695,208)	(8,477,597)

(Expressed in Canadian dollars)

Statutory tax rate	26.50%	26.50%
Expected income tax expense (recovery)	(10,784,230)	(2,246,560)
Items subject to different tax rates	(536,830)	—
Share-based compensation and non-deductible expenses	1,488,340	1,536,055
Share issuance cost booked directly to equity	(7,950)	(839,370)
Loss on disposal of subsidiaries	1,658,540	—
Other adjustments	(22,950)	(408,140)
Change in tax benefits not recognized	7,783,630	1,607,492
Total income tax expense (recovery)	(421,450)	(350,523)
Current tax expense (recovery)	—	—
Deferred tax expense (recovery)	(421,450)	(350,523)
	(421,450)	(350,523)

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

	2020 $	2019 $
Right of use assets	218,280	—
Non-capital losses carried forward	1,106,510	2,490,930
Subtotal of assets	1,324,790	2,490,930
Property, plant and equipment and intangibles	(506,450)	(390,624)
Capital lease obligation	(194,480)	(1,156,040)
Inventory	—	(103,010)
Licence	(622,500)	(1,361,376)
Intangibles	(60,030)	—
Subtotal of liabilities	(1,423,460)	(3,011,050)
Net deferred tax liability	(98,670)	(520,120)

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

Movement in net deferred tax:	2020 $	2019 $
Balance, beginning of the year	(520,120)	—
Recognized in profit or loss	421,450	350,523
Goodwill	—	(870,643)
Balance, end of the year	(98,670)	(520,120)

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

	2020 $	2019 $
Operating tax losses carried forward	50,410,520	24,531,040
Long-term investments	449,560	—
Accounts payable and accrued liabilities	11,590	—
Share issue costs	3,088,640	4,102,570
Capital losses carried forward	4,051,550	—
	58,011,870	28,633,610

(Expressed in Canadian dollars)

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

	$
2036	707,390
2037	5,930,590
2038	13,657,300
2039	8,970,970
2040	21,144,280
	50,410,520