KARIANA RESOURCES INC.

(An Exploration Stage Enterprise)

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 2014

(Expressed in Canadian Dollars)

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

Kariana Resources Inc.

We have audited the accompanying consolidated financial statements of Kariana Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

NEXIA INTERNATIONAL

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Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Kariana Resources Inc. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Kariana Resources Inc.'s ability to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

March 19, 2015

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31, 2014 $	December 31, 2013 $
ASSETS			
Current Assets			
Cash		189,928	1,140
Short-term investment		11,500	54,500
Receivables		15,618	14,383
Loan receivable	4	174,900	-
Total Current Assets		391,946	70,023
TOTAL ASSETS		391,946	70,023
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		137,539	1,707
Convertible debentures	5	103,925	-
Total Current Liabilities		241,464	1,707
Long-term liabilities	9	160,125	-
TOTAL LIABILITIES		401,589	1,707
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	6	1,338,336	1,022,791
Equity portion of convertible debentures	5	19,891	-
Reserves		102,140	102,314
Deficit		(1,470,010)	(1,056,789)
Total Shareholders' Equity (Deficiency)		(9,643)	68,316
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		391,946	70,023

Subsequent events (Note 12)

These consolidated financial statements are authorized for issue by the Board of Directors on March 19, 2015. They are signed on the Company's behalf by:

"Herrick Lau"	Director	*"David Velisek"*	Director
Herrick Lau		David Velisek	

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Notes	Year Ended December 31, 2014 $	Year Ended December 31, 2013 $
EXPENSES			
Accounting fees		12,200	12,720
Consulting fees		201,613	161,471
Advertising and promotion		15,000	-
Accretion expense	5	110,470	-
Legal fees		60,271	16,903
Management fees		-	92,500
Meals and travel expenses		5,326	15,673
Office and general		3,341	9,159
Project investigation		-	15,825
Transfer agent and filing fees		21,947	19,828
Write off of mineral property	3	-	147,993
Loss before undernoted income (expenses)		(430,168)	(492,072)
Cost recoveries		-	47,698
Interest income		2,065	2,574
Loss and comprehensive loss for the year		(428,103)	(441,800)
Basic and diluted loss per share		($0.13)	($0.15)
Weighted average number of common shares outstanding - basic and diluted		3,408,442	3,006,250

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

	Number of Shares	Common Shares $	Equity Portion of Convertible Debenture $	Reserves $	Deficit $	Shareholders' Equity (Deficiency) $
Balance – December 31, 2012	3,006,250	1,022,791	-	214,485	(727,160)	510,116
Reclassification of reserves on expired options and warrants	-	-	-	(112,171)	112,171	-
Loss for the year	-	-	-	-	(441,800)	(441,800)
Balance – December 31, 2013	3,006,250	1,022,791	-	102,314	(1,056,789)	68,316
Reclassification of reserves on expired options	-	-	-	(14,882)	14,882	-
Convertible debenture issuance cost for warrants	-	-	(2,788)	14,708	-	11,920
Convertible debenture issuance cost for shares	400,000	40,000	(7,584)	-	-	32,416
Equity portion of convertible debenture	-	-	65,808	-	-	65,808
Conversion of convertible debenture	4,800,000	275,545	(35,545)	-	-	240,000
Loss for the year	-	-	-	-	(428,103)	(428,103)
Balance – December 31, 2014	8,206,250	1,338,336	19,891	102,140	(1,470,010)	(9,643)

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

KARIANA RESOURCES INC.
(Expressed in Canadian Dollars, unless stated otherwise)
(An Exploration Stage Enterprise)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year Ended December 31, 2014 $	Year Ended December 31, 2013 $
Cash provided by (used in):			
Operating activities			
Loss for the year		(428,103)	(441,800)
Adjustment for items not involving cash:			
Non-cash interest accretion on convertible debenture	5	110,470	-
Write-off of mineral properties		-	147,993
Changes in non-cash operating working capital:			
Receivables		(1,235)	21,377
Accounts payable and accrued liabilities		109,431	(21,789)
Long-term liabilities		160,125	-
Net change in operating activities		(49,312)	(294,219)
Investing activities			
Loan receivable		(174,900)	-
Short-term investments		43,000	(43,000)
Deferred exploration expenditures		-	(9,600)
Net change in financing activities		(131,900)	(52,600)
Financing activities			
Proceeds from convertible debentures		631,250	-
Repayment of convertible debenture		(261,250)	-
Net change in financing activities		370,000	-
Net change in cash		188,788	(346,819)
Cash, beginning of the year		1,140	347,959
Cash, end of the year		189,928	1,140

Supplemental Cash Flow (Note 7)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated on September 14, 2010 pursuant to the provision of the *Business Corporations Act* (British Columbia). The Company was engaged primarily in the business of evaluating, acquiring and exploring natural resource properties. The Company's head office is located at 1980 – 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9, Canada. The Company's wholly-owned subsidiaries, 0994537 B.C. Ltd. and 0994540 B.C. Ltd., were incorporated on February 21, 2014 and remain inactive during the period ended December 31, 2014. The Company's shares commenced trading on the Canadian Securities Exchange under the trading symbol "KAA" on August 17, 2011.

The financial information is presented in Canadian Dollars, which is the functional currency of the Company and its subsidiaries.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has no commercial operations and its only significant assets are financial instruments, all of which are held in Canada. The Company's ability to realize its assets and discharge its liabilities is dependent upon the closing of transaction with Canna Delivery Systems Inc. (Note 4). These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

The Company has working capital as at December 31, 2014 of $150,482 (2013 – $68,316). These consolidated financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements comprise the financial statements of the Company and its wholly-owned subsidiaries, 0994537 B.C. Ltd. and 0994540 B.C. Ltd. All material intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Basis of presentation (Cont'd…)

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange in effect at the end of each reporting period.

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available on December 31, 2014.

Foreign currencies

The Company and its subsidiaries reporting and functional currency is the Canadian dollar as this is the principal currency of the economic environment in which they operate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gains and losses resulting from the settlement and from the re-measurement of monetary items at period end exchange rates are recognized in the statement of comprehensive loss.

Financing costs

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are expensed in the statement of comprehensive loss.

Short-term investment

Short-term investment, which is a fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value. As at December 31, 2014, the Company has one short-term investment totalling to $11,500 of principal and $93 of interest due on July 11, 2015 with an annual yield of prime minus 1.95%.

Exploration and evaluation assets

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are at the exploration/pre-development stage.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development assets, after testing for impairment, upon the commencement of mine development.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition;
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Exploration and evaluation assets (Cont'd…)

Exploration and evaluation expenditure related to an area of interest where the Company has tenure are capitalized as intangible assets and are recorded at cost less impairment.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest.

All capitalized exploration and evaluation expenditure is assessed for impairment for each reporting period and is impaired if facts and circumstances indicate that impairment may exist. In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period.

Decommissioning and rehabilitation liabilities

The Company recognizes the fair value of a decommissioning and restoration liability the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the decommissioning and restoration liability due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any significant decommissioning and restoration obligations.

Share-based payments

The share option plan allows Company employees (including directors and senior executives) and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Share-based payments also include the issuance of common shares.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve or share capital. No expense is recognized for awards that do not ultimately vest.

At the time when the share options are exercised, the amount previously recognized in reserves is transferred to share capital. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in reserves is transferred to accumulated losses.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payments arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Share-based payments (Cont'd…)

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of goods or services received.

Comprehensive loss

Comprehensive loss is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale. The Company does not have any items representing comprehensive income or loss.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive. Diluted loss per share is equal to the basic loss per share as net losses were reported during the periods presented.

Financial instruments – recognition and measurement

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables, other liabilities or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and financial liabilities not at fair value through profit and loss are measured at amortized cost using the effective interest rate method.

The Company has implemented the following classifications for its financial instruments:

a) Cash has been classified as FVTPL;
b) Short-term investments have been classified as FVTPL;
c) Receivables and loan receivable have been classified as loans and receivables; and
d) Accounts payable and accrued liabilities, convertible debentures, and long-term liabilities have been classified as financial liabilities not at fair value through profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Impairment of financial assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Significant accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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 the revision affects both the current and future periods.

Exploration and evaluation expenditure

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

Taxation

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

(b) Deferred income tax

Deferred income tax is provided for based on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Deferred income tax (Cont'd…)

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

New accounting standards and interpretations issued but not yet adopted

IFRS 9, Financial Instruments – Classification and Measurement; tentatively effective annual periods on or after January 1, 2018. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

(Expressed in Canadian Dollars, unless stated otherwise)

3. EXPLORATION AND EVALUATION ASSETS

South Baird Property, Ontario, Canada

	$
Balance December 31, 2013 and December 31, 2014	-

On September 21, 2010, the Company signed an option agreement (the "Option Agreement") with Perry Vern English, for and on behalf of Rubicon Minerals Corporation (the "Optionor") to acquire an undivided 100% interest in the South Baird Property (the "South Baird Property"), subject to a 2% net smelter return ("NSR") to the Optionor, with an option buyout of 50% of the NSR for $1,000,000 upon or prior to the commencement of commercial production. The South Baird Property is located in the District of Red Lake Mining in the province of Ontario.

The Company entered into a finder's fee agreement dated November 25, 2010 in connection with the acquisition of the South Baird Property. The Company paid finder's fee in cash of $25,000 and issued 75,000 common shares on December 23, 2010.

Pursuant to the Option Agreement, the Company issued 100,000 common shares at $0.20 per share to the Optionor on August 17, 2011.

On July 8, 2013, the Company terminated the Option Agreement. The Company wrote off all the related exploration and evaluation costs of $147,993.

4. LETTER OF INTENT

On December 16, 2014, the Company signed a Letter of Intent ("LOI") with Canna Delivery Systems Inc. ("Canna") in which the Company will acquire all of the issued and outstanding common shares of Canna for 7,800,000 shares of the Company. The shares will be escrowed and will be released over two years based upon Canna meeting certain financial milestones. The Company also loaned US$150,000 to Canna. The loan is unsecured, non-interest bearing and is repayable 90 days after termination of the proposed transaction.

In connection with the LOI, on a best-efforts basis, the Company intends on completing a concurrent financing by way of a non-brokered private placement at the close of the transaction. The private placement will raise gross proceeds of $500,000 through the sales of 3,333,334 subscription receipts at a price of $0.15 per subscription receipt. Each subscription receipt will automatically convert into one unit. Each unit will be comprised of one common share and one half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share of the Company at the price of $0.30 for the first year and $0.45 for the second year from the closing of the concurrent financing. Subsequent to December 31, 2014, the Company received $271,610 in subscription proceeds towards the private placement.

5. CONVERTIBLE DEBENTURE

(a) On May 22, 2014, the Company completed a non-brokered private placement of $250,000 aggregate principal amount of unsecured convertible debentures. The debentures bear nil interest, mature on November 22, 2015 and are convertible, at the election of the holder into units of the Company at a price of $0.05 per unit.

Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to acquire an additional common share at a price of $0.10 until May 22, 2017.

A finder's fee of $54,708 was paid in 400,000 common shares of the Company at $0.10 per share and 400,000 finder's warrants. Each finder's warrant is exercisable at a price of $0.10 per share until May 22, 2017. The fair value of the finder's warrants was estimated at $14,708 using the Black-Scholes options pricing model with the following assumptions: risk-free rate of 1.04%, expected life of 3 years, volatility of 150%, and dividend rate of

(Expressed in Canadian Dollars, unless stated otherwise)

5. CONVERTIBLE DEBENTURE (CONT'D…)

0%. Transaction costs were netted against the debt instrument and equity component in proportion to their respective fair value at initial recognition.

Opening balance, January 1, 2014	$	-
Gross proceeds on issuance of debentures		250,000
Conversion feature		(47,398)
Transaction costs - liability portion		(44,336)
Accretion expense		89,349
Carry value of convertible debenture converted		(240,000)
Ending balance, December 31, 2014	$	7,615

On December 17, 2014, convertible debentures with a face value of $240,000 were converted which resulted in the issuance of 4,800,000 common shares of the company and 4,800,000 warrants exercisable at $0.10 until May 22, 2017.

(b) On June 11, 2014, the Company's wholly-owned subsidiary, 0994537 B.C. Ltd., completed a non-brokered private placement of $261,250 aggregate principal amount of unsecured convertible debentures. The debentures bear nil interest, mature on June 11, 2015 and are convertible, at the election of the holder into units of 0994537 B.C. Ltd. at a price of $0.025 per unit.

Each unit consists of one common share of 0994537 B.C. Ltd. and one common share purchase warrant. Each warrant entitles the holder thereof to acquire an additional common share of 0994537 B.C. Ltd. at a price of $0.10 until June 11, 2017.

On December 9, 2014, the Company and the debenture holders agreed to cancel the convertible debentures. The Company returned the funds and canceled the debt.

Opening balance, January 1, 2014	$	-
Gross proceeds on issuance of debentures		261,250
Conversion feature		(34,076)
Accretion expense		18,411
Retirement of debentures (equity portion)		15,665
Retirement of debentures (cash)		(261,250)
Ending balance, December 31, 2014	$	-

(Expressed in Canadian Dollars, unless stated otherwise)

5. CONVERTIBLE DEBENTURE (CONT'D…)

(c) On December 15, 2014, the Company signed convertible promissory notes with arm's length lenders, for a total principal amount of $120,000, due one year from the date of closing. The promissory notes will accrue interest at a rate of 15% per annum. The lenders have the right to convert the principal amount into common shares at a conversion price of $0.10 per share. As partial consideration for the promissory notes, the Company has agreed to issue to the lenders common shares equal to 20% of the promissory notes amount at $0.10 per fee share. In addition, subsequent to year end, the Company paid a finder's fee of 8% on $30,000 of the loan, which was payable in shares at $0.10 per share. Transaction costs were netted against the debt instrument and equity component in proportion to their respective fair value at initial recognition.

Opening balance, January 1, 2014	$	-
Gross proceeds on issuance of debentures		120,000
Transaction costs		(26,400)
Interest accretion		1,921
Interest expense		789
Ending balance, December 31, 2014	$	96,310

6. CAPITAL AND RESERVES

A. Common Shares

Authorized: Unlimited number of common voting shares without nominal or par value.

B. Issued share capital

As at December 31, 2014, there were 8,206,250 common shares issued and outstanding (December 31, 2013 – 3,006,250).

i. On January 27, 2014, the Company effected a consolidation of its capital on the basis of four (4) existing common share for one (1) new common share. All shares, options, warrants, and per share amounts were adjusted to reflect the consolidation ratio.

ii. On May 22, 2014, the Company completed a non-brokered private placement of $250,000 aggregate principal amount of unsecured convertible debentures. The Company paid a finder's fee of 400,000 common shares at $0.10 per share and 400,000 finder's warrants valued at $14,708 (Note 5).

iii. On December 17, 2014, convertible debt holders converted $240,000 of their debt into 4,800,000 shares of the Company (Note 5).

(Expressed in Canadian Dollars, unless stated otherwise)

6. CAPITAL AND RESERVES (CONT'D…)

C. Share purchase option compensation plan

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the years ended December 31, 2014 is as follows:

	December 31, 2014		December 31, 2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the year	157,500	$0.87	295,000	$0.83
Cancelled	(25,000)	$0.80	(137,500)	$0.79
Options outstanding and exercisable, end of the year	132,500	$0.89	157,500	$0.87

The options outstanding and exercisable at December 31, 2014 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price $	Expiry Date
75,000	0.80	August 15, 2021
57,500	1.00	September 1, 2016
132,500	0.89	

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	December 31, 2014		December 31, 2013	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of the year	-	$-	75,000	$0.80
Issued	5,200,000	0.10	-	-
Expired	-	-	(75,000)	$0.80
Warrants outstanding, end of the year	5,200,000	$0.10	-	-

As at December 31, 2014, 5,200,000 warrants were outstanding and the exercise price is $0.10 per warrant and expires on May 22, 2017.

(Expressed in Canadian Dollars, unless stated otherwise)

6. CAPITAL AND RESERVES (CONT'D…)

E. Escrow Shares

As at December 31, 2014, the Company has nil common shares held in escrow (2013 – 218,738).

7. SUPPLEMENTAL CASH FLOW

During the year ended December 31, 2014 the Company recorded the following items:

- Common shares issued for finders' fees of $40,000;
- Warrants issued for finders' fees of $14,708;
- Finders' fee common shares included in accounts payable and accrued liabilities of $26,400;
- A convertible debenture of $240,000 was converted to common shares; and
- Equity component of convertible debentures of $81,474 was offset by a convertible debenture payable.

There were no non-cash financing or investing transactions for the year ended December 31, 2013.

8. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has not generated any revenues and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on a regular basis. 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.

9. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Years Ended December 31,	
Services provided by:		2014	2013
Baron Global Financial Canada Ltd.	a	$142,500	$120,270
Pashleth Investment Ltd.	b	-	$22,500
Little Hampton Capital	c	-	$35,000
Isaac Moss	d	-	$35,000

(a) On April 1, 2014, the Company entered into an agreement with Baron Global Financial Canada Ltd. ("Baron") that is related by way of a common director of the Company. Baron provided corporate advisory services to the Company.

(b) Pashleth Investment Ltd. ("Pashleth") is owned by the former CEO and director of the Company. On December 31, 2013, the former CEO and director forgave amounts owing of $45,000 which was recorded as a cost recovery.

(Expressed in Canadian Dollars, unless stated otherwise)

9. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Little Hampton Capital is owned by the former CEO and director of the Company.

(c) Isaac Moss is a former director of the Company.

Related Party Payable:

	December 31, 2014	December 31, 2013
Baron Global Financial Canada Ltd.	$160,125	-

Baron has agreed not to seek repayment of this amount until March 1, 2016.

10. DEFERRED INCOME TAX

The recovery of income taxes differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

		2014		2013
Earnings (loss) for the year	$	(428,103)	$	(486,800)
Expected income tax (recovery)	$	(111,000)	$	(125,000)
Change in statutory, foreign tax, foreign exchange rates and other		17,000		(5,000)
Adjustment to prior years provision versus statutory tax returns and ex		12,000		-
Change in unrecognized deductible temporary differences		82,000		130,000
Total income tax expense (recovery)	**$**	**-**	**$**	**-**

The significant components of deductible temporary differences and unused tax losses that have not been included on the statements of financial position are as follows:

	2014	Expiry Date Range	2013	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	$ 148,000	No expiry date	$ 148,000	No expiry date
Investment tax credit	4,000	2020 to 2033	4,000	2020 to 2032
Share issue costs	31,000	2034 to 2037	63,000	2033 to 2036
Debt with accretion	26,000	No expiry date	-	No expiry date
Non-capital losses available for future period	1,275,000	2015 to 2034	972,000	2014 to 2032

The potential tax benefits related to the loss carry forwards and other temporary differences, the application of which may be restricted, have not been recognized in these financial statements as management does not consider it likely that such assets will be realized in the carry forward period.

(Expressed in Canadian Dollars, unless stated otherwise)

11. FINANCIAL INSTRUMENTS

Classification of Financial Instruments:

(a) Fair Values

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as at December 31, 2014 as follows:

	Fair Value Measurements Using				
	Quoted prices in active markets for identical instruments (Level 1) $	Significant other observable inputs (Level 2) $	Significant unobservable inputs (Level 3) $	Balance, December 31, 2014 $	Balance, December 31, 2013 $
Cash	189,928	-	-	189,928	1,140
Short-term investment	11,500	-	-	11,500	54,500

The fair values of other financial instruments, which include receivables, loan receivable, accounts payable and accrued liabilities, long-term liabilities, and convertible debentures approximate their carrying values due to the relatively short-term maturity of these instruments and loan payable.

(b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and loan receivable. The Company limits its exposure to credit loss by placing its cash and short-term investment with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure. Management believes the credit risk associated with the loan receivable is low given the Company's current transaction with Canna.

(c) Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure (Note 8).

(d) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks and GIC carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered minimal. The Company has no interest bearing borrowings.

The policies to manage interest rate risk have been followed by the Company during the prior year and are considered to be effective.

11. FINANCIAL INSTRUMENTS (CONT'D…)

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

12. SUBSEQUENT EVENTS

(a) On January 12, 2015, the Company issued 240,000 shares for Fee Shares in relation to the December 15, 2014 promissory note (Note 5c).

(b) On February 12, 2015 the Company issued 24,000 shares for finder's fees in relation to the December 15, 2014 promissory note (Note 5c).