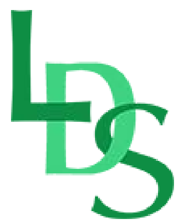

LIFESTYLE DELIVERY SYSTEMS INC.

(Formerly Kariana Resources Inc.)

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

December 31, 2015

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lifestyle Delivery Systems Inc. (formerly Kariana Resources Inc.),

We have audited the accompanying consolidated financial statements of Lifestyle Delivery Systems Inc., which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of operations, changes in stockholders' equity (deficiency) and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lifestyle Delivery Systems Inc. as at December 31, 2015, and its financial performance and its cash flows for the year 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 certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Lifestyle Delivery Systems Inc.'s ability to continue as a going concern.

Other Matter

The consolidated financial statements of Lifestyle Delivery Systems Inc. for the year ended December 31, 2014, were audited by another auditor who expressed an unmodified opinion on those statements on March 19, 2015.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 28, 2016

An independent firm associated with Moore Stephens International Limited
MOORE STEPHENS

LIFESTYLE DELIVERY SYSTEMS INC.

(Formerly Kariana Resources Inc.)

(Expressed in Canadian Dollars)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31, 2015		December 31, 2014
ASSETS				
Current assets				
Cash and cash equivalents	$	119,261	$	201,428
GST Receivable		19,255		15,618
Prepaid expenses		27,392		-
Loan receivable (Note 4)		-		174,900
Inventory (Note 5)		8,758		-
Total current assets		174,666		391,946
Equipment (Note 6)		418,566		-
Technology (Notes 4, 7)		840,169		-
TOTAL ASSETS	$	1,433,401	$	391,946
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)				
Current liabilities				
Accounts payable	$	163,491	$	137,539
Accrued liabilities		19,718		-
Amounts due to related parties (Note 8)		140,708		-
Convertible debentures (Note 9)		-		103,925
Unearned revenue (Note 10)		51,900		-
Total current liabilities		375,817		241,464
Long-term liabilities (Note 8)		-		160,125
Total liabilities		375,817		401,589
Stockholders' equity (deficiency)				
Share capital (Note 11)		3,547,263		1,338,336
Equity portion of convertible debentures (Note 9)		-		19,891
Obligation to issue shares (Note 11)		33,594		-
Reserves		130,604		102,140
Deficit		(2,676,683)		(1,470,010)
Accumulated other comprehensive income		22,806		-
Total shareholders' equity (deficiency)		1,057,584		(9,643)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	$	1,433,401	$	391,946

Subsequent events (Note 16)

"Brad Eckenweiler" Director
Brad Eckenweiler

"David Velisek" Director
David Velisek

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Formerly Kariana Resources Inc.)
(Expressed in Canadian Dollars)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2015	**2014**
Revenue	$ 58,298	$ -
Cost of sales	(1,599)	-
	56,699	-
Expenses		
Accounting fees (Note 8)	81,008	12,200
Advertising and promotions	8,774	15,000
Amortization (Note 7)	121,507	-
Consulting fees (Note 8)	422,210	201,613
Finance fees	20,009	110,470
Legal fees	147,557	60,271
Meals and travel expenses	88,447	5,326
Office and general	114,085	3,341
Regulatory fees	19,476	-
Research and development	59,062	-
Transfer agent and filing fees	48,004	21,947
Operating expenses	(1,130,139)	(430,168)
Foreign exchange gain	2,347	-
Interest income	752	2,065
Impairment of inventory (Note 5)	(136,332)	-
Net loss for the year	(1,206,673)	(428,103)
Other comprehensive income		
Foreign exchange translation	22,806	-
Comprehensive loss	$ (1,183,867)	$ (428,103)
Basic and diluted loss per share	$ (0.08)	$ (0.13)
Weighted average number of common shares outstanding - basic and diluted	14,862,478	3,408,442

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Formerly Kariana Resources Inc.)
(Expressed in Canadian Dollars)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)

	Common shares		Equity Portion of Convertible Debenture	Obligation to Issue Shares	Reserves	Deficit	Accumulated Other Comprehensive Income	Total
	Number of Shares	Amount						
Balance at 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
Net loss for the year	-	-	-	-	-	(428,103)	-	(428,103)
Balance at 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 notes	264,000	26,400	-	-	-	-	-	26,400
Conversion of convertible debenture	200,000	29,891	(19,891)	-	-	-	-	10,000
Acquisition of Technology	7,800,000	697,500	-	-	-	-	-	697,500
Obligation to issue shares to finder for acquisition of Technology	-	-	-	54,844	-	-	-	54,844
Shares issued for finder's fee for the acquisition of Technology	225,000	33,750	-	(21,250)	-	-	-	12,500
Private placements	12,768,758	1,155,314	-	-	-	-	-	1,155,314
Share issuance costs - cash	-	(34,667)	-	-	-	-	-	(34,667)
Finder's fee for private placement	254,768	-	-	-	-	-	-	-
Finder's warrants for private placement	-	(28,464)	-	-	28,464	-	-	-
Debt settlement	1,183,000	177,450	-	-	-	-	-	177,450
Conversion of convertible promissory notes	1,200,000	106,858	-	-	-	-	-	106,858
Exercise of warrants	448,953	44,895	-	-	-	-	-	44,895
Foreign exchange translation	-	-	-	-	-	-	22,806	22,806
Net loss for the year	-	-	-	-	-	(1,206,673)	-	(1,206,673)
Balance at December 31, 2015	32,550,729	$ 3,547,263	$ -	$ 33,594	$ 130,604	$ (2,676,683)	$ 22,806	$ 1,057,584

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

LIFESTYLE DELIVERY SYSTEMS INC.

(Formerly Kariana Resources Inc.)

(Expressed in Canadian Dollars)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	**2014**
Cash flows used in operating activities		
Net loss	$ (1,206,673)	$ (428,103)
Non cash items		
Amortization	121,507	-
Non-cash interest accretion on convertible debenture	19,879	110,470
Impairment of inventory	136,332	-
Foreign exchange	(15,565)	-
Changes in operating assets and liabilities		
GST receivable	(3,637)	(1,235)
Prepaid expenses	(24,931)	-
Inventory	(144,549)	-
Accounts payable and accrued liabilities	(692)	109,431
Amounts due to related parties	59,147	160,125
Unearned revenue	48,690	-
Net cash used in operating activities	(1,010,492)	(49,312)
Cash flows from financing activities		
Issuance of common stock for private placements	1,155,314	-
Share issuance costs	(34,667)	-
Proceeds from warrant exercise	44,895	-
Related party	5,807	-
Proceeds from convertible debentures, net of repayments	-	370,000
Interest paid on convertible debentures	(6,941)	-
Net cash provided by financing activities	1,164,408	370,000
Cash flows used in investing activities		
Advances made	(95,235)	(174,900)
Short term investments	-	43,000
Equipment	(140,822)	-
Net cash used in investing activities	(236,057)	(131,900)
Effects of foreign currency exchange	(26)	-
Net increase (decrease) in cash and cash equivalents	(82,167)	188,788
Cash and cash equivalents, beginning	201,428	12,640
Cash and cash equivalents, ending	$ 119,261	$ 201,428
Cash and cash equivalents are comprised off:		
Cash	$ 107,761	$ 189,928
Term deposit	11,500	11,500
Total cash and cash equivalents	$ 119,261	$ 201,428

The accompanying notes are an integral part of these audited consolidated 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 development and licensing of the technologies that produce oral delivery systems 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 810 – 789 West Pender Street, Vancouver, British Columbia, V6C 1H2, 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, 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 of the issued and outstanding shares in the capital of Canna Delivery Systems Inc. ("CDS"), a company incorporated under the State of Nevada, and changed its name to "Lifestyle Delivery Systems Inc." under the British Columbia Business Corporations Act (the "Transaction"). Upon acquisition, CDS became a wholly-owned subsidiary of LDS (Note 4).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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 Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

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. These adjustments could be material.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements were authorized for issue on April 28, 2016 by the Directors of the Company.

Statement of compliance

These consolidated financial statements have been prepared in accordance with accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of Measurement and Use of Estimates

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. All amounts are expressed in Canadian dollars, the Company's functional currency.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

Foreign currency translation

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Translations:

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of technology, fair value measurements for financial instruments, the probability of reaching certain financial milestones for the acquisition of CDS (Note 4), recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Significant Judgements

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's accounting policies in these financial statements were:

- Determining whether or not the acquisition of CDS constituted a business combination or an acquisition of assets. The benefit to the Company of acquiring CDS was the acquisition of its intellectual property.

2 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (Continued)

Significant Judgements (continued)

Management concluded that because CDS did not possess the necessary inputs and processes capable of producing outputs it did not meet the definition of a business as defined by IFRS. Accordingly, the transaction was accounted for as an acquisition of assets and the fair value of the consideration paid was allocated to the assets acquired.

- Evaluating whether or not costs incurred by the Company in its acquisition of CDS meet the criteria for capitalizing as intangible assets. Management determined that as the acquisition constituted an acquisition of assets, all transaction costs have been appropriately capitalized.

Other significant judgments in applying the Company's accounting policies relate to the assessment of the Company's ability to continue as a going concern (Note 1) and the classification of its financial instruments.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing such financial assets in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Financial assets classified as loans and receivables consist of cash and, short-term investment.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss. The Company has no financial assets classified as held-to-maturity investments.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of comprehensive loss. The Company has no financial assets classified as available-for-sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred or acquired:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing such financial liabilities in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. The Company has no financial liabilities classified as fair value through profit or loss.

Other financial liabilities - This category includes accounts payable, accrued liabilities, unearned revenue and amounts due to related parties, all of which are recognized initially at fair value and subsequently at amortized cost.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition

Revenue consists of sales of packaging supplies and licensing revenue. Sales of packing supplies are recognized when the Company has transferred ownership to the customer. Licensing revenue is recognized pro rata over the license term.

Deposits received from customers prior to an entry into a definitive agreement, or prior to the delivery of goods and services are recorded as unearned revenue (Note 10).

Inventory

Inventory is measured at the lower of cost and net realizable value.

Share-based payments

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes Option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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.

Intangibles

Separately acquired intellectual property and technological assets are recorded at historical cost. Intellectual property and technological assets acquired in a business combination are recognized at fair value at the acquisition date. Technological assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the items over their estimated useful lives of 5 years.

Research and development

Research costs are expensed when incurred. Internally-generated technology costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development (continued)

measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. These costs are amortized on a straight-line basis over the estimated useful lives of five years. The Company did not have any development costs that met the capitalization criteria for the year ended December 31, 2015.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period 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 reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred 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 by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets, against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

New accounting standards and interpretations issued but not yet adopted

IFRS 9, Financial Instruments – Classification and Measurement: Effective for 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 measured 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 measured at fair value through profit or loss.

IFRS 15, Revenue from Contracts with Customers: This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 16, Leases: This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

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

4. ACQUISTION

On May 1, 2015 (the "Closing Date"), the Company acquired all of the issued and outstanding common shares of CDS in exchange for 7,800,000 shares of the Company (the "Performance Shares") at a price of $0.15 per share, subject to certain conditions (the "Transaction").

On the Closing Date the Performance Shares were placed in escrow and will be released upon CDS achieving certain financial milestones (the "Milestones") over a period of 24 months from the Closing Date as follows:

Milestone	Number of Performance Shares to be released
USD $50,000 in cumulative gross revenues	1,500,00 (milestone considered substantially reached and shares issued)
USD $200,000 in cumulative gross revenues	2,100,000
USD $600,000 in cumulative gross revenues	2,100,000
USD $1,000,000 in cumulative gross revenues	2,100,000

The Company incurred $80,398 in costs associate with the Transaction, and is required to issue 648,333 common shares of the Company with an estimated fair value of $67,344 in finder's fees as follows:

	Number of common shares to be issued
At the Closing Date	83,333 (issued)
USD $50,000 in cumulative gross revenues	141,667 (milestone considered substantially reached and shares issued)
USD $200,000 in cumulative gross revenues	157,500
USD $600,000 in cumulative gross revenues	157,500
USD $1,000,000 in cumulative gross revenues	108,333

As at December 31, 2015, the Company recorded an obligation to issue shares of $33,594 for the remaining finder's shares to be issued upon successful completion of the milestones.

The Company determined that at the time of acquisition CDS did not qualify as a business, therefore the Transaction was considered an acquisition of the net assets of CDS and accounted for using the acquisition method, whereby the purchase consideration was allocated to the estimated fair values of the identifiable assets and liabilities acquired at the date of the Transaction.

4. ACQUISTION (Continued)

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

		Total
Purchase price:		
Performance shares (estimated fair value of share consideration)	$	697,500
Finder's fee		67,344
Transaction costs		80,398
	$	845,242
Net assets acquired:		
Prepaid expenses	$	1,817
Technology		985,936
Deposit on equipment		219,263
Bank indebtedness		(10)
Accounts payable		(20,059)
Due to related party		(38,696)
Loan payable to LDS		(303,009)
	$	845,242

As at December 31, 2015, CDS had substantially achieved the first Milestone, therefore the Company released 1,500,000 Performance Shares from escrow. In addition, the Company issued 141,667 common shares as finder's fee, which became eligible for issuance based on the achievement of the first Milestone.

Prior to the completion of the Transaction, the Company and CDS entered into the following transactions;

a) On December 15, 2014, the Company loaned US$150,000 ($174,900) to CDS in exchange for a non-secured, non-convertible promissory note. As a result of the completion of the Transaction, the loan has been eliminated upon consolidation.

b) On February 27, 2015, prior to the completion of the Transaction, CDS issued a promissory note to a director of LDS for US$25,000 ($31,270) accruing interest at 6% per annum, which was to be repaid on March 26, 2015. CDS did not make the necessary payment on March 26, 2015, which resulted in a US$2,500 ($3,118) penalty being assessed on the principal amount of the loan. CDS paid US$27,750 ($33,327) on May 15, 2015, which represented the full amount outstanding under the note payable, US$125 ($150) in interest accrued on the note, and the assessed penalty (Note 8).

c) On April 2, 2015, the Company loaned US$75,000 ($95,235) to CDS in exchange for a non-secured, non-convertible promissory note. As a result of the completion of the Transaction, the loan has been eliminated upon consolidation.

5. INVENTORY

As at December 31, 2015, inventory comprised of packaging supplies and other raw materials held for sale to licensees, and was valued at $8,758 (2014 - $Nil). During the year ended, December 31, 2015, the Company recognized an impairment of $136,332 on consumables inventory as management was not certain that the cost would be recovered.

6. EQUIPMENT

As at December 31, 2015, the Company recorded $418,566 (2014 – $Nil) for the strip coating equipment which the Company intends to lease to Healthy Asylum Inc. pursuant to a license agreement dated for reference June 25, 2015 (Note 10). As at December 31, 2015, the lease agreement has not been finalized, and the equipment remained in possession of the Company. No deprecation was taken for the year ended December 31, 2015, as the equipment was not ready for its intended use.

7. TECHNOLOGY

On May 1, 2015, upon completion of the Transaction (Note 4), 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 CDS. The Technology was recorded at $985,936 and is amortized on a straight line basis over its estimated useful life of 5 years.

During the year ended December 31, 2015, the Company recorded $121,507 (2014 – $Nil) in amortization expense associated with the Technology.

8. 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:		**December 31,**	
		2015	**2014**
Corporate advisory services	a)	$ 172,500	$ 142,500
Management consulting services	b)	$ 149,398	$ -
Accounting fees	c)	$ 7,500	$ -

a) On April 1, 2014, the Company entered into a one-year agreement for corporate advisory services with Baron Global Financial Canada Ltd. ("Baron"), a company with a former director in common. Pursuant to the agreement, the Company agreed to pay Baron a monthly fee of $12,500. On April 1, 2015, the Company extended the agreement with Baron for an additional one year term, at $15,000 per month.

As at December 31, 2014, the Company owed Baron $160,125 in non-interest bearing debt, which was not to be re-called by Baron prior to March 2016. On May 1, 2015, the Company settled $130,200 of this debt with Baron by issuing 868,000 common shares of the Company with a value of $130,200 (Note 11).

On December 1, 2015, Baron notified the Company that it will terminate its services as of December 31, 2015.

b) Management consulting services consist of the following:
- $25,972 (2014 – $Nil) in consulting fees paid or accrued to Mariscos Del Mar Inc., a company controlled by Brad Eckenweiler, the CEO and director of the Company;
- $43,503 (2014 – $Nil) in consulting fees accrued to Mr. Eckenweiler. On July 31, 2015, the Company entered into a consulting agreement with Mr. Eckenweiler for a one year term for US$6,700 per month.
- $25,972 (2014 – $Nil) in consulting fees paid or accrued to FindTec, Inc., a company controlled by Brent Inzer, the former president, CFO and director of CDS;
- $52,951 (2014 – $Nil) in consulting fees paid or accrued to Da Costa Management Corp., a company controlled by John da Costa, the former director of CDS; and
- $1,000 (2014 - $Nil) in consulting fees accrued to Yanika Silina, the CFO.

c) Accounting fees are paid or accrued to Da Costa Management Corp., a company controlled by John da Costa, a former director of CDS.

d) On February 27, 2015, CDS issued a promissory note to a director of LDS for US$25,000 ($31,270) accruing interest at 6% per annum, which was to be repaid on March 26, 2015. CDS did not make the necessary payment on March 26, 2015, which resulted in a US$2,500 ($3,118) penalty being assessed on the principal amount of the loan. CDS paid US$27,750 ($33,327) on May 15, 2015, which represented the full amount outstanding under the note payable (Note 4).

8. RELATED PARTY TRANSACTIONS (Continued)

Related Party Payable:

	December 31, 2015	December 31, 2014
Baron Global Financial Canada Ltd.	$ 69,300	$ 160,125
Brad Eckenweiler	63,389	-
FindTec, Inc.	6,189	-
Mariscos Del Mar Inc.	830	-
Yanika Silina	1,000	-
Total payable to related parties	$ 140,708	$ 160,125

9. CONVERTIBLE DEBENTURES

(a) On May 22, 2014, the Company completed a non-brokered private placement for $250,000 in aggregate principal amount of unsecured convertible debentures. The debentures bore nil interest and matured on November 22, 2015. At the election of the holder, the debentures could be converted into units of the Company at a price of $0.05 per unit. Each unit entitled a holder to one common share of the Company and one common share purchase warrant to acquire an additional common share at a price of $0.10 expiring May 22, 2017.

The Company issued the finders 400,000 units, which consisted of one common share of the Company and one finder's warrant. Each finder's warrant is exercisable at a price of $0.10 per share until May 22, 2017. The fair market value of the finder's fees was determined to be $54,708, of which $40,000 was attributed to the fair market value of the common shares of the Company, and $14,708 was attributed to the finder's warrants, which value was determined using the Black-Scholes Option 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.

On December 17, 2014, holders of convertible debentures with a face value of $240,000 exercised their conversion rights. On conversion, the Company issued to the debt holders 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, a holder of convertible debenture with a face value of $10,000 exercised his conversion rights. On conversion, the Company issued to the debt holder 200,000 common shares of the Company and 200,000 warrants exercisable at $0.10 until May 22, 2017.

Opening balance, January 1, 2014	$ -
Gross proceeds on issuance of debentures	250,000
Conversion feature	(65,808)
Transaction costs – liability portion	(44,336)
Accretion expense	107,759
Carrying value of convertible debenture converted	(240,000)
Balance, December 31, 2014	7,615
Accretion expense	2,385
Carrying value of convertible debenture converted	(10,000)
Balance, December 31, 2015	$ -

(b) On December 15, 2014, non-related parties lent the Company $120,000 in exchange for convertible promissory notes (the "Promissory Notes"). The Promissory Notes were due on December 15, 2015, and accrued interest at a rate of 15% per annum. Pursuant to the Promissory Notes, the lenders had a right to convert the principal amount into common shares of the Company at $0.10 per share. As partial consideration for lending the funds, during the year ended December 31, 2015, the Company issued the lenders 264,000 common shares at $0.10 per share (the "Fee

9. CONVERTIBLE DEBENTURES (Continued)

Shares"). The value of the Fee Shares was accrued during the year ended December 31, 2014. Transaction costs were netted against the debt instrument and equity component in proportion to their respective fair value at initial recognition.

On May 4, 2015, the holders of the Promissory Notes exercised their right to convert the principal amount of $90,000 into the shares of the Company's common stock, which resulted in the issuance of 900,000 common shares of the Company and a cash interest payment of $5,178.

On May 7, 2015, the holders of the Promissory Notes exercised their right to convert the principal amount of $30,000 into the shares of the Company's common stock, which resulted in the issuance of 300,000 common shares of the Company and a cash interest payment of $1,763.

Opening balance, January 1, 2014	$	-
Gross proceeds on issuance of Promissory Notes		120,000
Transaction costs		(26,400)
Accretion expense		1,921
Interest expense		789
Balance, December 31, 2014		96,310
Accretion expense		11,337
Interest expense		6,152
Carrying value of convertible Promissory Notes converted		(106,858)
Interest paid		(6,941)
Balance, December 31, 2015	$	-

10. LICENSE AGREEMENT AND MEMORANDUM OF UNDERSTANDING

a) On June 25, 2015, CDS entered into a non-exclusive license agreement (the "License Agreement") with Healthy Asylum Inc. ("HAI"). Pursuant to the License Agreement, CDS agreed to license the Technology to HAI for an annual fee of US$25,000. In addition to the annual license fee, HAI agreed to lease all production equipment and to purchase all packaging and non-cannabis related ingredients directly from CDS. The license has a one year renewable term and restrictive conditions on formulation, manufacturing, packaging and distribution methods. During the year ended December 31, 2015, HAI paid a non-refundable deposit of US$25,000, of which 50% was included in revenue. The remaining US$12,500 ($17,300) is recorded as unearned revenue.

b) On July 30, 2015, CDS entered into a Memorandum of Understanding (the "MOU") with an arm's length party with the intention to negotiate a definitive licensing agreement for non-exclusive use of the Technology in Southern California (the "Proposed License Agreement"). Pursuant to the terms of the MOU, the Company has offered to license its Technology for an annual fee of US$25,000, with an additional requirement for the licensee to lease all production equipment and to purchase all packaging and non-cannabis related ingredients from CDS. The Proposed License Agreement will have a one year renewable term and restrictive conditions on formulation, manufacturing, packaging and distribution methods. In consideration for the MOU, the licensee paid the Company a non-refundable deposit of US$25,000 ($34,600), which the Company has recorded as unearned revenue, and will apply towards the first annual license fee upon execution of the Proposed License Agreement.

11. CAPITAL AND RESERVES

A. Common Shares

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

11. CAPITAL AND RESERVES (Continued)

B. Issued share capital

As at December 31, 2015, there were 32,550,729 common shares issued and outstanding (December 31, 2014 – 8,206,250).

During the year ended December 31, 2015:

i. On January 12, 2015, the Company issued 240,000 shares as finder's fees valued at $24,000 in relation to the convertible Promissory Notes issued on December 15, 2014 (Note 9b).

ii. On February 12, 2015, the Company issued 24,000 shares for finder's fees valued at $2,400 in relation to the convertible Promissory Notes issued on December 15, 2014 (Note 9b).

iii. On March 31, 2015, holders of convertible debentures converted $10,000 of their debt into 200,000 units of the Company. Each unit consist of one common share and one common share purchase warrant exercisable at $0.10 until May 22, 2017 (Note 9a).

iv. On May 1, 2015, the Company issued 7,800,000 common shares of the Company (the "Performance Shares") valued at $697,500 to CDS's shareholders. The Performance Shares are subject to escrow provisions and will be released upon CDS achieving certain future financial milestones. On October 27, 2015, 1,500,000 Performance Shares were released from escrow as the Company determined that CDS had substantially achieved the first Milestone (Note 4).

v. On May 1, 2015, in connection with the Transaction, the Company issued 83,333 common shares of the Company with a fair value of $12,500. In addition, the Company has reserved for issuance up to 565,000 shares which will be issued upon CDS achieving certain future financial milestones (Note 4). On October 29, 2015, the Company issued a further 141,667 shares with a value of $21,250 as CDS achieved the first Milestone. As at December 31, 2015, the Company had recorded an obligation of $33,594 to issue the remaining shares.

vi. On May 1, 2015, the Company closed a private placement and issued 5,168,757 units at $0.15 per unit for gross proceeds of $775,314. Each unit consist of one common share and one-half of a common share purchase warrant. In connection with the private placement, the Company issued 254,768 units with a fair value $38,215 to arm's length finders. Each finder's unit consists of one common share and one-half of one non-transferable common share purchase warrant. Each whole warrant entitles the holder 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.

vii. 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 issuing 868,000 and 315,000 common shares of the Company respectively, with a value of $0.15 per share. (Note 8).

viii. On May 4, 2015, convertible promissory notes with a total value of $80,143 were converted resulting in the issuance of 900,000 common shares of the Company (Note 9b).

ix. On May 7, 2015, the convertible promissory notes with a total value of $26,715 were converted resulting in the issuance of 300,000 common shares of the Company (Note 9b).

x. On May 12, 2015, 400,000 shares were issued upon the exercise of 400,000 warrants at $0.10 per share.

xi. On June 11, 2015, 42,703 shares were issued upon the exercise of 42,703 warrants at $0.10 per share.

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

xiii. On December 11, 2015, the Company closed its non-brokered private placement offering (the "Offering") of 7,600,000 units (the "December Units") at a price of $0.05 per December Unit for total gross proceeds of

11. CAPITAL AND RESERVES (Continued)

B. Issued share capital (continued)

$380,000. Each December Unit sold consisted of one common share of the Company and one share purchase warrant ("December Warrant") entitling the holder to purchase one additional common share for a period of two years after closing at an exercise price of $0.10 per share during the first year after closing, and an exercise price of $0.15 per share during the second year after closing.

In connection with the Offering, the Company paid cash finder's fees totaling $22,080, and issued 441,601 broker's warrants (the "Broker's Warrants"). The Broker's Warrants entitle a holder to purchase one common share of the Company on the same terms as the December Warrants. The Broker's warrants were valued at $28,464, and were determined using the Black-Scholes Option pricing model with the following assumptions: risk-free rate of 0.48%, expected life of 2 years, volatility of 121%, and dividend rate of 0%.

In addition, the Company recorded $12,587 in share issuance costs which were associated with legal fees.

During the year ended December 31, 2014:

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.

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

C. Stock 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, with the exercise price of each option being 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.

A continuity of options for the year ended December 31, 2015 and 2014 is as follows:

	December 31, 2015		**December 31, 2014**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the year	132,500	$0.89	157,500	$0.87
Expired	(50,000)	$0.80	(25,000)	$0.80
Options outstanding and exercisable, end of the year	82,500	$0.94	132,500	$0.89

11. CAPITAL AND RESERVES (Continued)

C. Stock purchase option compensation plan (continued)

The options outstanding and exercisable at December 31, 2015 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	$ 0.80	5.63	August 15, 2021
57,500[(i)]	$ 1.00	0.08	January 30, 2016
82,500	$ 0.94	1.76	

(i) Options to acquire up to 57,500 shares of the Company's common stock expired unexercised on January 30, 2016.

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the years ended December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	5,200,000	$0.10	-	-
Exercised	(448,953)	$0.10	-	-
Issued	10,953,364	$0.19	5,200,000	$0.10
Warrants outstanding, ending	15,704,411	$0.16	5,200,000	$0.10

The warrants outstanding and exercisable at December 31, 2015 are as follows:

Number of Warrants outstanding	Exercise Price	Weighted Average Remaining Life	Expiration Date
2,711,764	$0.30 during the first year; $0.45 during the second year	1.33	May 1, 2017
4,951,047[(i)]	$0.10	1.39	May 22, 2017
8,041,600	$0.10 during the first year; $0.15 during the second year	1.95	December 11, 2017
15,704,411		1.67	

(i) Subsequent to the year ended December 31, 2015, warrants to acquire 100,000 shares of the Company's common stock were exercised at $0.10.

E. Escrow shares

As at December 31, 2015, the Company had 6,300,000 common shares held in escrow (December 31, 2014 – Nil) to be release as outlined in Note 4.

12. SUPPLEMENTAL CASH FLOW

During the years ended December 31, 2015 and 2014 the Company recorded the following items:

	December 31,	
	2015	2014
	$	$
Finders' fee common shares included in accounts payable	-	26,400
264,000 finder's fee shares issued for the Promissory Notes	26,400	-
Shares issued on conversion of a debenture	10,000	240,000
1,200,000 shares issued on conversion of Promissory Notes	106,858	-
1,183,000 shares issued to settle amounts due to related parties and accounts payable	177,450	-
Equity component of convertible debenture offset by convertible debenture payment	29,891	81,474
7,800,000 Performance Shares issued for the Transaction	697,500	-
225,000 shares issued as finder's fee for the Transaction	33,750	-
Shares reserved for issuance as finder's fee for the Transaction	33,594	-
Shares issued as finders' fees for private placement	38,215	40,000
Warrants issued as broker's fees	28,464	14,708
Costs related to the purchase of equipment in accounts payable	17,957	-
Cost related to the acquisition of the Technology and included in accounts payable	80,398	-
Loans advanced to CDS prior to closing of the Transaction and eliminated on consolidation	95,235	174,900

During the years ended December 31, 2015 and 2014 the Company paid $Nil in tax.

13. 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 an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There was no change to the Company's management of capital during the year. The Company is not subject to any externally imposed capital requirements.

14. FINANCIAL INSTRUMENTS

Classification of Financial Instruments:

(a) Fair Values

The fair values of financial instruments, which include accounts payable and amounts due to related parties approximate their carrying values due to the relatively short-term to maturity of these instruments.

14. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investment. The Company limits its exposure to credit risk 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 13). As at December 31, 2015, the Company had cash and short-term investments of $119,261 to settle current financial liabilities of $323,917. The Company will need to source funds from either loans or private placements to meet these obligations as they come due.

(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 Company considers its interest rate risk policies to be effective and has been following them consistently.

(e) Price Risk

The Company is not exposed to commodity price risk as its current business operations do not depend on fluctuations in the market price of commodities.

15. INCOME TAXES

A reconciliation of income taxes at statutory rate is as follows:

	Year ended December 31,	
	2015	**2014**
Net loss before tax	$ (1,206,673)	$ (428,103)
Statutory income tax rate	26%	26%
Expected income tax recovery	(314,000)	(111,000)
Change in statutory, foreign tax, foreign exchange rates and other	(95,000)	17,000
Adjustment to prior year provision versus statutory tax returns	18,000	12,000
Share issuance costs	(9,000)	-
Change in unrecognized deductible temporary differences	400,000	82,000
Income tax recovery	$ -	$ -

15. INCOME TAXES (Continued)

The significant components of deferred tax assets that have not been included on the statements of financial position are as follows:

	Year ended December 31, 2015	2014
Deferred tax assets:		
Exploration and evaluation assets	$ 38,500	$ 37,000
Investment tax credit	3,000	2,690
Share issuance costs	7,200	7,750
Debt with accretion	-	6,760
Non-capital losses available for future period	680,420	318,750
Intangible assets	44,100	-
	773,220	373,220
Unrecognized deferred tax assets	(773,220)	(373,220)
	$ -	$ -

The Company has approximately $1,648,000 of non-capital losses in Canada which expire between 2030 – 2035, and approximately $741,000 of non-capital losses in the US which expire between 2034 – 2035.

Tax attributes are subject to review, and potential adjustment by tax authorities.

16. SUBSEQUENT EVENTS

On January 6, 2015, CDS executed a non-binding letter of intent ("LOI") to license its proprietary technology to Wisdom Homes of America, Inc. ("WOFA"). The LOI was superseded by the definitive agreement between CDS and WOFA on February 12, 2016 (the "WOFA License Agreement"). Pursuant to the WOFA License Agreement, CDS agreed to grant WOFA a non-exclusive license to manufacture and distribute CannaStrips in Northern California for an annual license fee of $25,000. In addition, CDS agreed to grant WOFA access to the CannaStrips brand, with an option to contract or sub-contract to cannabis producers and retailers throughout Northern California.

On April 26, 2016, the Company announced that it has arranged a non-brokered private placement offering (the "Offering") of up to 1,000,000 units at a price of $0.10 per unit (the "Unit") to raise gross proceeds of up to $100,000. Each Unit being offered under the Offering will consist of one common share of the Company and one share purchase warrant entitling the holder to purchase one additional common share, for a period of two years after closing, at an exercise price of $0.12 per common share ending on the first anniversary of the closing date and, at $0.20 per common share for a period ending on the second anniversary of the closing date.