



**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, 2016 & 2015**

**NOTICE OF NO AUDITOR REVIEW  
OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 & 2015**

The accompanying unaudited condensed consolidated interim financial statements of Lifestyle Delivery Systems Inc. (the “Company”) for the period ended June 30, 2016, 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 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.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 5,643	\$ 119,261
GST receivable	8,733	19,255
Prepaid expenses	1,770	27,392
Loan receivable (Note 10)	25,000	-
Inventory (Note 4)	15,470	8,758
<b>Total current assets</b>	<b>56,616</b>	<b>174,666</b>
Equipment (Note 5)	458,925	418,566
Technology (Notes 3, 6)	698,564	840,169
<b>TOTAL ASSETS</b>	<b>\$ 1,214,105</b>	<b>\$ 1,433,401</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 483,888	\$ 163,491
Accrued liabilities	5,873	19,718
Amounts due to related parties (Note 7)	156,292	140,708
Unearned revenue (Note 8)	32,523	51,900
Advances payable	9,106	-
Loans payable (Note 10)	32,077	-
Derivative liability - warrants (Note 10)	43,263	-
<b>Total liabilities</b>	<b>763,022</b>	<b>375,817</b>
Stockholders' equity		
Share capital (Note 9)	3,649,017	3,547,263
Obligation to issue shares (Notes 3, 9)	86,012	33,594
Reserves	138,850	130,604
Deficit	(3,377,285)	(2,676,683)
Accumulated other comprehensive income (loss)	(45,511)	22,806
<b>Total shareholders' equity</b>	<b>451,083</b>	<b>1,057,584</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,214,105</b>	<b>\$ 1,433,401</b>

Subsequent events (Note 12)

*"Brad Eckenweiler"* Director  
Brad Eckenweiler

*"David Velisek"* Director  
David Velisek

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

**LIFESTYLE DELIVERY SYSTEMS INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Expressed in Canadian Dollars)  
(Unaudited)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 14,459	\$ 30,688	\$ 23,052	\$ 30,688
<b>Expenses</b>				
Accounting fees	53,060	30,594	75,560	55,594
Advertising and promotion	-	4,858	-	4,858
Amortization (Note 6)	45,148	49,647	93,317	49,647
Consulting fees (Note 7)	129,105	116,711	268,395	156,298
Finance fees	-	12,694	-	33,015
Legal fees	15,001	17,191	31,681	47,191
Meals and travel expenses	9,325	35,426	16,569	37,288
Office and general	96,033	40,885	200,887	41,309
Regulatory fees	10,719	25,733	19,275	31,657
Research and development	15,224	41,616	17,938	41,616
Operating expenses	373,615	375,355	723,622	498,473
Foreign exchange gain (loss)	-	638	(32)	638
Net loss	(359,156)	(344,029)	(700,602)	(467,147)
Foreign exchange translation	(1,919)	10,971	(68,317)	10,971
Comprehensive loss	\$ (361,075)	\$ (333,058)	\$ (768,919)	\$ (456,176)
Net loss per share - basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Weighted average number of shares outstanding - basic	26,910,070	11,373,615	26,580,399	11,252,554

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

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

	Common shares		Equity	Obligation	Reserves	Deficit	Accumulated	Total
	Number of Shares	Amount	Portion of Convertible Debenture	to Issue Shares			Other Comprehensive Income / (Loss)	
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 note	264,000	26,400	-	-	-	-	-	26,400
Conversion of convertible debenture	200,000	11,480	(1,480)	-	-	-	-	10,000
Acquisition of Technology	7,800,000	1,170,000	-	-	-	-	-	1,170,000
Private placements	5,168,758	775,314	-	-	-	-	-	775,314
Share issuance costs - cash	-	(38,215)	-	-	-	-	-	(38,215)
Finder's fee for private placement	254,768	38,215	-	-	-	-	-	38,215
Finder's fee for the acquisition of Technology	83,333	12,499	-	84,750	-	-	-	97,249
Debt settlement	1,183,000	177,450	-	-	-	-	-	177,450
Conversion of convertible promissory notes	1,200,000	120,000	-	-	-	-	-	120,000
Exercise of warrants	448,953	44,895	-	-	-	-	-	44,895
Foreign exchange translation	-	-	-	-	-	-	10,971	10,971
Net loss for the period ended June 30, 2015	-	-	-	-	-	(467,147)	-	(467,147)
Balance at June 30, 2015	24,809,062	3,676,374	18,411	84,750	102,140	(1,937,157)	10,971	1,955,489
Conversion of convertible debenture	-	18,411	(18,411)	-	-	-	-	-
Acquisition of Technology	-	(472,500)	-	-	-	-	-	(472,500)
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	141,667	21,251	-	(106,000)	-	-	-	(84,749)
Private placements	7,600,000	380,000	-	-	-	-	-	380,000
Share issuance costs - cash	-	(34,667)	-	-	-	-	-	(34,667)
Finder's warrants for private placement	-	(28,464)	-	-	28,464	-	-	-
Conversion of convertible promissory notes	-	(13,142)	-	-	-	-	-	(13,142)
Foreign exchange translation	-	-	-	-	-	-	11,835	11,835
Net loss for the period ended December 31, 2015	-	-	-	-	-	(739,526)	-	(739,526)
Balance at December 31, 2015	32,550,729	3,547,263	-	33,594	130,604	(2,676,683)	22,806	1,057,584
Private placements	1,000,000	100,000	-	-	-	-	-	100,000
Finder's warrants for private placement	-	(8,246)	-	-	8,246	-	-	-
Exercise of warrants	100,000	10,000	-	-	-	-	-	10,000
Subscriptions to common shares	-	-	-	52,418	-	-	-	52,418
Foreign exchange translation	-	-	-	-	-	-	(68,317)	(68,317)
Net loss for the period ended June 30, 2016	-	-	-	-	-	(700,602)	-	(700,602)
Balance at June 30, 2016	33,650,729	\$ 3,649,017	\$ -	\$ 86,012	\$ 138,850	\$ (3,377,285)	\$ (45,511)	\$ 451,083

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

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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows used in operating activities</b>		
Net loss	\$ (700,602)	\$ (467,147)
Non cash items		
Amortization	93,317	49,647
Interest on notes payable	340	-
Non-cash interest accretion on convertible debenture	-	26,074
Changes in operating assets and liabilities		
GST receivable	10,522	3,486
Prepaid expenses	25,308	(44,939)
Inventory	(7,408)	(131,145)
Accounts payable and accrued liabilities	234,151	34,801
Amounts due to related parties	96,538	-
Unearned revenue	(16,646)	-
Net cash used in operating activities	(264,480)	(529,223)
<b>Cash flows from financing activities</b>		
Advances payable	9,351	-
Notes payable	50,000	(27,162)
Proceeds from issuance of common shares	100,000	775,314
Proceeds from subscriptions to common shares	52,418	-
Proceeds from warrant exercise	10,000	44,895
Net cash provided by financing activities	221,769	793,047
<b>Cash flows used in investing activities</b>		
Advances made	-	(88,791)
Equipment	(67,042)	(131,245)
Net cash used in investing activities	(67,042)	(220,036)
Effects of foreign currency exchange	(3,865)	-
Net increase (decrease) in cash and cash equivalents	(113,618)	43,788
Cash and cash equivalents, beginning	119,261	201,428
Cash and cash equivalents, ending	\$ 5,643	\$ 245,216
Cash and cash equivalents are comprised of:		
Cash	\$ 5,643	\$ 178,716
Term deposit	-	66,500
Total cash and cash equivalents	\$ 5,643	\$ 245,216

The accompanying notes are an integral part of these unaudited 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, 2016 & 2015

---

### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Lifestyle Delivery Systems 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 medicinal 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 subsidiary, 0994537 B.C. Ltd., and majority-owned subsidiary, 0994540 B.C. Ltd., were incorporated on February 21, 2014 and remained inactive during the period ended June 30, 2016. The Company’s shares trade on the Canadian Securities Exchange under the trading symbol “LDS”, on OTCQB under the trading symbol “LDSYF”, and on the Borse Frankfurt Exchange under the symbol LD6, WKN number A14XHT.

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 3).

These unaudited interim condensed consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at June 30, 2016, the Company had generated only minimal revenue from its main business activity. The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These condensed interim consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern. These adjustments could be material.

### **2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

These unaudited interim condensed consolidated financial statements were authorized for issue on August 29, 2016, by the Directors of the Company.

#### *Statement of Compliance*

The 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, 2015.

#### *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 of 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

**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, 2016 &amp; 2015

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

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.

**3. ACQUISITION**

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:

<b>Milestone</b>	<b>Number of Performance Shares to be released</b>
USD \$50,000 in cumulative gross revenues	1,500,000 (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:

<b>Milestone</b>	<b>Number of common shares to be issued</b>
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 June 30, 2016, 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.



**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, 2016 &amp; 2015

**3. ACQUISITION (Continued)**

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

	<b>Total</b>
Purchase price:	
Performance shares (estimated fair value of share consideration)	\$ 697,500
Finder's fee	67,344
Transaction costs	80,398
	<u>\$ 845,242</u>
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)
	<u>\$ 845,242</u>

**4. INVENTORY**

As at June 30, 2016, inventory comprised of packaging supplies held for sale to licensees, and was valued at \$15,470 (2015- \$8,758).

**5. EQUIPMENT**

As at June 30, 2016, the Company recorded \$458,925 (2015 – \$418,566) for the strip coating equipment which the Company intends to lease to its licensees. As at June 30, 2016, the lease agreement has not been finalized, and the equipment remained in possession of the Company. No depreciation was taken for the three and six month periods ended June 30, 2016, as the equipment was not ready for its intended use.

**6. TECHNOLOGY**

On May 1, 2015, upon completion of the Transaction (Note 3), the Company acquired certain technology to produce cannabis infused strips capable of delivering accurately measured doses of medicinal marijuana (the "Technology"), from the shareholders of 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 six month period ended June 30, 2016, the Company recorded \$93,317 (2015 – \$49,647) in amortization expense associated with the Technology.

**7. 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:

<b>Services provided:</b>	<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>
Management consulting services	a) \$ 144,485	\$ 44,900
Corporate advisory services	b) \$ -	\$ 82,500

a) Management consulting services consist of the following:

- \$53,534 (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 USD\$6,700 per month.

**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, 2016 &amp; 2015

**7. RELATED PARTY TRANSACTIONS (Continued)**

- \$Nil (2015 - \$16,360) in consulting fees paid or accrued to Mariscos Del Mar, a company controlled by Brad Eckenweiler, the CEO and director of the Company.
  - \$39,951 (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 USD\$5,000 per month for his services.
  - \$6,000 (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.
  - \$Nil (2015 - \$16,360) in consulting fees paid or accrued to FindTec, Inc., a company controlled by Brent Inzer, the former president, CFO and director of CDS.
  - \$45,000 (2015 - \$12,270) in consulting fees paid or accrued to Da Costa Management Corp., a company controlled by John da Costa, the former director of CDS.
- 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 Payables:

	June 30, 2016	December 31, 2015
Baron Global Financial Canada Ltd. <sup>(1)</sup>	\$ -	\$ 69,300
Brad Eckenweiler <sup>(2)</sup>	110,265	63,389
Jim Pakulis	39,027	-
FindTec, Inc. <sup>(1)</sup>	-	6,189
Mariscos Del Mar Inc.	-	830
Yanika Silina	7,000	1,000
<b>Total payable to related parties</b>	<b>\$ 156,292</b>	<b>\$ 140,708</b>

<sup>(1)</sup>During the year ended December 31, 2015, Baron Global Financial Canada Ltd. and FindTec, Inc. ceased to be related parties. As at June 30, 2016, the amounts owed to these entities have been included as part of trade accounts payable.

<sup>(2)</sup>On April 8, 2016, the Company borrowed USD\$50,000 (CAD\$64,975) from Mr. Brad Eckenweiler. The advance was due on demand, non-interest bearing and unsecured. As of June 30, 2016, the Company repaid USD\$46,500 (CAD \$60,984) of the amount lent from Mr. Eckenweiler.

**8. LICENSE AGREEMENTS 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 USD\$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 USD\$25,000, of which 50% was included in revenue. At June 30, 2016, the Company recognized a further USD\$12,500 (\$16,646) in 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 USD\$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 USD\$25,000 (\$32,428), which the Company has recorded as

**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, 2016 &amp; 2015

**8. LICENSE AGREEMENTS AND MEMORANDUM OF UNDERSTANDING (Continued)**

unearned revenue, and will apply towards the first annual license fee upon execution of the Proposed License Agreement. As of June 30, 2016, the Proposed License Agreement has not been executed.

- c) On January 6, 2015, CDS executed a non-binding letter of intent (“LOI”) to license its Technology to Wisdom Homes of America, Inc. (“WOFA”). James Pakulis, the President of the Company, is the Chief Executive Officer of 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 USD\$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. As of June 30, 2016, the annual license fee remained unpaid.

**9. 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, 2016, there were 33,650,729 common shares issued and outstanding (December 31, 2015 – 32,550,729).

During the six months ended June 30, 2016, the Company had the following transactions that resulted in the issuance of its common stock:

- i. On April 11, 2016, the Company issued 100,000 shares of its common stock upon the exercise of 100,000 warrants at \$0.10 per share.
- ii. On May 9, 2016, the Company closed a non-brokered private placement announced on April 26, 2016 (the “April Offering”) by issuing a total of 1,000,000 units (“April Units”) at a price of \$0.10 per Unit for total gross proceeds of \$100,000. Each April 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 April Offering, the Company issued 100,000 finder’s warrants (the “Finder’s Warrants”). The Finder’s 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. The fair value of broker’s warrants was determined using the Black-Scholes Option pricing model at the date of issuance using the following assumptions:

	<b>At May 9, 2016</b>
Expected Warrant Life	2 years
Average Risk-Free Interest Rate	0.52%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	253%

- iii. During the month of May the Company arranged a non-brokered private placement offering (the “May Offering”) of up to USD\$90,000 at a price of \$0.08 per unit (the “May Unit”), of which it received USD\$40,000 (CAD \$52,418). The Company closed the May Offering on July 6, 2016 when it issued 655,225 May Units for gross proceeds of CAD\$52,418.

Each May Unit consisted 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.

**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, 2016 &amp; 2015

**9. CAPITAL AND RESERVES (Continued)****C. Stock options**

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 is as follows:

	June 30, 2016		December 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning	82,500	\$0.94	132,500	\$0.89
Expired	(57,500)	\$1.00	(50,000)	\$0.80
Options outstanding and exercisable, ending	25,000	\$0.80	82,500	\$0.94

The options outstanding and exercisable at June 30, 2016 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	\$ 0.80	5.13	August 15, 2021

**D. Share Purchase Warrants**

The following table summarizes the continuity of share purchase warrants for the periods ended June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	15,704,411	\$0.16	5,200,000	\$0.10
Exercised	(100,000)	\$ .10	(448,953)	\$0.10
Issued	1,800,000	0.10	10,953,364	\$0.19
Warrants outstanding, ending	17,404,411	\$0.16	15,704,411	\$0.16

The warrants outstanding and exercisable at June 30, 2016 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	0.84	May 1, 2017
4,851,047	\$0.10	0.89	May 22, 2017
8,041,600	\$0.10 during the first year; \$0.15 during the second year	1.45	December 11, 2017
1,000,000	\$0.12 during the first year; \$0.20 during the second year	1.86	May 9, 2018
100,000	\$0.12	1.86	May 9, 2018
700,000	\$0.08	1.55	January 15, 2018
17,404,411		1.04	

(i) Subsequent to the six month period ended June 30, 2016, warrants to acquire up to 2,050,000 shares of the Company's common stock were exercised at \$0.10 (Note 12).

**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, 2016 &amp; 2015

---

**9. CAPITAL AND RESERVES (Continued)****E. Escrow shares**

As at June 30, 2016, the Company had 6,300,000 common shares held in escrow (December 31, 2015 – 6,300,000) to be release as outlined in Note 3.

**10. LOANS PAYABLE AND DERIVATIVE LIABILITY***Note Payable with an Unrelated Party*

On May 20, 2016, the Company borrowed \$25,000 from an unrelated party in exchange for a 90-day note payable. The principal advanced under the note payable accumulates interest at 1% per month, is unsecured and will become due and payable in full on August 20, 2016. As at June 30, 2016, the Company recorded \$340 in interest associated with the note payable.

*\$100,000 Loan Facility and Derivative Liability*

Effective June 30, 2016, the Company secured a \$100,000 credit facility (the “Loan Facility”) with an unrelated third party creditor.

Under the terms of the Loan Facility, the Company was to receive an initial advance of \$50,000 upon signing of the Loan Facility (the “Initial Advance”), with remaining \$50,000 advanced when requested by the Company and at the discretion of the lender. The outstanding principal under the Loan Facility accrues interest at a rate of 3% per month, compounded monthly, with the outstanding principal due on or before January 1, 2017.

The Initial Advance under the Loan Facility was divided into two advances of \$25,000 each, of which the first advance was received by the Company on June 24, 2016, and the second \$25,000 advance was received subsequent to June 30, 2016, on July 5, 2016. The remaining \$50,000 advance was received in two installments of \$30,000 and \$20,000 subsequent to June 30, 2016.

Pursuant to the Loan Facility, the Company was responsible for all legal fees associated with securing the Loan Facility, which amounted to \$8,958. Due to the short-term nature of the Loan Facility, the Company expensed the legal fees when incurred.

As additional consideration for the initial advance under the Loan Facility, the Company agreed to issue to an affiliate of the lender share purchase warrants for the purchase of up to 700,000 common shares of the Company, exercisable at a price of \$0.08 per share for a period expiring on January 15, 2018 (the “Initial Warrants”). The Company also agreed that should additional advances be required, the Company will issue to the lender share purchase warrants for the purchase of 14 common shares of the Company for each additional \$1.00 advanced. The additional 700,000 warrants exercisable at a price of \$0.10 per share, were issued on July 19, 2016, subsequent to receipt by the Company of additional \$30,000 advance under the Loan Facility on July 13, 2016, and submitting a request for an additional \$20,000 remaining available under the Loan Facility (Note 12). The additional warrants expire on January 15, 2018.

The Company determined the Warrants issued as consideration for the Loan Facility to be a derivative liability, which requires the proceeds of the loan to be allocated at initial measurement to the fair value of the warrants first and any residual proceeds to the principal of the advances received under the Loan Facility. The derivative liability must be revalued at each reporting date.

At issuance date of the Initial Warrants, the fair value of the Initial Warrants was determined to be \$43,263 and a value of \$6,737 was allocated to the principal. The Initial Advance has effective interest rate of 518%, due primarily to the recording of non-cash accretion interest. Since the issuance of Initial Warrants and execution of the Loan Facility coincided with the reporting date, the Company did not record any accretion expense associated with the Initial Advance, nor was it required to revalue the Initial Warrants.

**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, 2016 &amp; 2015

**10. LOANS PAYABLE AND DERIVATIVE LIABILITY (Continued)***\$100,000 Loan Facility and Derivative Liability (continued)*

The fair value of Initial Warrants was determined using the Black-Scholes Option pricing model using the following assumptions:

	<b>At June 30, 2016</b>
Expected Warrant Life	1.55 years
Risk-Free Interest Rate	0.52%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	257%

**11. SUPPLEMENTAL CASH FLOW**

During the period ended June 30, 2016 the Company recorded the following items:

- \$67,042 in costs related to the purchase of equipment, of which \$59,655 remained unpaid at June 30, 2016; and
- \$8,246 as fair value of the finder's warrants issued for April Offering (Note 9).

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

- 264,000 finder's fee shares valued at \$26,400 issued for the Promissory Notes; and
- Shares issued on conversion of a \$10,000 debenture.

**12. SUBSEQUENT EVENTS**

- On July 13, 2016, the Company received an additional \$30,000 advance contemplated under the Loan Facility (Note 10). In addition, the lender has agreed to advance an additional \$20,000 remaining available under the Loan Facility, which the Company received on August 24, 2016. As contemplated under the Loan Facility, the Company issued to an affiliate of the lender share purchase warrants for the purchase of up to 700,000 common shares of the Company, exercisable at a price of \$0.10 per share for a period expiring on January 15, 2018. As of the date of the filing of these financial statements, the Company paid \$6,000 in interest under the Loan Facility.
- On July 13, 2016 the Company granted options to purchase up to 3,405,595 shares of its common stock to its executive officers and directors. The options granted may be exercised at a price of \$0.12 per share and expire on July 13, 2017.
- During the month of August the Company arranged a non-brokered private placement offering (the "August Offering") of up to \$1,000,000 at \$0.18 per unit (the "August Unit"). Each August Unit being offered under the August Offering consists 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 one year after closing, at an exercise price of \$0.18 per common share.

On August 25, 2016, the Company closed the first tranche of the August Offering, by issuing 2,653,000 August Units for total gross proceeds of \$477,540.

The Company expects to close the second and final tranche of its August Offering in the first week of September.

- Subsequent to the period ended June 30, 2016, the Company issued a total of 2,050,000 shares of its common stock on exercise of the warrants at \$0.10 per share for gross proceeds of \$205,000 (Note 9).