CannAmerica Brands Corp.
(formerly Transform Capital Corp.)

Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended September 30, 2018 and 2017

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102 “Continuous Disclosure Obligations”, Part 4, Subsection 4.3(3a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of CannAmerica Brands Corp. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

“Russell Henderson”	“Dan Anglin”
Russell Henderson, Director	Dan Anglin, CEO

November 29, 2018

CannAmerica Brands Corp.
(formerly Transform Capital Corp.)
Condensed interim consolidated statements of financial position
(Expressed in Canadian dollars)

	Notes	**September 30, 2018 $**	March 31, 2018 $
		(unaudited)	
Assets			
Current			
Cash		**2,239,119**	–
Accounts receivable	5	**639,694**	–
Deposits		–	110,001
Prepaid expenses		**35,000**	–
Inventory	6	**64,748**	–
		2,978,561	110,001
Investment in licensee	7	**70,626**	–
Equipment	8	**14,294**	–
Intangible assets	9	**5,729,133**	–
Goodwill	4	**1,719,589**	–
Total assets		**10,512,203**	110,001
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	**336,742**	–
		336,742	–
Notes payable	11	**3,837,120**	–
Total liabilities		**4,173,862**	–
Shareholders' equity			
Share capital	13	**6,962,861**	110,001
Contributed surplus		**757,907**	–
Deficit		**(1,390,938)**	–
Accumulated other comprehensive income		**8,511**	–
Total shareholders' equity		**6,338,341**	110,001
Total liabilities and shareholders' equity		**10,512,203**	110,001

Nature of operations (Note 1)
Subsequent event (Note 17)

Approved by the Board of Directors:

“Russell Henderson”
Russell Henderson, Director

“Dan Anglin”
Dan Anglin, CEO

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

CannAmerica Brands Corp.
(formerly Transform Capital Corp.)
Condensed interim consolidated statements of operations and comprehensive loss
(Unaudited – expressed in Canadian dollars)

	Notes	Three months ended September 30, 2018 $	2017 $	Six months ended September 30, 2018 $	2017 $
Revenue		**405,983**	–	**637,258**	–
Cost of sales		**126,221**	–	**234,356**	–
Gross margin		**279,762**	–	**402,902**	–
Expenses					
Advertising and promotion		**88,260**	–	**110,708**	–
Bank charges		**5,691**	–	**7,245**	–
Depreciation	8	**380**	–	**755**	–
Interest expense	11	**82,999**	–	**107,246**	–
Office and administration		**6,664**	–	**10,678**	–
Professional fees		**189,808**	–	**478,545**	–
Salaries and benefits	12	**191,636**	–	**263,898**	–
Share-based compensation	12,13	–	–	**570,118**	–
Loss before other items		**(285,676)**	–	**(1,146,291)**	–
Listing expense	3	–	–	**226,195**	–
Foreign exchange loss		**1,149**	–	**18,452**	–
Net loss for the period		**(286,825)**	–	**(1,390,938)**	–
Foreign currency translation gain (loss)		**44,563**	–	**(8,511)**	–
Comprehensive loss for the period		**(331,388)**	–	**(1,382,427)**	–
Loss per common share – basic and diluted		**(0.01)**	–	**(0.05)**	–
Weighted average number of common shares outstanding		**40,404,024**	–	**29,072,362**	–

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

CannAmerica Brands Corp.
(formerly Transform Capital Corp.)
Condensed interim consolidated statements of changes in shareholders' equity
(Unaudited – expressed in Canadian dollars)

	Number of shares	Share capital $	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total $
Balance, March 31, 2018	**111**	**110,001**	**–**	**–**	**–**	**110,001**
Cancellation of shares	(1)	–	–	–	–	–
Acquisition of DAFF (Note 4)	35.83	1,433,200	187,789	–	–	1,620,989
Reverse takeover of CannAmerica (Note 3):						
• Acquisition of CannAmerica	29,166,000	1,472,000	–	–	–	1,472,000
• Outstanding CannAmerica shares	7,360,001	1,413,500	–	–	–	1,413,500
• Elimination of CannAmerica Holdings common shares	(145.83)	–	–	–	–	–
• Elimination of CannAmerica share capital	–	(1,413,500)	–	–	–	(1,413,500)
Shares issued for cash (Note 13)	13,158,864	3,947,660	–	–	–	3,947,660
Share-based compensation (Note 13)	–	–	570,118	–	–	570,118
Net loss	–	–	–	–	(1,390,938)	(1,390,938)
Foreign currency translation adjustment	–	–	–	8,511	–	8,511
Balance, September 30, 2018	**49,684,865**	**6,962,861**	**757,907**	**8,511**	**(1,390,938)**	**6,338,641**
Balance, March 31, 2017	**–**	**–**	**–**	**–**	**–**	**–**
Balance, September 30, 2017	**–**	**–**	**–**	**–**	**–**	**–**

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

CannAmerica Brands Corp.
(formerly Transform Capital Corp.)
Condensed interim consolidated statements of cash flows
(Unaudited – expressed in Canadian dollars)

	Notes	Six months ended September 30, 2018 $	2017 $
Operating activities			
Net loss		**(1,390,938)**	–
Items not affecting cash			
Listing expense		**226,195**	–
Depreciation		**755**	–
Stock-based compensation		**570,118**	–
Interest expense		**107,246**	–
Changes in non-cash working capital balances			
Decrease in accounts receivable		**106,424**	–
Decrease in inventory		**88,777**	–
Decrease in accounts payable and accrued liabilities		**(197,852)**	–
Net cash used in operating activities		**(489,275)**	–
Investing activities			
Purchase of equipment		**(6,913)**	–
Purchase of intangible assets		**(33,333)**	–
Purchase of investment		**(16,004)**	–
Acquisition of DAFF		**28,526**	–
Acquisition of CHC		**980,563**	–
Net cash provided by investing activities		**952,839**	–
Financing activities			
Proceeds from subscriptions (Note 13)		**1,755,660**	–
Net cash provided by financing activities		**1,755,660**	–
Effect of foreign currency translation on cash		**19,895**	
Increase in cash		**2,239,119**	–
Cash, beginning		–	–
Cash, end		**2,239,119**	–

Supplemental cash flow information (Note 16)

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

1. NATURE OF OPERATIONS

CannAmerica Brands Corp. (formerly Transform Capital Corp.) ("CannAmerica") was incorporated in the province of British Columbia on March 13, 2017, under the Business Corporations Act of British Columbia. CannAmerica's head office is located at 595 Burrard Street, 16th Floor, Three Bentall Centre, Vancouver, British Columbia, V7X 1J1, and its registered and records office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, V6C 2T5.

These unaudited condensed interim consolidated financial statements comprise the financial statements of CannAmerica and its legal subsidiaries (collectively referred to as the "Company"). On May 30, 2018, CannAmerica entered into an agreement with the shareholders of CannAmerica Holdings Corp. ("CannAmerica Holdings") whereby 100% of the common shares and warrants of CannAmerica Holdings were exchanged for common shares of CannAmerica (the "CannAmerica Holdings Acquisition") (Note 3). The CannAmerica Holdings Acquisition is considered a reverse takeover of a non-operating company whereby CannAmerica Holdings, the legal subsidiary, has been determined to have acquired control of CannAmerica and to be the acquirer for accounting purposes. In accordance with the principles of reverse takeover accounting, CannAmerica will report the operations of CannAmerica Holdings and its related historical comparatives as its continuing business, except for the legal capital shown in the Consolidated Statements of Changes in Shareholders' Equity and in Note 13, which have been adjusted to reflect the share capital of CannAmerica.

CannAmerica Holdings was incorporated in the Province of British Columbia on December 11, 2017, under the Business Corporations Act of British Columbia and was formed to identify an appropriate business for acquisition or investment. CannAmerica Holdings completed a business combination (Note 4) on May 18, 2018, and now owns a portfolio of brands in the medical and recreational cannabis space in the United States through its wholly-owned subsidiary DAFF International, LLC ("DAFF"). The Company's principal business is to build on and maximize the value of its brands by promoting, marketing and licensing these brands through various distribution channels, including dispensaries, wholesalers and distributors. The Company currently has three brand licensing agreements with licensees in the states of Colorado, Nevada and Maryland. CannAmerica applied for a public listing (a "Public Listing") on the Canadian Securities Exchange (the "CSE").

These financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company not continue as a going concern. The proposed business of the Company involves a high degree of risk. Additional funds may be required to enable the Company to pursue its initiatives and the Company may be unable to obtain such financing on satisfactory terms. Furthermore, there is no assurance that the business will be profitable. These factors indicate the existence of a material uncertainty that may cast doubt on the Company's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. In preparation of these unaudited condensed interim consolidated financial statements, the Company has consistently applied the same accounting policies disclosed in the Company's audited annual financial statements for the year ended March 31, 2018, with the exception of the accounting standards adopted in the current year, as described below.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2018.

Basis of presentation and measurement

These unaudited condensed interim consolidated financial statements are a continuation of the consolidated financial statements of CannAmerica Holdings.

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its subsidiaries on a historical cost basis. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited financial statements for the year ended March 31, 2018, for CannAmerica, CannAmerica Holdings and DAFF.

Basis of consolidation

These unaudited condensed interim consolidated financial statements comprise the financial statements of CannAmerica and its legal subsidiaries. Subsidiaries are those entities which CannAmerica controls by having the power to govern the financial and operational policies of the entity. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All intercompany transactions and balances have been eliminated.

	Percentage ownership interest	
	September 30, 2018	March 31, 2018
CannAmerica Holdings Corp.	**100%**	–
DAFF International, LLC	**100%**	–

CannAmerica Holdings is a legal subsidiary of CannAmerica. Note 3 describes a reverse takeover transaction which occurred on May 30, 2018, whereby CannAmerica Holdings is considered the acquirer from an accounting perspective. The transaction resulted in CannAmerica reporting the operations of CannAmerica Holdings and its related historical comparatives as its continuing business, except for the legal capital as shown in the Consolidated Statements of Changes in Shareholders' Equity and in Note 13, which have been adjusted to reflect the share capital of the CannAmerica.

Functional and presentation currency

The functional currency of CannAmerica and CannAmerica Holdings is the Canadian dollar. The functional currency of the foreign operation, DAFF, is the US dollar. These unaudited condensed interim consolidated financial statements are presented in Canadian dollars.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Significant accounting policies

Business combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. 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 used. 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.

New accounting standards adopted in the current year

On April 1, 2018, the Company adopted amendments to IFRS 2, "Share-based Payment". The amendments provide clarification on how to account for certain types of share-based transactions. The adoption of this amendment did not have any impact on the Company's unaudited condensed interim consolidated financial statements.

On April 1, 2018, the Company adopted IFRS 9, "Financial Instruments". IFRS 9 introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected credit loss impairment model and a substantially reformed approach to hedge accounting. The Company adopted a retrospective approach and as IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities there was no significant impact on the carrying amounts of the Company's financial instruments at the transition date. The introduction of the new expected credit loss impairment model did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

On April 1, 2018, the Company adopted IFRS 15, "Revenue from Contracts with Customers". The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. The Company elected to apply IFRS 15 using a full retrospective approach. Under IFRS 15, revenue from licensees would be recognized in the form of fixed fees per unit shipped and is charged at a point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon shipment and acceptance by the licensee, which is consistent with the Company's former revenue recognition policy under IAS 18. Therefore, the adoption of IFRS 15 did not have a material impact on the Company's unaudited condensed interim consolidated financial statements.

New accounting standards issued but not yet effective

New standard IFRS 16, "Leases" is not yet effective for the period ended September 30, 2018 and has not been applied in preparing these unaudited condensed interim consolidated financial statements. The Company has not early adopted this new standard.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's unaudited condensed interim consolidated financial statements.

(Unaudited – expressed in Canadian dollars)

3. REVERSE TAKEOVER TRANSACTION

On May 30, 2018 (the "Agreement Date"), CannAmerica entered into an agreement with the shareholders of CannAmerica Holdings whereby 100% of the common shares and warrants of CannAmerica Holdings were exchanged for common shares of CannAmerica.

The aggregate consideration for the CannAmerica Holdings Acquisition was comprised of:

(i) 29,166,000 common shares (200,000 shares of CannAmerica in exchange for 1 share of CannAmerica Holdings)
(ii) 2,833,333 common shares contingent on attaining certain earning targets; and
(iii) 3,000,000 warrants with an exercise price of $0.50 per share exercisable for a period 24 months following close of a Public Listing.

The CannAmerica Holdings Acquisition is a reverse takeover of a non-operating company whereby CannAmerica Holdings, the legal subsidiary, has been determined to have acquired control of CannAmerica on the Agreement Date and to be the acquirer for accounting purposes. The transaction does not constitute a business combination as CannAmerica, prior to the Acquisition, did not meet the definition of a business under IFRS. Accordingly, the CannAmerica Holdings Acquisition has been accounted for as an acquisition by CannAmerica Holdings of CannAmerica's net assets. In accordance with the principles of reverse takeover accounting, CannAmerica will report the operations of CannAmerica Holdings and its related historical comparatives as its continuing business, except for the legal capital shown in the Consolidated Statements of Changes in Shareholders' Equity and in Note 13, which have been adjusted to reflect the share capital of CannAmerica.

The acquisition consideration deemed to have been transferred by CannAmerica Holdings, the legal subsidiary, is in the form of equity instruments previously issued by CannAmerica, the legal parent company which comprises the outstanding equity instrument of CannAmerica immediately prior to the reverse takeover. The acquisition date fair value of the deemed consideration was estimated to be $0.20 per share using the share price as of the latest private placement completed by CannAmerica. The difference between the consideration paid to acquire CannAmerica and the net asset value of CannAmerica is recorded as a listing expense to net loss as follows:

	As at May 30, 2018
	$
Consideration paid	
Common shares (7,360,001 common shares at $0.20 per common share)	1,472,000
Fair value of net assets acquired	
Cash	980,563
Accounts receivable	2,500,000
Prepaid expenses	35,000
	3,515,563
Accounts payable	77,758
Share subscriptions received	2,192,000
Identifiable net assets acquired	1,245,805
Listing expense	226,195

(Unaudited – expressed in Canadian dollars)

4. BUSINESS COMBINATION AND GOODWILL

On May 18, 2018 (the "DAFF Agreement Date"), CannAmerica Holdings entered into an agreement with the shareholders of DAFF to acquire 100% of the common shares of DAFF (the "DAFF Acquisition").

The aggregate consideration for the DAFF Acquisition was comprised of:

(i) $2,255,000 (US$1,750,000) payable to the creditors of DAFF as a partial settlement of DAFF's debts;
(ii) $322,000 (US$250,000) to DAFF for working capital purposes;
(iii) 35.83 common shares of CannAmerica Holdings;
(iv) 15 warrants of CannAmerica Holdings;
(v) 14.17 shares of CannAmerica Holdings issuable conditional upon attaining certain targets; and
(vi) $3,544,000 (US$2,750,000) payable to the creditors of DAFF for the remaining settlement of DAFF's debts (the "Note Payable") as follows:
   a. Within 150 days of the DAFF Agreement Date if CannAmerica Holdings does not complete a merger with a publicly listed company ("Merged Company");
   b. If CannAmerica Holdings has completed a merger with a publicly listed company, the due date is extended to 13 months from the date of a public listing of the Merged Company;
   c. If the publicly listed company has completed a financing post public listing of more than US$5,000,000, the entire balance is due; and
   d. If a publicly listed company has completed its public listing, 50% of any financing post public listing if less than US$5,000,000 will pay down the outstanding Note Payable.

The Company has determined that the DAFF Acquisition is a business combination as the assets acquired and liabilities assumed constitute a business. The transaction was accounted for using the acquisition method of accounting whereby the assets acquired and the liabilities assumed were recorded at their estimated fair value at the measurement date of May 18, 2018.

The allocation of the purchase price in the DAFF Acquisition to the total fair value of net assets acquired is as follows:

	$
Fair value of net assets acquired	
Cash	28,526
Accounts receivable	142,593
Inventory	153,525
Investment	54,015
Equipment	8,136
Intangible assets	5,645,241
	6,032,036
Accounts payable and accrued liabilities	456,835
Notes payable	5,673,800
Identifiable net assets acquired	(98,599)
Goodwill	1,719,589
	1,620,989

(Unaudited – expressed in Canadian dollars)

4. BUSINESS COMBINATION AND GOODWILL (cont'd)

	$
Consideration paid	
Fair value of 35.83 common shares of the CannAmerica Holdings	1,433,200
Fair value of 15 common share purchase warrants of CannAmerica Holdings	187,789
	1,620,989

The warrants have an estimated fair value of $187,789, calculated using the Black-Scholes option pricing model assuming the warrants will expire 24 months following the date the warrants were granted, an average risk-free interest rate of 1.88%, an expected dividend rate of 0%, and an average expected annual volatility of 100%. Warrants issued pursuant to the DAFF Acquisition were exchanged for 3,000,000 warrants of CannAmerica as part of the CannAmerica Holdings Acquisition.

The accounting for the DAFF Acquisition business combination has not yet been finalized and the Company is reporting provisional amounts for the items for which the accounting is not complete. These provisional amounts may be adjusted during the measurement period, or additional assets or liabilities may be recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

5. ACCOUNTS RECEIVABLE

	September 30, 2018 $	March 31, 2018 $
Trade accounts receivable	**604,729**	–
GST and taxes recoverable	**34,965**	–
	639,694	–

6. INVENTORY

	September 30, 2018 $	March 31, 2018 $
Substrate	**64,748**	–

For the six months ended September 30, 2018, the amount of inventory recognized in cost of sales was $203,374.

7. INVESTMENT IN LICENSEE

The Company owns a 10% equity investment in a licensee. No cash consideration was paid for the initial investment; however, the Company will provide equipment, intellectual property, labour and technical assistance to establish operations necessary for the licensee to obtain a license. The investment was recorded at the fair value of the equipment purchase obligation on the statement of financial position. The Company has the option to purchase an additional 30% equity investment for US$2,500,000.

(Unaudited – expressed in Canadian dollars)

8. EQUIPMENT

	Total
	$
Cost	
Balance, March 31, 2018	–
Additions	15,309
Foreign currency translation adjustment	(260)
Balance, September 30, 2018	15,049
Balance, March 31, 2018	–
Depreciation	755
Balance, September 30, 2018	755
Balance, March 31, 2018	–
Balance, September 30, 2018	**14,294**

9. INTANGIBLE ASSETS

On May 18, 2018, the Company entered into an agreement with the shareholders of DAFF to acquire 100% of the common shares of DAFF. As part of the DAFF Acquisition, the Company acquired a portfolio of medical and recreational cannabis brands, which was previously acquired from His Way Herbs, LLC, a related party.

	Total
	$
Balance, March 31, 2018	–
Additions	5,653,159
Foreign currency translation adjustment	75,974
Balance, September 30, 2018	**5,729,133**

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2018	March 31, 2018
	$	$
Trade accounts payable	229,892	-
Accrued liabilities	54,038	-
Payroll liabilities	52,812	-
	336,742	-

(Unaudited – expressed in Canadian dollars)

11. NOTES PAYABLE

As part of the DAFF Acquisition (Note 4), the Company assumed multiple promissory notes, including a promissory note due to His Way Herbs, LLC in the amount of US$3,650,000. The note bears interest at 9% per annum, with interest beginning to accrue on June 1, 2018 and is due 13 months after the date on which any affiliate that directly or indirectly holds the interest in the Company becomes a reporting public company under applicable Canadian Law. During the period, the Company repaid US$1,200,000 of the balance owing and recorded interest expense of $107,246. As of September 30, 2018, the balance of the principal and accrued interest is $3,448,770 (US$2,664,172).

The Company also assumed US$650,000 in notes payable as part of the DAFF acquisition. During the period ended September 30, 2018, the Company repaid US$350,000. The notes payable are non-interest bearing and due 13 months after the date on which any affiliate that directly or indirectly holds the interest in the Company and becomes a reporting public company under applicable Canadian Law. As of September 30, 2018, the balance of the principal is $388,350 (US$300,000).

12. RELATED PARTY TRANSACTIONS AND BALANCES

All related party transactions have occurred in the normal course of operations. Related party transactions occur and are recorded at the amounts agreed between the parties.

For the six months ended September 30, 2018, the Company was charged $73,510 in salaries (2017: nil) by the CEO of the Company.

For the six months ended September 30, 2018, the Company was charged $73,510 in salaries (2017: nil) by the COO of the Company.

For the six months ended September 30, 2018, the Company was charged $20,000 in management fees (2017: nil) by the CFO of the Company.

For the six months ended September 30, 2018, the Company was charged $5,000 in Director fees (2017: nil) by a Director of the Company.

His Way Herbs, LLC is controlled by the CEO of the Company and is a related party. The acquisition of intangible assets described in Note 9 is a related party transaction.

Key management personnel compensation

Key management is comprised of the Company's directors and executive officers. The Company incurred the following key management compensation charges during the six months ended September 30, 2018 and 2017:

	2018	2017
	$	$
Salaries, bonuses, fees and benefits	**167,020**	–
Share based compensation	**486,686**	–
	653,706	–

(Unaudited – expressed in Canadian dollars)

13. SHARE CAPITAL

The Company has an unlimited number of common shares without par value authorized for issuance As at September 30, 2018, the Company had 49,864,865 common shares issued and outstanding (March 31, 2018: 111).

On August 31, 2018, the Company issued 5,852,200 common shares at a price of $0.30 per share for proceeds of $1,755,660.

On September 6, 2018, the Company issued 7,306,664 common shares at a price of $0.30 per share for proceeds of $2,192,000.

Warrants

Movements in the number of warrants outstanding and their related weighted average exercise prices are as follows:

	Number of warrants	Weighted average exercise price $
Outstanding, March 31, 2018	–	–
Granted	3,000,000	0.50
Outstanding, September 30, 2018	3,000,000	0.50

The following summarizes information about the outstanding share purchase warrants exercisable to acquire common shares of the Company as at September 30, 2018:

Number of warrants outstanding	Exercise price $	Expiry date
3,000,000	0.50	May 30, 2020

Stock option plan

The Company has adopted a rolling incentive stock option plan (the “Option Plan”) which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the applicable stock exchange’s requirements, grant to Directors, officers, employees or consultants to the Company, non-transferable options to purchase common shares. Pursuant to the Option Plan, the number of common shares reserved for issuance will not exceed 15% of the issued and outstanding common shares of the Company. Options granted under the Option Plan can have a maximum exercise term of 10 years from the date of grant. Vesting terms will be determined at the time of grant by the Board of Directors.

On May 30, 2018, the Company granted 4,100,000 stock options to certain directors, officers, employees and consultants of the Company. The stock options are exercisable for a period of five years at an exercise price of $0.30 per share and vest immediately. The fair value of the stock options granted was calculated to be $570,118 using the Black Scholes option pricing model with an estimated volatility of 100% and a risk-free rate of 2.11%.

(Unaudited – expressed in Canadian dollars)

13. SHARE CAPITAL (cont'd)

Movements in the number of options outstanding and their related weighted average exercise prices are as follows:

	Number of options	Weighted average exercise price $
Outstanding, March 31, 2018	–	–
Granted	4,100,000	0.30
Outstanding, September 30, 2018	4,100,000	0.30

The following summarizes information about the outstanding stock options exercisable to acquire common shares of the Company as at September 30, 2018:

Number of options outstanding	Exercise price $	Expiry date
4,100,000	0.30	May 30, 2023

14. COMMITMENTS

As at September 30, 2018, the Company has notes payable totaling $3,837,120. These notes are due 13 months after the date the Company becomes a reporting issuer. The Company expects to raise funds and generate enough operating cash flow to repay the notes payable. The Company does not have any commitments for capital expenditures as at September 30, 2018.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Under IFRS 9, financial instruments are initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs. Subsequently, all assets within scope of IFRS 9 are measured at:

(i) Amortized cost;
(ii) Fair value through other comprehensive income ("FVOCI"); or
(iii) Fair value through profit or loss ("FVTPL").

The classification is based on whether the contractual cash flows give rise to payments on specified dates that are solely
payments of principal and interest (the "SPPI test"), and the objective of the Company's business model is to hold assets only to collect cash flows, or to collect cash flows and to sell (the "Business Model test"). Financial assets are required to be reclassified only when the business model under which they are managed has changed. All reclassifications are to be applied prospectively from the reclassification date.

The impairment requirements under IFRS 9 are based on an expected credit loss model, replacing the IAS 39 incurred loss model. The expected credit loss model applies to debt instruments recorded at amortized cost or at FVOCI, such as loans debt securities and trade receivables, lease receivables and most loan commitments and financial guarantee contracts.

The Company's financial instruments include cash (FVTPL), accounts receivable (amortized cost), accounts payable and accrued liabilities (other financial liabilities), and notes payable (other financial liabilities). The carrying value of the financial instruments approximates their fair values due to their short-term and on demand nature.

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash is Level 1. The hierarchy is summarized as follows:

Level 1 quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from
prices) from observable market data
Level 3 inputs for assets and liabilities not based upon observable market data

The Company's financial instruments are exposed to certain financial risks, including credit, liquidity, currency and interest rate risk.

Credit risk

Credit risk arises from cash held with banks and financial institutions, as well as credit exposure on outstanding accounts receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company seeks to limit its exposure to this risk by holding its cash in reputable financial institutions. The Company does not have significant credit risk with respect to customers.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis, raising capital through equity or debt financing, when required. As at September 30, 2018, the Company had working capital of $2,641,819. The Company generates income from its licensees. This, together with the Company's current cash balance of $2,239,119, is sufficient to cover the business objectives and day-to-day operational needs.

Currency risk

Currency risk is the risk that changes in foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The functional currency of DAFF is the US Dollar and the majority of transactions are transacted in the US Dollar. In addition, all DAFF financial liabilities are denominated in the US Dollar. The Company does not undertake currency hedging activities to mitigate its foreign currency risk. The impact on the Company's profit or loss resulting from a 10% fluctuation in foreign exchange rates would be approximately $400,000.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has debt instruments however the interest rate is fixed and therefore the related interest rate risk is minimal.

Capital management

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, enter into debt facilities, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements.

(Unaudited – expressed in Canadian dollars)

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. The Company considers its shareholders' equity as capital.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Six months ended September 30, 2018	2017
	$	$
Non-cash transactions		
Fair value of net assets from acquisitions (Note 3 and 4)		
Fair value of accounts receivable	**2,642,593**	–
Fair value of inventory	**153,525**	–
Fair value of prepaid expenses	**35,000**	–
Fair value of investment in licensee	**54,015**	–
Fair value of equipment	**8,136**	–
Fair value of intangible assets	**5,645,241**	–
Fair value of accounts payable and accrued liabilities	**(534,594)**	–
Fair value of notes payable	**(5,673,800)**	–
Fair value of subscription proceeds	**(2,192,000)**	–
Shares issued for DAFF acquisition	**(2,905,200)**	–
Warrants issued for DAFF acquisition	**(187,789)**	–

The non-cash transactions noted above represent the fair value of the net assets of DAFF and CannAmerica resulting from the business combination and reverse takeover transactions, as described in Notes 3 and 4. The amounts did not result in an exchange or receipt of cash.

17. SUBSEQUENT EVENTS

On October 15, 2018, the Company listed on the Canadian Securities Exchange ("CSE") under the ticker symbol "CANA".

On November 20, 2018, the Company announced that it had entered into an agreement with Canaccord Genuity Corp. and Gravitas Securities Inc. as co-lead agents (the "Agents"), to sell, by way of a private placement on a commercially reasonable best efforts basis, up to 13,333,333 units of the Company (the "Units") at a price of $0.75 per Unit (the "Offering Price") for gross proceeds of up to $10,000,000. In addition, the Company has granted the Agents an option to sell up to an additional 13,333,333 Units at the Offering Price (collectively, the "Offering"), exercisable in whole or in part at any time prior to the closing of the Offering.

Each Unit will consist of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant will be exercisable to acquire one common share of the Company (a "Common Share") for a period of 24 months from the closing date of the Offering ("Closing Date") at an exercise price of $1.00, subject to subject to the ability of the Company to accelerate the expiry date at any time after a period of four months, if, during the term of the Warrants, the volume weighted average trading price of the Common Shares on the Canadian Securities Exchange is greater than $1.75 per share for ten (10) consecutive trading days.

The Agents will be paid a cash commission equal to 8% of the gross proceeds of the Offering and will also receive warrants to purchase such number of Units as is equal to 8% of the Units sold under the Offering (the "Compensation Options"). The Compensation Options will be exercisable for a period of 24 months following closing of the Offering at an exercise price equal to the Offering Price.

The Company intends to use the net proceeds of the Offering for capital expenditures for the launch of a major brand acquisition strategy to expand the Company's portfolio of brands as well as working capital and general corporate purposes.

The Offering may be completed in multiple closings, with the final closing expected to occur as mutually agreed upon by the Company and Agents, subject to the receipt of all necessary regulatory approvals, including the approval of the Canadian Securities Exchange. All securities issued pursuant to the Offering will be subject to a four-month hold period in accordance with applicable Canadian securities laws.