48NORTH CANNABIS CORP.

Condensed Interim Consolidated Financial Statements
(Unaudited)
As at December 31, 2020

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

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

As at		**December 31, 2020**		June 30, 2020
Assets				
Current assets				
Cash and cash equivalents	**$**	**4,053**	$	9,272
Trade and other receivables (Note 16)		**4,664**		3,362
Prepaid expenses		**3,317**		1,455
Biological assets (Note 5)		**544**		1,700
Inventory (Note 5)		**13,437**		9,252
		26,015		25,041
Non-current assets				
Long-term deposits		**40**		40
Long-term investments (Note 6)		**702**		800
Property, plant and equipment, net (Note 7)		**28,071**		28,433
Right of use assets (Note 8)		**654**		734
Licence (Note 9)		**2,447**		2,500
Intangible assets (Note 9)		**113**		227
		32,027		32,734
Total assets	**$**	**58,042**	$	57,775
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 14, 16)	**$**	**11,436**	$	6,193
Current portion of lease liabilities (Note 8)		**140**		131
Debts (Note 10)		**2,803**		-
		14,379		6,324
Non-current liabilities				
Lease liabilities (Note 8)		**620**		692
Deferred income tax liability		**99**		99
		719		791
Total liabilities		**15,098**		7,115
Shareholders' equity				
Share capital (Note 11)		**113,271**		111,464
Share-based payments reserve (Note 11)		**3,946**		4,039
Warrants reserve (Note 11)		**4,761**		3,843
Contributed surplus		**6,609**		5,940
Deficit		**(85,643)**		(74,626)
Total shareholders' equity		**42,944**		50,660
Total liabilities and shareholders' equity	**$**	**58,042**	$	57,775

Continuance of operations and going concern (Note 2)

See accompanying notes to unaudited condensed interim consolidated financial statements.

On behalf of the Board:

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

Martin Cauchon, Chairman William Assini, Director

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Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

For the:	Three months ended December 31, 2020	Three months ended December 31, 2019 (Note 13)	Six months ended December 31, 2020	Six months ended December 31, 2019 (Note 13)
Revenue (Note 12)	**$ 7,607**	$ 1,706	**$ 14,420**	$ 3,293
Excise taxes	**(1,588)**	(188)	**(2,817)**	(332)
Total net revenue	**6,019**	1,518	**11,603**	2,961
Costs of sales				
Inventory expensed to cost of sales, before fair value adjustments	**6,995**	1,078	**14,833**	1,744
Inventory impairment costs (Note 5)	**1,560**	(49)	**1,560**	-
Gross profit (loss) before fair value adjustments	**(2,536)**	489	**(4,790)**	1,217
Unrealized fair value adjustment on growth of biological assets (Note 5)	**(779)**	(1,392)	**(627)**	8,248
Realized fair value adjustment on inventory sold (Note 5)	**(69)**	(1,410)	**324**	(2,357)
Gross profit (loss)	**(3,384)**	(2,313)	**(5,093)**	7,108
Administrative expenses				
General and administrative (Note 14)	**1,651**	3,524	**3,070**	6,662
Sales and marketing (Note 14)	**765**	1,141	**977**	3,026
Share-based payments (Note 14)	**293**	472	**576**	1,279
Depreciation and amortization (Note 5, 7, 8, 9)	**358**	448	**603**	788
Impairment of fixed assets (Note 7)	**600**	-	**600**	-
Fair value changes on other investments (Note 6)	**98**	-	**98**	-
Gain on change in fair value of contingent consideration (Note 13)	**-**	(1,496)	**-**	(2,030)
Total expenses	**3,765**	4,089	**5,924**	9,725
Loss from continuing operations before income taxes	**(7,149)**	(6,402)	**(11,017)**	(2,617)
Income tax provision (recovery)	**-**	(926)	**-**	544
Loss from continuing operations	**$ (7,149)**	$ (5,476)	**$ (11,017)**	$ (3,161)
Loss from discontinued operations (Note 13)	**-**	(620)	**-**	(734)
Net loss and comprehensive loss	**$ (7,149)**	$ (6,096)	**$ (11,017)**	$ (3,895)
Basic and fully diluted loss per share, continuing operations	**(0.037)**	(0.032)	**(0.060)**	(0.018)
Basic and fully diluted loss per share, discontinued operations	**-**	(0.004)	**-**	(0.004)
Weighted average number of shares outstanding (000's)	**190,703**	173,564	**183,168**	171,397

See accompanying notes to unaudited condensed interim consolidated financial statements.

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Condensed Interim Consolidated Statements of Cash Flows

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

For the:	Three months ended December 31, 2020	Three months ended December 31, 2019	Six months ended December 31, 2020	Six months ended December 31, 2019
Operating activities				
Net loss for the period	**$ (7,149)**	$ (6,096)	**$ (11,017)**	$ (3,895)
Add (deduct) items not involving cash				
Inventory impairment costs	**1,560**	-	**1,560**	
Unrealized fair value adjustment on growth of biological assets (Note 5)	**779**	1,392	**627**	(8,248)
Realized fair value adjustment on inventory sold (Note 5)	**69**	1,410	**(324)**	2,357
Change in fair value of contingent consideration	**-**	(1,496)	**-**	(2,030)
Depreciation included in inventory expensed to cost of sales	**425**	142	**877**	250
Depreciation and amortization (Note 5, 7, 8, 9)	**358**	460	**603**	800
Share-based payments (Note 14)	**293**	472	**576**	1,279
Impairment of equipment (Note 7)	**600**	-	**600**	
Fair value changes on other investments (Note 6)	**98**	-	**98**	
Non-cash accretion expense in general and administrative	**33**	22	**33**	22
Income tax provision (recovery)	-	(926)	-	544
Foreign exchange	-	(63)	-	(25)
Changes in non-cash working capital items:				
Decrease (increase) in trade and other receivables	**923**	217	**(1,302)**	(1,248)
Decrease (increase) in prepaid expenses	**576**	(404)	**(1,862)**	(587)
Decrease in biological assets	**3,612**	1,593	**4,477**	665
(Increase) in inventory	**(7,518)**	(5,660)	**(9,054)**	(6,356)
Increase in accounts payable and accrued liabilities	**2,189**	4,083	**5,243**	3,561
Cash used in operating activities	**$ (3,152)**	$ (4,854)	**$ (8,865)**	$ (12,911)
Investing activities				
Acquisition of property, plant and equipment (Note 7)	**$ (471)**	$ (1,876)	**$ (1,786)**	$ (4,261)
Net cash paid in acquisition of Rare Industries, Inc.	-	-	-	(878)
Net cash paid in acquisition of Sackville & Co. Merchandising Ltd.	-	(409)	-	(409)
Acquisition of Apothecanna brand rights	-	(133)	-	(133)
Acquisition of investment	-	-	-	(1,250)
Long-term deposits	-	(493)	-	(531)
Cash used in investing activities	**$ (471)**	$ (2,911)	**$ (1,786)**	$ (7,462)
Financing activities				
Proceeds from the exercise of stock options and warrants (Note 11)	**$ -**	$ -	**$ -**	$ 238
Net proceeds from debt (Note 10)	**2,770**	-	**2,770**	
Net proceeds from brokered private placement (Note 11)	**2,725**	-	**2,725**	
Payments towards principal portion of lease liability	**(32)**	(11)	**(63)**	(15)
Cash provided from (used in) financing activities	**$ 5,463**	$ (11)	**$ 5,432**	$ 223
Decrease in cash and cash equivalents	**$ 1,840**	$ (7,776)	**$ (5,219)**	$ (20,150)
Cash and cash equivalents, beginning of period	**2,213**	40,392	**9,272**	52,766
Cash and cash equivalents, end of period (Note 4)	**$ 4,053**	$ 32,616	**$ 4,053**	$ 32,616

The accompanying notes are an integral part of these interim condensed consolidated financial

48NORTH CANNABIS CORP.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

	Number of shares		Share capital		Warrant reserve		Share-based payment reserve		Contributed surplus		Deficit		Total shareholders' equity
Balance June 30, 2019	**168,036,965**	**$**	**106,947**	**$**	**4,927**	**$**	**7,838**	**$**	**441**	**$**	**(34,352)**	**$**	**85,801**
Issuance on exercise of stock options	**502,000**		**390**		**-**		**(152)**		**-**		**-**		**238**
Issued on vesting of RSUs	**350,000**		**218**		**-**		**(218)**		**-**		**-**		**-**
Expiry of warrants	**-**		**-**		**(110)**		**-**		**110**		**-**		**-**
Common shares issued on acquisition	**2,247,834**		**1,858**		**-**		**-**		**-**		**-**		**1,858**
Common shares in escrow classified as a liability	**4,756,624**		**-**		**-**		**-**		**-**		**-**		**-**
Common shares issued on acquisition	**1,060,368**		**594**		**-**		**-**		**-**		**-**		**594**
Share-based payments	**-**		**-**		**-**		**1,279**		**-**		**-**		**1,279**
Net loss for the period	**-**		**-**		**-**		**-**		**-**		**(3,895)**		**(3,895)**
Balance December 31, 2019	**176,953,791**	**$**	**110,007**	**$**	**4,817**	**$**	**8,747**	**$**	**551**	**$**	**(38,247)**	**$**	**85,875**

	Number of shares		Share capital		Warrant reserve		Share-based payment reserve		Contributed surplus		Deficit		Total shareholders' equity
Balance June 30, 2020	**176,030,500**	**$**	**111,464**	**$**	**3,843**	**$**	**4,039**	**$**	**5,940**	**$**	**(74,626)**	**$**	**50,660**
Units issued on brokered private placement (Note 11)	**22,767,000**		**1,807**		**918**		**-**		**-**		**-**		**2,725**
Expiry of options	**-**		**-**		**-**		**(663)**		**663**		**-**		**-**
Expiry of RSUs	**-**		**-**		**-**		**(6)**		**6**		**-**		**-**
Share-based payments (Note 11)	**-**		**-**		**-**		**576**		**-**		**-**		**576**
Net loss for the period	**-**		**-**		**-**		**-**		**-**		**(11,017)**		**(11,017)**
Balance December 31, 2020	**198,797,500**	**$**	**113,271**	**$**	**4,761**	**$**	**3,946**	**$**	**6,609**	**$**	**(85,643)**	**$**	**42,944**

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

1. Corporate information

48North Cannabis Corp. ("Company" or "48North") is a publicly traded corporation listed on the TSX Venture Exchange ("TSXV"), under the trading symbol "NRTH". Some of the Company's warrants are listed on the TSXV under the trading symbol "NRTH.WT". The Company was incorporated in Alberta, Canada. 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 vertically integrated cannabis company. The Company primarily operates its cannabis business through two, indirect, wholly-owned subsidiaries, DelShen Therapeutics Corp. ("DelShen") and Good & Green Corp. ("G&G"), both of which are licenced under the Cannabis Act. DelShen is licenced to produce, sell and extract cannabis pursuant to the Cannabis Act at the DelShen Facility, located near Kirkland Lake, Ontario. G&G is licenced to produce and extract cannabis pursuant to the Cannabis Act at the G&G Facility, located in Brantford, Ontario and is licenced to produce cannabis pursuant to the Cannabis Act at G&G's 100-acre outdoor cannabis production facility, the Good Farm.

2. Continuance of operations and going concern

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

The Company reported a comprehensive loss of $11,017 and negative cash flows from operations of $8,865 during the six-month period ended December 31, 2020. As of December 31, 2020, the Company had a deficit in the amount of $85,643. The Company's ability to continue as a going concern is dependent upon its capability to generate revenues from sales of cannabis and cannabis products, commence profitable operations, and raise additional financing as needed to meet its obligations. 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.

During the three months ended December 31, 2020, the Company raised $2,725 of net proceeds through an equity private placement (Note 11), $2,770 of net proceeds through a mortgage financing (Note 10) and closed on a $4,000 standby facility for receivables purchasing as part of financing the commercial growth of the Company (Note 10). As such, the Company's management believe that there are many financing opportunities available. 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.

3. Basis of presentation

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the period ended December 31, 2020.

Functional currencies

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

Significant accounting policies, judgements, estimates, and assumptions

These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's 2020 annual consolidated financial statements. These unaudited condensed interim consolidated financial statements have been prepared using the accounting policies, judgements, estimates and assumptions consistent with those used in the annual consolidated financial statements. See Note 4 for new accounting policies, estimates, and judgments implemented after June 30, 2020.

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

Subsidiaries

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

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

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

The Company's Board of Directors approved these unaudited condensed interim consolidated financial statements on February 28, 2021.

4. Significant accounting policies, judgements, estimates and assumptions

a) New accounting pronouncements

Amendments to IFRS 3, Business Combinations ("IFRS 3") – Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 to help entities determine whether an acquired set of activities and assets is a business or not. The amendments clarify the minimum requirements for a business, removed the assessment of whether market participants are capable of replacing any missing elements, added guidance to help entities assess whether an acquired process is substantive, narrowed the definitions of a business and of outputs, and introduced an optional fair value concentration test. Effective July 1, 2020, the Company adopted the amendments to IFRS 3, with no material impact on its condensed interim consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"); and IAS 8, Accounting policies, changes in accounting estimates and errors ("IAS 8") – Definition of Material

In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Effective July 1, 2020, the Company adopted the amendments to IAS 1 and IAS 8, with no material impact on its condensed interim consolidated financial statements.

Amendments to IAS 1 – Presentation of financial statements: classifications of liabilities as current or non-current

In January 2020, the IASB issued amendments to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2022, with early adoption permitted. The amendments are to be applied retrospectively. The Company does not intend to early adopt these amendments and is currently assessing the impact of these amendments on its condensed interim consolidated financial statements.

b) New accounting policy

Contract manufacturing services revenue

Contract manufacturing arrangements consists of agreements in which the Company manufactures cannabis products on behalf of a third-party Licensed Producer. The Company's performance obligation is to manufacture and distribute cannabis products to customers, typically provincial retailers. The Company earns a pre-determined standalone price per unit manufactured and distributed and the performance obligations are considered to be satisfied when control of the product is transferred to the customer. Control is transferred to the customer when the product is shipped to the customer as the inventory risk and risk of ownership passes to the customer at that time. Payment terms for these sales are generally less than two months. The Company estimates returns based on historical experience. Historically, the Company have not had material returns for contract manufactured products.

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

5. Biological assets and inventories

a) Biological assets

The changes in the carrying value of biological assets for the six months ended December 31, 2020 are as follows:

	Cannabis plants
Balance at June 30, 2020	$1,700
Net change in fair value less costs to sell due to biological transformation	(627)
Production costs capitalized to biological assets	3,379
Transferred to inventory upon harvest	(3,908)
Balance at December 31, 2020	**$544**

The net loss arising from fair value less costs to sell due to biological asset transformation for the three month and six-month respective periods ended December 31, 2020 was $779 and $627 (a loss of $1,392 and a gain of $8,248 gain for the respective three and six months ended December 31, 2019).

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:

(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:

Significant inputs & assumptions for Indoor Production	**Weighted Average Inputs**	**Sensitivity**	**Effect on Biological Asset Balance**
Selling price per gram	$5.37 dollar	Increase/decrease $1.00 dollar/gram	Increase/decrease $144
Average yield per plant	112 grams	Increase/decrease 10%	Increase/decrease $54
Standard cost per gram to complete production	$0.71 dollar	Increase/decrease $0.50 dollar/gram	Decrease/increase $116
Cumulative stage of completion	43%	Increase/decrease by 5 percentage point	Increase/decrease $17

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

b) Inventories

The Company's inventory includes the following as of December 31, 2020 and June 30, 2020.

As of December 31, 2020	Capitalized costs	Fair Value Transferred from Biological Assets	Impairment	Carrying Value
	$	$	$	$
Dried Cannabis				
Work-in-process	4,123	(8)	(53)	4,062
Finished goods	2,104	4	(96)	2,012
Cannabis derivative products				
Work-in-process	2,495	10	—	2,505
Finished goods	488	(7)	(62)	419
Packaging and supplies	4,439	—	—	4,439
Total Inventory	**13,649**	**(1)**	**(211)**	**13,437**

As of June 30, 2020	Capitalized costs	Fair Value Transferred from Biological Assets	Impairment	Carrying Value
	$	$	$	$
Dried Cannabis				
Work-in-process	4,964	1,017	(297)	5,684
Finished goods	39	126	(142)	23
Cannabis derivative products				
Work-in-process	1,561	6	—	1,567
Finished goods	323	3	(202)	124
Packaging and supplies	1,772	—	—	1,772
Non-cannabis merchandise	82	—	—	82
Total Inventory	8,741	1,152	(641)	9,252

The Company wrote off $1,560 of inventory during the three and six months ended December 31, 2020 due to the costs capitalized exceeding the recoverable amount (an impairment reversal of $49 was recorded during the three-month period ended December 31, 2019 to record $nil for the six months ended December 31, 2019). The Company recorded a realized fair value loss on inventory sold of $69 (2019 - $1,410) and a realized fair value gain on inventory sold of $324 (2019 – a realized fair value loss of $2,357) for the respective three-and-six-month period ended December 31, 2020.

6. Investments

On October 6, 2020, the Company's $500,000 convertible debenture investment in Friendly Stranger Holdings Corp. ("Friendly Stranger") was converted into 107,348 Friendly Stranger common shares, bringing the Company's aggregate holdings of Friendly Stranger common shares to 294,848. On November 2, 2020, Fire & Flower Holdings Corp., a subsidiary of Fire & Flower Inc. ("Fire and Flower") announced that they had entered into a definitive share purchase agreement to acquire all of the issued and outstanding shares of Friendly Stranger. On December 1, 2020, the Company received 806,845 Fire and Flower shares in exchange for its aggregate holdings in Friendly Stranger. The market price of the Fire and Flower shares on the date of the exchange, $0.826 per share, resulted in a fair value loss of $132 being recognized on the condensed interim consolidated statements of loss and comprehensive loss for the three and six months ended December 31, 2020.

As of December 31, 2020, the fair value of the Fire and Flower shares increased to $702 (based on a market price of $0.87 per share) and accordingly, a fair value gain of $34 was recognized on the condensed interim consolidated statements of loss and comprehensive loss for the three and six months ended December 31, 2020. As the shares of Fire and Flower are actively traded on the Toronto Stock Exchange, this investment is classified as Level 1 on the fair value hierarchy under IFRS 13 fair value measurement.

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

7. Property, plant, and equipment

	Land	Building	Machinery and equipment	Computer equipment	Furniture and fixtures	Vehicles	Construction in progress	Total
	$	$	$	$	$	$	$	$
Cost								
As at June 30, 2020	2,430	15,527	13,110	358	18	43	2,006	33,492
Additions during the period	-	20	106	-	-	-	1,809	1,935
Allocation from construction in progress	-	1,192	1,343	3	-	-	(2,538)	-
Impairment charges	-	-	-	-	-	-	(600)	(600)
Disposals during the period	-	(31)	(118)	-	-	-	-	(149)
As at December 31, 2020	**2,430**	**16,708**	**14,441**	**361**	**18**	**43**	**677**	**34,678**
Accumulated amortization								
As at June 30, 2020	-	1,264	3,531	224	6	34	-	5,059
Depreciation for the period	-	489	1,043	37	1	1	-	1,571
Disposal during the period	-	-	(23)	-	-	-	-	(23)
As at December 31, 2020	-	1,753	4,551	261	7	35	-	6,607
Net book value								
As at June 30, 2020	2,430	14,263	9,579	134	12	9	2,006	28,433
As at December 31, 2020	**2,430**	**14,955**	**9,890**	**100**	**11**	**8**	**677**	**28,071**

Construction in progress includes portions of equipment that have been purchased but not fully assembled and ready for its intended use. As such, no depreciation has been applied to the construction in process. During the three and six months ended December 31, 2020, $593 and $1,192, respectively, of depreciation was capitalized to the production of dried cannabis (2019 - $301 and $522, respectively), of which $425 and $877, respectively, was included in cost of sales (2019 -$142 and $250, respectively). During the period, the Company determined that certain construction in progress assets had been impaired and the Company expensed $600 (2019 – nil).

On November 10, 2020, the Company closed a mortgage financing in the amount of $3,250 on the Company's building located at 47 Morton Avenue East Brantford, Ontario (for more information refer to Note 10).

8. 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 assets:	Land Rights	Vehicles	Building	Total
	$	$	$	$
Cost				
As at June 30, 2020	57	12	771	840
Additions during the period	-	-	-	-
As at December 31, 2020	**57**	**12**	**771**	**840**
Accumulated amortization				
As at June 30, 2020	11	5	90	106
Depreciation for the period	5	3	72	80
As at December 31, 2020	16	8	162	186
Net book value				
As at June 30, 2020	46	7	681	734
As at December 31, 2020	**41**	**4**	**609**	**654**

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

Lease liabilities

Minimum payments under lease liabilities	**December 31, 2020**
Within 1 year	239
2 to 3 years	494
Over 4 years	283
	1,016
Effect of discounting	(256)
Present value of lease payments	**760**
Less: current portion	140
Non-current portion of obligations under lease liability	**620**

9. License and intangible assets

	Licence $	Intangibles $	Total $
Cost			
As at June 30, 2020	2,833	340	3,173
As at December 31, 2020	**2,833**	**340**	**3,173**
Accumulated amortization			
As at June 30, 2020	333	113	446
Amortization for the period	53	114	167
As at December 31, 2020	386	227	613
Net book value			
As at June 30, 2020	2,500	227	2,727
As at December 31, 2020	**2,447**	**113**	**2,560**

The licences were granted from Health Canada and represent the amounts capitalized on the acquisition of G&G. The intangibles represent the capitalized costs for the Apothecanna brand rights.

10. Debt

On November 10, 2020, one of the Company's subsidiaries, 2618351 entered into a $3,250 mortgage term loan ("Term Loan") with a senior secured lender, collateralized by the Company's building located at 47 Morton Avenue East Brantford, Ontario and guaranteed by the Company, G&GCC and G&G. The Term Loan has a maturity date of twenty-four months, repayable on demand by the lender and bears interest at the greater of (i) a per annum rate of prime + 4.55% and (ii) 7% per annum compounded and calculated monthly. The interest on the Term Loan was prepaid and the principal is due when the Term Loan matures. The Company has the right to renew the Term Loan for two further periods of six months. The carrying amount as at December 31, 2020 was made up as follows:

Mortgage term loan principal	**$**	**3,250**
Less: Prepaid interest		(421)
Less: Transaction costs		(59)
Net proceeds from debt		**2,770**
Accretion expense		**33**
Net Debts	**$**	**2,803**

On December 23, 2020, one of the Company's subsidiaries, Delshen signed a receivable purchase agreement ("Receivable Purchase Agreement") with a Canadian financial institution (the "Buyer") for advances up to $4,000 secured by receivables on approved debtor accounts. Under the Receivable Purchase Agreement, Delshen is eligible to receive an advance of 80% of the eligible receivable balance to be repaid upon collection of the receivable. The Buyer has the right to request the repurchase of the receivable by Delshen if the Company does not collect the balance 30 days after the due date. The Company and the remaining subsidiaries are guarantors under the Receivables Purchase Agreement. As at December 31, 2020, no advances have been made.

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

11. Shareholders' equity

[a] Share capital

Authorized share capital consists of unlimited common shares with no par value. As of December 31, 2020, the Company had 198,797,500 issued and outstanding common shares (June 30, 2020 – 176,030,050).

On November 4, 2020, the Company raised gross proceeds of $3,415 by way of a brokered private placement, distributing 22,767,000 units. Each unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one additional Common Share for $0.30 per share at any time prior to May 4, 2023. The Company has the right to accelerate the expiry date of the warrants prior to May 4, 2023 in the event that the closing trading price of the Common Shares on the TSX Venture Exchange is $0.45 dollar or greater for 20 consecutive trading days and a notice of acceleration is provided to all holders, following which the expiry date shall be the amended to the date that is 21 days after the date of such notice. The Company recorded $2,355 for the issuance of shares and $1,060 for the issuance of warrants based on a relative fair value calculation. The fair value of these warrants for the relative fair value calculation was based on the following assumptions: share price - $0.155, annualized volatility – 103.85%, risk free interest rate – 0.41%, dividend yield – 0%, and expected life – 2.5 years.

On closing, the Company paid transaction costs of $690 in cash and issued 1,138,350 broker warrant units to certain underwriters in connection with the offering. Each broker warrant unit is exercisable for one unit at an exercise price of $0.15 per share until May 4, 2023, with each unit being comprised of one Common Share and one warrant, entitling the holder to purchase one additional Common Share for $0.30 per share at any time prior to May 4, 2023. The broker warrant units were valued at $105 based on the following assumptions: share price - $0.155, annualized volatility – 103.85%, risk free interest rate – 0.41%, dividend yield – 0%, and expected life – 2.5 years. $547 of the transaction's fees were allocated towards the issuance of shares and $248 were allocated towards the issuance of the warrants.

On April 2, 2019, the Company issued 1,195,416 Compensation Options to brokers in relation to an equity financing. Each Compensation Option is exercisable for one unit of 48North ("Compensation Unit") at an exercise price of $1.36 until April 2, 2022. Each Compensation Unit is comprised of one common share and one-half of one warrant. Each full warrant allows the holder to purchase one common share at a price of $1.72 per share until April 2, 2024.

[b] Stock options

The Company issues incentive stock options through option agreements administered by the Board of Directors of the Company who establish exercise prices, at not less than market price at the date of grant, and expiry dates, which have been set at between three and five years from issuance. Options under the option plan may vest immediately or become exercisable in various increments based on conditions as determined by the Board. The Company can issue up to 26,505,569 options and RSUs. As of December 31, 2020, there were 12,051,560 options and 896,667 RSUs issued under the plans, with 14,454,009 available for issuance.

During the three and six months ended December 31, 2020, the Company recorded $167 and $325, respectively (2019 - $383 and $817, respectively) in share-based payments expense related to employee and contractor options which are measured at fair value at the date of grant and are expensed over the option's vesting period. In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions in the periods ended December 31:

	Fiscal 2021	Fiscal 2020
Risk-free interest rate	0.25% – 0.31%	1.17% - 1.64%
Expected life of options (years)	3	3
Expected annualized volatility	97% to 107%	90%
Expected dividend yield	Nil	nil
Black-Scholes value range	$0.09 - $0.13	$0.26 - $0.50
Share price range	$0.16 - $0.20	$0.45 - $0.88

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

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

The following table reflects the continuity of stock options outstanding at December 31, 2020:

	Number of stock options	Weighted average exercise prices
Outstanding, June 30, 2020	8,488,060	0.65
Granted	5,097,000	0.16
Forfeited, expired	(1,533,500)	0.81
Outstanding, December 31, 2020	12,051,560	**$0.42**
Exercisable, December 31, 2020	**4,201,625**	**$0.75**

The weighted average remaining life of the options is 2.05 years as at December 31, 2020.

[c] Restricted share units

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

The following table reflects the continuity of RSUs outstanding at December 31, 2020:

	Number of RSUs	Weighted average grant date fair value	Average remaining contractual life in years
Outstanding, June 30, 2020	921,667	$0.64	1.70
Forfeited during period	(25,000)	$1.00	
Outstanding, December 31, 2020	**896,667**	**$0.64**	**1.24**

As of December 31, 2020, nil RSU's were vested.

Time-based RSUs
As at December 31, 2020, the time-based equity award consisted of 816,667 RSUs (December 31, 2019 – 2,120,000) that will vest annually in two or three equal tranches after the date of RSU grant. For the three and six months ended December 31, 2020, the Company recorded $120 and $239, respectively (2019 - $184 and $464, respectively) in share-based payments expense related to these RSUs.

Performance-based RSUs
As at December 31, 2020, the performance-based equity award consisted of 80,000 RSUs (June 30, 2019 – 95,000) that will vest upon achievement of certain performance criteria. The Company estimates when the performance criteria should be achieved and expenses the RSUs over that time period. Should the criteria be reached prior to or after the derived service date, the remaining unrecognized compensation cost for the award will be accelerated or deferred and recorded at that time. For the three and six months ended December 31, 2020, the Company recorded $6 and $12, respectively (2019 - $35 and $58, respectively) in share-based payments expense related to these RSUs.

[d] Warrant reserve

The continuity of share purchase warrants outstanding is as follows:

	Number	Amount ($)
Balance at June 30, 2019	22,586,072	4,927
Expired warrants	(12,016,292)	(1,084)
Balance at June 30, 2020	10,569,780	3,843
Warrants issued during the period (Note 11a))	23,905,350	918
Balance at December 31, 2020	34,475,130	4,761

As of December 31, 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
2020	$0.30	April 2, 2024	22,767,000	22,767,000
2020	$0.15	April 2, 2024	1,138,350	1,138,350
		Total:	**34,475,130**	**34,475,130**

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

In determining the warrant reserve for warrants issued for periods ended December 31, 2020, the Company used the Black-Scholes pricing model to establish the fair value of warrants granted by applying the following assumptions:

Risk-free interest rate	0.41%
Expected life of options (years)	2.5
Expected annualized volatility	104%
Expected dividend yield	Nil
Black-Scholes value range	$0.07 - $0.09
Share price range	$0.16

12. Revenue

For the:	**Three months ended December 31, 2020**	Three months ended December 31, 2019	**Six months ended December 31, 2020**	Six months ended December 31, 2019
Sale of cannabis and cannabis products	**$ 7,136**	$ 1,706	**$ 13,846**	$ 3,293
Contract manufacturing services	**401**	-	**433**	-
Other	**70**	-	**141**	-
Excise duties	**(1,588)**	(188)	**(2,817)**	(332)
Total net revenue	**$ 6,019**	$ 1,518	**$ 11,603**	$ 2,961

For the: Sale of Cannabis by customer type:	**Three months ended December 31, 2020**	Three months ended December 31, 2019	**Six months ended December 31, 2020**	Six months ended December 31, 2019
Sales to provincial bodies				
Ontario	**$ 2,556**	$ 325	**$ 4,685**	$ 485
Quebec	**2,823**	378	**4,652**	874
Alberta	**1,145**	310	**2,337**	460
British Columbia	**438**	-	**1,753**	-
Manitoba	**82**	-	**124**	-
New Brunswick	**26**	-	**26**	-
Saskatchewan	**63**	-	**221**	-
Sales to other licenced producers	**3**	693	**48**	1,474
Revenue	**$ 7,136**	$ 1,706	**$ 13,846**	$ 3,293

13. 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 $213 and forgave $523 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 $1,628 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 condensed interim consolidated statement of comprehensive loss. The operating results of the discontinued operations can be analysed as follows:

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

For the:		Three months ended December 31, 2020		Three months ended December 31, 2019		Six months ended December 31, 2020		Six months ended December 31, 2019
Revenue	$	-	$	102	$	-	$	110
Cost of sales		-		68		-		69
Gross profit		-		34		-		41
Administrative Expenses								
General and administrative		-		399		-		461
Sales and marketing		-		283		-		302
Depreciation and amortization		-		12		-		12
		-		694		-		775
Currency translation adjustment		-		40		-		-
Net loss from discontinued operations	$	-	$	(620)	$	-	$	(734)

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

Net cash provided by operating activities	$	-	$	660	$	-	$	734
Cash used in investing activities	$	-	$	(660)	$	-	$	(734)

As part of the agreement to acquire all the shares of Sackville and Rare, the Company agreed to pay a conditional earnout in shares based on pre-determined revenue targets and contingent consideration was recorded based on the probability of certain milestones been achieved. During the three months and six months ended December 31, 2019, the Company derecognized $1,496 and $2,030 of the liability respectively. When the Company disposed of Rare and Sackville, the Company no longer had a contingent consideration liability.

14. Related party transactions and balances

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

	Three months ended:				Six months ended:			
	December 31, 2020		December 31 2019		December 31, 2020		December 31 2019	
Consulting, salaries and wages	$	770	$	279	$	1,153	$	791
Share-based payments		223		(165)		413		346
Total	**$**	**993**	**$**	**114**	**$**	**1,566**	**$**	**1,137**

Included in consulting, salaries and wages is $214 relating to payments made under a separation agreement with a former management individual. As at December 31, 2020, $134 of the payments under the separation agreement was included in accounts payable and accrued liabilities. Consulting, salaries and wages of $139 (2019 - $166) is included in sales and marketing and $244 (2019- $625) is included in general and administrative. Included in accounts payable and accrued liabilities is $126 (2019 - $109) due to key management.

15. Capital management

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

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

16. Financial instruments and risk management

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

	December 31, 2020	June 30, 2020
	$	$
Financial assets [1]	**9.419**	13,061
Financial liabilities [2]	**14,999**	7,016

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

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 December 31, 2020, the majority of accounts receivable are from provincial regulators and wholesale customers. Subsequent to the quarter ended December 31, 2020, the Company has collected the majority of these accounts receivables due.

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 December 31, 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 December 31, 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, Receivable Purchase Agreement and the Term Loan. Due to the short-term nature of the debt, the Company believes interest rate risk is minimal.

(Unaudited — Expressed in thousands of Canadian dollars, except share and per share amounts)

Liquidity risk

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

	December 31, 2020	June 30, 2020
	$	$
Trade payables	**5,909**	3,893
Other payables	**3,782**	-
Accrued liabilities	**1,745**	2,300
	11,436	6,193
Current portion of lease liabilities	**140**	131
Debt	**2,803**	-
Total current liabilities	**14,379**	6,324

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 December 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	11,436	11,436	—	—
Current portion of lease liabilities	140	140	—	—
Debt	2,803	2,803	—	—
Total	**14,379**	**14,379**	**—**	**—**

As the mortgage debt is repayable on demand, the amount was classified as payable within one year though the Company believe that the mortgage will continue until at least the maturity date (Note 10) which is at the end of 2022.

Equity price risk

Equity price risk is the risk that the fair value of equity instruments will fluctuate due to changes in market equity prices. At December 31, 2020, the Company held Fire and Flower shares with a fair value of $702 (Note 6). The shares of Fire and Flower are actively traded on the Toronto Stock Exchange and therefore it is expected that the shares can be sold by the Company without difficulty. Due to the size of the investment, the Company believes the equity price risk is minimal.

Assessment of impact of 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. The Company will continually review the its COVID-19 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 fiscal 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. 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. The Company continues to monitor provincial government measures with regards to COVID-19, including essential services, potential closures of the store-front retail sales and how it might effect the Company's ability to continue to sell.

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. The Company continues to monitor commodity prices and how it might effect the estimated fair market value of its biological assets and inventory. During Q2 2021, there were no changes to estimated fair market values relating to commodity prices.