CannAmerica Brands Corp.

Interim Consolidated Financial Statements

For the Six Months Ended September 30, 2019 and 2018

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated interim financial statements of CannAmerica Brands Corp. (the "Company") for the six months ended September 30, 2019, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indication that an auditor has not reviewed the financial statements.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants for a review of the interim financial statements by an auditor.

CannAmerica Brands Corp.
Interim Consolidated statements of financial position
(Expressed in Canadian dollars)

	Notes	**September 30, 2019 $**	March 31, 2019 $
Assets			
Current			
Cash		**610,145**	748,220
Accounts receivable	5	**105,532**	240,867
Prepaid expenses and deposits		**569,203**	869,287
		1,284,880	1,858,374
Investment in licensee	6	**945,538**	946,071
Equipment	7	**65,209**	56,770
Intangible assets	8	**3,100,000**	3,100,000
Total assets		**5,395,627**	5,961,215
Liabilities and equity			
Current liabilities			
Accounts payable and accrued liabilities	9	**937,309**	918,057
Deferred revenue		**366,632**	316,503
Notes payable	10	**4,302,302**	3,977,817
Total liabilities		**5,606,243**	5,212,377
Equity			
Share capital	12	**7,878,214**	7,873,211
Contributed surplus		**2,773,569**	1,912,959
Deficit		**(10,771,669)**	(8,916,386)
Accumulated other comprehensive loss		**(90,730)**	(120,946)
Total equity		**(210,616)**	748,838
Total liabilities and equity		**5,395,627**	5,961,215

Nature and continuance of operations (Note 1)
Subsequent events (Note 16)

Approved by the Board of Directors:

“Nitin Kaushal”
Nitin Kaushal, Director

“Dan Anglin”
Dan Anglin, CEO and Director

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

CannAmerica Brands Corp.
Interim Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Notes	Three months ended September 30, 2019 $	2018 $	Six months ended September 30, 2019 $	2018 $
Revenue		**249,326**	405,983	**514,876**	637,238
Cost of sales		**112,667**	126,221	**94,791**	234,356
Gross margin		**136,659**	279,762	**420,085**	402,902
Expenses					
Advertising and promotion		**228,406**	88,260	**475,800**	110,708
Bad debt expense (recovery)		**681**	–	**(51,919)**	–
Bank charges		**1,310**	5,691	**2,569**	7,245
Depreciation	7	**4,131**	380	**7,419**	755
Interest expense	10	**48,293**	82,999	**98,579**	107,246
Office and administration		**52,181**	6,664	**101,300**	10,678
Professional fees		**225,641**	189,808	**413,260**	478,845
Salaries and benefits	11	**163,223**	191,636	**345,862**	263,898
Share-based compensation	11,12	**451,179**	–	**865,613**	570,118
Loss before other items		**(1,038,386)**	(285,767)	**(1,838,397)**	(1,146,291)
Listing expense		–	–	–	226,195
Loss on disposal of asset		**11,461**	–	**11,461**	–
Foreign exchange loss		**(10,828)**	1,149	**5,461**	18,452
Net loss for the period		**(1,038,984)**	(286,825)	**(1,855,283)**	(1,390,938)
Unrealized gain (loss) on foreign exchange translation		**(56,614)**	44,563	**(90,730)**	(8,511)
Comprehensive loss for the period		**(1,095,398)**	(331,388)	**(1,946,013)**	(1,382,427)
Loss per common share – basic and diluted		**(0.02)**	(0.01)	**(0.02)**	(0.05)
Weighted average number of common shares outstanding		**51,840,890**	40,404,024	**51,840,890**	29,072,362

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

CannAmerica Brands Corp.
Interim Consolidated statements of changes in equity
(Expressed in Canadian dollars)

	Number of shares	Share capital $	Contributed surplus $	Accumulated other comprehensive loss $	Deficit $	Total $
Balance, March 31, 2018	**111**	**110,001**	**–**	**–**	**–**	**110,001**
Cancellation of shares	(1)	–	–	–	–	–
Acquisition of DAFF (Note 4)	36	1,433,333	171,410	–	–	1,604,743
Common shares of CannAmerica Holdings	(146)	–	–	–	–	–
Common shares of CannAmerica Brands (Note 3)	29,166,000	–	–	–	–	–
Shares deemed to be issued	7,360,001	1,245,805	–	–	–	1,245,805
Private placement of shares	13,158,864	3,947,659	–	–	–	3,947,659
Share-based compensation	–	–	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**	**6,736,798**	**741,528**	**8,511**	**(1,390,938)**	**6,095,899**
Balance, March 31, 2019	**52,453,684**	**7,873,211**	**1,912,959**	**(120,946)**	**(8,916,386)**	**(748,838)**
Issuance of bonus shares	1,250,000	212,500	–	–	–	212,500
Share issuance costs	–	(207,497)	(5,003)	–	–	(212,500)
Net loss	–	–	–	–	(1,855,283)	(1,855,283)
Share-based compensation	–	–	865,613	–	–	865,613
Foreign currency translation adjustment	–	–	–	30,216	–	30,216
Balance, September 30, 2019	**53,703,684**	**7,873,214**	**2,773,569**	**(90,730)**	**(10,771,669)**	**(210,616)**

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

CannAmerica Brands Corp.
Interim Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Six months ended September 30,	
	2019	2018
	$	$
Operating activities		
Net loss	**(1,855,283)**	(1,390,938)
Items not affecting cash		
Depreciation	**7,419**	755
Listing expense	–	226,195
Bad debt expense (recovery)	**(51,919)**	–
Share-based compensation	**865,613**	570,118
Interest expense	**98,579**	107,246
Changes in non-cash working capital balances		
Amounts receivable	**187,254**	106,244
Inventory	**–**	88,777
Prepaid expenses and deposits	**300,804**	–
Deferred revenue	**50,129**	–
Accounts payable and accrued liabilities	**19,251**	(197,852)
Net cash used in operating activities	**(378,873)**	(489,275)
Investing activities		
Purchase of equipment	**(13,808)**	(6,861)
Purchase of intangible assets	**–**	(33,333)
Purchase of investment	**–**	(16,004)
Cash on acquisition of DAFF	**–**	28,526
Cash on acquisition of CannAmerica Holdings	**–**	980,563
Net cash provided (used) by investing activities	**(13,808)**	952,839
Financing activities		
Repayment of notes payable	**(437,093)**	–
Proceeds from notes payable	**663,000**	–
Private placements	**–**	1,755,660
Net cash provided (used) by financing activities	**225,907**	1,755,660
Effect of foreign currency translation on cash	**28,699**	19,895
Increase (decrease) in cash	**(138,075)**	2,239,119
Cash, beginning of period	**748,220**	–
Cash, end of period	**610,145**	2,239,119

Supplemental cash flow information (Note 15)

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

1. NATURE AND CONTINUANCE 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 and its registered and records office is located at 10th Floor, 595 Howe Street, Vancouver, British Columbia, V6C 2T5.

These unaudited interim consolidated financial statements comprise the financial statements of CannAmerica and its wholly-owned 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 Equity and in Note 12, 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 brand licensing agreements with licensees in the states of Colorado, Nevada and Oklahoma. On October 15, 2018 the Company listed on the Canadian Securities Exchange (the "CSE") under ticker symbol "CANA".

These unaudited interim consolidated 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. As at September 30, 2019 the Company has an accumulated deficit of $10,771,669 and has generated negative cash flows from operations. These unaudited interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and 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 will 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 significant doubt on the Company's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These unaudited interim consolidated financial statements, including comparatives, have been prepared in accordance IAS 34, "Interim Financial Reporting" of the International Financial Reporting Standards" ("IFRS") as issued by the International Accounting Standards Board ("IASB") and follow the same accounting policies and methods as disclosed in the Company's March 31, 2019 annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with those annual consolidated financial statements.

These unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on November 27, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of presentation and measurement

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

Basis of consolidation

These unaudited interim consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries. Subsidiaries are those entities which the Company 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	
	2019	2018
CannAmerica Holdings Corp.	**100%**	–
DAFF International, LLC	**100%**	–

Functional and presentation currency

Items included in the unaudited interim consolidated financial statements of the Company and its wholly owned subsidiaries are measured using the currency of the primary economic environment in which the entity operates. 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 interim consolidated financial statements are presented in Canadian dollars.

Foreign currency transactions are translated into the functional currency at the exchange rate as at the date of the transaction. At each statement of financial position date, monetary assets and liabilities in foreign currencies are translated using the period end foreign exchange rate. Non-monetary assets and liabilities in foreign currencies are translated using the historical rate. All gains and losses on translation of these foreign currency transactions are included in profit and loss.

The results and financial position of a subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

On consolidation, exchange differences arising from the translation of the net investment in a foreign operation are taken to accumulated other comprehensive loss. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Significant accounting estimates and judgments

The preparation of these unaudited interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statement and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These unaudited interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Significant accounting estimates

i. the measurement of deferred income tax assets and liabilities;
ii. inputs used in impairment calculations; and
iii. inputs used in share-based compensation

Significant accounting judgments

i. the evaluation of the Company's ability to continue as a going concern;
ii. assessment of indications of impairment; and
iii. assessment of whether an acquisition is a business combination or an asset acquisition

New accounting standards adopted effective April 1, 2019

IFRS 16 Leases

The Company adopted IFRS 16, Leases effective April 1, 2019. IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach under IFRS 16 to lessor accounting substantially unchanged from its predecessor, IAS 17. The adoption of IFRS 16 did not have a material effect on the Company's interim consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23, Uncertainty over Income Tax Treatments, provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The adoption of IFRIC 23 did not have a material effect on the Company's interim consolidated financial statements.

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 interim consolidated financial statements.

(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); and
(ii) 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 under IFRS 3 *Business Combinations* as CannAmerica, prior to the Acquisition, did not meet the definition of a business. 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 unaudited interim consolidated statements of changes in equity and in Note 12, 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 based on the net asset value of CannAmerica as follows:

	$
Consideration paid	
Common shares deemed to be issued (7,360,001 common shares)	1,245,805
Fair value of net assets acquired	
Cash	980,563
Amounts receivable	2,500,000
Prepaid expenses	35,000
	3,515,563
Accounts payable	77,758
Share subscriptions received	2,192,000
	2,269,758
Identifiable net assets acquired	1,245,805

(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 International, LLC ("DAFF") to acquire 100% of the common shares of DAFF (the "DAFF Acquisition").

The aggregate consideration for the DAFF Acquisition was comprised of:

(i) 35.83 common shares of CannAmerica Holdings;
(ii) 14.17 common shares of CannAmerica Holdings issuable conditional upon attaining certain targets;
(iii) 15 common share purchase warrants of CannAmerica Holdings;
(iv) $2,255,000 (US$1,750,000) payable to the creditors of DAFF as a partial settlement of DAFF's liabilities; and
(v) $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.

In addition, the Company will provide $322,000 (US$250,000) to DAFF for working capital purposes.

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 acquisition 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 in licensee	940,671
Equipment	8,136
Intangible assets	5,170,000
	6,443,451
Accounts payable and accrued liabilities	455,724
Notes payable	5,674,912
Deferred tax liability	80,000
Identifiable net assets acquired	232,815
Goodwill	1,371,928
	1,604,743

(Expressed in Canadian dollars)

4. BUSINESS COMBINATION AND GOODWILL (cont'd)

	$
Consideration paid	
Fair value of 35.83 common shares of the CannAmerica Holdings	1,433,333
Fair value of contingent consideration	66,251
Fair value of 15 common share purchase warrants of CannAmerica Holdings	105,159
	1,604,743

The warrants have an estimated fair value of $105,159, calculated using the Black-Scholes option pricing model assuming the warrants will expire 24 months following the date the warrants were granted, a stock price on the issuance date of $0.20, an exercise price of $0.50, an average risk-free interest rate of 1.88%, an expected dividend rate of 0%, and an average expected annual volatility of 75%. The 15 warrants issued pursuant to the DAFF Acquisition were exchanged for 3,000,000 warrants of CannAmerica as part of the CannAmerica Holdings Acquisition (Note 3).

The resulting goodwill represents the sales and growth potential of DAFF. At March 31, 2019, the Company recorded impairment of $1,371,928 to write-down the goodwill to its estimated recoverable amount.

5. ACCOUNTS RECEIVABLE

	2019	2018
	$	$
Trade accounts receivable	**67,792**	604,729
GST and taxes recoverable	**37,739**	34,965
	105,532	639,694

The trade accounts receivable is net of allowance for expected credit losses. The allowance for expected credit losses of $251,988 reflects the Company's best estimate of expected credit losses inherent in the trade accounts receivable and is determined based on known troubled accounts, historical experience, and other available information.

6. INVESTMENT IN LICENSEE

The Company owns a 10% equity investment in a licensee which holds a cannabis processing license under the Maryland Medical Cannabis Commission and an option to purchase an additional 30% equity investment in the licensee for USD$2,500,000. The estimated fair value of the investment in the licensee and the option as at September 30, 2019 is $945,538.

(Expressed in Canadian dollars)

7. EQUIPMENT

	Total **$**
Cost	
Balance, March 31, 2019	61,767
Additions	13,808
Foreign currency translation adjustment	–
Balance, September 30, 2019	75,575
Balance, March 31, 2019	4,997
Disposal of asset	(2,050)
Depreciation	7,419
Balance, September 30, 2019	10,366
Balance, March 31, 2019	56,770
Balance, September 30, 2019	**65,209**

8. 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 have an indefinite useful life.

	Total $
Balance, March 31, 2018	–
Additions (Note 4)	5,170,000
Foreign currency translation adjustment	57,736
Impairment	(2,127,736)
Balance, March 31, 2019 and September 30, 2019	**3,100,000**

At March 31, 2019, the Company recorded impairment of $2,127,736 to write-down the intangible assets to their estimated recoverable amount.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019 **$**	2018 $
Trade accounts payable	848,626	229,892
Accrued liabilities	88,683	54,038
Payroll liabilities	-	52,812
	937,309	918,057

(Expressed in Canadian dollars)

10. NOTES PAYABLE

As part of the DAFF Acquisition (Note 4), the Company acquired promissory notes, including a promissory note due to HWH Holdings 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 on November 15, 2019, which is the date 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 year ended March 31, 2019, the Company repaid US$1,200,000 of the balance owing and recorded interest expense of $128,551. During the period ended September 30, 2019, the Company repaid US$301,748 of the balance owing and recorded interest expense of $98,579. As of September 30, 2019, the balance of the principal and accrued interest is $3,242,058 (US$2,448,131).

The Company also acquired US$650,000 in notes payable as part of the DAFF acquisition. During the year ended March 31, 2019, the Company repaid US$350,000. The notes payable are non-interest bearing and due on November 15, 2019, which is the date 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, 2019, the balance of the principal is $397,290 (US$300,000).

During the period ended September 30, 2019, the Company closed an investment of $663,000 (US$500,000) pursuant to a non-brokered private placement of unsecured convertible debentures with SBI Investments LLC (“SBI”). Interest on the Debentures will accrue at a rate of 12% per annum, however, if an event of default has occurred and is continuing, the rate of interest will be 25% per annum (“Interest”). As of September 30, 2019, the balance of the principal is $663,000 (US$500,000).

The Company is required to repay the Debentures in 12 equal monthly installments of 1/12 of the principal amount plus accrued interest beginning four months plus one day after the date of issuance of the Debentures.

11. 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 exchange amounts agreed between the parties.

For the period ended September 30, 2019, the Company was charged $76,147 in salaries (2018: $73,510) by the CEO of the Company.

For the period ended September 30, 2019, the Company was charged $76,147 in salaries (2018: $73,510) by the COO of the Company.

For the period ended September 30, 2019, the Company was charged $39,729 in management fees (2018: $20,000) by the CFO of the Company.

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, 2019 and 2018:

	2019	2018
	$	$
Salaries, bonuses, fees and benefits	**192,024**	167,020
Share based compensation	**325,296**	486,686
	517,319	653,706

(Expressed in Canadian dollars)

12. SHARE CAPITAL

The Company has an unlimited number of common shares without par value authorized for issuance. As at September 30, 2019, the Company had 53,703,684 common shares issued and outstanding (March 31, 2019: 52,453,684).

On August 14, 2019, the Company issued 1,250,000 new shares to certain directors, officers, and employees at a price of $0.17 per share.

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, 2019	5,914,646	0.64
Granted	3,316,750	0.16
Outstanding, September 30, 2019	9,231,396	0.68

The following summarizes information about the outstanding share purchase warrants exercisable to acquire common shares of the Company as at September 30, 2019:

Number of warrants outstanding	Exercise price $	Expiry date
3,000,000	0.50	May 30, 2020
2,768,819	0.80	January 10, 2021
145,827	0.60	January 10, 2021
3,316,750	0.16	August 22, 2022
9,231,396		

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.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (cont'd)

Stock option plan (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, 2019	7,575,000	0.44
Granted	–	–
Outstanding, September 30, 2019	7,575,000	0.44

The following summarizes information about the outstanding stock options exercisable to acquire common shares of the Company as at September 30, 2019:

Outstanding			Exercisable		
Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $
4,100,000	3.7	0.30	4,100,000	3.7	0.30
2,225,000	4.3	0.60	1,150,000	4.3	0.60
950,000	4.2	0.60	475,000	4.2	0.60
300,000	4.4	0.60	150,000	4.4	0.60
7,575,000		0.44	5,875,000		0.39

(Expressed in Canadian dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. 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 following financial instruments are presented at fair value on a recurring basis:

		September 30, 2019		
	Carrying value $	Level 1 $	Level 2 $	Level 3 $
Cash	610,145	610,145	-	-
Investment in licensee	945,537	-	945,537	-

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

The following table details the Company's expected remaining contractual cash flow requirements for its financial liabilities on repayment or maturity periods. The amounts presented are based on the contractual undiscounted cash flows and may not agree with the carrying amounts in the unaudited interim consolidated statements of financial position:

As at September 30, 2019	**Up to 1 year**	**1 - 5 years**	**Total**
Accounts payable	937,309	-	937,309
Notes payable	4,302,302	-	4,302,302
	5,239,611	-	5,239,611

The Company expects to repay the notes payable with proceeds from a private placement financing prior to the maturity date. If the Company is unsuccessful with the financing, or unable to otherwise repay the notes payable the note holders could foreclose on the collateral.

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 $425,000.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

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.

14. 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.

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.

15. SUPPLEMENTAL CASH FLOW INFORMATION

	Periods ended September 30,	
	2019	2018
	$	$
Income taxes paid	–	–
Interest paid	–	–

16. SUBSEQUENT EVENTS

On October 28, 2019, the Company announced that it entered into a long-term licensing agreement and brand partnership with Canna Provisions Inc. under which the Licensee will have an exclusive license to manufacture and distribute CannAmerica branded cannabis infused gummy products and Live Labs branded concentrate in the Commonwealth of Massachusetts.