CannAmerica Brands Corp.

Consolidated Financial Statements

For the Years Ended March 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Directors of CannAmerica Brands Corp.

Opinion

We have audited the consolidated financial statements of CannAmerica Brands Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2021 and 2020, and the consolidated statements of operations and comprehensive loss, changes in deficiency and cash flows for the years then ended and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information, which comprises the information included in the Company's Management Discussion and Analysis to be filed with the relevant Canadian securities commissions. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Fernando J. Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
October 5, 2021

CannAmerica Brands Corp.

Consolidated statements of financial position
(Expressed in Canadian dollars)

	Notes	**March 31, 2021 $**	March 31, 2020 $
Assets			
Current			
Cash		**39,599**	15,973
Accounts receivable	3	**62,694**	139,031
Prepaid expenses and deposits		**141,398**	391,063
		243,691	546,067
Investment in licensee	4	**–**	886,689
Equipment	5	**61,745**	60,844
Intangible assets	6	**1**	1,375,000
Total assets		**305,437**	2,868,600
Liabilities and deficiency			
Current liabilities			
Accounts payable and accrued liabilities	10	**297,169**	884,764
Deferred revenue		**348,875**	293,457
Notes payable	7	**3,846,128**	4,040,917
Loan payable	9	**115,044**	–
Debentures	8	**467,545**	608,152
Total liabilities		**5,074,761**	5,827,290
Deficiency			
Share capital	11	**9,210,252**	8,060,711
Shares issuable		**118,521**	108,521
Contributed surplus		**2,829,187**	2,759,676
Deficit		**(17,098,050)**	(13,547,087)
Accumulated other comprehensive income (loss)		**170,766**	(340,511)
Total deficiency		**(4,769,324)**	(2,958,690)
Total liabilities and deficiency		**305,437**	2,868,600

Going concern (Note 1)

Approved by the Board of Directors:

"Austin Sims"
Austin Sims, Director

"Dan Anglin"
Dan Anglin, CEO and Director

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

CannAmerica Brands Corp.

Consolidated statements of operations and comprehensive loss
(Expressed in Canadian dollars)

	Notes	Years ended March 31, 2021 $	2020 $
Revenue		**386,494**	915,096
Cost of sales		**58,079**	132,004
Gross margin		**328,415**	783,092
Expenses			
Advertising and promotion		**303,556**	747,772
Bad debt recovery		**–**	(29,433)
Bank charges		**2,492**	3,060
Depreciation	5	**19,439**	17,117
Interest and accretion expense	7,8	**511,551**	340,461
Office and administration		**38,995**	215,897
Professional fees		**249,082**	528,143
Salaries and benefits	10	**207,663**	713,701
Share-based compensation	10,11	**494,511**	1,010,140
Loss before other items		**(1,498,874)**	(2,763,766)
Other items			
Foreign exchange gain		**(1,392)**	(18,666)
Loss on asset disposal		**–**	11,638
Loss on investment	4	**733,413**	148,963
Impairment of intangible assets	6	**1,374,999**	1,725,000
Loss on debt settlement	11	**41,620**	–
Gain on de-recognition of liabilities		**(89,298)**	–
Other income		**(7,253)**	–
Net loss for the year		**(3,550,963)**	(4,630,701)
Other comprehensive income (loss) for the year:			
Item that may be reclassified subsequently to income			
Unrealized gain (loss) on foreign currency translation		**511,277**	(219,565)
Comprehensive loss for the year		**(3,039,686)**	(4,850,266)
Loss per common share – basic and diluted		**(0.06)**	(0.09)
Weighted average number of common shares outstanding		**56,039,579**	53,241,355

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

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

	Number of shares	Share capital $	Shares issuable $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total $
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	187,500	–	–	–	–	187,500
Warrants issued pursuant to debentures	–	–	–	24,077	–	–	24,077
Shares issuable	–	–	108,521	–	–	–	108,521
Share-based compensation	–	–	–	822,640	–	–	822,640
Net loss	–	–	–	–	–	(4,630,701)	(4,630,701)
Foreign currency translation adjustment	–	–	–	–	(219,565)	–	(219,565)
Balance, March 31, 2020	**53,703,684**	**8,060,711**	**108,521**	**2,759,676**	**(340,511)**	**(13,547,087)**	**(2,958,690)**
Issuance of consulting shares	538,503	10,000	10,000	–	–	–	20,000
Issuance of shares for debt settlement	6,732,903	383,659	–	–	–	–	383,659
Issuance of bonus shares	5,000,000	425,000	–	–	–	–	425,000
Issuance of shares for debenture payment	4,411,765	330,882	–	–	–	–	330,882
Share-based compensation	–	–	–	69,511	–	–	69,511
Net loss	–	–	–	–	–	(3,550,963)	(3,550,963)
Foreign currency translation adjustment	–	–	–	–	511,277	–	511,277
Balance, March 31, 2021	**70,386,855**	**9,210,252**	**118,521**	**2,829,187**	**170,766**	**(17,098,050)**	**(4,769,324)**

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

CannAmerica Brands Corp.

Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Years ended March 31, 2021 $	2020 $
Operating activities		
Net loss	**(3,550,963)**	(4,630,701)
Items not affecting cash		
Depreciation	**19,439**	17,117
Bad debt recovery	**–**	(29,433)
Share-based compensation	**494,511**	1,010,140
Consulting fees	**20,000**	–
Interest and accretion expense	**511,551**	340,641
Loss on disposal of asset	**–**	11,638
Loss on investment	**733,413**	148,963
Impairment of intangible assets	**1,374,999**	1,725,000
Loss on debt settlement	**41,620**	–
Gain on de-recognition of liabilities	**(89,298)**	–
Changes in non-cash working capital balances		
Accounts receivable	**76,337**	158,854
Prepaid expenses and deposits	**249,665**	478,224
Deferred revenue	**102,723**	(23,046)
Accounts payable and accrued liabilities	**(125,376)**	(33,293)
Net cash used in operating activities	**(141,419)**	(826,076)
Investing activities		
Purchase of equipment	**(22,552)**	(20,649)
Proceeds from sale of investment	**70,088**	–
Net cash provided by (used in) investing activities	**47,536**	(20,649)
Financing activities		
Repayment of notes payable	**–**	(404,765)
Proceeds from debentures, net of cost	**–**	558,840
Proceeds from loan payable	**115,044**	–
Repayment of debentures	**(25,655)**	(60,647)
Share issuable for license agreement	**–**	70,936
Net cash provided by financing activities	**89,389**	164,364
Effect of foreign currency translation on cash	**28,120**	(49,886)
Decrease in cash	**(4,494)**	(732,247)
Cash, beginning of year	**15,973**	748,220
Cash, end of year	**39,599**	15,973

Supplemental cash flow information (Note 15)

The accompanying notes form an integral part of these 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 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”).

CannAmerica Holdings was incorporated in the Province of British Columbia on December 11, 2017, under the Business Corporations Act of British Columbia and 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, Oklahoma and Massachusetts. On October 15, 2018 the Company listed on the Canadian Securities Exchange (the “CSE”) under ticker symbol “CANA”.

These 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 March 31, 2021 the Company has an accumulated deficit of $17,098,050 and has generated negative cash flows from operations. These 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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. Management continues to monitor the situation and is assessing the impact on the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards" ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issue by the Board of Directors on October 5, 2021.

Basis of presentation and measurement

These 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 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	
	2021	2020
CannAmerica Holdings Corp.	**100%**	100%
DAFF International, LLC	**100%**	100%

Functional and presentation currency

Items included in the 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 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 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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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

Business combinations and goodwill

Acquisitions of businesses are accounted for using the acquisition method. At the acquisition date the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except deferred tax assets or liabilities, which are recognized and measured in accordance with IAS 12 *Income Taxes*. Subsequent changes in fair values are adjusted against the cost of acquisition if they qualify as measurement period adjustments. The measurement period is the period between the date of the acquisition and the date where all significant information necessary to determine the fair values is available and cannot exceed 12 months. All other subsequent changes are recognized in the consolidated statements of operations and comprehensive loss.

The purchase price allocation process resulting from a business combination requires management to estimate the fair value of identifiable assets acquired including intangible assets and liabilities assumed including any contingently payable purchase price obligation due over time. The Company uses valuation techniques, such as forecasted future net cash flows discounted to present value and the mergers and acquisitions method. These valuations are closely linked to the assumptions used by management on the future performance of the related assets and the discount rates applied. The determination of fair value involves making estimates relating to acquired equipment, intangible assets and contingent consideration.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Business combinations and goodwill (cont'd)

In certain situations, goodwill or a bargain purchase gain may result from a business combination. Goodwill is measured as the excess of the consideration transferred over the net amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is measured at historical cost and is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed. Acquisition related costs are recognized in the consolidated statements of comprehensive loss as incurred.

Income taxes

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and common share warrants are recognized as a deduction from equity. Common shares issued for non-monetary consideration are measured based on their market value at the date the common shares are issued.

For unit offerings of common shares and warrants, the proceeds are allocated between the common shares and share purchase warrants using the residual method, allocating fair value to the common shares and then the residual to the share purchase warrants.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Basic and diluted loss per share is the same for the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of long-lived assets

Long-lived assets, including intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Intangible assets

Intangible assets with finite useful lives are recorded at cost less accumulated amortization and accumulated impairment losses and are amortized over their estimated useful lives. Estimated useful lives of intangible assets are the shorter of the economic life and the period the right is legally enforceable. The assets' useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Intangible assets with indefinite useful lives are comprised of the portfolio of cannabis brands and are carried at cost less accumulated impairment losses. Intangible assets with indefinite lives are not amortized but are tested annually for impairment. Any impairment of intangible assets is recognized in the statement of operations and comprehensive loss but increases in intangible asset values are only recognized to the extent that they reverse any previously recognized impairment losses.

Equipment

The Company depreciates the cost of equipment over their estimated useful lives from the date they are available for use at the following annual rates:

Equipment	3-5 Years – Straight Line Method

Revenue recognition

The Company licenses its intellectual property, brands and products to customers and charges upfront license fees and a fixed fee per unit shipped. For the upfront license fees revenue is recognized over the term of the license agreement as the Company satisfies its performance obligation over time. For the fixed fee per unit shipped revenue is recognized when the goods are shipped which is the point in time when the Company satisfies its performance obligation. Revenue excludes sales tax and is recorded net of discounts and an allowance for estimated returns unless the terms of the sale are final. Payment received from customers in advance of meeting the performance obligations are recorded as deferred revenue and subsequently recognized as revenue when the performance obligations are satisfied.

Cost of sales

Cost of sales includes the expenses incurred to acquire and produce inventory for sale, including product costs, inbound freight and duty costs, as well as provisions related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required. The Company carries minimal amounts of inventory.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate. For share-based payments granted to non-employees the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

Financial instruments

The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value plus, in the case of financial assets not at fair value through profit and loss ("FVTPL") transaction costs.

Financial assets are subsequently measured at either:

i. amortized cost;
ii. fair value through other comprehensive income ("FVTOCI"); or
iii. at fair value through profit or loss ("FVTPL").

Financial liabilities are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

The following table summarizes the classification of the Company's financial instruments:

Financial assets	
Cash	FVTPL
Accounts receivable	Amortized cost
Investment in licensee	FVTPL
Financial liabilities	
Accounts payable	Amortized cost
Notes payable	Amortized cost
Loan payable	Amortized cost
Debentures	Amortized cost

IFRS 9 uses an expected credit loss impairment model which is applicable to financial assets measured at amortized cost where any expected future credit losses are provided for, irrespective of whether a loss event has occurred as at the reporting date.

Accounting standards and amendments issued but not yet effective

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 consolidated financial statements.

(Expressed in Canadian dollars)

3. ACCOUNTS RECEIVABLE

	2021	2020
	$	$
Trade accounts receivable	**49,333**	96,679
GST and taxes recoverable	**13,361**	42,352
	62,694	139,031

The trade accounts receivable is net of allowance for expected credit losses. As at March 31, 2021, the allowance for expected credit losses of $261,202 (2020: $294,685) 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.

4. INVESTMENT IN LICENSEE

The Company previously owned 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. During the year-ended March 31, 2021, the Company sold their equity investment in this licensee and realized a loss of $733,413.

	Total
	$
Balance, March 31, 2019	946,071
Unrealized loss on investment	(148,963)
Foreign currency translation adjustment	89,581
Balance March 31, 2020	886,689
Foreign currency translation adjustment	(83,188)
Proceeds received	(70,088)
Realized loss on investment	(733,413)
Balance, March 31, 2021	**-**

5. EQUIPMENT

	Total
	$
Cost	
Balance, March 31, 2019	61,767
Additions	20,649
Foreign currency translation adjustment	(1,454)
Balance, March 31, 2020	80,962
Net additions	22,552
Foreign currency translation adjustment	(2,212)
Balance, March 31, 2021	101,302
Balance, March 31, 2019	4,997
Disposal of asset	(1,996)
Depreciation	17,117
Balance, March 31, 2020	20,118
Depreciation	19,439
Balance, March 31, 2021	39,557
Balance, March 31, 2020	60,844
Balance, March 31, 2021	**61,745**

(Expressed in Canadian dollars)

6. 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, 2019	3,100,000
Impairment	(1,725,000)
Balance March 31, 2020	1,375,000
Impairment	(1,374,999)
Balance, March 31, 2021	**1**

During the year ended March 31, 2021, the Company completed its annual assessment of the recoverable amount of the intangible assets and determined that the recoverable amount was lower than the carrying value. Accordingly, the Company recorded an impairment loss of $1,374,999 (2020: $1,725,000) to recognize the economic uncertainty of its branded products and write-down the intangible assets to their estimated recoverable amount.

7. NOTES PAYABLE

As part of a previous year acquisition, 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 was due on November 15, 2019, which was the date 13 months after the date on which any affiliate that directly or indirectly held 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. On December 9, 2019, the Company and HWH Holdings LLC amended the loan agreement to continue to incur interest at 9% per annum with no set maturity date. During the year ended March 31, 2021, the Company repaid $nil (2020: US$301,748) of the balance owing and recorded interest expense of $266,158 (2020: $230,927). As of March 31, 2021, the balance of the principal and accrued interest is $3,468,878 (US$2,758,551) (2020: $3,615,307).

The Company also acquired US$650,000 in notes payable as part of a previous year acquisition. During the year ended March 31, 2019, the Company repaid US$350,000. The notes payable are non-interest bearing and were due on November 15, 2019, which was the date 13 months after the date on which any affiliate that directly or indirectly held the interest in the Company and becomes a reporting public company under applicable Canadian Law. As of March 31, 2021, the balance of the principal is $377,250 (US$300,000) (2020: $425,610).

8. DEBENTURES

On August 30, 2019, the Company completed a non-brokered private placement of unsecured debentures (the “Debentures”) for gross proceeds of $663,350. The Debentures have a term of fifteen (15) months and bear interest at a rate of 12% per annum. The subscribers also received 3,316,750 warrants to purchase common shares of the Company (the “Warrants”). Each Warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.1582303 per common share for a period of 36 months.

(Expressed in Canadian dollars)

8. DEBENTURES (cont'd)

The Company is required to repay the Debentures in 12 equal monthly installments of 1/12 of the principal amount plus accrued interest (the "Repayment Amount") beginning four months plus one day after the date of issuance of the Debentures. The Company has the option of making the Repayment Amount in common shares. The number of common shares payable would be equal to the Repayment Amount divided by the issue price of 85% of the volume-weighted average price of the Company's common shares for 5 consecutive trading days before the repayment date ("Price"). The Company may not repay the Debentures with common shares if the Price is less than $0.10 per common share or if there has been an event of default. If an event of default occurs as defined in the debenture agreement, the rate of interest will increase to 25% per annum. Any event of default is waivable in writing by the subscriber.

The Company recorded the $634,249 liability component of the Debentures based on the estimated fair value of the liability component and allocated the remaining residual of $29,101 to the Warrants.

The Company incurred total issuance costs of $114,509 of which $109,486 was allocated to the Debentures and $5,024 was allocated to the Warrants. The total issuance costs include $10,000 of common shares issuable to the finder.

Per the terms of an agreement entered into on February 23, 2021, between the parties, the Company agreed to repay $300,000 of the Debentures in common shares at a deemed price of $0.068. Additionally, the 3,316,750 Warrants were cancelled in exchange for 4,411,765 new warrants to purchase common shares of the Company (the "New Warrants"). Each New Warrant entitles the holder to purchase one common share at an exercise price of 0.08 per common share for a period of five years.

	$
Balance, March 31, 2019	**-**
Principal amount of Debentures	**663,350**
Discount allocated to Warrants	**(29,101)**
Issuance costs	**(109,486)**
Repayments	**(60,647)**
Interest and accretion	**144,036**
Balance, March 31, 2020	**608,152**
Repayments	**(325,655)**
Interest and accretion	**185,048**
Balance at March 31, 2021	**467,545**

9. LOAN PAYABLE

On May 5, 2020, the Company entered into a loan agreement with a third party under the Small Business Administration Payroll Protection Program and borrowed a total of US$91,486 which is forgivable subject to the certain conditions. Subject to the agreement, the loan will be forgivable if the Company spends the funds on payroll, rent, and utilities for the subsequent eight weeks with appropriate supporting documents. As at March 31, 2021, there was $115,044 (US$91,486) in total consisting of principal of loan. Interest of 1% accrues on the loan during the time between the disbursement of the loan and SBA remittances of the forgiveness amount. Loan payments are deferred for the first six months and the loan is set to mature two years after its initial grant.

(Expressed in Canadian dollars)

10. 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 year ended March 31, 2021, the Company was charged $82,592 in salaries (2020: $145,417) by the CEO of the Company. At March 31, 2021 there is a balance of $10,843 (2020: $86,715) payable to the CEO.

For the year ended March 31, 2021, the Company was charged $103,840 (2020: $61,659) in salaries by the COO of the Company. At March 31, 2021, there is a balance of $7,720 (2020: $nil) payable to the COO.

For the year ended March 31, 2021, the Company was charged $34,823 in salaries (2020: $145,417) by the CCO of the Company. At March 31, 2021, there is a balance of $nil (2020: $77,773) payable to the CCO.

For the year ended March 31, 2021, the Company was charged $69,163 in management fees (2020: $85,122) by the CFO of the Company. At March 31, 2021, there is a balance of $6,288 (2020: $14,187) payable to the CFO.

For the year ended March 31, 2021, the Company recorded sales of $39,825 (2020: $nil) to a company under common control. At March 31, 2021, there is a balance of $35,865 (2020: $nil) receivable from this 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 years ended March 31, 2021 and 2020:

	2021	2020
	$	$
Salaries, bonuses, fees and benefits	**290,418**	437,614
Share based compensation	**401,011**	636,500
	691,429	1,074,114

11. SHARE CAPITAL

The Company has an unlimited number of common shares without par value authorized for issuance. As at March 31, 2021 the Company had 70,386,855 common shares issued and outstanding (2020: 53,703,684) of which 1,650,600 were held in escrow (2020: 3,301,200). As at March 31, 2021, the Company has $98,521 of shares issuable to a licensee under the terms of the license agreement.

On August 14, 2019, the Company issued 1,250,000 bonus shares to certain directors, officers, and employees which had a fair value of $187,500 included as share-based compensation.

On September 2, 2020, the Company issued 538,503 common shares to consultants for services performed which had a fair value of $10,000 and recorded an additional $10,000 of shares issuable for a total of $20,000 included as consultant expense.

On January 26, 2021, the Company issued 4,715,957 common shares which had a fair value of $212,218 in a debt settlement agreement for $221,650 of accounts payable and recorded a gain on debt settlement of $9,432.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (cont'd)

On February 18, 2021, the Company issued 2,016,946 common shares which had a fair value of $171,440 in a debt settlement agreement for $151,271 of accounts payable and recorded a loss on debt settlement of $20,169.

On February 18, 2021, the Company issued 5,000,000 bonus shares to certain directors, officers, and employees which had a fair value of $425,000 included as share-based compensation.

On February 23, 2021, the Company issued 4,411,765 common shares which had a fair value of $330,882 for repayment of $300,000 of debentures owed (Note 8) and recorded a loss on debt settlement of $30,882.

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, March 31, 2020	9,231,396	0.47
Granted	4,411,765	0.08
Expired and cancelled	(9,231,396)	(0.47)
Outstanding, March 31, 2021	4,411,765	0.08

The following summarizes information about the outstanding share purchase warrants exercisable to acquire common shares of the Company as at March 31, 2021:

Number of warrants outstanding	Exercise price $	Expiry date
4,411,765	0.08	February 23, 2026

As at March 31, 2021, the Company has an obligation to issue 167,692 finders warrants in connection with the Debentures detailed in Note 8.

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)

11. SHARE CAPITAL (cont'd)

On April 13, 2020, the Company granted 250,000 stock options to a director of the Company. The stock options are exercisable at price of $0.05 per share for a period of five years from the grant date. The stock options vest over a period of two years with 25% vesting immediately and an additional 25% vesting every 6 months thereafter. The fair value of the stock options on grant date was calculated to be $3,703 using the Black Scholes option pricing model based on a share price of $0.015, a risk-free interest rate of 1.77%, an expected volatility of an estimated volatility of 240%, an expected dividend rate of nil and an expected life of five years.

On December 15, 2020, the Company granted 250,000 stock options to a director of the Company. The stock options are exercisable at price of $0.05 per share for a period of five years from the grant date. The stock options vest over a period of two years with 25% vesting immediately and an additional 25% vesting every 6 months thereafter. The fair value of the stock options on grant date was calculated to be $9,922 using the Black Scholes option pricing model based on a share price of $0.04, a risk-free interest rate of 1.77%, an expected volatility of an estimated volatility of 240%, an expected dividend rate of nil and an expected life of five years.

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
Cancelled	(825,000)	0.38
Forfeited	(275,000)	0.60
Outstanding, March 31, 2020	6,475,000	0.44
Granted	500,000	0.05
Cancelled	(1,575,000)	0.28
Outstanding March 31, 2021	5,400,000	0.41

The following summarizes information about the outstanding stock options exercisable to acquire common shares of the Company as at March 31, 2021:

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 $
2,600,000	2.2	0.30	2,600,000	2.2	0.30
2,000,000	2.8	0.60	2,000,000	2.8	0.60
300,000	2.9	0.60	300,000	2.9	0.60
250,000	4.0	0.05	125,000	4.0	0.05
250,000	4.7	0.05	62,500	4.7	0.05
5,400,000		0.41	5,087,500		0.41

(Expressed in Canadian dollars)

12. INCOME TAXES

The tax effect of significant temporary differences (computed by applying the Canadian federal and provincial statutory rate), which comprise deferred income tax assets and liabilities, are as follows:

	2021 $	2020 $
Canadian statutory income tax rate	27.00%	27.00%
Income tax recovery at statutory rate	(958,759)	(1,250,289)
Tax effect of:		
Permanent and other differences	(77,004)	273,032
Difference in foreign tax rates	3,870	7,601
Change in unrecognized deferred income tax assets	1,031,893	969,656
Deferred income tax recovery	-	-

The significant components of deferred income tax assets and liabilities are as follows:

	2021 $	2020 $
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	1,793,933	1,338,170
Capital assets	9,770	5,439
Share issuance costs	58,608	84,820
Intangible assets	1,539,804	1,168,554
Investment in licensee	-	(226,761)
Total gross deferred income tax assets (liabilities)	3,402,115	2,370,222
Unrecognized deferred income tax assets	(3,402,115)	(2,370,222)
Net deferred income tax assets (liabilities)	-	-

As at March 31, 2021, the Company has non-capital losses of approximately $4,653,000 (2020: $3,950,000) in Canada and $2,098,000 (2020: $908,000) in the United States that may be carried forward to apply against future years' taxable income, subject to final determination by taxation authorities and expiring between 2038 and 2041.

(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:

		March 31, 2021		
	Carrying value $	Level 1 $	Level 2 $	Level 3 $
Cash	39,599	39,599	-	-

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 consolidated statements of financial position:

As at March 31, 2021	**Up to 1 year**	**1 - 5 years**	**Total**
Accounts payable	297,169	-	297,169
Notes payable	3,846,128	-	3,846,128
Loan payable	115,044	-	115,044
Debentures	467,545	-	467,545
	4,725,886	-	4,725,886

The Company expected to repay the notes payable with proceeds from a private placement financing prior to the maturity date and is continuing to pursue financing. If the Company is unsuccessful with obtaining 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 $27,000 (2020: $56,000).

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

	Years ended March 31,	
	2021	2020
	$	$
Income taxes paid	**–**	–
Interest paid	**–**	–
Shares issued for repayment of debentures	**300,000**	–