



LIFESTYLE DELIVERY SYSTEMS INC.

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

UNAUDITED – PREPARED BY MANAGEMENT

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2018 & 2017

**NOTICE OF NO AUDITOR REVIEW
OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 & 2017**

The accompanying unaudited condensed consolidated interim financial statements of Lifestyle Delivery Systems Inc. (the “Company”) for the periods ended June 30, 2018 and 2017, have been prepared by, and are the responsibility of, the Company’s management.

The Company’s independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim statements by an entity’s auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

LIFESTYLE DELIVERY SYSTEMS INC.
(Expressed in Canadian Dollars)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,967,361	\$ 2,754,308
Amounts receivable	39,710	77,712
Advances receivable (Notes 4 & 6)	1,166,319	-
Prepays and other current assets (Note 4)	333,343	231,168
Total current assets	7,506,733	3,063,188
Property, plant and equipment (Note 3)	15,614,650	10,067,238
TOTAL ASSETS	\$ 23,121,383	\$ 13,130,426
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 455,141	\$ 1,103,419
Accrued liabilities	39,808	103,915
Amounts due to related parties (Note 6)	361,758	143,099
Advances payable	9,718	9,282
Note payable (Note 8)	-	655,446
Unearned revenue (Note 5)	136,647	227,289
Total liabilities	1,003,072	2,242,450
Stockholders' equity		
Share capital (Note 7)	41,727,020	23,990,089
Obligation to issue shares (Notes 7)	79,063	2,024,063
Reserves (Note 7)	3,673,061	3,698,443
Deficit	(22,865,143)	(18,139,295)
Accumulated other comprehensive income (loss)	382,218	(146,817)
Total parent shareholders' equity	22,996,219	11,426,483
Non-controlling interests (Note 10)	(877,908)	(538,507)
Total shareholders' equity	22,118,311	10,887,976
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 23,121,383	\$ 13,130,426

Subsequent events (Note 11)

"Brad Eckenweiler"

Brad Eckenweiler, Director

"James Pakulis"

James Pakulis, Director

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Expressed in Canadian Dollars)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 315,691	\$ 641,871	\$ 315,691	\$ 819,260
Cost of goods sold	-	(573,749)	-	(573,749)
Gross profit	315,691	68,122	315,691	245,511
Expenses				
Accounting fees	22,563	40,500	50,963	63,700
Advertising and promotion	932,798	40,365	1,114,481	152,843
Amortization (Note 3)	2,062	1,554	4,101	3,091
Consulting fees (Note 6)	294,013	231,437	734,719	452,783
IT infrastructure	77,580	60,437	153,572	110,080
Legal fees	340,020	171,762	512,540	201,168
Meals and travel expenses	138,024	80,043	213,122	145,746
Office and general	602,316	157,117	849,146	246,509
Regulatory fees	93,489	23,785	163,800	46,012
Research and development (Note 6)	615,807	152,165	1,144,480	295,135
Share-based compensation (Notes 6 and 7)	50,508	-	352,131	-
Operating expenses	3,169,180	959,165	5,293,055	1,717,067
Foreign exchange gain (loss)	43,473	(24,591)	55,126	(42,373)
Interest expense (Note 8)	(50,054)	(2,891)	(109,290)	(3,673)
Interest income	2,074	3,207	3,216	3,207
Net loss for the period	\$ (2,857,996)	\$ (915,318)	\$ (5,028,312)	\$ (1,514,395)
Net loss attributable to:				
Shareholders of the Company	(2,746,947)	(879,343)	(4,725,848)	(1,488,264)
Non-controlling interests (Note 10)	(111,049)	(35,975)	(302,464)	(26,131)
	\$ (2,857,996)	(915,318)	\$ (5,028,312)	\$ (1,514,395)
Other comprehensive income (loss)				
Foreign exchange translation	244,105	(90,283)	492,098	(91,797)
Total comprehensive loss for the period	\$ (2,613,891)	\$ (1,005,601)	\$ (4,536,214)	\$ (1,606,192)
Other comprehensive income (loss) attributed to:				
Shareholders of the Company	261,517	(90,914)	529,035	(92,482)
Non-controlling interests (Note 10)	(17,412)	631	(36,937)	685
	\$ 244,105	\$ (90,283)	\$ 492,098	\$ (91,797)
Total comprehensive loss attributable to:				
Shareholders of the Company	(2,485,430)	(970,257)	(4,196,813)	(1,580,746)
Non-controlling interests (Note 10)	(128,461)	(35,344)	(339,401)	(25,446)
	\$ (2,613,891)	\$ (1,005,601)	\$ (4,536,214)	\$ (1,606,192)
Net loss per share - basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.05)	\$ (0.03)
Weighted average number of shares outstanding	105,398,938	58,833,086	104,728,593	53,183,207

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Expressed in Canadian Dollars)
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Common shares		Obligation to Issue Shares	Reserves	Deficit	Non-controlling Interest	Accumulated Other Comprehensive Income / (Loss)	Total
	Number of Shares	Amount						
Balance at December 31, 2016	51,304,623	\$ 6,220,229	\$ 460,599	\$ 282,882	\$ (5,543,027)	\$ -	\$ (4,605)	\$ 1,416,078
Private placements	19,407,316	9,703,658	(427,005)	-	-	-	-	9,276,653
Exercise of warrants	7,107,507	1,439,720	-	(14,120)	-	-	-	1,425,600
Exercise of options	60,000	10,650	-	(3,450)	-	-	-	7,200
Share issuance costs - cash and shares	164,100	(683,265)	-	-	-	-	-	(683,265)
Finder's warrants for private placement	-	(223,053)	-	223,053	-	-	-	-
Shares issued for membership	6,000,000	-	-	-	-	-	-	-
Shares issued for patent	1,000,000	590,000	-	-	-	-	-	590,000
Shares issued for finder's fee for the acquisition of technology	315,000	29,531	(29,531)	-	-	-	-	-
Non-controlling interest in equity	-	-	-	-	-	6,616	-	6,616
Foreign exchange translation	-	-	-	-	-	685	(92,482)	(91,797)
Net loss for the period ended June 30, 2017	-	-	-	-	(1,488,264)	(26,131)	-	(1,514,395)
Balance at June 30, 2017	85,358,546	17,087,470	4,063	488,365	(7,031,291)	(18,830)	(97,087)	10,432,690
Exercise of warrants	7,468,778	2,144,365	-	(49,325)	-	-	-	2,095,040
Exercise of options	2,845,595	505,081	-	(163,610)	-	-	-	341,471
Share issuance costs - cash and shares	-	9,625	-	-	-	-	-	9,625
Finder's warrants for private placement	-	4,079	-	(4,079)	-	-	-	-
Shares released from escrow for technology	-	2,520,000	-	-	-	-	-	2,520,000
Share-based compensation	-	-	-	3,427,092	-	-	-	3,427,092
Subscription for shares	-	-	2,020,000	-	-	-	-	2,020,000
Shares issued for membership	-	1,560,000	-	-	-	-	-	1,560,000
Shares issued for finder's fee for the acquisition of technology	-	159,469	-	-	-	-	-	159,469
Non-controlling interest in equity	-	-	-	-	-	-	-	-
Foreign exchange translation	-	-	-	-	-	22,081	(49,730)	(27,649)
Net loss for the period ended December 31, 2017	-	-	-	-	(11,108,004)	(541,758)	-	(11,649,762)
Balance at December 31, 2017	95,672,919	23,990,089	2,024,063	3,698,443	(18,139,295)	(538,507)	(146,817)	10,887,976
Private placements	5,500,000	2,750,000	(2,020,000)	-	-	-	-	730,000
Exercise of warrants	21,093,329	14,758,800	75,000	(176,202)	-	-	-	14,657,598
Exercise of options	266,450	279,444	-	(79,606)	-	-	-	199,838
Cancelled shares issued for membership	(3,000,000)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	230,426	-	-	-	230,426
Cash payments to acquire non-controlling interest	-	(51,313)	-	-	-	-	-	(51,313)
Foreign exchange translation	-	-	-	-	-	(36,937)	529,035	492,098
Net loss for the period ended June 30, 2018	-	-	-	-	(4,725,848)	(302,464)	-	(5,028,312)
Balance at June 30, 2018	119,532,698	\$ 41,727,020	\$ 79,063	\$ 3,673,061	\$ (22,865,143)	\$ (877,908)	\$ 382,218	\$ 22,118,311

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

LIFESTYLE DELIVERY SYSTEMS INC.
(Expressed in Canadian Dollars)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30,	
	2018	2017
Cash flows used in operating activities		
Net loss	\$ (5,028,312)	\$ (1,514,395)
Non cash items		
Amortization	4,101	3,091
Foreign exchange	(62,212)	(6,742)
Interest on notes payable	109,290	3,673
Options issued for advertising and promotion	(121,706)	-
Share-based compensation	352,131	-
Changes in operating assets and liabilities		
Amounts receivable	38,002	(19,168)
Prepays and other current assets	(40,670)	(808,840)
Accounts payable and accrued liabilities	(730,980)	64,476
Amounts due to related parties	222,263	143,373
Unearned revenue	(166,544)	-
Net cash used in operating activities	(5,424,637)	(2,134,532)
Cash flows from financing activities		
Advances payable	-	27,133
Notes receivable	(1,102,479)	285,123
Repayment of notes	(788,710)	-
Issuance of common stock for private placements	730,000	8,393,389
Proceeds from warrant exercise	14,657,599	1,425,600
Proceeds from option exercise	199,838	7,200
Net cash provided by financing activities	13,696,248	10,138,445
Cash flows used in investing activities		
Advances repaid	-	90,033
Equipment purchased	(2,263,181)	(805,002)
Investment in license	(1,567,500)	-
Production facility	(1,259,288)	(1,394,597)
Deposits on equipment	-	474,349
Land acquisition	(3,162)	(663,220)
Net cash used in investing activities	(5,093,131)	(2,298,437)
Effects of foreign currency exchange	34,573	(26,336)
Change in cash and cash equivalents	3,213,053	5,679,140
Cash and cash equivalents, beginning	2,754,308	440,352
Cash and cash equivalents, ending	\$ 5,967,361	\$ 6,119,492
Cash and cash equivalents are comprised off:		
Cash	\$ 5,455,379	\$ 1,107,992
Term deposit	511,982	5,011,500
Total cash and cash equivalents	\$ 5,967,361	\$ 6,119,492

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

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

(Expressed in Canadian Dollars)

For the Three and Six Months Ended June 30, 2018 and 2017

1. NATURE AND CONTINUANCE OF OPERATIONS

Lifestyle Delivery Systems Inc. (the “Company” or “LDS”) was incorporated on September 14, 2010, pursuant to the provisions of the Business Corporations Act (British Columbia). The Company is a technology company that licenses its technology to a production and packaging facility located in Southern California. The Company’s technology produces infused strips (similar to breath strips) that are not only a safer, healthier option to any other form of delivery but also allows for inclusion of a wide spectrum of ingredients from over the counter medications to homeopathic, nutraceutical, vitamins and supplements. The technology provides a new way to accurately meter the dosage and assure the purity of selected product.

The Company’s head office is located at 1130 West Pender Street, Suite 820, Vancouver, British Columbia, V6E 4A4, Canada. The Company’s shares trade on the Canadian Securities Exchange under the trading symbol “LDS”, on OTCQX under the trading symbol “LDSYF”, and on the Borse Frankfurt Exchange under the symbol “LD6, WKN: A14XHT”.

As of the date of these interim consolidated financial statements, the Company’s structure is represented by Lifestyle Delivery Systems Inc., parent company incorporated pursuant to the provisions of the Business Corporations Act (British Columbia), and the following subsidiaries:

Name	Incorporation	Incorporation/ Acquisition Date	Interest	Function
Canna Delivery Systems Inc.	USA	May 1, 2015	100%	Holding company
LDS Agrotech Inc.	USA	January 24, 2017	75%	Consulting services
LDS Scientific Inc.	USA	January 23, 2017	75%	Extraction and manufacturing
Adelanto Agricultural Advisors Inc.	USA	July 7, 2017	100%	Cultivation
LDS Development Corporation	USA	July 20, 2017	100%	Real estate holdings
Lifestyle Capital Corporation	USA	July 19, 2017	100%	Financing
Optimus Prime Design Corp.	Canada	February 21, 2014	100%	Holding company
0994540 B.C. Ltd.	Canada	February 21, 2014	95%	Dormant entity

These interim 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 August 29, 2018, by the Directors of the Company.

Statement of Compliance and Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting. The unaudited condensed interim financial statements, prepared in conformity with IAS 34, follow the same accounting principles and methods of application as the most recent audited annual financial statements. Since the unaudited condensed consolidated interim financial statements do not include all disclosures required by the International Financial Reporting Standards (“IFRS”) for annual financial statements, they should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2017.

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Three and Six Months Ended June 30, 2018 and 2017

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

Basis of Measurement and Use of Estimates

These unaudited condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable, and include the accounts of the Company and its subsidiaries. On consolidation the Company eliminates all intercompany transactions and balances between subsidiaries.

All amounts are expressed in Canadian dollars, the Company's functional currency.

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.

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.

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

(Expressed in Canadian Dollars)

For the Three and Six Months Ended June 30, 2018 and 2017

3. PROPERTY, PLANT AND EQUIPMENT

	Property		Equipment		Plant		Total
<u>Cost</u>							
Balance at December 31, 2016	\$	-	\$	102,217	\$	236,260	\$ 338,477
Additions		2,025,418		2,065,809		4,289,289	8,380,516
Membership		1,747,575		-		-	1,747,575
Foreign exchange		(71,139)		(84,855)		(169,701)	(325,695)
Loss on investment		(64,930)		-		-	(64,930)
Balance at December 31, 2017		3,636,924		2,083,171		4,355,848	10,075,943
Additions		3,162		2,263,181		1,259,288	3,525,631
Membership		1,567,500		-		-	1,567,500
Foreign exchange		93,958		109,980		254,444	458,382
Balance at June 30, 2018	\$	5,301,544	\$	4,456,332	\$	5,869,580	\$ 15,627,456
<u>Accumulated Amortization</u>							
Balance at December 31, 2016	\$	-	\$	1,784	\$	-	\$ 1,784
Amortization		-		6,921		-	6,921
Balance at December 31, 2017		-		8,705		-	8,705
Amortization		-		4,101		-	4,101
Balance at June 30, 2018	\$	-	\$	12,806	\$	-	\$ 12,806
<u>Net Book Value</u>							
At December 31, 2017	\$	3,636,924	\$	2,074,466	\$	4,355,848	\$ 10,067,238
At June 30, 2018	\$	5,301,544	\$	4,443,526	\$	5,869,580	\$ 15,614,650

Substantially all of the above assets were under development at June 30, 2018, and were not ready for their intended use. Therefore, no amortization was charged.

CUP

As at June 30, 2018, the Company paid \$263,360 (US\$200,000) for the conditional use permits ("CUP") issued to CSPA and NHMC (2017 - \$250,900). The cost of CUP was included in plant costs as part of property, plant and equipment.

Membership

On May 1, 2017, the Company entered into agreements to purchase the outstanding membership interests of each of NHMC and CSPA (the "Membership Agreements") in exchange for 3,000,000 common shares of the Company and US\$1,400,000 in cash each (6,000,000 common shares of the Company and US\$2,800,000 cash in total).

The Company issued 6,000,000 shares on May 23, 2017, which were placed in escrow (the "Escrowed Shares") pending receipt of the Certificates of Occupancy (the "COO") and as such no monetary value was attributed to the escrowed shares at the time of the issuance. One-third of the Escrowed Shares and cash for NHMC were to be paid upon the grant of the COO for the cultivation wing of the Adelanto Facility, and one-third of the Escrowed Shares and cash purchase price for CSPA was to be paid upon the grant of the COO for the extraction and manufacturing wing of the Adelanto Facility. The balance of the purchase price and Escrowed Shares for NHMC and CSPA was to be paid in equal annual installments during the two years after the granting of the respective COO's.

CSPA received its COO on September 18, 2017, and, as such, the Company recorded \$1,560,000 associated with fair value of 3,000,000 escrowed shares issued as part of the Membership Agreement with CSPA and made partial cash payment of \$187,575 (US\$150,000).

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

(Expressed in Canadian Dollars)

For the Three and Six Months Ended June 30, 2018 and 2017

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**Membership (Continued)**

On February 21, 2018, the Company reached an agreement with principals of CSPA and NHMC (the “Sellers”) to restructure the membership purchase agreements, whereby the Company agreed to a one-time cash payment of \$1,567,500 (US\$1,250,000) and a release of 3,000,000 previously escrowed shares of the Company’s common stock to members of CSPA. In addition, the Company and the Sellers agreed to an additional payment of \$150,480 (US\$120,000), to pay the salaries for service as officers of each of NHMC and CSPA up to January 31, 2018.

Three million (3,000,000) shares of the Company’s common stock previously granted to NHMC under the Membership Purchase Agreement to acquire membership in NHMC, which were held in escrow pending receipt of COO were returned to the treasury of the Company and were cancelled on March 15, 2018. The Company’s obligation to pay an additional US\$1,400,000 was also cancelled.

The rights of the Company to purchase the memberships of both NHMC Inc. and CSPA Group Inc. were assigned to a non-arms length party, and the current member of a medical cannabis nursery and a medical cannabis retailer located in Adelanto, CA. In exchange, the Company was granted a five-year option to purchase the NHMC, Inc. and CSPA Group, Inc. memberships for US\$100 each. The assignment was required to facilitate the transfer of the permits granted to CSPA and NHMC by the City of Adelanto to a new permittee.

4. PREPAIDS AND ADVANCES RECEIVABLE

As at June 30, 2018, the Company’s prepaids and other current assets consisted of advances on future services, including partial prepayment of its corporate insurance policies, as well as short term security deposits the Company was required to make to secure favourable credit terms with its suppliers.

At June 30, 2018, the Company advanced \$1,166,319 (US\$885,722) to a company with an officer and director in common. The advances are due on demand and do not accumulate any interest (Note 6).

5. UNEARNED REVENUE

At June 30, 2018, unearned revenue consisted of \$136,647 (2017 - \$227,289) in deposits the Company received on future services to be provided. These deposits were received from the companies with officers and directors in common.

6. 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:

		June 30,	
		2018	2017
Management consulting services	a)	\$ 409,293	\$ 264,189
Consulting services for research and development	b)	\$ 223,452	\$ 176,128
Share-based compensation	c)	\$ 342,391	\$ -
Shares issued for intangibles	d)	\$ -	\$ 590,000

a) Management consulting services consist of the following:

- \$192,370 (2017 – \$200,145) in consulting fees paid or accrued to Mr. Eckenweiler, the CEO and director of the Company pursuant to a consulting agreement with Mr. Eckenweiler. The Company agreed to pay Mr. Eckenweiler US\$25,000 per month for his services for a term expiring on February 28, 2021, and automatically renewable for successive one-year periods thereafter. In case the Company decides to terminate the consulting agreement with Mr. Eckenweiler without due cause, the Company agreed to pay Mr. Eckenweiler a lump sum amount equal to the product of monthly

LIFESTYLE DELIVERY SYSTEMS INC.
Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the Three and Six Months Ended June 30, 2018 and 2017

6. RELATED PARTY TRANSACTIONS (CONTINUED)

remuneration otherwise payable to Mr. Eckenweiler under the consulting agreement multiplied by 18 months regardless of the length of time remaining under the then current term.

- \$38,182 (2017 – \$40,029) 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 pay Mr. Pakulis US\$5,000 per month for his services pursuant to a management consulting agreement expiring on May 1, 2019, with automatic renewals for successive one-year periods thereafter.
- \$57,277 (2017 - \$24,015) in consulting fees paid to Ms. Silina, the Company's Chief Financial Officer (the "CFO"). The Company agreed to pay Ms. Silina US\$7,500 per month for her services pursuant to a management consulting agreement expiring May 1, 2019, with automatic renewals for successive one-year periods thereafter.
- \$30,000 (2017 - \$Nil) in consulting fees paid to Mr. Johannson, a member of the board of directors of the Company. The Company agreed to pay Mr. Johannson \$5,000 per month for his services pursuant to a consulting agreement expiring January 1, 2020, with automatic renewals for successive one-year periods thereafter.
- \$91,464 (2017 - \$Nil) in consulting fees paid to Mr. McEnulty, director and executive officer of the Company's wholly-owned California subsidiaries. The Company agreed to pay Mr. McEnulty US\$12,000 per month for his services pursuant to a consulting agreement expiring December 30, 2020, with automatic renewals for successive one-year periods thereafter.

b) Consulting services for research and development consist of the following:

- \$95,858 (2017 – \$102,741) in consulting fees paid to Ms. Elrod, President and a 25% shareholder of LDS Scientific. The Company agreed to pay Ms. Elrod US\$12,500 per month for her services.
- \$88,189 (2017 – \$73,387) in consulting fees paid or accrued to Mr. Ferguson, President and a 25% shareholder of LDS Agrotech. The Company agreed to pay Mr. Ferguson US\$11,000 per month for his services. As of January 1, 2018, the Company agreed to increase Mr. Ferguson's consulting fee to US\$11,500 per month.
- \$39,405 (2017 – \$Nil) in consulting fees paid or accrued to Dr. Sanderson, Chief Science Officer (the "CSO") of the Company. On July 1, 2017, the Company and Dr. Sanderson entered into a consulting agreement for US\$5,000 per month extending for a term of three years expiring on June 30, 2020, with automatic renewals for successive one-year periods thereafter.

c) On January 11, 2018, the Company granted an option to purchase up to 500,000 common shares to its director and a consultant. The options were valued at \$342,391 and may be exercised at a price of \$1.15 per share expiring on January 11, 2020 (Note 7).

c) Shares issued for intangibles:

On May 3, 2017, the Company entered into an exclusive worldwide license agreement with the Company's Chief Science Officer, Dr. John D. Sanderson, and Nanostrips, Inc., a company controlled by Dr. Sanderson (the "Sanderson License Agreement"). Under the terms of the Sanderson License Agreement, the Company was granted a worldwide exclusive license to the technology described in the provisional patent application relating to the transmucosal delivery of biologically active substances filed by Dr. Sanderson on November 6, 2016 and on December 18, 2017, and any technologies deriving therefrom, in the field of cannabis and cannabis extract related products.

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6. RELATED PARTY TRANSACTIONS (CONTINUED)

In consideration for the license, the Company issued Dr. Sanderson 1,000,000 common shares of the Company (issued on May 23, 2017), valued at \$590,000. In addition, upon the grant of a United States patent containing claims directed to the new and innovative subject matter described in the provisional patent application filed on November 6, 2016, the Company agreed to issue Dr. Sanderson an additional 1,000,000 shares of its common stock.

Related party payables at June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018	December 31, 2017
Brad Eckenweiler	\$ 209,184	\$ 116,727
Dr. Sanderson	6,584	17,470
James Pakulis	42,724	3,067
Yanika Silina	3,206	5,835
Arni Johannson	5,250	-
Frank McEnulty	94,810	-
Total payable to related parties	\$ 361,758	\$ 143,099

Related party advances receivable

During the six-month period ended June 30, 2018, the Company advanced a total of \$1,102,479 (US\$885,722) to a company with a director in common to acquire equipment. The advance is non-interest bearing, due on demand, and secured by the equipment purchased with the proceeds of the advance. As at June 30, 2018, a total of \$1,166,319 was receivable from the related entity (Note 4).

7. CAPITAL AND RESERVES**A. Common Shares**

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

B. Issued share capital

As at June 30, 2018, the Company had 119,532,698 shares issued and outstanding of which 2,100,000 remained in escrow.

During the six months ended June 30, 2018, the Company had the following transactions that resulted in issuance of its common stock:

- i. On January 11, 2018, the Company closed a non-brokered private placement financing (the "January Financing") for a total of 5,500,000 units (the "January Units") at a price of \$0.50 per January Unit (the "Issue Price") for total gross proceeds of \$2,750,000. Each January Unit sold in the January Financing consisted of one common share of the Company (each a "January Unit Share") and one common share purchase warrant (each a "January Warrant"). Each January Warrant entitles the holder to purchase one additional common share (a "January Warrant Share") at a price of \$0.75 per January Warrant Share for a period ending one year from the date of issuance. The Company may accelerate the expiration date of the January Warrants if the daily volume weighted average share price of the Company's common shares on the Canadian Securities Exchange (or such other stock exchange as the Company's common shares are then trading on) is equal to or greater than \$1.50 for 10 consecutive trading days.
- ii. During the six months ended June 30, 2018, the Company issued 19,419,909 shares of the Company's common stock on exercise of warrants for total proceeds of \$13,589,035, and recorded \$75,000 as obligation to issue 100,000 shares on exercise of a warrant, which shares were issued in July 2018.

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7. CAPITAL AND RESERVES (CONTINUED)**B. Issued share capital (Continued)**

- iii. During the six months ended June 30, 2018, the Company issued 1,673,420 shares of the Company's common stock on exercise of broker warrants for total proceeds of \$993,563. These warrants had an initial fair value of \$176,202.
- iv. During the six months ended June 30, 2018, the Company issued 266,450 shares of its common stock for total proceeds of \$199,838 on exercise of options the Company issued to an entity engaged in capital markets advisory and investor relations services. These options had an initial fair value of \$79,606.
- v. On March 15, 2018, the Company returned to treasury and cancelled 3,000,000 shares of the Company's common stock previously granted to NHMC under the Membership Purchase Agreement to acquire membership in NHMC, which were held in escrow pending receipt of COO (Note 3).

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.

On January 11, 2018, the Company granted an option to acquire up to 500,000 shares of its common stock to its director. The option is exercisable for a two-year period expiring on January 11, 2020, at \$1.15 per share (Note 6). The Company recorded \$342,391 as share-based compensation associated with this option, which was determined using the Black-Scholes Option pricing model using the following assumptions:

	January 11, 2018
Expected Life of the Option	2 years
Average Risk-Free Interest Rate	1.76%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	116%

At June 30, 2018, the Company recorded \$67,372 recovery of advertising and promotion expenses, associated with the vested portion of an option to acquire up to 1,000,000 shares the Company granted to its consultant. The option is exercisable for a two-year period expiring on July 27, 2019, at \$0.50 per share and vests over a 12-month period beginning on October 27, 2017, at 250,000 shares per quarter. The recovery was determined using the Black-Scholes Option pricing model using the following assumptions:

	June 30, 2018
Expected Life of the Option	1.75 – 1.0 years
Average Risk-Free Interest Rate	1.42 – 1.91 %
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	108.99% - 106.1%

At June 30, 2018, the Company recorded \$54,333 recovery of advertising and promotion expenses, associated with the vested portion of an option to acquire up to 532,900 shares the Company granted to its consultant. The option is exercisable for the period of 18 months expiring on January 27, 2019, at \$0.75 per share and vests over a 12-month period beginning on October 27, 2017, at 133,225 shares per quarter. The recovery was determined using the Black-Scholes Option pricing model using the following assumptions:

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7. CAPITAL AND RESERVES (CONTINUED)**C. Stock purchase option compensation plan (Continued)**

	June 30, 2018
Expected Life of the Option	1.25 - 0.50 years
Average Risk-Free Interest Rate	1.42 – 1.91%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	97.39% - 117.91%

As at June 30, 2018, the consultant acquired 266,450 shares of the Company's common stock on exercise of the vested portion of its option for a total proceeds of \$199,838.

A continuity of options for the six-month period ended June 30, 2018, and for the year ended December 31, 2017 is as follows:

	June 30, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the year	8,868,900	\$0.52	2,930,595	\$0.13
Granted	500,000	\$1.15	8,843,900	\$0.52
Exercised	(266,450)	\$0.75	(2,905,595)	\$0.12
Options outstanding, ending	9,102,450	\$0.54	8,868,900	\$0.52
Options exercisable, ending	8,719,225	\$0.54	7,719,225	\$0.51

The options outstanding and exercisable at June 30, 2018, are as follows:

Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	25,000	\$ 0.80	3.13	August 15, 2021
8,311,000	8,061,000	\$ 0.50	1.07	July 27, 2019
266,450	133,225	\$ 0.75	0.58	January 27, 2019
500,000	500,000	\$1.15	1.53	January 11, 2020
9,102,450	8,719,225	\$ 0.54	1.08	

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the six months ended June 30, 2018, and for the year ended December 31, 2017:

	June 30, 2018		December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	21,060,851	\$0.69	15,512,523	\$0.19
Exercised	(21,093,329)	\$0.71	(14,576,285)	\$0.24
Expired	(861,532)	\$0.75	(711,213)	\$0.44
Issued	6,294,010	\$0.75	20,835,826	\$0.74
Warrants outstanding, ending	5,400,000	\$0.75	21,060,851	\$0.69

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7. CAPITAL AND RESERVES (CONTINUED)**D. Share Purchase Warrants (Continued)**

As at June 30, 2018, there were 5,400,000 share purchase warrants issued and outstanding expiring on January 11, 2019. The warrants can be exercised at \$0.75 per share.

E. Escrow shares

As at June 30, 2018, the Company had 2,100,000 common shares held in escrow (2017 – 8,196,000) pursuant to the share exchange agreement between the Company and the original shareholders of Canna Delivery Systems Inc. (“Canna”) dated for reference March 20, 2015, pursuant to which the Company agreed to purchase and the original shareholders of Canna agreed to sell all of the issued and outstanding shares of Canna to the Company.

8. NOTE PAYABLE

On November 13, 2017, the Company entered into a \$637,250 (US\$500,000) secured credit facility (the “Credit Facility”) with an unrelated third party lender (the “Lender”), which closed on November 16, 2017. The Credit Facility was for a six-month term ending on May 16, 2018, with outstanding principal accruing interest at a rate of 3% per month, compounded monthly and payable on maturity. The Company had the right to prepay the Credit Facility at any time, subject to the payment of minimum interest in the amount of US\$50,000.

The Credit Facility was secured by a general security agreement covering all of the Company’s personal property, plus deeds of trust covering three parcels of unimproved real property totaling 20.5 acres owned by the Company in the City of Adelanto.

During the six months ended June 30, 2018, the Company recorded \$109,290 in interest expense associated with the Credit Facility (2017 - \$Nil).

The Company repaid the Credit Facility on June 4, 2018, in accordance with a verbal extension granted by the lender. At the time of the repayment, the total due under the Credit Facility was \$788,710 (US\$608,385) and consisted of US\$500,000 principal and US\$108,385 in accrued interest.

9. 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 quarter ended June 30, 2018. The Company is not subject to any externally imposed capital requirements.

10. NON-CONTROLLING INTERESTS

The Company owns a 75% interest in two of its subsidiaries, LDS Agrotech Inc. and LDS Scientific Inc. The remaining 25% of LDS Agrotech is owned by its President, Matthew Fergusson, and the remaining 25% of LDS Scientific is owned by its President, Crystal Elrod. The Company holds an option and first right of refusal with Mr. Ferguson and Ms. Elrod pursuant to which the Company can purchase the remaining 25% of each of LDS Agrotech and LDS Scientific as follows:

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10. NON-CONTROLLING INTERESTS (CONTINUED)

- (a) issue to Mr. Fergusson and Ms. Elrod a total of 2,500,000 common shares, each; and
- (b) make the following cash payments to each of Mr. Fergusson and Ms. Elrod:
- (i) US\$500,000 in cash, if the options are exercised on or before July 31, 2018, or
 - (ii) US\$1,000,000 in cash, if the options are exercised after July 31, 2018, but on or before July 31, 2019, (the "Option Price").

During the six-month period ended June 30, 2018, the Company entered into negotiations to amend the option to acquire LDS Scientific. As part of these negotiations the Company paid Ms. Elrod \$51,313 (US\$39,400), which payment will be applied towards the final cash payment.

At June 30, 2018, and December 31, 2017, the non-controlling interests consisted of the following:

	June 30, 2018	December 31, 2017
LDS Scientific (25%)	\$ (775,584)	\$ (469,680)
LDS Agrotech (25%)	(102,324)	(68,827)
	\$ (877,908)	\$ (538,507)

The following are the summarized statements of financial position of LDS Scientific and LDS Agrotech as at June 30, 2018:

	LDS Scientific	LDS Agrotech
Current:		
Assets	\$ 667,574	\$ 33,342
Liabilities	(3,769,911)	(442,636)
Total net assets	\$ (3,102,337)	\$ (409,294)

The following is the summarized comprehensive loss of LDS Scientific and LDS Agrotech for the six months ended June 30, 2018:

	LDS Scientific	LDS Agrotech
Gross profit	\$ 155,928	\$ 159,763
Operating expenses	(1,249,402)	(276,141)
Net loss	(1,093,474)	(116,378)
Other comprehensive income (loss)	64,409	(7,724)
Comprehensive loss	\$ (1,157,883)	\$ (108,654)

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2018, the Company issued 100,000 shares of the Company's common stock on exercise of warrants for total proceeds of \$75,000, which the Company received during the period ended June 30, 2018.

Subsequent to June 30, 2018, the Company, entered into two separate consulting agreements with Dr. George Taylor, M.D., and Dr. Jonathan Lakey, Ph.D., who agreed to act as advisors for the Company's Scientific Advisory Board. The agreements were dated for reference August 15, 2018, and were effective May 1, 2018. The Company agreed to pay both consultants US\$1,000 per month for their contribution. In addition, the Company granted Dr. Taylor and Dr. Lakey options to acquire up to 35,000 of its common shares in aggregate. The options vested on August 15, 2018, and may be exercised at a price of \$0.58 per share expiring on August 15, 2020. At June 30, 2018, the Company recorded \$9,739 as part of the stock-based compensation associated with the options granted.

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11. SUBSEQUENT EVENTS (CONTINUED)

The value of the accrued stock-based compensation was estimated using the Black-Scholes Option pricing model using the following assumptions:

	June 30, 2018
Expected Life of the Option	2 years
Average Risk-Free Interest Rate	1.91%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	105.69%

On August 15, 2018, the Company granted an option to acquire up to 2,825,820 common shares to its Chief Executive Officer. The option vested immediately and may be exercised at a price of \$0.58 per share expiring on August 15, 2020.