CANNAMERICA

Annual Report

For the Year Ended - March 31, 2019

INTRODUCTION

The following management discussion and analysis ("MD&A") of the results of operations and financial condition of CannAmerica Brands Corp. ("CannAmerica") should be read in conjunction with the consolidated financial statements for the years ended March 31, 2019 and 2018 of CannAmerica and the accompanying notes thereto for CannAmerica, CannAmerica Holdings Corp. and DAFF International, LLC. The consolidated financial statements comprise the financial statements of CannAmerica and its legal subsidiaries (collectively referred to as the "Company").

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless noted otherwise. The effective date of this MD&A is July 29, 2019.

DESCRIPTION OF BUSINESS

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.

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"). The CannAmerica Holdings Acquisition is considered a reverse takeover of a non-operating company whereby CannAmerica Holdings, the legal subsidiary, has been determined to have acquired control of CannAmerica and to be the acquirer for accounting purposes. In accordance with the principles of reverse takeover accounting, CannAmerica will report the operations of CannAmerica Holdings and its related historical comparatives as its continuing business, except for the legal capital shown in the Consolidated Statements of Changes in Shareholders' Equity, 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 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 four brand licensing agreements with licensees in the states of Colorado, Nevada, Maryland, Oklahoma. On October 15, 2018, the Company listed on the Canadian Securities Exchange ("CSE") under the ticker symbol "CANA".

Brands and Licensees

The Company's brand in the cannabis space, CannAmerica, is licensed to manufacturers and wholesale licensees in the United States. The brand has been in existence since early 2016.

As of the date of this report, the Company has four branded licensing agreements with licensees in the states of Colorado, Nevada, Maryland and Oklahoma.

TR Scientific: Positioned in Denver, Colorado, TR employs a team with years of experience in operating a closed loop extraction system and producing world-class extracts using advanced equipment and techniques. Working out of a 25,000 square foot facility, this group currently sells throughout 350+ dispensaries in the state of Colorado and plans to launch additional products in the current year.

Flower One Holdings Inc: Flower One is one of the leading cannabis cultivators, producers and innovators in the highly lucrative Nevada market. Flower One owns and operates a 25,000 square foot cultivation and production facility in North Las Vegas, with nine grow rooms, and owns the established NLV Organics consumer brand of cannabis products. The Company is also rapidly converting its 455,000 square-foot greenhouse and production facility, which is the largest in the State of Nevada, for cultivating and processing high-quality cannabis at scale. Combined, the flagship greenhouse facility and production facility (once fully operational) and the North Las Vegas facility provide Flower One with 480,000 square feet of capacity for cultivation and processing, production and high-volume packaging of dry flower, cannabis oils, concentrates and infused products. The Company is fully licensed for medical marijuana cultivation and production, as well as recreational marijuana cultivation and production in the state of Nevada and currently holds licensing

agreements with their Brand Partners, Flyte Concentrates, Rapid-Dose Therapeutics' Quick Strip, Old Pal, Palms, HUXTON, and CannAmerica Brands.

FGM Processing: Located in Maryland, FGM Processing is one of the first extraction licensees in Maryland. Operating a 7,500 square foot facility, FGM also holds one of the few processor licenses in the state. CannAmerica owns a 10% interest in this license.

THC, Inc.: THC Total Herbal Care (THC) is licensed to cultivate, process, and dispense cannabis in Oklahoma. THC provides products to help patients improve their quality of life, aiming to deliver only the finest premium cannabis solutions and medicine.

The Company generates revenue through license agreements whereby licensees are granted rights to utilize the Brands, substrate, packaging and labelling, and related intellectual property. Licensees are responsible for assembling the branded products by infusing the substrate with clear cannabis distillate and packaging for sale to the end consumer. The Company is not involved in the cultivation, extraction, or infusion of any cannabis or cannabis derivatives.

The Company's license agreements require a licensee to pay royalties to the Company based on a fixed price per unit or as a percentage of the licensee sales and apply to specific geographical territories and distribution channels in which the licensed products may be sold. The Company's agreements also contain an upfront fee component, where the licensee agrees to pay a license fee to the CannAmerica in exchange for an exclusive license to manufacture and distribute the Company's products during the term of the agreement. Fees are $500k USD for recreational licensees and $250k USD for medical, with 50% of the fee due upon execution of the agreement and 50% due upon the one-year anniversary of the agreement.

Other significant terms outlined in the license agreements typically include the duration of the contract, payment frequency and applicable minimum thresholds for purchase.

The Company intends to expand primarily through additional licenses in new territories, the development and acquisition of new brands, and through partnerships and other arrangements. The Company aims to acquire additional well-known consumer brands in the cannabis space with high potential for growth and strong brand awareness and select licensees who have demonstrated the ability to cultivate, manufacture, produce and sell quality products in their respective licensed categories and territories.

For the year ended March 31, 2019, DAFF revenues were concentrated within four licensees: TR Scientific, in Colorado, Matrix NV and Flower One in Nevada, and FGM Processing in the state of Maryland. Revenues included fees earned from shipments to licensees along with the recognition of the initial upfront fee from Flower One.

Matrix NV launched CannAmerica products in September 2018, while FGM Processing launched CannAmerica products in October 2018. In February 2019, the Company signed a new brand licensing agreement with a subsidiary of Flower One Holdings Inc. (CSE: FONE) (OTCQB: FLOOF) in the state of Nevada. This brand licensing agreement replaces the Company's brand licensing agreement with Matrix NV, which terminated during March 2019. Flower One began placing orders of the Company's branded products in April 2019.

The Company expects to achieve revenue growth from its existing licensees and through obtaining additional license agreements in new territories. Subsequent to year-end, on June 28, 2019, the Company entered into a long-term licensing agreement and brand partnership with THC Total Herbal Care Corporation ("THC") under which THC will have an exclusive license to manufacture and distribute CannAmerica branded cannabis infused gummy products, disposable vape pens, distillate droppers and shatter and wax concentrate product in Oklahoma.

Additionally, on June 20, 2019 CannAmerica entered into a non-binding letter of intent ("LOI") with Canna Provisions Inc. ("the Licensee") under which the Licensee will have an exclusive license to manufacture and distribute CannAmerica branded cannabis infused gummy products and disposable vape pens, and Live Labs branded cannabis concentrate products, including droppers, shatter and wax concentrate products, and gelatin based capsules in the Commonwealth of Massachusetts. Live Labs is a brand created by the founders of CannAmerica, wholly owned by the Company, and is being introduced in the Northeastern United States recreational cannabis marketplace.

Expansion

In addition to existing licensee relationships in the United States, the Company is continuously seeking opportunities to expand into new markets in the U.S. while also pursuing prospects for growth in Latin America, and Canada.

On March 12, 2019, the Company entered into a binding letter of intent ("LOI") to create a joint venture (the "JV") with Sericea Labs S.A. de C.V. ("SERICEA") and CBDistribution Company Ltd. ("CBDC") with the intention of building a facility in Mexico for importing and warehousing licensed CBD products as well as CBD oils and tinctures destined for refining.

When and if permitted under Mexican laws, the Company, SERICEA and CBDC (the "JV Parties") also plan on acquiring, importing and cultivating industrial hemp biomass for extraction into CBD isolate to be used for multiple product lines which utilize CBD. The term of the LOI has been extended to January 1, 2020.

The Company is also exploring opportunities to launch new product lines with the goal of creating distinct revenue streams for all its branded products.

OUTLOOK

The Company continues to execute on its strategy to grow as a market leader in the cannabis space and has already increased its operations in the first quarter of fiscal 2019 through its licensing agreement with THC.

Subsequent to year-end, the Company's brand of products are now being distributed by Flower One Holdings Inc. and production has been increasing in order to meet demand in that state.

In concert with expanding into new markets and obtaining more licensees, the Company is currently minimizing G&A expenses and emphasizing outstanding debts owed. For the year ended March 31, 2019, significant advertising and promotional costs were incurred by the Company prior to and after becoming publicly listed in order to promote the brand. Significant legal and professional fees were also incurred in order to establish licensing agreements in various states.

Management does not anticipate advertising or professional fees to be as high going forward in the current year.

HIGHLIGHTS FOR THE YEAR ENDED MARCH 31, 2019

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 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

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 $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

	$
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.

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.

RESULTS OF OPERATIONS

Pursuant to the reverse takeover transaction described above, CannAmerica will report the operations of CannAmerica Holdings and its related historical comparatives as its continuing business. CannAmerica Holdings was incorporated on December 11, 2017, and accordingly there are no historical comparatives for the year ended March 31, 2018.

For the year ended March 31, 2019

For the year ended March 31, 2019, the Company had a net loss of $8,916,386.
The key highlights for the period include:

- License revenue of $978,813 from the three licensees located in Colorado, Nevada and Maryland for the period from May 18, 2018 (the DAFF Acquisition) to March 31, 2019.

- License operations gross margin of 46%.

- Professional fees of $1,189,491, which include legal, accounting and consulting fees incurred in connection with the public listing, reverse takeover and business combination.
- Salaries and benefits of $692,128 paid to the CEO, COO, and CFO, and operational staff.
- Share-based compensation of $1,587,505 representing the fair value of options issued to certain directors, officers, employees and consultants of the Company.
- Interest expense of $128,551 accrued on the outstanding promissory Note Payable.
- Bad debt expense of $477,864 recorded for losses on uncollectible customer accounts.
- Advertising and promotion of $1,731,810 associated with the Brands and licensing thereof.
- Non-cash impairment charge of Intangible assets of $2,127,736 related to the DAFF Acquisition.
- Non-cash impairment charge of Goodwill of $1,371,928 related to the DAFF Acquisition.

CASH USED IN OPERATING ACTIVITIES

For the year ended March 31, 2019, cash flows used in operating activities amounted to $1,243,626. Cash flows resulted from a net loss of $8,916,386 which were partially offset by non-cash items and changes in non-cash working capital balances of $7,672,760.

CASH PROVIDED BY INVESTING ACTIVITIES

For the year ended March 31, 2019, cash flows provided by investing activities amounted to $955,458. Cash flows resulted primarily from the cash acquired from the DAFF business combination and the reverse takeover of CannAmerica by CannAmerica Holdings.

CASH PROVIDED BY FINANCING ACTIVITIES

For the year ended March 31, 2019, cash flows provided by financing activities amounted to $1,220,470. Cash inflows primarily resulted from the receipt of share subscription proceeds.

For the three months ended March 31, 2019

For the three months ended March 31, 2019, the Company had a net loss of $6,313,321.

The key highlights for the period include:

- License revenue of $129,809 from the three licensees located in Colorado, Nevada and Maryland.
- Professional fees of $389,582, which include legal, accounting and consulting fees incurred in connection with the public listing, reverse takeover and business combination.
- Salaries and benefits of $186,857 paid to the CEO, COO, and CFO, and operational staff.
- Interest expense of $53,192 accrued on the outstanding promissory Note Payable.
- Bad debt expense of $296,266 recorded for losses on uncollectible customer accounts.
- Advertising and promotion of $1,096,539 associated with the Brands and licensing thereof.

- Non-cash impairment charge of Intangible assets of $2,127,736 related to the DAFF Acquisition.
- Non-cash impairment charge of Goodwill of $1,371,928 related to the DAFF Acquisition.

SELECTED ANNUAL INFORMATION

Pursuant to the reverse takeover transaction described above, CannAmerica will report the operations of CannAmerica Holdings and its related historical comparatives as its continuing business. CannAmerica Holdings was incorporated on December 11, 2017, and accordingly there are no selected annual information presented for the years ended March 31, 2018 and 2017.

SELECTED QUARTERLY INFORMATION FOR MOST RECENT COMPLETED QUARTERS

Pursuant to the reverse takeover transaction described above, CannAmerica will report the operations of CannAmerica Holdings and its related historical comparatives as its continuing business. CannAmerica Holdings was incorporated on December 11, 2017, and accordingly there are no quarterly results presented for periods prior to June 30, 2018.

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
	$	$	$	$
Total revenue	$129,809	$211,746	405,983	231,275
Net loss	($6,313,321)	(1,212,127)	(286,825)	(1,104,113)
Basic and diluted income per share	(0.23)	(0.03)	(0.01)	(0.04)

RELATED PARTY TRANSACTIONS

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 twelve months ended March 31, 2019, the Company was charged $172,885 in salaries (2018: nil) by the CEO of the Company.

For the twelve months ended March 31, 2019, the Company was charged $172,885 in salaries (2018: nil) by the COO of the Company.

For the twelve months ended March 31, 2019, the Company was charged $50,000 in management fees (2018: nil) by the CFO of the Company.

For the twelve months ended March 31, 2019, the Company was charged $11,000 in Director fees (2018: nil) by a Director 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 twelve months ended March 31, 2019 and 2018:

	2019	2018
	$	$
Salaries, bonuses, fees and benefits	**406,770**	–
Share based compensation	**1,147,630**	–
	1,554,400	–

OUTSTANDING SHARE DATA

The Company has an unlimited number of common shares without par value authorized for issuance.

As at July 29, 2019, the Company had 52,453,684 common shares issued and outstanding.

As at July 29, 2019, the Company had a total of 7,575,000 options and 5,914,646 warrants outstanding.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 under IAS 39 and the new measurement under IFRS 9:

	IAS 39 Classification	IFRS 9 Classification
Financial assets		
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Investment in licensee	FVTPL	FVTPL
Financial liabilities		
Accounts payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost

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, 2019	Up to 1 year	1 - 5 years	Total
Accounts payable	918,057	-	918,057
Notes payable	3,977,817	-	3,977,817
	4,895,874	-	4,895,874

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. The Company believes this outcome is highly unlikely.

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 $460,000.

Interest rate risk

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

Capital management

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

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.

COMMITMENTS

The Company does not have any commitments for capital expenditures as at March 31, 2019.

OFF-BALANCE SHEET ARRANGEMENTS AND PROPOSED TRANSACTIONS

The Company has no off-balance sheet arrangements.

SIGNIFICANT ACCOUNTING POLICIES

The Company follows the significant accounting policies as described in Note 2 of the consolidated financial statements for the year ended March 31, 2019, and accompanying notes thereto for CannAmerica, CannAmerica Holdings, and DAFF.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has prepared the consolidated financial statements in accordance with IFRS. Significant accounting policies are described in Note 2 of the Company's financial statements for the years ended March 31, 2019 and 2018.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

The Company's significant estimates and judgements for the period ended March 31, 2019 included:

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 effective April 1, 2018

On April 1, 2018, the Company adopted IFRS 9, "Financial Instruments". IFRS 9 introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected credit loss impairment model and a substantially reformed approach to hedge accounting. The Company adopted a full retrospective approach and the adoption of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

On April 1, 2018, the Company adopted IFRS 15, "Revenue from Contracts with Customers". The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. The Company elected to apply IFRS 15 using a full retrospective approach. The adoption of IFRS 15 did not have any impact on the Company's consolidated financial statements.

Accounting standards and amendments issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2019, and have not been applied in preparing these consolidated financial statements.

IFRS 16 Leases

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 effective date of IFRS 16 for the Company is April 1, 2019 and the Company does not expect the adoption of IFRS 16 to have a material effect on the Company's future results and financial position.

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 Interpretation is applicable for annual years beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The effective date of IFRIC 23 for the Company is February 1, 2019 and the Company does not expect the adoption of IFRIC 23 to have a material effect on the Company's future results and financial position.

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 consolidated financial statements.

SUBSEQUENT EVENTS

On June 20, 2019, the Company entered into a non-binding letter of intent ("LOI") with Canna Provisions Inc. ("the Licensee") under which the Licensee will have an exclusive license to manufacture and distribute CannAmerica branded cannabis infused gummy products and disposable vape pens, and Live Labs branded cannabis concentrate products, including droppers, shatter and wax concentrate products, and gelatin based capsules (the "Licensed Products") in the Commonwealth of Massachusetts. Live Labs is a brand created by the founders of CannAmerica, wholly owned by the Company, and is being introduced in the Northeastern United States recreational cannabis marketplace.

Terms of the LOI are as follows:

- The initial term of the license agreement will be for a period of 3 years.
- Net price payable from Canna Provisions Inc. to the Company will be determined by a per package/unit fee relating to CannAmerica products that the Licensee decides to produce.
- Canna Provisions Inc. agrees to pay the Company a license fee to manufacture and distribute the Company's products.
- The Licensee will purchase all un-infused consumable ingredients, packaging supplies, and branded hardware exclusively from the Company.
- Canna Provisions Inc. will follow formulations and processes provided by the Company.
- During the first 180 days of the Initial Term, the Licensee is expected to employ one full-time sales representative to exclusively promote, market, advertise and sell Licensed Products.

Subject to Board approval from the Company and completion of satisfactory due diligence, the parties intend to enter into a Definitive Agreement on or before August 15, 2019.

On June 28, 2019, the Company entered into a long-term licensing agreement (the "Agreement") and brand partnership with THC Total Herbal Care Corporation ("THC" or the "Licensee") under which THC will have an exclusive license to manufacture and distribute CannAmerica branded cannabis infused gummy products, disposable vape pens, distillate droppers and shatter and wax concentrate product (the "Licensed Products") in Oklahoma.

Terms of the Agreement include:

- The initial term will be for a period of 5 years.
- 50% upfront license fee paid within two business days of the agreement with the remaining 50% paid on the one-year anniversary date.
- The Licensee will purchase all un-infused consumable ingredients, packaging supplies, and branded hardware exclusively from the Company.
- THC will follow formulations and processes provided by the Company.
- During the first 180 days of the initial term, THC will employ two full-time salespeople in Oklahoma to promote, market, advertise, and sell the Licensed Products.

Additionally, on June 28, 2019 the Company entered into an extension agreement in respect of the previously announced binding letter of intent ("LOI") dated March 8, 2019 to create a joint venture ("JV") with Sericea Labs S.A. de C.V. and CBDistribution Company Ltd. with the intention of building a facility in Mexico for importing and warehousing licensed CBD products as well as CBD oils and tinctures destined for refining. The term of the LOI has been extended to January 1, 2020.

RISKS AND UNCERTAINTIES

Conflicts of Interest

Certain directors of the Company also serve as directors and/or officers of other companies involved in other business ventures. Consequently, there exists the possibility for such directors to be in a position of conflict. Any decision made by such directors involving the Company will be made in accordance with their duties and obligations to deal fairly and in good faith with the Company and such other companies. In addition, such directors will declare, and refrain from voting on, any matter in which such directors may have a conflict of interest.

Negative Operating Cash Flows

As the Company is at the early stage start up stage it may continue to have negative operating cash flows. Prior to the development of existing revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

Risks Related as a Going Concern

The Company commenced earning revenue in April 2018 and has a limited history. No assurance can be provided that historical performance will be indicative of future performance. The ability of the Company to continue as a going concern is dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its shareholders.

Reliance on Key Personnel and Advisors

The Company relies heavily on its officers. The loss of their services may have a material adverse effect on the business of the Company. There can be no assurance that one or all of the employees of, and contractors engaged by, the Company will continue in the employ of, or in a consulting capacity to, the Company or that they will not set up competing businesses or accept positions with competitors. There is no guarantee that certain employees of, and contractors to, the Company who have access to confidential information will not disclose the confidential information.

Difficulty to Forecast

The Company will need to rely largely on its own market research to forecast industry trends and statistics as detailed forecasts are, with certain exceptions, not generally available from other sources at this early stage of the cannabis industry. A failure in the demand for the Company's products to materialize as a result of competition, technological change, change in the regulatory or legal landscape or other factors could have a material adverse effect the Company's business, financial condition and results of operations.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

RISK FACTORS

Market Risk for Securities

The market price for the Company's common shares is subject to fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price securities. The stock market has from time to

time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Uninsured or Uninsurable Risk

The Company may become subject to liability for risks against which cannot be insured or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for usual business activities. Payment of liabilities for which insurance is not carried may have a material adverse effect on the Company's financial position and operations.

Key Personnel Risk

The Company's success will depend on its directors and officers to develop the business, manage operations, attract and retain key quality staff and consultants. The loss of any key person or the inability to find and retain new key persons could have a material adverse effect on the business. No assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact operations.

Dividend Risk

The Company has not paid dividends in the past and does not anticipate paying dividends in the near future. Earnings are expected to be retained to finance further growth and, when appropriate, retire obligations.

Share Price Volatility Risk

External factors outside of the Company's control such as sentiments toward the cannabis sector may have a significant impact on the market price of the Company's common shares. Global stock markets, including the CSX Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. There can be no assurance that an active or liquid market will develop or be sustained for the common shares.

Some of the Company's planned business activities, while believed to be compliant with certain applicable U.S. state and local laws, are illegal under United States federal law.

Cannabis is illegal under federal U.S. law. Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of Medical Cannabis under the Access to Cannabis for Medical Purposes Regulations, investors are cautioned that in the United States, marijuana is largely regulated at the state level. Although certain states and territories of the U.S. authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the U.S. Controlled Substances Act. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law must be applied. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including but not limited to disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of marijuana licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

In addition, since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it intends to provide. As a result, U.S. law enforcement authorities, in their attempt to

regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against the Company, including, but not limited to, aiding and abetting another's criminal activities. The Federal aiding and abetting statute provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result of such an action, the Company may be forced to cease operations and its investors could lose their entire investment. Such an action would have a material negative effect on the Company's business and operations.

The Company's investments and operations in the United States may be subject to heightened scrutiny.

For the reasons set forth above, the Company's existing investments and operations in the United States, and any future investments or operations, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. It has also been reported by certain publications (the "Publications") in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. On February 8, 2018, CDS signed the CDS Memorandum of Understanding (the "CDS MOU") with the Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange and the TSX Venture Exchange (collectively, the "Exchanges"). The CDS MOU outlines CDS' and the Exchanges' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the Exchanges and CDS. The CDS MOU confirms, with respect to the clearing of listed securities, that CDS relies on the Exchanges to review the conduct of listed issuers. As a result, there currently is no CDS ban on the clearing of securities of issuers with marijuana-related activities in the United States. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to affect a trade of Common Shares through the facilities of a stock exchange.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of Medical or Recreational Cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or Recreational Cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

There is uncertainty surrounding the Trump Administration and its influence and policies in opposition to the cannabis industry as a whole.

There continues to be uncertainty as to the position the United States and the Trump Administration will take with respect to cannabis and the federal government's enforcement of federal law in relation to cannabis. Implementation by the U.S. of new legislative or regulatory regimes could impose additional costs on the Company, decrease U.S. demand for the Company's services or otherwise negatively impact the Company, which may have a material adverse effect on the Company's business, financial condition and operations.

On January 4, 2018 the Cole Memorandum was rescinded by Former Attorney General Jeff Sessions. While this did not create a change in federal law, as the Cole Memorandum was not itself law, the revocation removed the Department of Justice's guidance to U.S. attorneys that state-regulated cannabis industries substantively in compliance with the Cole Memorandum's guidelines should not be a prosecutorial priority.

Former Attorney General Jeff Sessions also issued a one-page memorandum known as the "Sessions Memorandum." This confirmed the rescission of the Cole Memorandum and explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance as set forth in the U.S. Attorney's Manual. The U.S. Attorney's Manual enforcement priorities, like those of the Cole Memorandum, are also based on the federal government's limited resources, and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes,

the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community." The Sessions Memorandum emphasizes that marijuana is a Schedule I controlled substance and states the statutory view that it is a "dangerous drug and that marijuana activity is a serious crime."

The approach to the enforcement of cannabis laws in the U.S. may be subject to change or may not proceed as previously outlined.

The Cole Memorandum outlined certain priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice has never provided specific guidelines for what regulatory and enforcement systems it deems sufficient under the Cole Memorandum standard.

However, as noted above, on January 4, 2018 the Cole Memorandum was revoked by Former Attorney General Jeff Sessions. Given this revocation, the Department of Justice under the Trump Administration or an aggressive U.S. federal prosecutor could allege that the Company, its board of directors, and officers, "aided and abetted" or otherwise involved themselves in violations of federal law. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Company's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.

Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.

The Company's business activities rely on newly established and/or developing laws and regulations in various states in the United States. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration, Securities and Exchange Commission, the Department of Justice ("DOJ"), the Financial Industry Regulatory Advisory or other federal, Washington State or other applicable state or non-governmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the cannabis industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, which could reduce, delay or eliminate any return on investment in the Company.

The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate.

In February 2014, the Financial Crimes Enforcement Network ("FinCEN") bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis- related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States and may have to operate the Company's U.S. business on an all-cash basis. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned. The Company is actively pursuing alternatives that ensure its operations will continue to be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.

U.S. Federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

The Company's and its Licensees' contracts may not be legally enforceable in the United States.

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company and the Licensees may face difficulties in enforcing their contracts in U.S. federal and certain state courts.

It may be difficult, if not impossible, for U.S. holders of the Company's securities to resell them over the CSE.

It has recently come to management's attention that all major securities clearing firms in the U.S. have ceased participating in transactions related to securities of Canadian public companies involved in the medical marijuana industry. This appears to be due to the fact that marijuana continues to be listed as a controlled substance under U.S. federal law, with the result that marijuana-related practices or activities, including the cultivation, possession or distribution of marijuana, are illegal under U.S. federal law. However, management understands that the action by U.S. securities clearing firms also extends to securities of companies that carry on business operations entirely outside the U.S. Accordingly, U.S. residents who acquire securities of the Company may find it difficult – if not impossible – to resell such securities over the facilities of any Canadian stock exchange on which the shares may then be listed. It remains unclear what impact, if any, this and any future actions among market participants in the U.S. will have on the ability of U.S. residents to resell any securities of the Company that they may acquire in open market transactions.

Canadian Investors in the Company's Securities and the Company's directors, officers and employees may be subject to travel and entry bans into the United States.

News media have reported that United States immigration authorities have increased scrutiny of Canadian citizens who are crossing the United States–Canada border with respect to persons involved in cannabis businesses in the United States. There have been a number of Canadians barred from entering the United States as a result of an investment in or act related to United States cannabis businesses. In some cases, entry has been barred for extended periods of time.

The majority of persons travelling across the Canadian and U.S. border do so without incident. Some persons are simply barred entry one time. The U.S. Department of State and the Department of Homeland Security has indicated that the United States has not changed admission requirements in response to the pending legalization in Canada of recreational cannabis, but anecdotal evidence indicates that the United States may be increasing enforcement of its federal laws regarding marijuana-related practices or activities, including the cultivation, possession or distribution of marijuana.

Admissibility to the United States may be denied to any person working or 'having involvement in' the marijuana industry, including in in States where it is deemed legal, according to United States Customs and Border Protection. Additionally, legal experts have indicated that if the admission criteria are applied broadly, this may result in a determination that the act of investing, working or collaborating with a U.S. cannabis company is considered trafficking in a Schedule I controlled substance or aiding, abetting, assisting, conspiring or colluding in the trafficking of a Schedule I controlled substance. Inadmissibility in the United States implies a lifetime ban for entry as such designation is not lifted unless an individual applies for and obtains a waiver.

Company directors, officers or employees traveling from Canada to the United States for the benefit of the Company may encounter enhanced scrutiny by United States immigration authorities that may result in the employee not being permitted to enter the United States for a specified period of time. If this happens to Company directors, officers or employees, then this may reduce our ability to manage our business effectively in the United States.

Due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes.

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks. In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. the foreseeable future, in the event that a determination was made that any such investments in the United States could reasonably be shown to constitute proceeds of crime, the Company may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

State and local laws and regulations may heavily regulate brands and forms of cannabis products and there is no guarantee that the Company's proposed products and brands will be approved for sale and distribution in any state.

States only allow the manufacture, sale and distribution of cannabis products that are grown in that state and may require advance approval of such products. Certain states and local jurisdictions have promulgated certain requirements for approved cannabis products based on the form of the product and the concentration of the various cannabinoids in the product. There is no guarantee that the Company's products will be approved to the extent necessary. If the products are approved, there is a risk that any state or local jurisdiction may revoke its approval for such products based on changes in laws or regulations or based on its discretion or otherwise.

Lack of Access to United States Bankruptcy Protections.

Because cannabis is a Schedule I substance under the CSA, many courts have denied cannabis businesses federal bankruptcy protections, making it difficult for lenders to be made whole on their investments in the cannabis industry in the event of a bankruptcy. If the Company or one of its Licensees were to experience a bankruptcy, there is no guarantee that United States federal bankruptcy protections would be available to the Company or its Licensee, which would have a material adverse effect.

The failure of the Licensees to fulfill their financial obligations with respect to royalty payments under their license agreements or to otherwise adequately produce, market and sell products bearing the Company's brand names in their respective license categories could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's revenues are almost entirely dependent on royalty payments made to the Company pursuant to license agreements entered into with licensees of the Company's brands. The failure of the Licensees to satisfy their financial obligations under these agreements, or their inability to operate successfully or at all, could result in a breach of an agreement, early termination of an agreement or non- renewal of an agreement. A decrease or elimination of revenue could have a material adverse effect on the Company's financial condition, results of operation and cash flows.

During the term of a license agreement, the Company's revenues and the value of the Company's brands substantially depend upon the Licensee's ability to maintain the quality and marketability and market acceptance of the branded products licensed to such licensee and their failure to do so could negatively affect consumer perception of the Company's brands and harm the Company's future growth and prospects. Further, the failure of the Licensees to meet their production, manufacturing and distribution requirements, or a weak economy or softness in the cannabis space could cause the Licensees to default on their obligations. In addition, the Licensees' inability to maintain market

acceptance of the Company's brands or the Company's failure to monitor the Licensees' compliance with their license agreements or take appropriate corrective action when necessary may subject the Company's intellectual property assets to cancellation, loss of rights or devaluation and any devaluation of the Company's intellectual property could cause a material impairment in the carrying value of such intellectual property, potentially resulting in a charge as an expense to the Company's results of operations. If such developments occur or the Licensees are otherwise not successful, the value and recognition of the Company's brands, as well as the Company's business, financial condition and results of operations, could be materially adversely affected.

The Company's business depends on continued market acceptance of the Company's brands and the products bearing these brands.

The cannabis space is highly susceptible to changes in consumer preferences and continued market acceptance of the Company's brands and the Licensees' products, as well as market acceptance of any future products bearing the Company's brands and is subject to a high degree of uncertainty. In order to generate revenues and profits, the Licensees must continually develop product offerings that appeal to consumers. Generally, the Company does not retain the rights to monitor the products that the Licensee's design and produce with the exception of the brands licensed by the Company and can provide no assurance that licensees will develop, market and sell other products and brands that appeal to consumers. Any significant changes in consumer preferences or any inability on the Licensees' part to anticipate or react to such changes could reduce demand for the Company's branded products and erode the competitiveness of such products, which would negatively affect the Company's financial condition, results of operations and cash flows.

The continued success of the Company's brands and branded products and market acceptance of new products and product categories are also dependent on the Company's ability to continually improve the effectiveness of the Company's marketing efforts. The Company devotes significant resources and expenditures to promoting the Company's brands and new product launches, but there can be no assurance as to the Company's continued ability to effectively execute the Company's marketing programs. To the extent the Licensees misjudge the market for the Company's brands and branded products, or the Company's marketing efforts are unsuccessful, the Company's business, results of operations and prospects will be adversely affected.

The Company has incurred a substantial amount of indebtedness in connection with the Company's acquisition, which could adversely affect the Company's financial condition and results of operations.

The financial statements for the Company disclose notes payable. These notes are due 13 months after the date the Company becomes a reporting issuer. There is no assurance that the business will generate sufficient operating cash flow to repay the debt or that the Company will be successful in obtaining future financing.

The Company's high level of indebtedness increases the possibility that the Company may be unable to generate cash sufficient to pay when due the principal of, interest on or other amounts due in respect of such indebtedness. In addition, the Company may incur additional debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents that govern the Company's indebtedness. If the Company incurs additional debt, the risks associated with the Company's leverage, including the Company's ability to service debt, would increase.

The Company's increased level of indebtedness could have other important consequences, which include, but are not limited to, the following:

- a substantial portion of the Company's cash flow from operations could be required to pay principal and interest on the Company's debt;
- the Company's leverage could increase the Company's vulnerability to general economic downturns and adverse competitive and industry conditions, placing the Company at a disadvantage compared to those of the Company's competitors that are less leveraged;
- the Company's debt service obligations could limit the Company's flexibility in planning for, or reacting to, changes in the Company's business and in the brand licensing industry;

- the Company's failure to comply with the restrictive covenants in the documents governing the Company's indebtedness could result in an event of default that, if not cured or waived, results in foreclosure on substantially all of the Company's assets; and
- the Company's level of debt may restrict the Company from raising additional financing on satisfactory terms to fund strategic acquisitions, investments, joint ventures and other general corporate requirements.

The Company cannot be certain that its earnings will be sufficient to allow the Company to pay principal and interest on its debt and meet its other obligations. If the Company does not have sufficient earnings, it may be required to seek to refinance all or part of the Company's then existing debt, sell assets, make additional borrowings or sell more securities, none of which the Company can guarantee that it will be able to do.

The Company may require additional capital to finance the acquisition of additional brands, and the Company's inability to raise such capital on beneficial terms or at all could limit the Company's growth.

The Company may, in the future, require additional capital to help fund all or part of potential acquisitions. If, at the time required, the Company does not have sufficient cash to finance those additional capital needs, the Company will need to raise additional funds through equity and/or debt financing. The Company cannot guarantee that, if and when needed, additional financing will be available to the Company on acceptable terms or at all. If additional capital is needed and is either unavailable or cost prohibitive, the Company's growth may be limited as the Company may need to change the Company's business strategy to slow the rate of, or eliminate, the Company's expansion plans. In addition, any additional financing the Company undertakes could impose additional covenants upon the Company that restrict the Company's operating flexibility, and, if the Company issues equity securities to raise capital, the Company's existing stockholders may experience dilution or the new securities may have rights senior to those of the Company's common stock.

The Company or the Licensees may not be able to continue to compete successfully because of intense competition within the Licensees' markets, the strength of some of their competitors or other factors.

The Company's licenses are for products primarily in the cannabis markets, in which the Licensees face intense competition. Competitive factors in these markets include quality, price, name recognition, service and advertising. Changing customer preferences and the limited availability of shelf space in dispensaries could materially and adversely affect the competitive position of the Licensees' products. Many of the Licensees' competitors have greater financial, distribution, marketing and other resources than the Licensees and have achieved significant name recognition for their brands. The Licensees may be unable to successfully compete in the markets for their products, which would adversely affect the Company's revenues and cash flows, and the Company may not be able to continue to compete successfully with respect to the Company's licensing arrangements.

The Company may not be able to adequately protect the Company's intellectual property rights, which could compromise its competitive position and decrease the value of the Company's brands.

The loss of or inability to enforce the Company's proprietary rights of its intellectual property could materially and adversely affect the Company's business and financial condition. For instance, if any third party independently develops similar products to those marketed and distributed by the Licensees or manufactures knock-offs of such products, it may harm the reputation of the Company's brands, decrease their value or cause a decline in the Licensees' sales and thus the Company's revenues.

The Company may need to bring legal claims to enforce or protect the Company's intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources and negatively impact the Company's business operations. In addition, notwithstanding the rights the Company have secured in the Company's intellectual property, third parties may bring claims against the Company or the Licensees alleging that the Company or the Licensees have infringed on their intellectual property rights or that the Company or the Licensees' intellectual property rights are not valid. Any claims against the Company or the Licensees, with or without merit, could be time consuming and costly to defend or litigate and therefore could adversely affect the Company's business. In addition, to the extent that any of the Company's intellectual property assets is deemed to violate the proprietary rights of third parties in any litigation or proceeding or as a result of any claim, then the Company or the Licensees may be prevented from using it, which could cause a breach or termination of license agreements. If the

Licensees are prevented from using the intellectual property that the Company has licensed to them, the revenues of the Licensees will be reduced with respect to those intellectual property assets, and the related royalty payments the Company receives could be reduced. Litigation with respect to the Company's intellectual property or breaches of the Company's license agreements could result in a judgment or monetary damages.

The Company depends upon the services of the Company's key executives, including the Company's Chief Executive Officer, Mr. Dan Anglin. If the Company loses the services of Mr. Anglin or other key executives, the Company may not be able to fully implement the Company's business plan and future growth strategy, which would harm the Company's business and prospects.

The Company's success is largely dependent upon the expertise and knowledge of the Company's Chief Executive Officer, Mr. Dan Anglin, and other key members of the executive team, whom the Company relies upon to formulate the Company's business strategies. The Company's key executive's leadership and experience in the cannabis industry are essential to the successful implementation of the Company's business and marketing strategy. The Company does not carry key person life insurance covering the Company's key executives. The loss of the services of the Company's key executives could have a material adverse effect on the Company's business prospects, financial condition, results of operations and cash flows.

The Company's results of operations may fluctuate significantly, which makes it difficult to predict the Company's performance and could result in volatility in the Company's stock price.

The Company may experience variations in its revenue and results of operations from quarter to quarter. This variability is affected by numerous factors, including:

- the timing of the introduction of new licensed products by the Licensees;
- the level of consumer acceptance of the Company's brands and licensed products;
- general economic and industry conditions in the cannabis space;
- the availability of viable licensees that meet the Company's brand criteria; and
- the timing and amount of marketing and other expenditures.

Because of these fluctuations in the Company's revenues, operating expenses and cash flows, it could be difficult to make period-to-period comparisons of the Company's result of operations and liquidity and it may be difficult for securities analysts and investors to predict the Company's performance. As a result, the Company's results of operations in any particular quarter may be below the expectations of securities analysts or investors. Fluctuations in the Company's performance and the failure to meet analyst expectations could cause declines or volatility in the Company's stock price.

The Company does not foresee paying dividends in the foreseeable future.

The Company has not paid dividends and does not anticipate paying dividends in the foreseeable future. Instead, the Company plans to retain any earnings to maintain and expand existing licensing operations, further develop the Company's brands and finance the acquisition of additional assets and search for new opportunities.

The Company has a significant amount of intangible assets, including the Company's trademarks, recorded on the Company's balance sheet.

If there are changes in market conditions and declines in the estimated fair value of these assets, the Company may have to write-down intangible assets and may be required to record impairments of the Company's intangible assets in the future which could adversely affect the Company's results of operations.

The Company's business, financial condition and results of operations could suffer in the event of security breaches, cyber-attacks or unauthorized disclosures of personal information.

In conducting their businesses, including their e-commerce businesses, the Licensees and retail partners obtain and transmit confidential information about their customers, including credit card and other personal information, through their websites and their information technology systems. To the best of the Company's knowledge, the Licensees have

not experienced any material misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information as a result of a security breach or cyber-attack. If the Licensees experience such a security breach or cyber-attack, it could adversely affect their business and operations, including damaging their reputation and their relationships with their customers, exposing them to risks of litigation and liability. There can be no assurance that the Licensees will not experience any future security breaches, cyber-attacks or unauthorized disclosures. The Licensees may incur significant costs to comply with laws regarding the protection and unauthorized disclosure of personal information, which could also negatively affect their ability to generate sales and make royalty payments to the Company, resulting in a material adverse effect on its business, financial condition and results of operations.

The size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.

Because the cannabis industry is in an early stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain statements that may constitute "forward-looking statements". Forward-looking statements include but are not limited to, statements regarding future expansion, business goals, anticipated business developments and the timing thereof, regulatory compliance, sufficiency of working capital, business and financing plans, and other forward-looking statements including but not limited to information concerning intentions, plans and future actions of the Company.

In connection with the forward-looking information contained in this MD&A, the Company has made assumptions about the Company's ability to expand operations, acquire assets and/or businesses and new brands, the profitability of its licensed brands, and its ability to operate in the future without any regulation or law imposed which would prevent the Company from operating its business. The Company has also assumed that no significant events occur outside of the Company's normal course of business.

The forward-looking information in this MD&A reflects the current expectations, assumptions and/or beliefs of the Company based on information currently available to the Company. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions, or which by their nature refer to future events. The Company cautions that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward looking statements as a result of various factors, including, but not limited to, the Company's ability to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

OTHER INFORMATION

Additional information on the Company is available on SEDAR at www.sedar.com.

CannAmerica Brands Corp.

Consolidated Financial Statements

For the Years Ended March 31, 2019 and 2018

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and 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 statement of financial position as at March 31, 2019, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year 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, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's 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 audit 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.

Material Uncertainty Related to Going Concern
We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has a deficit of $8,916,386 and a comprehensive loss of $9,037,332. As stated in Note 1, these events and conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on 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 is comprises of the information included in the Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and do not and will not express any form of assurance conclusion thereon. In connection with our audit of the consolidated 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 and remain alert for indicators that the other information 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 in the auditors' report. We have nothing to report in this regard.

Other Matter
The consolidated financial statements for the year ended March 31, 2018, which are presented for comparative purposes, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on October 9, 2018.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the 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.

Auditor's 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 auditor's 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 auditor's 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 auditor's 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 audit.

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 Costa.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
July 29, 2019

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

	Notes	**March 31, 2019 $**	March 31, 2018 $
Assets			
Current			
Cash		**748,220**	–
Accounts receivable	5	**240,867**	–
Prepaid expenses and deposits		**869,287**	110,001
		1,858,374	110,001
Investment in licensee	6	**946,071**	–
Equipment	7	**56,770**	–
Intangible assets	8	**3,100,000**	–
Total assets		**5,961,215**	110,001
Liabilities and equity			
Current liabilities			
Accounts payable and accrued liabilities	9	**918,057**	–
Deferred revenue		**316,503**	–
Notes payable	10	**3,977,817**	–
Total liabilities		**5,212,377**	–
Equity			
Share capital	12	**7,873,211**	110,001
Contributed surplus		**1,912,959**	–
Deficit		**(8,916,386)**	–
Accumulated other comprehensive loss		**(120,946)**	–
Total equity		**748,838**	110,001
Total liabilities and equity		**5,961,215**	110,001

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

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 consolidated financial statements.

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

	Notes	Years ended March 31, **2019** **$**	2018 $
Revenue		**978,813**	–
Cost of sales		**525,850**	–
Gross margin		**452,963**	–
Expenses			
Advertising and promotion		**1,731,810**	–
Bad debt expense		**477,864**	–
Bank charges		**14,471**	–
Depreciation	7	**4,997**	–
Interest expense	10	**128,551**	–
Office and administration		**97,366**	–
Professional fees		**1,189,491**	–
Salaries and benefits	11	**692,128**	–
Share-based compensation	11,12	**1,587,505**	–
Loss before other items		**(5,471,220)**	–
Foreign exchange loss		**25,502**	–
Impairment of intangible assets	8	**2,127,736**	–
Impairment of goodwill	4	**1,371,928**	–
Net loss before income taxes		**(8,996,386)**	–
Deferred income tax recovery	13	**80,000**	–
Net loss for the year		**(8,916,386)**	–
Other comprehensive loss for the year:			
Item that may be reclassified subsequently to income			
Unrealized loss on foreign exchange translation		**(120,946)**	–
Comprehensive loss for the year		**(9,037,332)**	–
Loss per common share – basic and diluted		**(0.23)**	–
Weighted average number of common shares outstanding		**38,651,458**	–

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

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

	Number of shares	Share capital $	Contributed surplus $	Accumulated other comprehensive loss $	Deficit $	Total $
Balance, April 1, 2017	**–**	**–**	**–**	**–**	**–**	**–**
Seed shares issued	1	1	–	–	–	1
Issuance of common shares	110	110,000	–	–	–	110,000
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 exchanged for	(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 placements of shares	13,158,864	3,947,659	–	–	–	3,947,659
Private placement of units	2,768,819	1,550,539	110,753	–	–	1,661,292
Share issuance costs	–	(414,126)	43,291	–	–	(370,835)
Share-based compensation	–	–	1,587,505	–	–	1,587,505
Net loss	–	–	–	–	(8,916,386)	(8,916,386)
Foreign currency translation adjustment	–	–	–	(120,946)	–	(120,946)
Balance, March 31, 2019	**52,453,684**	**7,873,211**	**1,912,959**	**(120,946)**	**(8,916,386)**	**748,838**

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	
	2019	2018
	$	$
Operating activities		
Net loss	**(8,916,386)**	–
Items not affecting cash		
Depreciation	**4,997**	–
Bad debt expense	**477,864**	
Share-based compensation	**1,587,505**	–
Interest expense	**128,551**	–
Impairment of intangible assets	**2,127,736**	–
Impairment of goodwill	**1,371,928**	–
Deferred income tax recovery	**(80,000)**	–
Changes in non-cash working capital balances		
Amounts receivable	**1,923,862**	–
Inventory	**153,525**	–
Prepaid expenses and deposits	**(724,286)**	
Deferred revenue	**316,503**	
Accounts payable and accrued liabilities	**384,575**	–
Net cash used in operating activities	**(1,243,626)**	–
Investing activities		
Purchase of equipment	**(53,631)**	–
Cash on acquisition of DAFF	**28,526**	–
Cash on acquisition of CannAmerica Holdings	**980,563**	–
Net cash provided by investing activities	**955,458**	–
Financing activities		
Repayment of notes payable	**(1,825,646)**	–
Private placements	**3,416,951**	–
Share issuance costs	**(370,835)**	–
Net cash provided by financing activities	**1,220,470**	–
Effect of foreign currency translation on cash	**(184,082)**	
Increase in cash	**748,220**	–
Cash, beginning of year	**–**	–
Cash, end of year	**748,220**	–

Supplemental cash flow information (Note 16)

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") (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 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, 2019 the Company has an accumulated deficit of $8,916,386, a comprehensive loss of $9,037,332 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.

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 July 29, 2019.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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	
	2019	2018
CannAmerica Holdings Corp.	**100%**	–
DAFF International, LLC	**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 under IAS 39 and the new measurement under IFRS 9:

	IAS 39 Classification	IFRS 9 Classification
Financial assets		
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Investment in licensee	FVTPL	FVTPL
Financial liabilities		
Accounts payable	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost

IFRS 9 uses an expected credit loss impairment model as opposed to an incurred credit loss model under IAS 39. The impairment model 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. The adoption of the new expected credit loss impairment model had no impact on the carrying amounts of financial assets recognized at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting standards adopted effective April 1, 2018

On April 1, 2018, the Company adopted IFRS 9, "Financial Instruments". IFRS 9 introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected credit loss impairment model and a substantially reformed approach to hedge accounting. The Company adopted a full retrospective approach and the adoption of IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

On April 1, 2018, the Company adopted IFRS 15, "Revenue from Contracts with Customers". The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. The Company elected to apply IFRS 15 using a full retrospective approach. The adoption of IFRS 15 did not have any impact on the Company's consolidated financial statements.

Accounting standards and amendments issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended March 31, 2019, and have not been applied in preparing these consolidated financial statements.

IFRS 16 Leases

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 effective date of IFRS 16 for the Company is April 1, 2019 and the Company does not expect the adoption of IFRS 16 to have a material effect on the Company's future results and financial position.

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 Interpretation is applicable for annual years beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. The effective date of IFRIC 23 for the Company is February 1, 2019 and the Company does not expect the adoption of IFRIC 23 to have a material effect on the Company's future results and financial position.

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 consolidated financial statements.

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 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

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

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	**164,858**	–
GST and taxes recoverable	**76,009**	–
	240,867	–

The trade accounts receivable is net of allowance for expected credit losses. The allowance for expected credit losses of $254,271 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 March 31, 2019 is $946,071.

7. EQUIPMENT

	Total
	$
Cost	
Balance, March 31, 2018 and 2017	–
Additions	62,026
Foreign currency translation adjustment	(259)
Balance, March 31, 2019	61,767
Balance, March 31, 2018 and 2017	–
Depreciation	4,997
Balance, March 31, 2019	4,997
Balance, March 31, 2018	–
Balance, March 31, 2019	**56,770**

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 and 2017	–
Additions (Note 4)	5,170,000
Foreign currency translation adjustment	57,736
Impairment	(2,127,736)
Balance, March 31, 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	793,747	-
Accrued liabilities	88,903	
Payroll liabilities	35,407	-
	918,057	-

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. As of March 31, 2019, the balance of the principal and accrued interest is $3,576,927 (US$2,676,739).

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 March 31, 2019, the balance of the principal is $400,890 (US$300,000).

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 twelve months ended March 31, 2019, the Company was charged $172,885 in salaries (2018: nil) by the CEO of the Company.

For the twelve months ended March 31, 2019, the Company was charged $172,885 in salaries (2018: nil) by the COO of the Company.

For the twelve months ended March 31, 2019, the Company was charged $50,000 in management fees (2018: nil) by the CFO of the Company.

For the twelve months ended March 31, 2019, the Company was charged $11,000 in Director fees (2018: nil) by a Director 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 twelve months ended March 31, 2019 and 2018:

	2019	2018
	$	$
Salaries, bonuses, fees and benefits	**406,770**	–
Share based compensation	**1,147,630**	–
	1,554,400	–

12. SHARE CAPITAL

The Company has an unlimited number of common shares without par value authorized for issuance. As at March 31, 2019, the Company had 52,453,684 common shares issued and outstanding (March 31, 2018: 111) of which 4,951,800 were held in escrow (March 31, 2018: nil).

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

On September 6, 2018, the Company issued 7,306,664 common shares at a price of $0.30 per share for proceeds of $2,191,999.

On January 10, 2019, the Company issued 2,768,819 units at a price of $0.60 per unit for proceeds of $1,661,292 including 106,493 broker units. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant is exercisable for a period of two years at an exercise price of $0.80 per share. The Company assigned a residual value of $110,753 to the common share purchase warrants included in the units. The Company also issued 145,827 broker warrants which had an estimated fair value of $43,291 using the Black Scholes option pricing model with an estimated volatility of 118% and a risk-free rate of 1.90%.

Warrants

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

	Number of warrants	Weighted average exercise price $
Outstanding, March 31, 2018 and 2017	–	–
Granted	5,914,646	0.64
Outstanding, March 31, 2019	5,914,646	0.64

The following summarizes information about the outstanding share purchase warrants exercisable to acquire common shares of the Company as at March 31, 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
5,914,646		

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.

12. SHARE CAPITAL (cont'd)

Stock option plan (cont'd)

On May 30, 2018, the Company granted 4,100,000 stock options to certain directors, officers, employees and consultants of the Company. The stock options are exercisable for a period of five years at an exercise price of $0.30 per share and vested immediately. The fair value of the stock options on grant date was calculated to be $764,089 using the Black Scholes option pricing model with an estimated volatility of 169% and a risk-free rate of 2.13%.

On January 15, 2019, the Company granted 2,450,000 stock options to certain directors, officers, employees and consultants of the Company. The stock options are exercisable for a period of five years at an exercise price of $0.60 per share and vest ratably over a period of eighteen months. The fair value of the stock options on grant date was calculated to be $1,361,733 using the Black Scholes option pricing model with an estimated volatility of 168% and a risk-free rate of 1.91%.

On January 21, 2019, the Company granted 950,000 stock options to certain directors and consultants of the Company. The stock options are exercisable for a period of five years at an exercise price of $0.60 per share and vest ratably over a period of eighteen months. The fair value of the stock options on grant date was calculated to be $541,168 using the Black Scholes option pricing model with an estimated volatility of 162% and a risk-free rate of 1.95%.

On March 5, 2019, the Company granted 300,000 stock options to a officer of the Company. The stock options are exercisable for a period of five years at an exercise price of $0.60 per share and vest ratably over a period of eighteen months. The fair value of the stock options on grant date was calculated to be $95,600 using the Black Scholes option pricing model with an estimated volatility of 161% and a risk-free rate of 1.77%.

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

	Number of options	Weighted average exercise price $
Outstanding, March 31, 2018 and 2017	–	–
Granted	7,800,000	0.44
Forfeited	(225,000)	0.60
Outstanding, March 31, 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 March 31, 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	4.2	0.30	4,100,000	4.2	0.30
2,225,000	4.8	0.60	612,500	4.8	0.60
950,000	4.7	0.60	237,500	4.7	0.60
300,000	4.9	0.60	75,000	4.9	0.60
7,575,000		0.44	5,025,000		0.36

13. 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:

	2019	2018
	$	$
Canadian statutory income tax rate	27.00%	26.25%
Income tax recovery at statutory rate	(2,429,024)	-
Tax effect of:		
Permanent and other differences	931,028	-
Difference in foreign tax rates	17,430	-
Change in unrecognized deferred income tax assets	1,400,566	-
Deferred income tax recovery	(80,000)	-

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

	2019	2018
	$	$
Deferred income tax assets (liabilities)		
Non-capital losses carried forward	861,432	-
Share issuance costs	80,114	-
Intangible assets	702,804	-
Investment in licensee	(243,784)	-
Total gross deferred income tax assets (liabilities)	1,400,566	-
Unrecognized deferred income tax assets	(1,400,566)	-
Net deferred income tax assets (liabilities)	-	-

As at March 31, 2019, the Company has non-capital losses of approximately $2,878,000 in Canada and $313,000 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 2039.

14. 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, 2019		
	Carrying value	Level 1	Level 2	Level 3
	$	$	$	$
Cash	748,220	748,220	-	-
Investment in licensee	946,071	-	946,071	-

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, 2019	Up to 1 year	1 - 5 years	Total
Accounts payable	918,057	-	918,057
Notes payable	3,977,817	-	3,977,817
	4,895,874	-	4,895,874

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 $460,000.

14. 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.

15. 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.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Years ended March 31,	
	2019	2018
	$	$
Income taxes paid	–	–
Interest paid	–	–
Non-cash investing and financing activities		
Common shares issued for DAFF acquisition	**1,433,333**	–
Warrants issued for DAFF acquisition	**105,159**	–
Common shares deemed issued for CHC acquisition	**1,245,805**	–

17. SUBSEQUENT EVENT

On June 28, 2019, the Company entered into an extension agreement in respect of a binding letter of intent ("LOI") entered into on March 8, 2019 to create a joint venture ("JV") with Sericea Labs S.A. de C.V. and CBDistribution Company Ltd. with the intention of building a facility in Mexico for importing and warehousing licensed CBD products as well as CBD oils and tinctures destined for refining. The term of the LOI has been extended to January 1, 2020.

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CORPORATE DIRECTORY

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Nitin Kaushal
Chairman of the Board
Frank Falconer
Chief Commercial Officer
Paul Ciullo
Chief Financial Officer
Kathy Love
Corporate Secretary

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