LIFESTYLE DELIVERY SYSTEMS INC.

(Formerly Kariana Resources Inc.)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For The Three and Six Months Ended June 30, 2015

(Expressed in Canadian Dollars)

(Unaudited)

LIFESTYLE DELIVERY SYSTEMS INC.
(Formerly Kariana Resources Inc.)
(Expressed in Canadian Dollars, unless stated otherwise)
CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

	Notes	June 30, 2015 $	December 31, 2014 $
			Audited
ASSETS			
Current Assets			
Cash		178,716	189,928
Short-term investment		66,500	11,500
Receivables		12,132	15,618
Prepaid expenses		46,749	-
Inventory		131,145	-
Loan receivable	3	-	174,900
Total Current Assets		435,242	391,946
Technology	6	1,438,293	-
Deposit on equipment	5	349,480	-
TOTAL ASSETS		2,223,015	391,946
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		237,601	137,539
Convertible debentures	7	-	103,925
Total Current Liabilities		237,601	241,464
Long-term liabilities	13	29,925	160,125
TOTAL LIABILITIES		267,526	401,589
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	10	3,676,374	1,338,336
Equity portion of convertible debentures	7	18,411	19,891
Obligation to issue shares	3	84,750	-
Reserves		102,140	102,140
Deficit		(1,937,157)	(1,470,010)
Accumulated other comprehensive income		10,971	-
Total Shareholders' Equity (Deficiency)		1,955,489	(9,643)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,223,015	391,946

Subsequent events (Note 15)

These consolidated interim financial statements are authorized for issue by the Board of Directors on August 31, 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 interim financial statements.

LIFESTYLE DELIVERY SYSTEMS INC.
(Formerly Kariana Resources Inc.)
(Expressed in Canadian Dollars, unless stated otherwise)
CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS

	Notes	Three Months Ended June 30, 2015 $	Three Months Ended June 30, 2014 $	Six Months Ended June 30, 2015 $	Six Months Ended June 30, 2014 $
Revenue		30,688	-	30,688	-
Expenses					
Accounting fees		30,594	2,000	55,594	12,200
Amortization		49,647	-	49,647	-
Advertising and promotions		4,858	5,000	4,858	5,000
Consulting fees		116,711	17,087	156,298	49,940
Accretion expense	7	12,694	5,896	33,015	5,896
Legal fees		17,191	5,432	47,191	5,432
Meals and travel expenses		35,426	482	37,288	2,523
Office and general		40,914	2,271	41,716	3,135
Research and development		41,616	-	41,616	-
Transfer agent and filing fees		25,733	4,421	31,657	15,333
Operating loss		(344,696)	(42,589)	(468,192)	(99,459)
Foreign exchange gain		638	-	638	-
Interest income		29	280	407	346
Net loss for the period		(344,029)	(42,309)	(467,147)	(99,113)
Other comprehensive income					
Foreign exchange on translation of subsidiaries		10,971	-	10,971	-
Net comprehensive loss		(333,058)	(42,309)	(456,176)	(99,113)
Basic and diluted loss per share		($0.03)	($0.01)	($0.09)	($0.03)
Weighted average number of common shares outstanding - basic and diluted		10,521,185	3,204,606	5,289,657	3,204,608

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Formerly Kariana Resources Inc.)
(Expressed in Canadian Dollars, unless stated otherwise)
CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Number of Shares	Common Shares $	Equity Portion of Convertible Debenture $	Obligation to Issue Shares $	Reserves $	Accumulated Other Comprehensive Income $	Deficit $	Shareholders' Equity $
Balance – December 31, 2013	3,006,250	1,022,791	-	-	102,314	-	(1,056,789)	68,316
Reclassification of reserves on expired options and warrants	-	-	-	-	(14,882)	-	14,882	-
Convertible debenture issuance cost for warrants	-	-	-	-	14,708	-		14,708
Convertible debenture issuance cost for shares	400,000	40,000	-	-	-	-	-	40,000
Equity portion of convertible debenture	-	-	49,832	-	-	-	-	49,832
Loss for the period	-	-	-	-	-	-	(99,113)	(99,113)
Balance – June 30, 2014	3,406,250	1,062,791	49,832	-	102,140	-	(1,141,020)	73,743
Balance - December 31, 2014	8,206,250	1,338,336	19,891	-	102,140	-	(1,470,010)	(9,643)
Finder's fee and Fee shares for convertible promissory note	264,000	26,400	-	-	-	-	-	26,400
Conversion of convertible debenture	200,000	11,480	(1,480)	-	-	-	-	10,000
Acquisition of Technology	7,800,000	1,170,000	-	-	-	-	-	1,170,000
Private placement	5,168,757	775,314	-	-	-	-	-	775,314
Share issuance cost	-	(38,215)	-	-	-	-	-	(38,215)
Finder's fee for private placement	254,768	38,215	-	-	-	-	-	38,215
Finder's fee for the acquisition of Technology	83,333	12,499	-	84,750	-	-	-	97,249
Debt settlement	1,183,000	177,450	-	-	-	-	-	177,450
Conversion of convertible promissory note	1,200,000	120,000	-	-	-	-	-	120,000
Warrants exercise	448,953	44,895	-	-	-	-	-	44,895
Other comprehensive income for the period	-	-	-	-	-	10,971	-	10,971
Loss for the peirod	-	-	-	-	-	-	(467,147)	(467,147)
Balance – June 30, 2015	24,809,061	3,676,374	18,411	84,750	102,140	10,971	(1,937,157)	1,955,489

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Formerly Kariana Resources Inc.)
(Expressed in Canadian Dollars, unless stated otherwise)
CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	$	$
Cash provided by (used in):		
Operating activities		
Loss for the year	(467,147)	(99,113)
Adjustment for items not involving cash:		
Amortization	49,647	-
Non-cash interest accretion on convertible debenture	26,074	5,896
Acquisition of Technology	(88,791)	-
Changes in non-cash operating working capital:		
Receivables	3,486	9,631
Prepaid expenses	(44,939)	-
Inventory	(131,145)	-
Loan receivable	-	-
Accounts payable and accrued liabilities	34,801	60,709
Net change in operating activities	(618,014)	(22,877)
Investing activities		
Deposit on equipment	(131,245)	-
Short-term investments	(55,000)	(227,000)
Net change in financing activities	(186,245)	(227,000)
Financing activities		
Repayment of loan	(27,162)	-
Proceeds from convertible debentures	-	511,250
Proceeds from issuance common shares	775,314	-
Proceeds from warrant exercise	44,895	-
Net change in financing activities	793,047	511,250
Net change in cash	(11,212)	261,373
Cash, beginning of the period	189,928	1,140
Cash, end of the period	178,716	262,513

Supplemental Cash Flow (Note 11)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Lifestyle Delivery Systems Inc. (formerly Kariana Resources Inc.) (the "Company" or "LDS") was incorporated on September 14, 2010 pursuant to the provision of the Business Corporations Act (British Columbia). The Company's principal business activity is technologies that produce oral delivery system that can be used for energy elixirs, herbal remedies and a smokeless alternative option to medical and recreational users of cannabis. 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 June 30, 2015. The Company's shares trade on the Canadian Securities Exchange under the trading symbol "LDS" and also on OTCQB under the trading symbol "LDSYF".

On May 1, 2015, the Company acquired all the issued and outstanding common stock of Canna Delivery Systems Inc. ("Canna") and changed its name to "Lifestyle Delivery Systems Inc." under the British Columbia Business Corporations Act (the "Transaction"). Canna, incorporated under the State of Nevada on November 25, 2014, is now one of the wholly-owned subsidiaries of LDS.

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

These condensed interim 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's ability to realize its assets and discharge its liabilities is dependent upon the operation of Canna. 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 June 30, 2015 of $197,641 (2014 – $150,482). These condensed interim 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 condensed interim 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

Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") on a basis consistent with the significant accounting policies disclosed in note 2 of the most recent annual financial statements as at and for the year ended December 31, 2014 as filed on SEDAR at www.sedar.com. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements.

Basis of presentation

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Basis of presentation (Cont'd…)

These condensed interim consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	% of Interest
0994537 B.C. Ltd.	Canada	100%
0994540 B.C. Ltd.	Canada	100%
Canna Delivery Systems Inc.	USA	100%

All material intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

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 condensed interim 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 June 30, 2015.

Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The results and financial position of Canna, the Company's foreign subsidiary in USA, whose functional currency is US dollars, is translated into Canadian dollars as follows: i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; ii) income and expenses are translated at average exchange rates for the respective quarter on a quarterly basis; and iii) all resulting exchange differences are recognized in other comprehensive income as currency translation differences.

Foreign currencies

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at balance sheet date exchange rates are recognized in the statement of earnings.

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 a 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 June 30, 2015, the Company has two short-term investments totalling $66,500 of principal and $231 and $110 of interest due on January 13, 2016 and July 11, 2015 respectively with an annual yield of prime minus 1.95%.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Inventory

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable value, management takes into account the most reliable evidence available at the time the estimate is made. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, future realization of the carrying amounts of inventory assets is affected by price changes in different market segments. Details of the inventory balances are provided in Note 4.

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.

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 income (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 which 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Earnings (loss) per share (Cont'd…)

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, prepaid, and inventory 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

Impairment of non-financial assets (Cont'd…)

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.

Intangible assets

Costs related to intangible assets (Note 3) are capitalized and amortized over a 5 year life. All maintenance costs are expensed as incurred.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D…)

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.

3. ACQUISTION

On March 20, 2015, the Company signed a share exchange agreement (the "Agreement") with Canna in which the Company agreed to acquire all of the issued and outstanding common shares of Canna for 7,800,000 shares of the Company (the "Performance Shares") at a price of $0.15 per share. The Performance Shares were issued into escrow on the closing date and will be released upon Canna achieving certain financial milestones over a period of 24 months from the closing of the Transaction as follows:

(i) Milestone 1 – 1,500,000 Performance Shares released upon Canna generating cumulative gross revenues of US$50,000;

(ii) Milestone 2 – an additional 2,100,000 Performance Shares released upon Canna generating cumulative gross revenues of US$200,000;

(iii) Milestone 3 – an additional 2,100,000 Performance Shares released upon Canna generating cumulative gross revenues of US$600,000; and

(iv) Milestone 4 – an additional 2,100,000 Performance Shares released upon Canna generating cumulative gross revenues of US$1,000,000.

The Company also loaned US$150,000 to Canna on December 15, 2014. The loan is unsecured, non-interest bearing and was to be repaid 90 days after termination of the Transaction. As a result of the completion of the Transaction, the loan has been eliminated upon consolidation.

In connection with the Agreement, the Company raised a gross proceeds of $775,314 through the sale of 5,168,757 subscription receipts at a price of $0.15 per subscription receipt on April 2, 2015 and each subscription receipt was converted into one unit upon the close of the Transaction. Each unit 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.

On May 1, 2015, the Company completed the Transaction and acquired Canna. The Transaction is considered an acquisition of the net assets of Canna as Canna is not considered a business; therefore, the asset acquisition has been accounted for using the acquisition method, whereby the purchase consideration was allocated to the estimated fair values of the identifiable assets acquired at the effective date of the purchase.

(Expressed in Canadian Dollars, unless stated otherwise)

3. ACQUISTION (CONT'D…)

The purchase prices allocated to the net assets acquired in the acquisition as follows:

		Total
Purchase Price:		
Common shares	$	1,170,000
Finder's fee	$	97,250
Transaction costs	$	80,398
	$	1,347,648
Net assets acquired:		
Prepaid	$	1,810
Technology	$	1,487,885
Deposit on equipment	$	218,235
Bank indebtness	$	(10)
Accounts payable	$	(28,019)
Due to related party	$	(30,494)
Loan payable	$	(301,759)
	$	1,347,648

Given the fact that the Performance Shares were issued into escrow on the closing date, they will be released upon Canna achieving certain financial milestones over a period of 24 months from the closing of the Transaction, and the former shareholders of Canna are not required to provide services to the Company, the Company estimated the fair value of all the Performance Shares on the closing of the Transaction to be $1,170,000 based on all the milestones being met.

Pursuant to the Transaction, the Company paid a finder's fee for the acquisition of 83,333 common shares at $0.15 per share and has the obligation to pay up to 565,000 common shares upon the release of the Performance Shares from escrow. The Company has recorded an obligation to issue shares of $84,750 based on 565,000 finder's fee common shares being issued.

4. INVENTORY

As at June 30, 2015, inventory comprised of $131,145 (2014 - nil). As at June 30, 2015, there were no significant write-downs on inventory as a result of net realizable value being lower than cost.

5. DEPOSIT ON EQUIPMENT

As at June 30, 2015, the Company paid $349,480 (2014 – nil) to acquire equipment that will be used to continue development and testing of the Technology (as described hereafter). As of the date of this report the equipment has not been received yet.

(Expressed in Canadian Dollars, unless stated otherwise)

6. TECHNOLOGY

On May 1, 2015, upon the completion of the Transaction (Note 3), the Company acquired certain technology to produce cannabis infused strips capable of delivering accurately measured doses of medicinal marijuana (the "Technology"), from the shareholders of Canna (the "Vendor").

During the period ended June 30, 2015, amortization expense of $49,647 (2014 – nil) was recorded.

7. 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 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
Accretion expense		2,385
Carry value of convertible debenture converted		(10,000)
Ending balance, June 30, 2015	$	-

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.

On March 31, 2015, convertible debentures with a face value of $10,000 were converted which resulted in the issuance of 200,000 common shares of the company and 200,000 warrants exercisable at $0.10 until May 22, 2017.

(Expressed in Canadian Dollars, unless stated otherwise)

7. CONVERTIBLE DEBENTURE (CONT'D…)

(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 and June 30, 3015	$	-

(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 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 the 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
Interest accretion		24,479
Interest expense		6,152
Carry value of convertible promissory note converted		(120,000)
Interest paid		(6,941)
Ending balance, June 30, 2015	$	-

7. CONVERTIBLE DEBENTURE (CONT'D…)

On May 4, 2015, convertible promissory notes with a face value of $90,000 were converted which resulted in the issuance of 900,000 common shares of the Company and an interest payment of $5,178.

On May 7, 2015, a convertible promissory note with a face value of $30,000 was converted which resulted in the issuance of 300,000 common shares of the Company and an interest payment of $1,763.

8. LOAN PAYABLE

a) On December 15, 2014, the Company loaned US$150,000 to Canna. The loan is unsecured, non-interest bearing and was repayable 90 days after termination of the Transaction. As result of the completion of the Transaction, the loan has been eliminated upon consolidation.

b) On February 27, 2015, Canna entered into a promissory note with a director of LDS for US$25,000 accruing interest at 6% per annum until March 26, 2015, when entire loan and interest were to be repaid in the amount of US$25,125. Based on provisions of the note payable, if Canna failed to make the balloon payment on March 26, 2015, the total outstanding balance would be subject to a 10% late fee.

   Canna did not make the necessary payment on March 26, 2015. On May 15, 2015, Canna repaid the note payable to a director of LDS. The payment totalled US$27,750 and consisted of US$25,000 in principle, US$250 in accrued interest, and US$2,500 penalty associated with the late repayment of the note payable.

c) On April 2, 2015, the Company entered into a non-secured, non-convertible promissory note with Canna. The Company advanced a loan of US$75,000 to Canna which was repayable within three days from the termination of the Agreement without the acquisition of Canna being completed. The loan bears no interest. As result of the completion of the Transaction with Canna on May 1, 2015, the loan has been eliminated upon consolidation.

9. LICENSE AGREEMENT

On June 25, 2015, Canna entered into a non-exclusive license agreement (the "License Agreement") with Healthy Asylum Inc. ("HAI"). Pursuant to the License Agreement, Canna agreed to license the Technology to HAI for an annual fee of US$25,000. In addition to the annual fee HAI will be responsible for sourcing cannabis ingredients for use in production process as well as any ongoing packaging and non-cannabis ingredients costs. The license has a one year renewable term and restrictive conditions on formulation, manufacturing, packaging and distribution methods. The necessary equipment must be leased from Canna and can only be used for the purposes of producing the licensed products.

10. CAPITAL AND RESERVES

A. Common Shares

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

B. Issued share capital

As at June 30, 2015, there were 24,809,061 common shares issued and outstanding (December 31, 2014 – 8,206,250).

10. CAPITAL AND RESERVES (CONT'D…)

B. Issued share capital (cont'd…)

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 7a).

iii. On December 17, 2014, convertible debt holders converted $240,000 of their debt into 4,800,000 shares of the Company (Note 7a).

iv. On January 12, 2015, the Company issued 240,000 shares for Fee Shares in relation to the December 15, 2014 promissory note (Note 7c).

v. On February 12, 2015, the Company issued 24,000 shares for finder's fees in relation to the December 15, 2014 promissory note (Note 7c).

vi. On March 31, 2015, convertible debt holders converted $10,000 of their debt into 200,000 shares of the Company (Note 7a).

vii. On May 1, 2015, the Company issued to Canna's shareholders, pro rata, an aggregate of 7,800,000 common shares of the Company (the "Performance Shares") at a value of $0.15 per Performance Share. The Performance Shares are subject to escrow provisions pursuant to the Agreement and will be released upon achieving certain future financial milestones (Note 3).

viii. On May 1, 2015, in connection with the Transaction, the Company issued 83,333 common shares of the Company (the "Finder Shares") to an arm's length finder for assistance in closing the Transaction. The Company has agreed to issue, and has reserved for issuance, an additional 565,000 Finder Shares upon achieving certain future financial milestones (Note 3).

ix. On May 1, 2015, the subscription receipts that were closed on April 2, 2015, were automatically converted into 5,168,757 common shares and 2,584,379 common share purchase warrants. In connection with the financing, the Company issued 254,768 units to arm's length finders (the "Finder Units"). Each Finder Unit consists of one common share and one-half of one non-transferable common share purchase warrant which entitles the finder to purchase an additional common share until May 1, 2016 at a price of $0.30 per share and at a price of $0.45 until May 1, 2017.

x. On May 1, 2015, the Company settled $130,200 and $47,250 debt with Baron Global Financial Canada Ltd. and an arm's length creditor of the Company respectively by converting the debt payable into shares of the Company at a conversion price of $0.15 per share. An aggregate $177,450 debt was extinguished and a total of 1,183,000 shares of the Company were issued (Note 13).

xi. On May 4, 2015, convertible promissory notes with a total face value of $90,000 were converted which resulted in the issuance of 900,000 common shares of the Company (Note 7c).

xii. On May 7, 2015, the convertible promissory note with a face value of $30,000 was converted which resulted in the issuance of 300,000 common shares of the Company (Note 7c).

xiii. On May 12, 2015, 400,000 shares were issued upon the exercise of 400,000 warrants at $0.10 per share (Note 7c).

(Expressed in Canadian Dollars, unless stated otherwise)

10. CAPITAL AND RESERVES (CONT'D…)

B. Issued share capital (Cont'd…)

xiv. On June 11, 2015, 48,953 shares were issued upon the exercise of 48,953 warrants at $0.10 per share.

xv. On June 29, 2015, 6,250 shares were issued upon the exercise of 6,250 warrants at $0.10 per share.

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 period ended June 30, 2015 is as follows:

	June 30, 2015		December 31, 2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the period	132,500	$0.89	157,500	$0.87
Cancelled	-	-	(25,000)	$0.80
Options outstanding and exercisable, end of the period	132,500	$0.89	132,500	$0.89

The options outstanding and exercisable at June 30, 2015 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	

(Expressed in Canadian Dollars, unless stated otherwise)

10. CAPITAL AND RESERVES (CONT'D…)

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants:

	June 30, 2015		December 31, 2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of the period	5,200,000	$0.10	-	-
Exercised	(448,953)	$0.10	-	-
Issued	2,911,764	$0.36	5,200,000	$0.10
Warrants outstanding, end of the period	7,662,811	$0.20	5,200,000	$0.10

Number of Warrants outstanding	Exercise Price	Weighted Average Remaining Life	Expiration Date
4,951,047	$0.10	1.34	May 22, 2017
2,711,764	$0.30 on the first year; $0.45 on the second year	0.65	May 1, 2017

E. Escrow shares

As at June 30, 2015, the Company had 7,800,000 common shares held in escrow (December 31, 2014 – nil).

11. SUPPLEMENTAL CASH FLOW

During the period ended June 30, 2015 and 2014 the Company recorded the following items:

	June 30, 2015	June 30, 2014
	$	$
Shares issued for finders' fees fee shares for the convertible promissory note	26,400	-
Convertible debenture converted into shares	10,000	-
Convertible promissory note converted into shares	120,000	-
Shares issued for debt	177,450	-
Shares issued for the acquisition of Technology	1,170,000	-
Shares issued for finder's fee for the Transaction	12,500	-
Shares to be issued for finder's fee for the Transaction	84,750	
Shares issued for finders' fees for private placement	38,215	-
Cost related to the acquisition of the Technology in accounts payable	80,398	-

(Expressed in Canadian Dollars, unless stated otherwise)

12. 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 generated only minimal revenue 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.

13. 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:

Services provided by:		June 30, 2015	June 30, 2014
Corporate advisory services	a	$82,500	$67,500
Management consulting fees	b	$44,900	-

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 for a one year term for $12,500 per month. Baron provided corporate advisory services to the Company.

On April 1, 2015, the Company entered into an agreement with Baron for a one year term for $15,000 per month.

On May 1, 2015, the Company settled $130,200 debt with Baron by converting the debt payable into shares of the Company at a conversion price of $0.15 per share. A total of 868,000 shares of the Company were issued.

b) Management consulting fees consist of the following:

- $16,360 (2014 – nil) in consulting fees paid or accrued to Mariscos Del Mar, a company controlled by Brad Eckenweiler, the CEO and director of the Company;
- $16,360 (2014 – nil) in consulting fees paid or accrued to FindTec, Inc., a company controlled by Brent Inzer, the former president, CFO and director of Canna; and
- $12,270 (2014 – nil) in consulting and administrative fees paid or accrued to Da Costa Management Corp., a company controlled by John da Costa, the former director of Canna.

c) On February 27, 2015, Canna entered into a promissory note with a director of LDS for US$25,000 accruing interest at 6% per annum until March 26, 2015, when entire loan and interest were to be repaid in the amount of US$25,125. Based on provisions of the note payable, if Canna failed to make the balloon payment on March 26, 2015, the total outstanding balance would be subject to a 10% late fee.

Canna did not make the necessary payment on March 26, 2015. On May 15, 2015, Canna repaid the note payable to a director of LDS. The payment totalled US$27,750 and consisted of US$25,000 in principle, US$250 in accrued interest, and US$2,500 penalty associated with the late repayment of the note payable.

(Expressed in Canadian Dollars, unless stated otherwise)

13. RELATED PARTY TRANSACTIONS (CONT'D…)

Related Party Payable:

	June 30, 2015	December 31, 2014
Baron Global Financial Canada Ltd.	$69,300	$160,125
Brad Eckenweiler, CEO	$44,412	-

Baron has agreed not to seek repayment of $29,925 until March 1, 2016.

14. 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 June 30, 2015 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, June 30, 2015 $	Balance, December 31, 2014 $
Cash	178,716	-	-	178,716	189,928
Short-term investment	66,500	-	-	66,500	11,500

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.

(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.

(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 12).

14. FINANCIAL INSTRUMENTS (CONT'D…)

(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 rate risk 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.

(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.

15. SUBSEQUENT EVENTS

In July 2015, Canna entered into another non-exclusive license agreement (the "Second License Agreement"). Pursuant to the Second License Agreement, the Canna agreed to license the Technology an annual fee of US$25,000. In addition to the annual fee the Licensee will be responsible for sourcing cannabis ingredients for use in production process as well as any ongoing packaging and non-cannabis ingredients costs. The license has a one year renewable term and restrictive conditions on formulation, manufacturing, packaging and distribution methods. The necessary equipment must be leased from Canna and can only be used for the purposes of producing the licensed products.