LIFESTYLE DELIVERY SYSTEMS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 30, 2016

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") of Lifestyle Delivery Systems Inc. (the "Company" or "LDS"), has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of November 29, 2016, and should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the three and nine month periods ended September 30, 2016 and 2015 and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS").

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

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

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

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

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

COMPANY OVERVIEW

The Company was incorporated on September 14, 2010, pursuant to the *Business Corporations Act,* British Columbia. The Company's principal business activity is development and licensing of technologies that produce oral delivery systems that can be used for energy elixirs, herbal remedies and a smokeless alternative option to medicinal and recreational users of cannabis. The Company's shares trade on the Canadian Securities Exchange under the trading symbol "LDS", on OTC Link alternative trading system under the trading symbol "LDSYF", and on the Borse Frankfurt Exchange under the symbol "LD6".

On May 1, 2015, the Company acquired all the issued and outstanding shares in the capital of Canna Delivery Systems Inc. ("CDS"), a company incorporated under the State of Nevada, and changed its name to "Lifestyle Delivery Systems Inc." under the British Columbia Business Corporations Act (the "Transaction"). Upon acquisition, CDS became a wholly-owned subsidiary of LDS.

SIGNIFICANT EVENTS

The following significant developments occurred during the quarter ended September 30, 2016, and up to the date of the filing of this report:

Non-brokered Private Placement

During the month of August 2016 the Company arranged a non-brokered private placement offering (the "August Offering") of up to $1,000,000 at a price of $0.18 per unit (the "August Unit"). Each August Unit being offered under the August Offering 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 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. 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.

Warrant Exercises

During the period ended September 30, 2016, and up to the date of the filing of this MD&A, the Company received $985,805 on exercise of 8,332,047 warrants at an average exercise price of $0.12 per share.

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 was to receive an initial advance of $50,000 on or about June 30, 2016 (the "Initial Advance"), and was entitled to receive additional advances of up to an additional $50,000 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 Company received the first $25,000 of the Initial Advance on June 24, 2016, with the second $25,000 advanced 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.

As additional consideration for the Initial Advance 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, and issue 14 additional common shares of the Company for each additional $1.00 advanced thereon. Since the lender advanced the full amount available under the loan facility during July and August 2016, on July 19, 2016, the Company issued to an affiliate of the lender share purchase warrants for the purchase of up to an additional 700,000 common shares of the Company, exercisable at a price of $0.10. The additional warrants expire on January 15, 2018.

In August 2016 the Company made a $6,000 one-time payment, which was applied against the interest accrued on the Loan Facility, and on October 4, 2016, the Company extinguished the Loan Facility entirely, when it made a $101,082 payment.

Grant of Options

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.

Listing on Borse Frankfurt Exchange

During July 2016 the Company received an approval to list its shares of common stock on the Borse Frankfurt Exchange in Germany. The Company's shares are trading under the symbol LD6, WKN number A14XHT.

Equipment Modification

During the third quarter of its Fiscal 2016, the Company was working on improvements and modifications to its manufacturing equipment to decrease its electrical requirements by about 20% at the same time increasing the production speed by as much as 25%. These modifications allow for the production of CannaStrips to be manufactured more efficiently in a much smaller area.

Entry into Binding Memorandum of Understanding for a Joint Venture

In October 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 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.

Conditional Use Permits

On October 25, 2016, CSPA received the CUP for extraction and manufacturing of medicinal cannabis products for sale throughout California. The CUP permits the Joint Venture to operate within the current Adelanto facility to produce cannabinoid extracts and to manufacture CannaStrips.

In November 2016 the Company's Joint Venture partner received two additional CUP's for extraction and cultivation. The Extraction CUP will allow the Joint Venture to increase the extraction and distillation capabilities beyond the requirements of CannaStrips allowing for outside contract extractions and diversification of the Company's product line. The cultivation CUP will allow the Joint Venture to establish a nursery for its research and development which includes, but is not limited to, isogenic strains of cannabis, which will later allow the Joint Venture to produce from seed plants with CBD, THC and terpenes profiles for the advanced formulations.

Memorandum of Understanding for Distribution

In November of 2016 the Company entered into a memorandum of understanding with Azonic Health Sciences, LLC ("Azonic") and its affiliated companies for the distribution of its CannaStrips line of products. As of the date of this MD&A, the Company is working with Azonic on the terms of the definitive agreement.

OVERALL PERFORMANCE

The following discussion of the Company's financial performance is based on the unaudited condensed consolidated interim financial statements for the three and nine month periods ended September 30, 2016.

Comparison of financial condition

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Working capital	$ 141,182	$ (201,151)
Total assets	$ 2,277,406	$ 1,433,401
Technology	$ 658,405	$ 840,169
Total liabilities	$ 738,039	$ 375,817
Share capital and reserves	$ 5,639,698	$ 3,677,867
Deficit	$ 4,094,183	$ 2,676,683

The statements of financial position as of September 30, 2016 and December 31, 2015 indicated a cash position of $842,331 and $119,261, respectively, and total current assets of $879,221 and $174,666, respectively. The increase in total current assets was mainly associated with the cash the Company received from its private placements which were required to support the Company's new business direction associated with acquisition of the Technology from CDS, completed on May 1, 2015.

The long-term assets of the Company were represented by the equipment totaling $477,440 (2015 - $418,566) and the license of $262,340 (2015 – $Nil). The Company is planning to use the equipment for production and packaging of the CannaStrips in its Joint Venture under the CUP in Adelanto, California. CannaStrips Technology was carried on the books at $658,405 (2015 - $840,169), less accumulated amortization of $260,756 (2015 - $121,507).

At September 30, 2016, current liabilities totaled $738,039 (2015 - $375,817) and included $434,634 in accounts payable and accrued liabilities (2015 - $183,209), $155,592 in amounts owed to related parties (2015 - $140,708), $9,682 in advances payable (2015 - $Nil) and $32,793 in unearned revenue (2015 - $51,900). The unearned revenue was associated with the non-refundable deposit for the total of USD$25,000, which the Company received from an arm's length party as consideration for the Memorandum of

Understanding (the "MOU") the Company entered into on July 30, 2015. In addition, the Company had $105,338 (2015 - $Nil) in loans payable with non-related parties.

At September 30, 2016, the Company had a working capital of $141,182, as compared to a working capital deficiency of $201,151 at December 31, 2015. Management plans to fund the Company's day-to-day operations with revenue generated from its operations as well as through debt or equity financing.

Shareholders' equity was comprised of share capital of $5,276,666 (2015 - $3,547,263), reserves of $363,032 (2015 - $130,604), obligation to issue shares of $33,594 (2015 – $33,594), accumulated other comprehensive loss of $39,742 (2015 – accumulated other comprehensive income totaling $22,806) and accumulated deficit of $4,094,183 (2015 - $2,676,683) for a net equity of $1,539,367 (2015 – $1,057,584).

The weighted average number of common shares outstanding for the nine month period ended September 30, 2016, was 28,208,859 (2015 – 13,192,478).

COMPARISON OF RESULTS OF OPERATIONS

Net Loss

During the three month period ended September 30, 2016, the Company reported a net loss of $716,898 ($0.02 basic and diluted loss per share) and a net comprehensive loss of $711,129 compared to a net loss of $336,695 ($0.02 basic and diluted loss per share) and net comprehensive loss of $309,392 during the three month period ended September 30, 2015. The increased loss during the three months ended September 30, 2016, was mainly associated with the increased business activity to set up the Company's future operations, sourcing the suppliers and required due diligence on potential joint venture partners. The loss was further affected by share-based compensation the Company recorded on the grant of options to its directors and consultants as well as for advertising and promotion activities associated with increasing the awareness of general public about the Company's business, technology and products.

During the nine month period ended September 30, 2016, the Company reported a net loss of $1,417,500 ($0.05 basic and diluted loss per share) and a net comprehensive loss of $1,480,048 compared to a net loss of $803,842 ($0.06 basic and diluted loss per share) and net comprehensive loss of $765,568 during the nine month period ended September 30, 2015. The increased loss during the nine months ended September 30, 2016, was mainly associated with the acquisition of CDS during the second quarter of the Company's Fiscal 2015, which resulted in the change of the Company's business model and operations, increasing its cash requirements to support its operations, research and development activities as well as due diligence on potential joint venture partners.

Revenue

During the three month period ended September 30, 2016, the Company did not generate any revenue from its operations (2015 - $40,790). During the nine month period ended September 30, 2016, the Company recognized $23,052 (2015 - $71,478) in revenue. The Company recorded $16,393 associated with the allocated portion of an annual license fee the Company received pursuant to the License Agreement with HA dated for reference June 25, 2015. In addition, the Company recorded $6,659 from the sale of its packaging material to Wisdom Homes of America, Inc. The Company did not renew the License Agreement with HA which expired at the end of June 2016.

Operating Expenses

During the three month period ended September 30, 2016, the Company recorded operating expenses of $716,898 (2015 - $378,905). The Company recorded $6,631 in legal fees, a $39,174 decrease as compared to the same period in Fiscal 2015. Decreased traveling requirements resulted in a decrease to the meals and travel expenses of $10,727, from $37,070 incurred during the three month ended September 30, 2015 to $26,343 incurred during the three months ended September 30, 2016. The Company recorded amortization of the Technology acquired from CDS of $46,445 (2015 - $74,551), a decrease of $28,106. The largest factors offsetting the above decreases in operating expenses were share-based compensation of $195,807 (2015 - $Nil); consulting fees of $180,948 (2015 - $132,391), followed by the office and general expenses of $92,727 (2015 – $59,583) and advertising and promotion fees of $74,677 (2015 - $3,926). The increase in general expenses

was attributed to the rental fees for its production facility the Company began to rent in October of 2015, the increase in advertising and promotion fees was associated with the Company's efforts to bring awareness of its products and technology to general public. Additional increases in accounting fees of $12,686, from $9,814 during the three months ended September 30, 2015 to $22,500 during the three months ended September 30, 2016, $27,141 in research and development fees, from $7,164 during the three months ended September 30, 2015 to $34,305 during the three months ended September 30, 2016, and $27,910 in financing costs associated with accretion of the Loan Facility, further offset the positive effects of reduced operating expenses noted above.

During the nine month period ended September 30, 2016, the Company recorded operating expenses of $1,440,520 (2015 - $877,784). The largest factors contributing to the increase in operating expenses were share-based compensation of $195,807 (2015 - $Nil), consulting fees of $449,343 (2015 - $288,688), followed by the office and general expenses of $293,614 (2015 – $82,885) and advertising and promotion fees of $74,677 (2015 - $8,784). The increase in general expenses was attributed to the rental fees for its production facility the Company began to rent in October of 2015. In addition, the Company recorded amortization of the Technology acquired from CDS of $139,762 (2015 - $124,199), accounting fees of $98,060 (2015 - $65,408), and research and development fees of $52,243 (2015 - $48,780). Above expenses were offset by the reduced legal fees of $38,312 (2015 - $92,996), meals and travel expenses of $42,912 (2015 - $74,358), and regulatory fees of $27,880 (2015 - $58,671). In addition, reduction in finance fees of $5,105 to $27,910 further offset the negative impact of certain increases in operating expenses described above.

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

SUMMARY OF QUARTERLY RESULTS

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

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Revenue net of Cost	$ -	$ 14,459	$ 8,593	$ (14,779)
Net Loss	$ 716,898	$ 359,156	$ 341,446	$ 402,831
Loss per Share	$ 0.02	$ 0.01	$ 0.01	$ 0.02
Technology	$ 658,405	$ 698,564	$ 741,970	$ 840,169
Total Assets	$ 2,277,406	$ 1,214,105	$ 1,190,985	$ 1,433,401
Working Capital	$ 141,182	$ (706,406)	$ (509,703)	$ (201,151)

	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Revenue net of Cost	$ 40,790	$ 30,688	$ -	$ -
Net Loss	$ 336,695	$ 344,029	$ 123,116	$ 210,371
Loss per Share	$ 0.02	$ 0.03	$ 0.01	$ 0.06
Technology	$ 1,363,686	$ 1,438,293	$ -	$ -
Total Assets	$ 2,068,522	$ 2,223,015	$ 382,177	$ 391,946
Working Capital	$ (89,247)	$ 197,641	$ 63,766	$ 150,482

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

During the quarter ended September 30, 2016, the Company did not generate any revenue from its operations. Its operating expenses totaled $716,898 and included $195,807 in share-based compensation associated with the grant of options to its officers and directors, $180,948 in consulting fees, $92,727 in office and general

expenses as well as $74,677 in advertising and promotion fees.

During the quarter ended June 30, 2016, the Company recorded $14,459 in revenue which was associated with the allocated portion of an annual license fee the Company received pursuant to the License Agreement with HA, as well as with the sale of the packaging materials. Operating expenses totaled $373,615 and included consulting fees of $129,105, amortization expense of $45,148, office and other general expenses of $96,033, of which $91,887 was associated with the rental fees the Company paid for its production facility, accounting fees of $53,060, legal fees of $15,001 and research and development costs of $15,224.

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2016, the Company had $842,331 (2015 – $119,261) in cash and cash equivalents, with the working capital of $141,182 (2015 – working capital deficiencies of $201,151). The Company's share capital was $5,276,666 (2015 - $3,547,263) representing 44,557,732 (2015 – 32,550,729) common shares, of which 6,300,000 were held in escrow, reserves of $363,032 (2015 - $130,604), and an obligation to issue shares of $33,594 (2015 - $33,594). As at September 30, 2016, the Company had accumulated a deficit of $4,094,183 (2015 – $2,676,683) and recorded other comprehensive loss of $39,742, as compared to comprehensive income of $22,806 as at December 31, 2015.

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

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

CONTRACTUAL OBLIGATIONS

A summary of the Company`s contractual obligations at September 30, 2016, is detailed in the table below.

		Payments Due by Period			
	Total	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5 Years**
Accounts Payable	$ 424,088	$ 424,088	n/a	n/a	n/a
Accrued Liabilities	$ 10,546	$ 10,546	n/a	n/a	n/a
Amounts due to Related Parties	$ 155,592	$ 155,592	n/a	n/a	n/a
Advances Payable	$ 9,682	$ 9,682	n/a	n/a	n/a
Unearned Revenue	$ 32,793	$ 32,793	n/a	n/a	n/a
Loans Payable	$ 105,338	$ 105,338	n/a	n/a	n/a
Total	**$ 738,039**	**$ 738,039**	n/a	n/a	n/a

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

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

Services provided:		**September 30, 2016**	**September 30, 2015**
Management consulting fees	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) totaling $67,500.

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 31, 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.

Related Party Payables:

	September 30, 2016	December 31, 2015
Baron Global Financial Canada Ltd.[1]	$ -	$ 69,300
Brad Eckenweiler	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. The amounts owed to these entities have been included as part of trade accounts payable.

SIGNIFICANT ACCOUNTING POLICIES AND CRITIAL ACCOUNTING ESTIMATES

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

FINANCIAL INSTRUMENTS

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables, other financial liabilities or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments are measured at amortized cost using the effective interest rate method with any changes to the carrying amount of the investment, including impairment losses, recognized in the statement of comprehensive loss. Loans and receivables are measured at cost less any provision for impairment. Other financial liabilities are recognized initially at fair value and subsequently at amortized cost

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

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

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as at September 30, 2016 as follows:

Fair Value Measurements Using					
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance, September 30, 2016	Balance, December 31, 2015
	$	$	$	$	$
Cash	842,331	-	-	842,331	107,761
Term deposit	-	-	-	-	11,500
Cash and cash equivalents	842,331	-	-	842,331	119,261

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

Credit risk
Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investments. The Company limits its exposure to credit loss by placing its cash and short term- investment with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

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

Interest rate risk
Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks and GIC carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instruments to hedge potential fluctuations in interest rates. The exposure to interest rate risk for the Company is considered minimal. The Company has no interest bearing borrowings.

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

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

OTHER MD&A DISCLOSURE REQUIREMENTS

Disclosure of Outstanding Share Data

The Company's issued and outstanding share capital as at the date of this MD&A is as follows:
(1) Authorized: Unlimited common shares without par value.
(2) As at the date of this MD&A, the Company has 49,163,779 shares, of which 6,300,000 remain in escrow, 3,430,595 options, and 17,153,367 warrants issued and outstanding.

Additional Disclosure for Junior Issuers

The Company has expensed the following material cost components:

	Period ended September 30,	
	2016	**2015**
	$	$
Accounting fees	98,060	65,408
Advertising and promotion	74,677	8,784
Amortization	139,762	124,199
Consulting fees	449,343	288,688
Finance fees	27,910	33,015
Legal fees	38,312	92,996
Meals and travel expenses	42,912	74,358
Office and general	293,614	82,885
Regulatory fees	27,880	58,671
Research and development	52,243	48,780
Share-based compensation	195,807	-

Consulting fees of $449,343 (2015 – $288,688) included financial, investor relations, marketing, business development and other advisory fees.

Office and general expenses of $293,614 (2015 - $82,885) were associated mainly with rental fees for the production facility the Company began to rent in October 2015. The Company paid USD$23,000 per month for its facility in Torrance, California; this rental agreement expired in August 2016. In August 2016 the Company secured a new location in Adelanto, California. The rental fee for the new location is USD$13,000 per month.

Share-based compensation of $195,807 (2015 - $Nil) was associated with options to acquire up to 3,405,595 common shares the Company granted to its executive officers and directors on July 13, 2016.

Amortization expense of $139,762 (2015 – $124,199) was related to the amortization of Technology that was acquired from CDS on May 1, 2015.

Accounting fees of $98,060 (2015 - $65,408) were associated with preparation of audited financial statements for the fiscal 2015, bookkeeping fees, and other accounting fees related to the preparation of the quarterly financial statements.

Regulatory fees of $27,880 (2015 - $58,671) were associated with regulatory filings with CSE and OTCQB, the securities commissions, and monthly transfer agent fees.

ACCOUNTING STANDARDS AND INTERPRETATIONS

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

RISKS AND UNCERTAINTIES

General Risk Factors

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

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

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

Risks Factors Associated with Current Conflicting Federal and State Laws

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

Risks Factors Associated with the Licensing Model

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

Regulatory Risks Factors

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

CONTINGENCIES

There are no contingent liabilities.

DIRECTORS AND OFFICERS

As of the date of this report, the Company has the following directors and officers:
Brad Eckenweiler – Director and CEO
James Pakulis – Director and President
Dr. John Sanderson, MD – Chief Science Officer

Yanika Silina, CPA, CMA – CFO and Corporate Secretary
David Velisek – Director

ADDITIONAL INFORMATION

Additional information about the Company is available for viewing on SEDAR at www.sedar.com.