



**LIFESTYLE DELIVERY SYSTEMS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**March 31, 2016**

**INTRODUCTION**

The following Management Discussion and Analysis ("MD&A") of Lifestyle Delivery Systems Inc. (the "Company" or "LDS"), has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of May 27, 2016, and should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the three month period ended March 31, 2016 and 2015 and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS").

The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at <http://www.lifestyledeliverysystems.com>.

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting currency of the Company, unless specifically noted.

**CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS**

Certain statements contained in the foregoing MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

**COMPANY OVERVIEW**

The Company was incorporated on September 14, 2010 pursuant to the *Business Corporations Act*, British Columbia. The Company's principal business activity is development and licensing of technologies that produce oral delivery systems that can be used for energy elixirs, herbal remedies and a smokeless alternative option to medicinal and recreational users of cannabis. The Company's shares trade on the Canadian Securities Exchange under the trading symbol "LDS" and on OTCQB under the trading symbol "LDSYF".

On May 1, 2015, the Company acquired all 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.

**SIGNIFICANT EVENTS**

The following significant developments occurred during the quarter ended March 31, 2016, and up to the date of the filing of this report:

*License Agreement with Wisdom Homes of America, Inc.*

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"). James Pakulis, the President of the Company is also CEO of WOFA.

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 US\$25,000. The License Agreement expires on December 31, 2018, however can be renewed for successive two year periods. 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.

#### *Engagement of Corporate Communications Executive*

On February 15, 2016, the Company entered into investor relations agreement with Mr. Feliberto (Phil) Gurat, who agreed to provide his services to the Company for an initial term of three (3) months commencing on February 1, 2016 and continuing on a month-to-month basis unless terminated by either party.

#### *Manufacturing Samples of CannaStrips for the Medical Marijuana Market*

On February 23, 2016, CDS's licensee, Healthy Asylum Inc., ("HA") completed an automated production run of CannaStrips CBD formula, which HA, in conjunction with WOFA, used as samples in their phase one marketing campaign. This campaign concentrated on health care professionals and dispensaries in northern California, who received the samples of CannaStrips for evaluation by their patients.

Following the initial response to the marketing campaign the Company and HA reconfigured the production line and production design specifications in order to satisfy the expected increased capacity. In addition, it was determined that new packaging solutions will need to be identified.

#### *Appointment of Chief Science Officer*

On April 26, 2016, the Company appointed Dr. John Sanderson, MD as its Chief Science Officer. Dr. Sanderson's main objectives will be to work in conjunction with researchers to advance the development of the Company's CannaStrips technology as well as to create protocols necessary for the clinical trials. In addition, Dr. Sanderson will work on composition of the white papers, following the results of the clinical trials, and secure patents for the CannaStrips technology.

#### *Non-brokered Private Placement*

On May 9, 2016, the Company closed a non-brokered private placement (the "Offering"), which it announced on April 26, 2016. As a result of the Offering, the Company issued a total of 1,000,000 units ("Units") at a price of \$0.10 per Unit for total gross proceeds of \$100,000. Each Unit consisted 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 expiring on May 9, 2018, at an exercise price of \$0.12 per share until May 9, 2017, and at \$0.20 per share thereafter.

In connection with the Offering, the Company issued 100,000 finders' warrants (the "Finders' Warrants"). The Finders' Warrants entitle the holder to purchase one common share of the Company at \$0.12 per share for a period of two years expiring on May 9, 2018.

#### *Application for Trademark*

On May 2, 2016 the Company filed for U.S. federal trademark registration for CANNASTRIPS SMOKEFREE PAIN RELIEF in the category of Pharmaceutical Products. As of the date of the filing of this MD&A the application is under review.

#### *Proposed Private Placement*

As of the date of the filing of this MD&A, the Company has arranged a non-brokered private placement offering (the "May Offering") of up to US\$90,000 at a price of \$0.08 per unit (the "May Unit"), of which it has received US\$20,000. Each May Unit being offered under the May Offering will consist of one common share of the Company and one share purchase warrant entitling a holder to purchase one additional common share, for a period of two years after closing, at an exercise price of \$0.10 per common share.

All securities issued above will be subject to a hold period of four months and one day from the date of closing. Proceeds from the proposed May Offering will be used to fund the Company's general working capital.

## OVERALL PERFORMANCE

The following discussion of the Company's financial performance is based on the unaudited condensed consolidated interim financial statements for the three month period ended March 31, 2016.

### *Comparison of financial condition*

	<b>Three Months Ended March 31, 2016</b>	<b>Year Ended December 31, 2015</b>
Working capital	\$ (509,703)	\$ (201,151)
Total assets	\$ 1,190,985	\$ 1,433,401
Technology	\$ 741,970	\$ 840,169
Total liabilities	\$ 541,245	\$ 375,817
Share capital and reserves	\$ 3,677,867	\$ 3,677,867
Deficit	\$ 3,018,129	\$ 2,676,683

The statements of financial position as of March 31, 2016 and December 31, 2015 indicated a cash position of \$3,396 (2015 - \$119,261) and total current assets of \$31,542 (2015 - \$174,666). The decrease in total current assets was mainly associated with the change in the Company's business direction associated with acquisition of the Technology from CDS, completed on May 1, 2015, and increased cash requirements to support the new business.

The long-term assets of the Company were represented by equipment totalling \$417,473 (2015 - \$418,566). The Company is planning to lease this equipment to its licensees for production and packaging of the CannaStrips. CannaStrips Technology was carried on the books at \$741,970 (2015 - \$840,169), less accumulated amortization of \$169,676 (2015 - \$121,507).

At March 31, 2016, current liabilities totalled \$541,245 (2015 - \$375,817) and included \$375,640 in accounts payable and accrued liabilities (2015 - \$183,209), \$118,586 in amounts owed to related parties (2015 - \$140,708), \$6,485 in advances payable (2015 - \$Nil) and \$40,534 in unearned revenue (2015 - \$51,900). The unearned revenue was associated with the non-refundable deposit for the total of US\$25,000, which the Company received from an arm's length party as consideration for the Memorandum of Understanding (the "MOU") the Company entered into on July 30, 2015, and US\$6,250 in unearned portion of the license fee paid to the Company by Healthy Asylum Inc. ("HA") pursuant to the License Agreement with HA dated for reference June 25, 2015.

At March 31, 2016, the Company had a working capital deficiency of \$509,703 (2015 - \$201,151). Management plans to fund the Company's day-to-day operations with revenue generated from anticipated future licensing agreements for its Technology as well as through debt or equity financing.

Shareholders' equity was comprised of share capital of \$3,547,263 (2015 - \$3,547,263), reserves of \$130,604 (2015 - \$130,604), obligation to issue shares of \$33,594 (2015 - \$33,594), accumulated other comprehensive loss of \$43,592 (2015 - accumulated other comprehensive income totalling \$22,806) and accumulated deficit of \$3,018,129 (2015 - \$2,676,683) for a net equity of \$649,740 (2015 - \$1,057,584).

The weighted average number of common shares outstanding for the three month period ended March 31, 2016, was 26,250,729 (2015 - 8,435,050).

## COMPARISON OF RESULTS OF OPERATIONS

During the three month period ended March 31, 2016, the Company reported a net loss of \$341,446 (\$0.01 basic and diluted loss per share) and a net comprehensive loss of \$407,844 compared to a net loss and net comprehensive loss of \$123,116 (\$0.01 basic and diluted loss per share) during the three month period ended March 31, 2015. The increased loss during the three months ended March 31, 2016, was mainly associated with the acquisition of CDS, which resulted in the change of the Company's business model and operations.

During the three month period ended March 31, 2016, the Company recognized \$8,593 (2015 - \$Nil) in revenue, which was associated with the allocated portion of an annual license fee the Company received pursuant to the License Agreement with HA dated for reference June 25, 2015.

During the three month period ended March 31, 2016, the Company recorded operating expenses of \$350,007 (2015 - \$123,496). The largest factors contributing to the increase in operating expenses were consulting fees of \$139,290 (2015 - \$39,587), followed by the office and general expenses of \$104,854 (2015 - \$803). The increase in general expenses was attributed to the rental fees for the new production facility the Company began to rent in October of 2015. In addition, the Company recorded amortization of the Technology acquired from CDS of \$48,169 (2015 - \$Nil). Other fees that contributed to an increase in operating expenses included accounting fees of \$22,500 (2015 - \$25,000), legal fees of \$16,680 (2015 - \$30,000), regulatory fees of \$8,556 (2015 - \$5,923), research and development costs of \$2,714 (2015 - \$Nil), and meals and travel expenses of \$7,244 (2015 - \$1,862). In addition to the above incurred operating expenses, the Company recorded \$32 loss on foreign exchange (2015 - \$Nil) and \$Nil (2015 - \$380) in interest income.

The net comprehensive loss of \$407,844 (2015 - \$123,116) was affected by the foreign exchange translation on the transactions recorded in CDS, which totalled \$66,398 (2015 - \$Nil).

The increase in consulting fees to \$139,290 from \$39,587 was attributable to the change in the Company's business direction triggered by the acquisition of CDS, which resulted in increased fees the Company incurred for investor relations services, consulting services paid or accrued to the CEO, CFO and the President of the Company, and for other marketing and business development services.

As the Company's current operations do not generate significant revenues, it will continue to rely on equity and debt financing in order to meet its ongoing day-to-day operating requirements. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time, or, if available, that it can be obtained on terms satisfactory to the Company.

## SUMMARY OF QUARTERLY RESULTS

The following tables set forth selected financial information of the Company for the eight most recently completed quarters. This information is derived from unaudited quarterly financial statements and audited annual financial statements prepared by management in accordance with IFRS.

	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Revenue net of Cost	\$ 8,593	\$ (14,779)	\$ 40,790	\$ 30,688
Net Loss	\$ 341,446	\$ 402,831	\$ 336,695	\$ 344,029
Loss per Share	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Technology	\$ 741,970	\$ 840,169	\$ 1,363,686	\$ 1,438,293
Total Assets	\$ 1,190,985	\$ 1,433,401	\$ 2,068,522	\$ 2,223,015
Working Capital	\$ (509,703)	\$ (201,151)	\$ (89,247)	\$ 197,641

	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Revenue net of Cost	\$ -	\$ -	\$ -	\$ -
Net Loss	\$ 123,116	\$ 210,371	\$ 118,619	\$ 42,309
Loss per Share	\$ 0.01	\$ 0.06	\$ 0.03	\$ 0.01
Technology	\$ -	\$ -	\$ -	\$ -
Total Assets	\$ 382,177	\$ 391,946	\$ 548,474	\$ 548,765
Working Capital	\$ 63,766	\$ 150,482	\$ (44,874)	\$ 73,743

Overall, consulting, accounting, legal, regulatory fees, amortization, research and development, and accretion expense are the major components that caused variances in net losses from quarter to quarter.

During the quarter ended March 31, 2016, the Company recorded \$8,593 in revenue which was associated with the allocated portion of an annual license fee the Company received pursuant to the License Agreement with HA. Operating expenses totalled \$350,007 and included consulting fees of \$139,290, amortization expense of \$48,169, office and other general expenses of \$104,854, of which \$94,861 was associated with the rental fees the Company paid for the new production facility, accounting fees of \$22,500, legal fees of \$16,680 and research and development costs of \$2,714.

During the quarter ended December 31, 2015, the Company did not generate any revenue from its operations, as it was concentrating on the improvement of its Technology and set up and configuration of its equipment which will be used in the future by the Company's licensees for production of the CannaStrips. \$14,779 adjustment to the revenue resulted from the partial reclassification of the license fee paid by Healthy Asylum Inc. during the quarter ended June 30, 2015 to unearned revenue at December 31, 2015. Operating expenses totalled \$252,355 and included consulting fees of \$133,522, accounting fees of \$15,600, office and other general expenses of \$31,200, research and development of \$10,282 and legal fees of \$54,561, among other operating expenses. In addition, during the quarter ended December 31, 2015 the Company impaired its inventory by \$136,332, as the management was not certain that the cost would be recovered.

During the quarter ended September 30, 2015, the Company recorded \$40,790 in revenue which was associated with the sales of packaging materials to the licensee, pursuant to the License Agreement dated for reference June 25, 2015. Operating expenses totalled \$378,905 and included consulting fees of \$132,391, amortization expense of \$74,551, accounting fees of \$9,814 relating to CDS's bookkeeping, office and other general expenses of \$59,583, research and development of \$7,164 and legal fees of \$45,805.

During the quarter ended June 30, 2015, the Company recorded \$30,688 in revenue which was associated with an annual license fee pursuant to the License Agreement dated for reference June 25, 2015. Operating expenses incurred amounted to \$375,384, which mainly consisted of accounting fees of \$30,594 relating to fiscal 2014 audit, tax returns and preparation of the filing statement for the acquisition of CDS, amortization of \$49,647, legal fees of \$17,191, consulting fees of \$116,711, research and development of \$41,616 and finance fee related to accretion of \$12,694.

During the quarter ended March 31, 2015, the Company incurred a net loss of \$123,496, which mainly consisted of accrued accounting fees of \$25,000 relating to fiscal 2014 audit and preparation of the filing statement for the acquisition of CDS, accrued legal fees of \$30,000 in relation to the acquisition of CDS and the private placement, consulting fees of \$39,587, and finance fee related to accretion of \$20,321.

During the quarters ended December 31, 2014, September 30, 2014, and June 30, 2014, the major expenses of the Company were related to accretion expense from the convertible debentures. In total \$110,470 was recognized as finance fee related to accretion during these periods.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at March 31, 2016, the Company had \$3,396 (2015 – \$119,261) in cash and cash equivalents, with the working capital deficiency of \$509,703 (2015 - \$201,151). As at March 31, 2016 and December 31, 2015, the Company's share capital was \$3,547,263 representing 32,550,729 common shares, of which 6,300,000 were held in escrow, reserves of \$130,604, and an obligation to issue shares of \$33,594. As at March 31, 2016, the Company had accumulated a deficit of \$3,018,129 (2015 – \$2,676,683) and other comprehensive loss of \$43,592, as compared to comprehensive income of \$22,806 as at December 31, 2015.

The Company generated only minimal revenues from its operations and is dependent on the equity markets as its source of additional operating capital.

Until the Company is able to increase its revenue from the main business activities, through entering into additional license agreements for its Technology, the Company will have to continue to rely on equity and debt financing. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

## CONTRACTUAL OBLIGATIONS

A summary of the Company's contractual obligations at March 31, 2016, is detailed in the table below.

	Payments Due by Period				
	Total	Less than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Accounts Payable	\$ 347,858	\$ 347,858	N/A	N/A	N/A
Accrued Liabilities	\$ 27,782	\$ 27,782	N/A	N/A	N/A
Amounts due to Related Parties	\$ 118,586	\$ 118,586	N/A	N/A	N/A
Advances Payable	\$ 6,485	\$ 6,485	N/A	N/A	N/A
Unearned Revenue	\$ 40,534	\$ 40,534	N/A	N/A	N/A
<b>Total</b>	<b>\$ 541,245</b>	<b>\$ 541,245</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

Management believes that the Company will be able to generate sufficient cash to meet its current obligations for the next twelve months.

## OFF BALANCE SHEET ARRANGEMENTS

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

## RELATED PARTY TRANSACTIONS

Services provided:		March 31, 2016	March 31, 2015
Management consulting fees	a)	\$ 51,255	\$ -
Corporate advisory services	b)	\$ -	\$ 37,500

- a) Management consulting services consist of the following:
- \$27,633 (2015 – \$Nil) in consulting fees accrued to Mr. Eckenweiler, the Company's Chief Executive Officer (the "CEO") and a member of the board of directors. 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.
  - \$20,622 (2015 – \$Nil) in consulting fees paid or accrued to Mr. Pakulis, the Company's President and a member of the board of directors. The Company agreed to reimburse Mr. Pakulis at US\$5,000 per month for his services.
  - \$3,000 (2015 - \$Nil) in consulting fees accrued to Yanika Silina, the Company's Chief Financial Officer (the "CFO"). The Company agreed to reimburse Ms. Silina at \$1,000 per month for her services.
- b) Corporate advisory services were provided to the Company by Baron Global Financial Canada Ltd., a company with a former director in common, under a one-year agreement. The agreement was terminated as of December 31, 2015.

### Related Party Payable:

	March 31, 2016	December 31, 2015
Baron Global Financial Canada Ltd.	\$ -	\$ 69,300
Brad Eckenweiler	94,981	63,389
Jim Pakulis	19,457	-
FindTec, Inc.	-	6,189
Mariscos Del Mar Inc.	-	830
Yanika Silina	4,147	1,000
<b>Total payable to related parties</b>	<b>\$ 118,586</b>	<b>\$ 140,708</b>

During the year ended December 31, 2015, Baron Global Financial Canada Ltd. and FindTec, Inc. ceased to be related parties. The amounts owed to these entities have been included as part of trade accounts payable.

## SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

All significant accounting policies and critical accounting estimates are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2015.

## FINANCIAL INSTRUMENTS

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 financial 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 are measured at amortized cost using the effective interest rate method with any changes to the carrying amount of the investment, including impairment losses, recognized in the statement of comprehensive loss. Loans and receivables are measured at cost less any provision for impairment. Other financial liabilities are recognized initially at fair value and subsequently at amortized cost.

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

- a) Cash, short-term investments, and receivables have been classified as loans and receivable;
- b) Accounts payable, accrued liabilities, advances payable, unearned revenue, and amounts due to related parties have been classified as other financial liabilities.

Assets measured at fair value on a recurring basis were presented on the Company’s balance sheet as at March 31, 2016 as follows:

	Fair Value Measurements Using			Balance, March 31, 2016 \$	Balance, December 31, 2015 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$		
Cash	3,396	-	-	3,396	107,761
Term Deposit	-	-	-	-	11,500
Cash and cash equivalents	3,396	-	-	3,396	119,261

The Company’s financial instruments are exposed to a number of financial and market risks, including credit, liquidity, interest rate and currency risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company’s management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

### Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investments. 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.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

### 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 instruments 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.

### 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.

## **OTHER MD&A DISCLOSURE REQUIREMENTS**

### **Disclosure of Outstanding Share Data**

The Company's issued and outstanding share capital as at the date of this MD&A is as follows:

- (1) Authorized: Unlimited common shares without par value.
- (2) As at the date of this MD&A, the Company has 33,650,729 common shares, of which 6,300,000 remain in escrow, 25,000 options, and 16,704,411 warrants issued and outstanding.

### **Additional Disclosure for Junior Issuers**

The Company has expensed the following material cost components:

	<b>Period ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Accounting fees	22,500	25,000
Amortization	48,169	-
Consulting fees	139,290	39,587
Financing fees	-	20,321
Legal fees	16,680	30,000
Meals and travel expenses	7,244	1,862
Office and general	104,854	803
Regulatory fees	8,556	5,923
Research and development	2,714	-

Accounting fees of \$22,500 (2015 - \$25,000) were associated with preparation of audited financial statements for the fiscal 2015, bookkeeping fees, and other accounting fees related to the preparation of the quarterly financial statements.

Office and general expenses of \$104,854 (2015 - \$803) were associated mainly with rental fees for the production facility the Company began to rent in October 2015. The Company pays US\$23,000 per month for the facility, the rental agreement expires in August 2016, and can be renewed on a monthly basis thereafter.

Amortization expense of \$48,169 (2015 - \$Nil) was related to the amortization of Technology that was acquired from CDS on May 1, 2015.

Consulting fees of \$139,290 (2015 - \$39,587) included financial, investor relations, marketing, business development and other advisory fees.

Regulatory fees of \$8,556 (2015 - \$5,923) were associated with regulatory filings with CSE and OTCQB, the securities commissions, and monthly transfer agent fees.



## ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published and are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2015. Management is assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

## RISKS AND UNCERTAINTIES

### General Risk Factors

The Company has no history of profitable operations and its present business is at an early stage of development. As such, the Company is subject to many common risks to new and developing enterprises, including under-capitalization, cash shortages and limitations with respect to personnel, financial and other resources and the lack of revenues. There is no assurance that the Company will be successful in achieving a positive return on shareholders' investment.

The Company has minimal source of operating cash flow and no assurance that additional funding will be available to it for further research and development of its Technology when required. Although the Company has been successful in the past in obtaining financing through related party advances and promissory notes, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain such additional financing could result in the delay or indefinite postponement of further research and development of its Technology.

The Company is very dependent upon the personal efforts and commitment of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

### Risks Factors Associated with Current Conflicting Federal and State Laws

The cannabis industry is currently conducted in twenty-four states and the District of Columbia. These jurisdictions have passed laws either decriminalizing or legalizing the medicinal or recreational use of cannabis. However, under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis remains illegal. The Federal, and, in some cases, State law enforcement authorities have frequently closed down retail dispensaries, growers, and producers of cannabis products and have investigated or closed physician offices that provide medicinal cannabis recommendations. To the extent that an affected retail dispensary, grower, producer, or physician office is a customer of the Company's licensee, it will affect the Company's revenue. Enforcement actions that impact new retail dispensaries, growers, producers and physician offices entering the cannabis industry may materially affect the Company's business and operations.

### Risks Factors Associated with the Licensing Model

Under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis is illegal. The Company provides services to its licensees who in turn supply goods and/or services to their customers. Both the licensee and their customers are engaged in the possession, use, cultivation and transfer of cannabis. As a result, law enforcement authorities may seek to bring an action or actions against the Company, on the basis of, but not limited to, a claim of aiding and abetting another criminal's activities. The Company will vigorously defend all such actions but such actions would have a material effect on the Company's business and operations.

### Regulatory Risks Factors

The activities of the Company will be subject to intense regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

## CONTINGENCIES

There are no contingent liabilities.

## **DIRECTORS AND OFFICERS**

As of the date of this report, the Company has the following directors and officers:

James Pakulis – Director and President

Brad Eckenweiler – Director and CEO

Dr. John Sanderson, MD – Chief Science Officer

Yanika Silina, CPA, CMA – CFO and Corporate Secretary

David Velisek – Director

## **ADDITIONAL INFORMATION**

Additional information about the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).