



**LIFESTYLE DELIVERY SYSTEMS INC.
CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
UNAUDITED – PREPARED BY MANAGEMENT
(Expressed in Canadian Dollars)
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2016 & 2015**

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

The accompanying unaudited condensed consolidated interim financial statements of Lifestyle Delivery Systems Inc. (the “Company”) for the period ended September 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)

	September 30, 2016	December 31, 2015
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 842,331	\$ 119,261
GST receivable	15,580	19,255
Prepaid expenses	5,711	27,392
Inventory (Note 4)	15,599	8,758
Total current assets	879,221	174,666
Equipment (Note 6)	477,440	418,566
License (Note 5)	262,340	-
Technology (Notes 3, 7)	658,405	840,169
TOTAL ASSETS	\$ 2,277,406	\$ 1,433,401
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 424,088	\$ 163,491
Accrued liabilities	10,546	19,718
Amounts due to related parties (Note 8)	155,592	140,708
Unearned revenue (Note 9)	32,793	51,900
Advances payable	9,682	-
Loans payable (Note 11)	105,338	-
Total liabilities	738,039	375,817
Stockholders' equity		
Share capital (Note 10)	5,276,666	3,547,263
Obligation to issue shares (Note 3)	33,594	33,594
Reserves	363,032	130,604
Deficit	(4,094,183)	(2,676,683)
Accumulated other comprehensive income (loss)	(39,742)	22,806
Total shareholders' equity	1,539,367	1,057,584
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,277,406	\$ 1,433,401

Subsequent events (Note 13)

"Brad Eckenweiler" Director
Brad Eckenweiler

"James Pakulis" Director
James Pakulis

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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	\$ -	\$ 40,790	\$ 23,052	\$ 71,478
Expenses				
Accounting fees	22,500	9,814	98,060	65,408
Advertising and promotion	74,677	3,926	74,677	8,784
Amortization (Notes 6, 7)	46,445	74,551	139,762	124,199
Consulting fees (Note 8)	180,948	132,391	449,343	288,688
Finance fees (Note 11)	27,910	-	27,910	33,015
Legal fees	6,631	45,805	38,312	92,996
Meals and travel expenses	26,343	37,070	42,912	74,358
Office and general	92,727	59,583	293,614	82,885
Regulatory fees	8,605	8,601	27,880	58,671
Research and development	34,305	7,164	52,243	48,780
Share-based compensation (Notes 8, 10)	195,807	-	195,807	-
Operating expenses	716,898	378,905	1,440,520	877,784
Foreign exchange gain (loss)	-	1,293	(32)	1,931
Interest income	-	127	-	533
Net loss	(716,898)	(336,695)	(1,417,500)	(803,842)
Foreign exchange translation	5,769	27,303	(62,548)	38,274
Comprehensive loss	\$ (711,129)	\$ (309,392)	\$ (1,480,048)	\$ (765,568)
Net loss per share - basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.05)	\$ (0.06)
Weighted average number of shares outstanding - basic	31,430,378	17,009,062	28,208,859	13,192,478

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 Portion of		Reserves	Deficit	Accumulated Other Comprehensive Income / (Loss)	Total
	Number of Shares	Amount	Convertible Debenture	Obligation to Issue Shares				
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	-	-	-	-	-	-	38,274	38,274
Net Loss for the period ended September 30, 2015	-	-	-	-	-	(803,842)	-	(803,842)
Balance at September 30, 2015	24,809,062	3,676,374	18,411	84,750	102,140	(2,273,852)	38,274	1,646,097
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	-	-	-	-	-	-	(15,468)	(15,468)
Net loss for the period ended December 31, 2015	-	-	-	-	-	(402,831)	-	(402,831)
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	8,281,003	1,345,058	-	-	-	-	-	1,345,058
Share issuance costs - cash	-	(1,575)	-	-	-	-	-	(1,575)
Finder's warrants for private placement	-	(8,246)	-	-	8,246	-	-	-
Exercise of warrants	3,726,000	394,166	-	-	(14,566)	-	-	379,600
Share-based compensation	-	-	-	-	195,807	-	-	195,807
Warrants issued for debt	-	-	-	-	42,941	-	-	42,941
Foreign exchange translation	-	-	-	-	-	-	(62,548)	(62,548)
Net loss for the period ended September 30, 2016	-	-	-	-	-	(1,417,500)	-	(1,417,500)
Balance at September 30, 2016	44,557,732	\$ 5,276,666	\$ -	\$ 33,594	\$ 363,032	\$ (4,094,183)	\$ (39,742)	\$ 1,539,367

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows used in operating activities		
Net loss	\$ (1,417,500)	\$ (803,842)
Non cash items		
Amortization	139,762	124,199
Interest on notes payable	1,370	-
Non-cash interest accretion	27,910	33,015
Share-based compensation	195,807	-
Changes in operating assets and liabilities		
GST receivable	3,675	419
Prepaid expenses	21,313	(28,171)
Inventory	(7,359)	(146,593)
Accounts payable and accrued liabilities	177,878	156,368
Amounts due to related parties	108,387	-
Unearned revenue	(16,535)	32,565
Net cash used in operating activities	(765,292)	(632,040)
Cash flows from financing activities		
Advances payable	9,851	-
Notes payable	125,000	(31,624)
Interest paid on notes payable	(6,000)	(6,941)
Proceeds from issuance of common shares, net of issuance costs	1,343,483	775,314
Proceeds from warrant exercise	379,600	44,895
Net cash provided by financing activities	1,851,934	781,644
Cash flows used in investing activities		
Advances made	-	(95,245)
Equipment	(82,101)	(131,245)
License	(264,560)	-
Net cash used in investing activities	(346,661)	(226,490)
Effects of foreign currency exchange	(16,911)	16,893
Net increase (decrease) in cash and cash equivalents	723,070	(59,993)
Cash and cash equivalents, beginning	119,261	201,428
Cash and cash equivalents, ending	\$ 842,331	\$ 141,435
Cash and cash equivalents are comprised of:		
Cash	\$ 842,331	\$ 74,935
Term deposit	-	66,500
Total cash and cash equivalents	\$ 842,331	\$ 141,435

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 Nine Months Ended September 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 820 – 1130 West Pender Street, Vancouver, British Columbia, V6E 4A4, 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 September 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”.

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 September 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 November 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 Nine Months Ended September 30, 2016 & 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:

Milestone	Number of Performance Shares to be released
USD \$50,000 in cumulative gross revenues	1,500,000 (milestone considered 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:

Milestone	Number of common shares to be issued
At the Closing Date	83,333 (issued)
USD \$50,000 in cumulative gross revenues	141,667 (milestone considered 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 September 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 Nine Months Ended September 30, 2016 & 2015

3. ACQUISITION (Continued)

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

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

4. INVENTORY

As at September 30, 2016, inventory comprised of packaging supplies held for sale to licensees and the Company's joint venture partner, and was valued at \$15,599 (2015- \$8,758).

5. LICENSE

Subsequent to September 30, 2016, the Company entered into a binding memorandum of understanding for a joint venture (the "Joint Venture") to produce CannaStrips with CSPA Group Inc. ("CSPA"). The proposed Joint Venture will allow the parties to establish operations within an existing 20,000 square foot facility in Adelanto, California to extract and produce medicinal cannabinoid products. Upon signing of the final agreement and receipt of a conditional use permit (the "CUP"), which permit was granted to CSPA on October 25, 2016, the Company will be responsible for providing the Joint Venture with all the necessary equipment and expertise for the extraction and production of medicinal cannabis products using the CannaStrips technology.

As at September 30, 2016, the Company recorded \$262,340 (2015 – \$nil) for the CUP.

6. EQUIPMENT

Description	December 31, 2015	Additions	Amortization	Effect of foreign currency translation	September 30, 2016
Strip Coating Equipment	\$ 418,566	\$ 76,378	\$ -	\$ (22,506)	\$ 472,438
Office Equipment	-	5,723	(721)	-	5,002
Total	\$ 418,566	\$ 82,101	\$ (721)	\$ (22,506)	\$ 477,440

As at September 30, 2016, the Company recorded \$472,438 (2015 – \$418,566) for the strip coating equipment which the Company intends to use in its joint venture under the CUP. As at reporting date, the Company continued working on the advancement and fine-tuning its equipment to decrease the environmental footprint and to increase the production capacity. No depreciation was taken for the three and nine month periods ended September 30, 2016, as the equipment was not ready for its intended use.

The office equipment is amortized on a straight-line basis over its estimated useful life of two years.

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Three and Nine Months Ended September 30, 2016 & 2015

7. 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 nine month period ended September 30, 2016, the Company recorded \$139,041 (2015 – \$49,647) in amortization expense associated with the Technology.

8. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Services provided:	September 30,	
	2016	2015
Management consulting services	a) \$ 288,413	\$ 99,476
Corporate advisory services	b) \$ -	\$ 127,500
Share-based compensation	c) \$ 195,807	\$ -

- a) Management consulting services consist of the following:
- \$152,387 (2015 – \$17,696) 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. Effective July 1, 2016, the Company agreed to extend the agreement for an additional one year term for USD\$25,000 per month.
 - \$Nil (2015 - \$24,936) in consulting fees paid or accrued to Mariscos Del Mar, a company controlled by Brad Eckenweiler, the CEO and director of the Company.
 - \$59,526 (2015 – \$Nil) in consulting fees 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.
 - \$9,000 (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 - \$24,936) in consulting fees paid or accrued to FindTec, Inc., a company controlled by Brent Inzer, the former president, CFO and director of CDS.
 - \$67,500 (2015 - \$15,954) in consulting fees paid or accrued to Da Costa Management Corp., a company controlled by John da Costa, the former director of CDS. The Company also paid Da Costa Management Corp. for administrative services (not included in the table above) totalling \$67,500 (2015 - \$15,954).
- 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.
- c) On July 13, 2016 the Company granted options to purchase up to 3,405,595 common shares to its executive officers and directors. The options were valued at \$195,807 and may be exercised at a price of \$0.12 per share expiring on July 13, 2017 (Note 10).

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements
 (Expressed in Canadian Dollars)
 For the Three and Nine Months Ended September 30, 2016 & 2015

8. RELATED PARTY TRANSACTIONS (Continued)

Related Party Payables:

	September 30, 2016	December 31, 2015
Baron Global Financial Canada Ltd. ⁽¹⁾	\$ -	\$ 69,300
Brad Eckenweiler ⁽²⁾	83,696	63,389
James Pakulis	59,844	-
FindTec, Inc. ⁽¹⁾	-	6,189
Mariscos Del Mar Inc.	-	830
Yanika Silina	12,052	1,000
Total payable to related parties	\$ 155,592	\$ 140,708

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

⁽²⁾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 September 30, 2016, the Company repaid the amount lent from Mr. Eckenweiler in full.

9. 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 had a one year renewable term and restrictive conditions on formulation, manufacturing, packaging and distribution methods. As at September 30, 2016, the Company had terminated the License Agreement, which resulted from the change in the Company’s business strategy.
- 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 unearned revenue, and will apply towards the first annual license fee upon execution of the Proposed License Agreement. As of September 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 September 30, 2016, the annual license fee remained unpaid. Due to the change in the Company’s business strategy, the Company does not intend to renew the WOFA License Agreement.

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the Three and Nine Months Ended September 30, 2016 & 2015

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

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

B. Issued share capital

As at September 30, 2016, there were 44,557,732 common shares issued and outstanding (December 31, 2015 – 32,550,729).

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

- i. 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:

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

- ii. 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. The securities issued under the May Offering were subject to a hold period expiring on November 7, 2016, pursuant to applicable Canadian securities laws.

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.

- iii. On August 25, 2016, the Company closed the first tranche of its non-brokered private placement offering (the “August Offering”) of up to 5,555,555 units (the “August Units”) at a price of \$0.18 per August Unit, by issuing 2,653,000 units for total gross proceeds of \$477,540.

Each August 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 one year after closing at an exercise price of \$0.18 per share. The securities issued under the first tranche of the August Offering are subject to a hold period expiring on December 26, 2016, pursuant to applicable Canadian securities laws.

- iv. On September 9, 2016, the Company closed the second tranche of its August Offering by issuing an additional 3,972,778 August Units for gross proceeds of \$715,100. Due to strong investor demand, the Offering was oversubscribed. The securities issued under the second tranche of the August Offering are subject to a hold period expiring on January 10, 2017, pursuant to applicable Canadian securities laws.
- v. During the nine month period ended September 30, 2016, the Company issued a total of 3,726,000 shares of its common stock upon exercise of 3,480,000 warrants and 246,000 broker warrants for total proceeds of \$379,600.

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10. 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.

On July 13, 2016, the Company granted options to purchase up to 3,405,595 common shares to its executive officers and directors. The options granted vested immediately and may be exercised at a price of \$0.12 per share expiring on July 13, 2017. The Company recorded \$195,807 as share-based compensation associated with these options, which was determined using the Black-Scholes Option pricing model using the following assumptions:

At July 13, 2016	
Expected Life	1 year
Risk-Free Interest Rate	0.50%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	128%

A continuity of options is as follows:

	September 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
Granted	3,405,595	\$0.12	-	-
Expired	(57,500)	\$1.00	(50,000)	\$0.80
Options outstanding and exercisable, ending	3,430,595	\$0.12	82,500	\$0.94

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

Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	\$ 0.80	4.88	August 15, 2021
3,405,595	\$ 0.12	0.78	July 13, 2017

D. Share Purchase Warrants

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

	September 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	(3,726,000)	0.10	(448,953)	\$0.10
Issued	9,781,003	0.16	10,953,364	\$0.19
Warrants outstanding, ending	21,759,414	\$0.17	15,704,411	\$0.16

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

The warrants outstanding and exercisable at September 30, 2016 are as follows:

Number of Warrants outstanding	Exercise Price	Weighted Average Remaining Life	Expiration Date
2,691,764	\$0.30 during the first year; \$0.45 during the second year	0.58	May 1, 2017
4,051,047	\$0.10	0.64	May 22, 2017
5,235,600	\$0.10 during the first year; \$0.15 during the second year	1.20	December 11, 2017
1,000,000	\$0.12 during the first year; \$0.20 during the second year	1.61	May 9, 2018
100,000	\$0.12	1.61	May 9, 2018
700,000	\$0.08	1.29	January 15, 2018
655,225	\$0.10	1.76	July 6, 2018
700,000	\$0.10	1.29	January 15, 2018
2,653,000	\$0.18	0.90	August 25, 2017
3,972,778	\$0.18	0.94	September 9, 2017
21,759,414		0.98	

(i) *Subsequent to the nine month period ended September 30, 2016, warrants to acquire up to 4,606,047 shares of the Company's common stock were exercised at an average price of \$0.13 per common share (Note 12).*

E. Escrow shares

As at September 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.

11. LOANS PAYABLENote 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 "Note"). The principal advanced under the Note accumulates interest at 1% per month, is unsecured and was to become due and payable in full on August 20, 2016. The Company did not pay the Note on the due date, therefore the Note is due and payable on demand. As at September 30, 2016, the Company recorded \$1,370 in interest associated with the Note.

\$100,000 Loan Facility

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 received an initial advance of \$50,000 upon signing of the Loan Facility (the "Initial Advance"), with remaining \$50,000 to be 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 on July 5, 2016. The remaining \$50,000 advance (the "Subsequent Advance") was received in two installments of \$30,000 and \$20,000 on July 13, 2016 and August 24, 2016, respectively.

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.

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11. LOANS PAYABLE (Continued)*\$100,000 Loan Facility (Continued)*

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"). In addition, the Company agreed to 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, which were advanced on August 24, 2016. The additional warrants expire on January 15, 2018.

The Company determined the Warrants to be detachable from the debt instrument, as the debt instrument does not have to be surrendered to exercise the warrant and has allocated the portion of the loan proceeds to two elements based on the relative fair values of the debt instrument without the warrants and of the warrants themselves at time of issuance. The portion of the proceeds allocated to the warrants was \$42,940 and was recorded to reserves.

The Initial Advance has effective interest rate of 169.11%, the Subsequent Advance has effective interest rate of 197.13%, due primarily to the recording of non-cash accretion interest. During the nine month period ended September 30, 2016, the Company recognized \$27,910 (2015 - \$Nil) associated with the accretion of the loans, which was recorded as finance fees.

During the period ended September 30, 2016, the Company paid \$6,000 on account of interest accrued on the advances it received under the Loan Facility (Note 13).

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

	At June 30, 2016	At July 19, 2016
Expected Warrant Life	1.55 years	1.51 years
Risk-Free Interest Rate	0.52%	0.50%
Expected Dividend Yield	Nil	Nil
Expected Stock Price Volatility	131%	128%

12. SUPPLEMENTAL CASH FLOW

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

- \$82,101 in costs related to the purchase of equipment, of which \$59,655 remained unpaid at September 30, 2016; and
- \$8,246 as fair value of the finder's warrants issued for April Offering (Note 10).

During the period ended September 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.

13. SUBSEQUENT EVENTS

- a) Subsequent to the period ended September 30, 2016, the Company issued a total of 4,606,047 shares of the Company's common stock on exercise of the warrants at an average price of \$0.13 per common share (Note 10).
- b) On October 4, 2016, the Company repaid \$100,000 received under the Loan Facility (Note 11). The payment totaled \$101,082 and included \$1,082 in interest accrued on the loan up to October 4, 2016.

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13. SUBSEQUENT EVENTS (Continued)

- c) Subsequent to the period ended September 30, 2016, the Company received a demand letter to repay \$149,192 payable to its former legal council. The Company reached an agreement with its former legal council to reduce the amount owed to \$100,000, of which \$50,000 was paid on November 24, 2016, and remaining \$50,000 will be paid on December 15, 2016.