CannAmerica Brands Corp.

Interim Consolidated Financial Statements

For the Six Months Ended September 30, 2021

(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, 2021, 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, 2021 $**	March 31, 2021 $
Assets			
Current			
Cash		**115,504**	39,599
Accounts receivable	3	**161,379**	62,694
Prepaid expenses and deposits		**44,668**	141,398
		321,551	243,691
Investment in licensee	4	**–**	–
Equipment	5	**56,380**	61,745
Intangible assets	6	**1**	1
Total assets		**377,932**	305,437
Liabilities and deficiency			
Current liabilities			
Accounts payable and accrued liabilities	10	**348,583**	297,169
Deferred revenue		**502,311**	348,875
Notes payable	7	**4,034,874**	3,846,128
Loan payable	9	**116,679**	115,044
Debentures	8	**550,953**	467,545
Total liabilities		**5,553,400**	5,074,761
Deficiency			
Share capital	11	**9,210,252**	9,210,252
Shares issuable		**118,521**	118,521
Contributed surplus		**2,764,918**	2,829,187
Deficit		**(17,121,853)**	(17,098,050)
Accumulated other comprehensive income (loss)		**111,981**	170,766
Total deficiency		**(5,129,326)**	(4,769,324)
Total liabilities and deficiency		**424,074**	305,437

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 unaudited interim consolidated financial statements.

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

	Notes	Six months ended September 30, 2021 $	2020 $
Revenue		**231,717**	103,887
Cost of sales		**51,619**	10,950
Gross margin		**180,098**	92,937
Expenses			
Advertising and promotion		**80,623**	76,102
Bank charges		**1,261**	125
Depreciation	5	**13,692**	4,923
Interest and accretion expense	7,8	**215,909**	143,036
Office and administration		**9,438**	5,175
Professional fees		**51,358**	65,019
Salaries and benefits	10	**82,618**	195,016
Share-based compensation	10,11	**1,982**	1,463
Loss before other items		**(276,783)**	(397,922)
Other items			
Foreign exchange gain (loss)		**(152)**	179,735
Other income		**(2,460)**	–
Net loss for the year		**(279,395)**	(577,657)
Other comprehensive income (loss) for the year:			
Item that may be reclassified subsequently to income			
Unrealized gain (loss) on foreign currency translation		**(452,492)**	(49,437)
Comprehensive gain (loss) for the year		**173,097**	(627,094)
Loss per common share – basic and diluted		**(0.04)**	(0.01)
Weighted average number of common shares outstanding		**62,697,524**	53,552,999

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

CannAmerica Brands Corp.
Interim 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, September 30, 2020	**53,704,684**	**8,060,711**	**108,521**	**2,761,139**	**36,479**	**(14,124,744)**	**(3,157,894)**
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	–	–	–	68,048	–	–	68,048
Net loss	–	–	–	–	–	(2,973,306)	(2,973,306)
Foreign currency translation adjustment	–	–	–	–	134,287	–	134,287
Balance, March 31, 2021	**70,386,855**	**9,210,252**	**118,521**	**2,829,187**	**170,766**	**(17,098,050)**	**(4,769,324)**
Share-based compensation	–	–	–	1,982	–	–	1,982
Net loss	–	–	–	–	–	(243,243)	(243,243)
Foreign currency translation adjustment	–	–	–	–	67,242	–	67,242
Balance, September 30, 2021	**70,386,855**	**9,210,252**	**118,521**	**2,831,169**	**238,008**	**(17,341,293)**	**(4,943,343)**

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, 2021 $	2020 $
Operating activities		
Net loss	**(279,396)**	(577,657)
Items not affecting cash		
Depreciation	**13,692**	4,923
Share-based compensation	**1,982**	1,463
Interest and accretion expense	**215,909**	122,166
Changes in non-cash working capital balances		
Accounts receivable	**(804)**	(397,786)
Prepaid expenses and deposits	**44,668**	59,613
Deferred revenue	**(153,436)**	391,220
Accounts payable and accrued liabilities	**348,583**	168,819
Net cash used in operating activities	**(342,781)**	(227,239)
Investing activities		
Purchase of equipment	–	–
Net cash provided by (used in) investing activities	–	–
Financing activities		
Repayment of notes payable	**–**	–
Net cash provided by financing activities	–	–
Effect of foreign currency translation on cash	**11,052**	221,431
Decrease in cash	**(32,517)**	(5,808)
Cash, beginning of year	**39,599**	15,973
Cash, end of period	**75,905**	10,165

Supplemental cash flow information (Note 14)

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").

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 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, 2021 the Company has an accumulated deficit of $17,341,293 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.

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 unaudited interim 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 unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on October 7, 2021.

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

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.

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 unaudited interim consolidated financial statements.

3. ACCOUNTS RECEIVABLE

	2021 **$**	2020 $
Trade accounts receivable	**50,025**	494,290
GST and taxes recoverable	**13,473**	41,527
	63,498	536,817

The trade accounts receivable is net of allowance for expected credit losses. As at September 30, 2021, the allowance for expected credit losses of $257,442 (2020: $283,074) 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 & September 30, 2021	**-**

(Expressed in Canadian dollars)

5. EQUIPMENT

	Total **$**
Cost	
Balance, March 31, 2020	80,962
Additions	22,552
Foreign currency translation adjustment	(2,212)
Balance, March 31, 2021	101,302
Net additions	–
Foreign currency translation adjustment	(293)
Balance, September 30, 2021	101,009
Balance, March 31, 2020	20,118
Depreciation	19,439
Balance, March 31, 2021	39,557
Depreciation	6,674
Balance, September 30, 2021	46,231
Balance, March 31, 2021	61,746
Balance, September 30, 2021	**54,778**

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 & September 30, 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 September 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 September 30, 2021, the balance of the principal and accrued interest is $3,855,907 (US$2,811,108) (2020: $3,3,544,480).

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 September 30, 2021, the balance of the principal is $377,250 (US$371,820) (2020: $408,840).

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.

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.

(Expressed in Canadian dollars)

8. DEBENTURES (cont'd)

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**
Interest and accretion	83,408
Balance at September 30, 2021	**550,953**

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 September 30, 2021, there was $113,388 (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 period ended September 30, 2021, the Company was charged $12,871 in salaries (2020: $30,663) by the CEO of the Company. At September 30, 2021 there is a balance of $10,687 (2020: $nil) payable to the CEO.

For the period ended September 30, 2021, the Company was charged $16,160 (2020: $38,499) in salaries by the COO of the Company. At September 30, 2021, there is a balance of $7,609 (2020: $nil) payable to the COO.

For the period ended September 30, 2021, the Company was charged $nil in salaries (2020: $30,663) by the former CCO of the Company. At September 30, 2021, there is a balance of $nil (2020: $nil) payable to the former CCO.

For the period ended September 30, 2021, the Company was charged $6,197 in management fees (2020: $13,628) by the CFO of the Company. At September 30, 2021, there is a balance of $nil (2020: $6,814) payable to the CFO.

For the period ended September 30, 2021, the Company recorded sales of $nil (2020: $nil) to a company under common control. At September 30, 2021, there is a balance of $35,349 (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 six months ended September 30, 2021 and 2020:

	2021	2020
	$	$
Salaries, bonuses, fees and benefits	**35,228**	113,453
Share based compensation	**1,982**	1,463
	37,210	114,916

11. SHARE CAPITAL

The Company has an unlimited number of common shares without par value authorized for issuance. As at September 30, 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 September 30, 2021, the Company has $98,521 of shares issuable to a licensee under the terms of the license agreement.

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, 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
Granted	–	–
Expired and cancelled	–	–
Outstanding, September 30, 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 September 30, 2021:

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

As at September 30, 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, 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
Granted	–	–
Cancelled	–	–
Outstanding September 30, 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 September 30, 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	1.9	0.30	2,600,000	1.9	0.30
2,000,000	2.5	0.60	2,000,000	2.5	0.60
300,000	2.7	0.60	300,000	2.7	0.60
250,000	3.8	0.05	125,000	3.8	0.05
250,000	4.5	0.05	62,500	4.5	0.05
5,400,000		0.41	5,087,500		0.41

(Expressed in Canadian dollars)

12. 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, 2021		
	Carrying value $	Level 1 $	Level 2 $	Level 3 $
Cash	18,134	18,134	-	-

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 September 30, 2021	Up to 1 year	1 - 5 years	Total
Accounts payable	348,583	-	348,583
Notes payable	4,034,874	-	4,034,874
Loan payable	116,679	-	116,679
Debentures	550,953	-	550,953
	5,051,089	-	5,051,089

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).

12. 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.

13. 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.

14. SUPPLEMENTAL CASH FLOW INFORMATION

	Period ended September 30,	
	2021	2020
	$	$
Income taxes paid	**–**	–
Interest paid	**–**	–
Shares issued for repayment of debentures	**–**	–