



**LIFESTYLE DELIVERY SYSTEMS INC.**

**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

**(Expressed in Canadian Dollars)**

**December 31, 2016**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lifestyle Delivery Systems Inc.,

We have audited the accompanying consolidated financial statements of Lifestyle Delivery Systems Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lifestyle Delivery Systems Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Lifestyle Delivery Systems Inc.'s ability to continue as a going concern.

/s/ DMCL

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
May 1, 2017

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 440,352	\$ 119,261
GST receivable	19,483	19,255
Advances receivable	90,632	-
Prepaid expenses	28,291	27,392
Inventory	-	8,758
<b>Total current assets</b>	<b>578,758</b>	<b>174,666</b>
License (Note 6)	268,540	-
Equipment and production facility (Note 7)	336,693	418,566
Deposits on equipment (Note 7)	485,655	-
Technology (Notes 4, 9)	-	840,169
<b>TOTAL ASSETS</b>	<b>\$ 1,669,646</b>	<b>\$ 1,433,401</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable (Note 8)	\$ 126,958	\$ 163,491
Accrued liabilities	46,129	19,718
Amounts due to related parties (Note 10)	70,582	140,708
Unearned revenue (Note 11)	-	51,900
Advances payable	9,899	-
<b>Total liabilities</b>	<b>253,568</b>	<b>375,817</b>
Stockholders' equity		
Share capital (Note 12)	6,220,229	3,547,263
Obligation to issue shares (Note 4, 12)	460,599	33,594
Reserves	282,882	130,604
Deficit	(5,543,027)	(2,676,683)
Accumulated other comprehensive income (loss)	(4,605)	22,806
<b>Total shareholders' equity</b>	<b>1,416,078</b>	<b>1,057,584</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,669,646</b>	<b>\$ 1,433,401</b>

Commitments (Note 6)

Subsequent events (Note 18)

"Brad Eckenweiler"

Brad Eckenweiler, Director

"James Pakulis"

James Pakulis, Director

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

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

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Revenue	\$ 56,086	\$ 58,298
Cost of sales	-	(1,599)
	<b>56,086</b>	<b>56,699</b>
<b>Expenses</b>		
Accounting fees (Note 10)	155,560	81,008
Advertising and promotion	112,870	8,774
Amortization (Notes 7 and 9)	187,564	121,507
Consulting fees (Note 10)	648,123	422,210
Finance fees	-	20,009
IT infrastructure	49,710	-
Legal fees	50,699	147,557
Meals and travel expenses	71,857	88,447
Office and general	365,914	114,085
Regulatory fees	93,466	67,480
Research and development	65,079	59,062
Share-based compensation (Note 12)	195,807	-
Operating expenses	<b>1,996,649</b>	<b>1,130,139</b>
Foreign exchange gain (loss)	(19,534)	2,347
Gain on settlement of debt (Notes 8 and 10)	116,307	-
Interest income	-	752
Impairment of equipment (Note 7)	(388,833)	-
Impairment of inventory (Note 5)	(14,784)	(136,332)
Impairment of technology (Note 9)	(618,937)	-
Net loss	<b>(2,866,344)</b>	<b>(1,206,673)</b>
Foreign exchange translation	(27,411)	22,806
Comprehensive loss	<b>\$ (2,893,755)</b>	<b>\$ (1,183,867)</b>
Net loss per share - basic and diluted	<b>\$ (0.09)</b>	<b>\$ (0.08)</b>
Weighted average number of shares outstanding	<b>31,579,021</b>	<b>14,862,478</b>

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

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

	Common shares		Equity	Obligation to	Reserves	Deficit	Accumulated	Total
	Number of	Amount	Portion of					
	Shares		Convertible				Income / (Loss)	
			Debenture					
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 notes	264,000	26,400	-	-	-	-	-	26,400
Conversion of convertible debenture	200,000	29,891	(19,891)	-	-	-	-	10,000
Acquisition of Technology	7,800,000	697,500	-	-	-	-	-	697,500
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	225,000	33,750	-	(21,250)	-	-	-	12,500
Private placements	12,768,758	1,155,314	-	-	-	-	-	1,155,314
Share issuance costs - cash	-	(34,667)	-	-	-	-	-	(34,667)
Finder's fee for private placement	254,768	-	-	-	-	-	-	-
Finder's warrants for private placement	-	(28,464)	-	-	28,464	-	-	-
Debt settlement	1,183,000	177,450	-	-	-	-	-	177,450
Conversion of convertible promissory notes	1,200,000	106,858	-	-	-	-	-	106,858
Exercise of warrants	448,953	44,895	-	-	-	-	-	44,895
Foreign exchange translation	-	-	-	-	-	-	22,806	22,806
Net loss for the year ended December 31, 2015	-	-	-	-	-	(1,206,673)	-	(1,206,673)
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	9,972,891	1,248,981	-	-	(23,027)	-	-	1,225,954
Exercise of options	500,000	88,748	-	-	(28,748)	-	-	60,000
Share-based compensation	-	-	-	-	195,807	-	-	195,807
Subscription for shares	-	-	-	427,005	-	-	-	427,005
Foreign exchange translation	-	-	-	-	-	-	(27,411)	(27,411)
Net loss for the period ended December 31, 2016	-	-	-	-	-	(2,866,344)	-	(2,866,344)
Balance at December 31, 2016	51,304,623	\$ 6,220,229	\$ -	\$ 460,599	\$ 282,882	\$ (5,543,027)	\$ (4,605)	\$ 1,416,078

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

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

	<b>Year Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows used in operating activities</b>		
Net loss	\$ (2,866,344)	\$ (1,206,673)
Non cash items		
Amortization	187,564	121,507
Foreign exchange	6,581	(15,565)
Gain on settlement of debt	(116,307)	-
Impairment of equipment	388,833	-
Impairment of inventory	14,784	136,332
Impairment of technology	618,937	-
Interest on notes payable	8,640	-
Non-cash interest accretion	-	19,879
Share-based compensation	195,807	-
Changes in operating assets and liabilities		
GST receivable	(228)	(3,637)
Prepaid expenses	(1,055)	(24,931)
Inventory	(6,394)	(144,549)
Accounts payable and accrued liabilities	64,895	(692)
Amounts due to related parties	61,218	59,147
Unearned revenue	(49,710)	48,690
Net cash used in operating activities	(1,492,779)	(1,010,492)
<b>Cash flows from financing activities</b>		
Advances payable	9,851	-
Notes received	109,340	-
Repayment of notes	(125,000)	-
Interest paid on convertible debt	(2,640)	(6,941)
Issuance of common stock for private placements	1,345,058	1,155,314
Related party	-	5,807
Share issuance costs	(1,575)	(34,667)
Proceeds from warrant exercise	1,225,954	44,895
Subscription to shares	427,005	-
Net cash provided by financing activities	2,987,993	1,164,408
<b>Cash flows used in investing activities</b>		
Advances made	(90,033)	(95,235)
Equipment purchased	(104,641)	(140,822)
Production facility	(229,405)	-
License purchased	(259,988)	-
Deposits on equipment	(474,349)	-
Net cash used in investing activities	(1,158,416)	(236,057)
Effects of foreign currency exchange	(15,707)	(26)
Change in cash and cash equivalents	321,091	(82,167)
Cash and cash equivalents, beginning	119,261	201,428
Cash and cash equivalents, ending	\$ 440,352	\$ 119,261
Cash and cash equivalents are comprised off:		
Cash	\$ 440,352	\$ 107,761
Term deposit	-	11,500
Total cash and cash equivalents	\$ 440,352	\$ 119,261

Supplemental cash flow disclosure (Note 15)

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

## **LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

### **Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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#### **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 medical 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 year ended December 31, 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: 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 “Acquisition”). Upon acquisition, CDS became a wholly-owned subsidiary of LDS (Note 4).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These consolidated financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern. These adjustments could be material.

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

These financial statements were authorized for issue on April 28, 2017 by the Directors of the Company.

##### **Statement of Compliance and Basis of Presentation**

These consolidated financial statements have been prepared in accordance with accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	% of Interest
0994537 B.C. Ltd.	Canada	100%
0994540 B.C. Ltd.	Canada	95%
Canna Delivery Systems Inc.	USA	100%

All intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

##### **Basis of Measurement and Use of Estimates**

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. All amounts are expressed in Canadian dollars, the Company’s functional currency.

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

### **Foreign currency translation**

#### Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

#### Translations:

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

#### Foreign operations:

The financial results and position of CDS, whose functional currency is the United States dollar, is translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of CDS are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences will be recognized in the profit or loss if and when CDS is ever disposed of.

### **Significant estimates and assumptions**

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of technology, fair value of the License, fair value measurements for financial instruments, the probability of reaching certain financial milestones for the acquisition of CDS (Note 4), recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

### **Significant Judgements**

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's accounting policies in these financial statements were:

- Determining whether or not the acquisition of CDS constituted a business combination or an acquisition of assets. The benefit to the Company of acquiring CDS was the acquisition of its intellectual property.



## **LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

### **Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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

### **Significant Judgements (continued)**

- Management concluded that because CDS did not possess the necessary inputs and processes capable of producing outputs it did not meet the definition of a business as defined by IFRS. Accordingly, the transaction was accounted for as an acquisition of assets and the fair value of the consideration paid was allocated to the assets acquired.
- Evaluating whether or not costs incurred by the Company in its acquisition of CDS meet the criteria for capitalizing as intangible assets. Management determined that as the acquisition constituted an acquisition of assets, all transaction costs have been appropriately capitalized.
- The Company assesses the carrying values of its tangible and intangible assets annually or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are charged against current earnings. Recoverability is dependent upon assumptions and judgments regarding market conditions, costs of production and sustaining capital requirements. Other assumptions used in the calculation of recoverable amounts are discount rates, and future cash flows. A material change in assumptions may significantly impact the potential impairment of these assets.

Other significant judgments in applying the Company's accounting policies relate to the assessment of the Company's ability to continue as a going concern (Note 1), functional currency determinations and the classification of its financial instruments.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### **Financial instruments**

#### *Financial assets*

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing such financial assets in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Financial assets classified as loans and receivables consist of cash and cash equivalents and advances receivable.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss. The Company has no financial assets classified as held-to-maturity investments.

## **LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

### **Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Financial instruments (continued)**

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of comprehensive loss. The Company has no financial assets classified as available-for-sale.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

#### *Financial liabilities*

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred or acquired:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing such financial liabilities in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statement of comprehensive loss. The Company has no financial liabilities classified as fair value through profit or loss.

*Other financial liabilities* - This category includes accounts payable, accrued liabilities, unearned revenue, advances payable and amounts due to related parties, all of which are recognized initially at fair value and subsequently at amortized cost.

#### **Impairment of financial assets**

The Company assesses at the end of each reporting period whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

#### **Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Impairment of non-financial assets (continued)**

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

#### **Financing costs**

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are expensed in the statement of comprehensive loss.

#### **Revenue Recognition**

Revenue consists of sales of packaging supplies and licensing revenue. Sales of packing supplies are recognized when the Company has transferred ownership to the customer. Licensing revenue is recognized pro rata over the license term.

Deposits received from customers prior to an entry into a definitive agreement, or prior to the delivery of goods and services, and where a performance obligation exists, are recorded as unearned revenue (Note 11).

#### **Inventory**

Inventory is measured at the lower of cost and net realizable value.

#### **Share-based payments**

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes Option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

#### **Loss per share**

Loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported, outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive. Diluted loss per share is equal to the basic loss per share as net losses were reported during the periods presented.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Equipment and production facility**

Equipment and production facility are stated at historical cost less accumulated amortization and accumulated impairment losses. Cost includes costs paid to acquire assets from third parties as well as costs incurred in internally constructed assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. No amortization is recorded where an asset is in development and not yet ready for its intended use.

**Intangibles**

Separately acquired intellectual property and technological assets are recorded at historical cost. Intellectual property and technological assets acquired in a business combination are recognized at fair value at the acquisition date. Technological assets have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of the items over their estimated useful lives of 5 years.

**Research and development**

Research costs are expensed when incurred. Internally-generated technology costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. These costs are amortized on a straight-line basis over the estimated useful lives of five years. The Company did not have any development costs that met the capitalization criteria for the years ended December 31, 2016 and 2015.

**Income taxes****Current income tax:**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

## **LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

### **Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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### **3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **Income taxes (continued)**

##### Deferred tax:

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets, against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

#### **New accounting standards and interpretations issued but not yet adopted**

IFRS 9, Financial Instruments – Classification and Measurement: Effective for annual periods on or after January 1, 2018. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss.

IFRS 15, Revenue from Contracts with Customers: This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

IFRS 16, Leases: This new standard replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15.

Management is currently assessing the impact of these new standards on the Company’s accounting policies and financial statement presentation.

### **4. ACQUISITION**

On May 1, 2015 (the “Closing Date”), in accordance with the Acquisition agreement the Company acquired all of the issued and outstanding common shares of CDS in exchange for 7,800,000 shares of the Company (the “Shares”), subject to certain conditions.

**LIFESTYLE DELIVERY SYSTEMS INC.**  
(Expressed in Canadian Dollars)  
**Notes to the Consolidated Financial Statements**  
For the Year Ended December 31, 2016

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**4. ACQUISITION (Continued)**

On the Closing Date the Shares were placed in escrow and will be released upon CDS achieving certain milestones (the “Milestones”) over a period of 2 years from the Closing Date as follows:

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

Subsequent to December 31, 2016, the Company extended the period eligible for release of shares based on achievement of Milestones from 24 months to 30 months.

The Company incurred \$80,398 in costs associated with the Acquisition, and is to issue 648,333 shares of the Company with an estimated fair value of \$67,344 in finder’s fees as follows:

	<b>Number of shares to be issued</b>
At the Closing Date	83,333 (issued)
USD \$50,000 in cumulative gross revenues	141,667 (milestone 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 December 31, 2016, the Company recorded an obligation to issue shares of \$33,594 for the remaining finders’ 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 Acquisition was considered an asset acquisition 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 Acquisition.

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

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

## **LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

### **Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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#### **4. ACQUISITION (Continued)**

Prior to the Acquisition, the Company and CDS entered into the following transactions:

- a) On December 15, 2014, the Company loaned US\$150,000 (\$174,900) to CDS in exchange for a non-secured promissory note.
- b) On February 27, 2015, CDS issued a promissory note to a director of LDS for \$31,270 (US\$25,000) accruing interest at 6% per annum, which was to be repaid on March 26, 2015. CDS did not make the necessary payment on March 26, 2015, which resulted in a \$3,118 (US\$2,500) penalty being assessed on the principal amount of the loan. CDS paid \$33,327 (US\$27,750) on May 15, 2015 extinguishing the note.
- c) On April 2, 2015, the Company loaned \$95,235 (US\$75,000) to CDS in exchange for a non-secured promissory note.

#### **5. INVENTORY**

During the year ended December 31, 2016, the Company recognized an impairment of \$14,784 (2015 - \$136,332). Inventory consisted of packaging supplies and other raw materials held for sale to licensees.

#### **6. LICENSE**

On October 6, 2016, the Company entered into a memorandum of understanding (the "October MOU") for a joint venture (the "Joint Venture") to produce cannabis infused strips capable of delivering accurately measured doses of medicinal marijuana based on the technology acquired from CDS (the "CannaStrips", or "CannaStrips Technology") with CSPA Group Inc. ("CSPA"). The Joint Venture allows the parties to establish operations within an existing 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. During the year ended December 31, 2016, the Company recorded \$268,540 (2015 - \$nil) for the CUP.

Per the MOU, the Company is obligated to pay CSPA US\$13,000 per month until February 28, 2017. From March 1, 2017, the payments will be in the amount of US\$3,250 per month. LDS will also pay CSPA 25% of the net operating income. LDS will pay a party related to CSPA a monthly management fee of US\$8,000.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

**7. EQUIPMENT AND PRODUCTION FACILITY**

	<b>Equipment</b>	<b>Production Facility</b>	<b>Total</b>
<b><u>Cost</u></b>			
Balance December 31, 2014	\$ -	\$ -	\$ -
Additions	378,042		378,042
Foreign exchange – December 31, 2015	40,524	-	40,524
Balance at December 31, 2015	418,566	-	418,566
Additions	104,641	236,260	340,901
Impairments	(388,833)	-	(388,833)
Foreign exchange – December 31, 2016	(32,157)	-	(32,157)
Balance at December 31, 2016	\$ 102,217	\$ 236,260	\$ 338,477
<b><u>Accumulated Amortization</u></b>			
Balance December 31, 2014 and 2015	\$ -	\$ -	\$ -
Amortization	1,784	-	1,784
Balance at December 31, 2016	\$ 1,784	\$ -	\$ 1,784
<b><u>Net Book Value</u></b>			
At December 31, 2015	418,566	\$ -	\$ 418,566
At December 31, 2016	\$ 100,433	\$ 236,260	\$ 336,693

As at December 31, 2016, the Company recorded \$85,051 for the production equipment which the Company intends to use in Joint Venture under the CUP (Note 6). As at December 31, 2016, the Company had recorded an impairment of \$388,833 in strip coating equipment which the Company intended to lease to Healthy Asylum Inc. (Note 11). Due to modifications in the Company's business plans, it was determined that strip coating equipment will not be capable to operate under required capacity.

No depreciation was taken for strip coating equipment or the production equipment for the year ended December 31, 2016. As at December 31, 2016, the Company had paid \$485,655 (US\$361,700) in deposits on machinery.

As part of the Joint Venture (Note 6), the Company agreed to make all necessary upgrades and renovations to a facility leased by NHMC and CSPA under the CUP issued by the City of Adelanto, California, which included build out of a medical marijuana manufacturing warehouse. As at December 31, 2016, the Company had recorded \$236,260 as cost for building out for the facility.

**8. SETTLEMENT OF DEBT**

During the year ended December 31, 2016, the Company settled debt of \$147,007 owing to an unrelated party for \$100,000, resulting in a gain of settlement of debt of \$47,007.



**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

**9. TECHNOLOGY**

On May 1, 2015, as part of the Acquisition (Note 4), the Company acquired CannaStrips Technology, from the shareholders of CDS. The CannaStrips Technology was recorded at \$985,936. During the year ended December 31, 2016, the CannaStrips Technology as originally acquired was superseded as a result of the modifications in the Company's business plans (Note 7), and as such the Company recorded impairment of \$618,937 associated with its CannaStrips Technology.

During the year ended December 31, 2016, the Company recorded \$185,780 (2015 – \$121,507) in amortization expense associated with the CannaStrips Technology.

**10. 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:

		December 31,	
		2016	2015
Management consulting services	a)	\$ 343,665	\$ 70,475
Share-based compensation	b)	\$ 195,807	\$ -
Corporate advisory services	c)	\$ -	\$ 172,500

a) Management consulting services consist of the following:

- \$252,129 (2015 – \$69,475, of which \$25,972 was paid or accrued to Mariscos Del Mar Inc., a company controlled by Brad Eckenweiler) in consulting fees accrued to Mr. Eckenweiler, the CEO and director of the Company. On July 31, 2015, the Company entered into a consulting agreement with Mr. Eckenweiler for a one year term for US\$6,700 per month. Effective July 1, 2016, the Company agreed to extend the agreement for an additional one year term for USD\$25,000 per month;
- \$79,536 (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 pay Mr. Pakulis at USD\$5,000 per month for his services.
- \$12,000 (2015 - \$1,000) in consulting fees accrued to Yanika Silina, the Company's Chief Financial Officer (the "CFO"). The Company agreed to pay Ms. Silina at \$1,000 per month for her services.

b) On July 13, 2016, the Company granted options to purchase up to 3,405,595 common shares to its executive officers and directors. The fair value of the options was determined to be \$195,807 and have an exercise price of \$0.12 per share expiring on July 13, 2017 (Note 12).

c) During the year ended December 31, 2015, the Company incurred \$172,500 in corporate advisory services with Baron Global Financial Canada Ltd. ("Baron"), a company related by way of a common director of the Company. The services were provided pursuant to an agreement between the Company and Baron, which was terminated on December 31, 2015.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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

A summary of amounts payable to related parties is as follows:

	December 31, 2016	December 31, 2015
Baron Global Financial Canada Ltd. <sup>(1)</sup>	\$ -	\$ 69,300
Brad Eckenweiler	58,247	63,389
Jim Pakulis	3,335	-
FindTec, Inc. <sup>(1)</sup>	-	6,189
Mariscos Del Mar Inc.	-	830
Yanika Silina	9,000	1,000
Total payable to related parties	\$ 70,582	\$ 140,708

<sup>(1)</sup>During the year ended December 31, 2015, Baron Global Financial Canada Ltd. and FindTec, Inc. ceased to be related parties. During the year ended December 31, 2016, the amount owing to Baron Global Financial Canada Ltd. was forgiven and is included as a gain on settlement of debt. As at December 31, 2016, the amounts owed to FindTec, Inc. have been included in accounts payable.

**11. LICENSE AGREEMENT 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 US\$25,000 (paid in 2015). This license agreement has been terminated.
- b) On July 30, 2015, CDS entered into a memorandum of understanding (the "MOU") for non-exclusive use of the Technology in Southern California. The licensee paid the Company a non-refundable deposit of \$32,428 (US\$25,000), which was recorded as unearned revenue as at December 31, 2015. During the year ended December 31, 2016, the MOU lapsed, and the non-refundable deposit was recognized as revenue.

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

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

**B. Issued share capital**

During the year ended December 31, 2016, the Company had the following transactions that resulted in issuance of its common stock:

- i. The Company closed a non-brokered private placement (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 is \$8,246, and was determined using the Black-Scholes Option pricing model at the date of issuance using the following assumptions:

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

## LIFESTYLE DELIVERY SYSTEMS INC.

(Expressed in Canadian Dollars)

### Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2016

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## 12. CAPITAL AND RESERVES (Continued)

### B. Issued share capital (continued)

- ii. The Company closed a non-brokered private placement offering 655,225 units (the “May Offering”) at a price of \$0.08 per unit (the “May Unit”) for gross proceeds of \$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 expiring on July 6, 2018, at an exercise price of \$0.10 per common share.

- iii. The Company closed the first tranche of its non-brokered private placement offering (the “August Offering”) of 2,653,000 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 expiring on August 25, 2017, at an exercise price of \$0.18 per share.

- iv. 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.
- v. During the year ended December 31, 2016, the Company issued a total of 9,972,891 shares of its common stock upon exercise of 9,601,491 warrants and 371,400 broker warrants for total proceeds of \$1,225,954. The initial fair value associated with these warrants was \$23,027.
- vi. During the year ended December 31, 2016, the Company issued a total of 500,000 shares of its common stock upon exercise of 500,000 options granted to Mr. Pakulis, the Company’s President and a member of the board of directors. Mr. Pakulis chose to apply \$60,000 owed to him on account of consulting fees towards payment of the exercise fee. These options had an initial fair value of \$28,748.
- vii. As at December 31, 2016, the Company had received \$427,005 in subscription for shares not yet issued and recorded an obligation to issue 854,010 shares.

During the year ended December 31, 2015, the Company had the following transactions that resulted in issuance of its common stock:

- i. On January 12, 2015, the Company issued 240,000 shares as finder’s fees valued at \$24,000 in relation to the convertible Promissory Notes issued on December 15, 2014.
- ii. On February 12, 2015, the Company issued 24,000 shares for finder’s fees valued at \$2,400 in relation to the convertible Promissory Notes issued on December 15, 2014.
- iii. On March 31, 2015, holders of convertible debentures converted \$10,000 of their debt into 200,000 units of the Company. Each unit consist of one common share and one common share purchase warrant exercisable at \$0.10 until May 22, 2017.
- iv. On May 1, 2015, the Company issued 7,800,000 common shares of the Company (the “Performance Shares”) valued at \$697,500 to CDS’s shareholders. The Performance Shares are subject to escrow provisions and will be released upon CDS achieving certain future financial milestones. On October 27, 2015, 1,500,000 Performance Shares were released from escrow as CDS achieved the first Milestone (Note 4).
- v. On May 1, 2015, in connection with the Transaction, the Company issued 83,333 common shares of the Company with a fair value of \$12,500. In addition, the Company has reserved for issuance up to 565,000 shares which will be issued upon CDS achieving certain future financial milestones (Note 4). On October 29, 2015, the Company issued a further 141,667 shares with a value of \$21,250 as CDS achieved the first Milestone. As at December 31, 2015, the Company had recorded an obligation of \$33,594 to issue the remaining shares.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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**12. CAPITAL AND RESERVES (Continued)****B. Issued share capital (continued)**

- vi. On May 1, 2015, the Company closed a private placement and issued 5,168,758 units at \$0.15 per unit for gross proceeds of \$775,314. Each unit consist of one common share and one-half of a common share purchase warrant. In connection with the private placement, the Company issued 254,768 units with a fair value \$38,215 to arm's length finders. Each finder's unit consists of one common share and one-half of one non-transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share until May 1, 2016 at a price of \$0.30 per share and at a price of \$0.45 until May 1, 2017.
- vii. On May 1, 2015, the Company settled \$130,200 and \$47,250 debt with Baron Global Financial Canada Ltd. and an arm's length creditor of the Company, respectively, by issuing 868,000 and 315,000 common shares of the Company respectively, with a value of \$0.15 per share. (Note 11).
- viii. On May 4, 2015, convertible promissory notes with a total value of \$80,143 were converted resulting in the issuance of 900,000 common shares of the Company.
- ix. On May 7, 2015, the convertible promissory notes with a total value of \$26,715 were converted resulting in the issuance of 300,000 common shares of the Company.
- x. On May 12, 2015, 400,000 shares were issued upon the exercise of 400,000 warrants at \$0.10 per share.
- xi. On June 11, 2015, 42,703 shares were issued upon the exercise of 42,703 warrants at \$0.10 per share.
- xii. On June 29, 2015, 6,250 shares were issued upon the exercise of 6,250 warrants at \$0.10 per share.
- xiii. On December 11, 2015, the Company closed its non-brokered private placement offering (the "Offering") of 7,600,000 units (the "December Units") at a price of \$0.05 per December Unit for total gross proceeds of \$380,000. Each December Unit sold consisted of one common share of the Company and one share purchase warrant ("December Warrant") entitling the holder to purchase one additional common share for a period of two years expiring on December 11, 2017 at an exercise price of \$0.10 per share during the first year after closing, and an exercise price of \$0.15 per share during the second year after closing.

In connection with the Offering, the Company paid cash finder's fees totaling \$22,080, and issued 441,601 broker's warrants (the "Broker's Warrants"). The Broker's Warrants entitle a holder to purchase one common share of the Company on the same terms as the December Warrants. The Broker's warrants were valued at \$28,464, and were determined using the Black-Scholes Option pricing model with the following assumptions: risk-free rate of 0.48%, expected life of 2 years, volatility of 121%, and dividend rate of 0%.

In addition, the Company recorded \$12,587 in share issuance costs which were associated with legal fees.

**C. Stock purchase option compensation plan**

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, with the exercise price of each option being equal to or above the market price of the common shares on the grant date. Options granted under the Plan, including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

**12. CAPITAL AND RESERVES (Continued)****C. Stock purchase option compensation plan (continued)**

A continuity of options for the years ended December 31, 2016 and 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the year	82,500	\$0.94	132,500	\$0.89
Granted	3,405,595	\$0.12	-	n/a
Exercised	(500,000)	\$0.12	-	n/a
Expired	(57,500)	\$1.00	(50,000)	\$0.80
Options outstanding and exercisable, end of the year	2,930,595	\$0.13	82,500	\$0.94

The options outstanding and exercisable at December 31, 2016 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	\$ 0.80	4.62	August 15, 2021
2,905,595	\$ 0.12	0.53	July 13, 2017
2,930,595	\$ 0.13	0.57	

During the year ended December 31, 2016, the Company granted 3,405,595 stock options valued at \$195,807, using the Black-Scholes option pricing model with a volatility of 127%, risk-free interest rate of 0.49%, expected life of 1 year, exercise price of \$0.12, and dividend rate of 0%.

**D. Share Purchase Warrants**

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

	December 31, 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	(9,972,891)	0.12	(448,953)	\$0.10
Issued	9,781,003	0.16	10,953,364	\$0.19
Warrants outstanding, ending	15,512,523	\$0.19	15,704,411	\$0.16

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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

The warrants outstanding and exercisable at December 31, 2016 are as follows:

Number of Warrants outstanding	Exercise Price	Weighted Average Remaining Life	Expiration Date
2,115,831	\$0.45	0.33	May 1, 2017
2,350,000	\$0.10	0.39	May 22, 2017
2,791,800	\$0.15	0.95	December 11, 2017
1,000,000	\$0.20	1.35	May 9, 2018
100,000	\$0.12	1.35	May 9, 2018
655,225	\$0.10	1.51	July 6, 2018
300,000	\$0.10	1.04	January 15, 2018
2,468,000	\$0.18	0.65	August 25, 2017
3,731,667	\$0.18	0.69	September 9, 2017
15,512,523		1.67	

**E. Escrow shares**

As at December 31, 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 4.

**13. LOANS PAYABLE***Note Payable*

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 accumulated interest at 1% per month compounded monthly, was unsecured. The Company repaid the Note together with \$2,167 in accrued interest on December 13, 2016.

*\$100,000 Loan Facility*

Effective June 30, 2016, the Company secured a \$100,000 credit facility (the “Loan Facility”) with a 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. The final instalment of \$20,000 was reduced by \$6,000 as early prepayment of estimated interest accrued on 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 \$0.08 per share for a period expiring on January 15, 2018 (the “Initial Warrants”). In addition, the Company issued to the lender an additional 700,000 share purchase warrants exercisable at a price of \$0.10 per share. The additional warrants expire on January 15, 2018.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

**13. LOANS PAYABLE (Continued)**

Because the warrants were issued as compensation to the lender in connection with the loan proceeds received, the Company allocated the proceeds first to the fair value of the loan and the residual to the warrants. The residual was determined to be \$nil.

The Company repaid the loan facility on October 4, 2016, prior to its maturity, when the total of the loan including interest accrued on the principal was determined to be \$101,082.07.

**14. SUPPLEMENTAL CASH FLOW**

During the years ended December 31, 2016 and 2015 the Company recorded the following items:

	December 31,	
	2016	2015
	\$	\$
264,000 finder's fee shares issued for the Promissory Notes	-	26,400
Shares issued on conversion of a debenture	-	10,000
1,200,000 shares issued on conversion of Promissory Notes	-	106,858
1,183,000 shares issued to settle amounts due to related parties and accounts payable	-	177,450
Equity component of convertible debenture offset by convertible debenture payment	-	29,891
7,800,000 Performance Shares issued for the Transaction	-	697,500
225,000 shares issued as finder's fee for the Transaction	-	33,750
Shares reserved for issuance as finder's fee for the Transaction	-	33,594
Shares issued as finders' fees for private placement	-	38,215
Warrants issued as broker's fees	8,246	28,464
Costs related to the purchase of equipment in accounts payable	-	17,957
Cost related to the acquisition of the Technology and included in accounts payable	-	80,398
Loans advanced to CDS prior to closing of the Transaction and eliminated on consolidation	-	95,235
Exercise of 500,000 stock options to reduce amounts owing to related party	60,000	-

**15. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has generated only minimal revenue and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There was no change to the Company's management of capital during the year. The Company is not subject to any externally imposed capital requirements.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

**16. FINANCIAL INSTRUMENTS**

Classification of Financial Instruments:

## (a) Fair Values

The fair values of financial instruments, which include advances receivable, accounts payable, amounts due to related parties and advances payable approximate their carrying values due to the relatively short-term to maturity of these instruments.

## (b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investment. The Company limits its exposure to credit risk 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.

## (c) Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure (Note 15). As at December 31, 2016, the Company had cash and short-term investments of \$440,352 to settle current financial liabilities of \$253,568. The Company will need to source funds from either loans or private placements to meet these obligations as they come due.

## (d) 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 instrument 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.

## (e) Foreign exchange risk

As at December 31, 2016, the Company has financial instruments denominated in US dollars. A 10% fluctuation in the exchange rate between the Canadian and US dollar would cause a fluctuation in foreign exchange of approximately \$3,000.

**17. INCOME TAXES**

A reconciliation of income taxes at statutory rate is as follows:

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Net loss before tax	\$ (2,247,407)	\$ (1,206,673)
Statutory income tax rate	26%	26%
Expected income tax recovery	(584,000)	(314,000)
Change in statutory, foreign tax, foreign exchange rates and other	(19,000)	(95,000)
Adjustment to prior year provision versus statutory tax returns	(9,000)	18,000
Share issuance costs	(9,000)	(9,000)
Change in unrecognized deductible temporary differences	621,000	400,000
Income tax recovery	\$ -	\$ -



**LIFESTYLE DELIVERY SYSTEMS INC.**  
(Expressed in Canadian Dollars)  
**Notes to the Consolidated Financial Statements**  
For the Year Ended December 31, 2016

**17. INCOME TAXES (Continued)**

The significant components of deferred tax assets that have not been included on the statements of financial position are as follows:

	<b>Year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Deferred tax assets:		
Exploration and evaluation assets	\$ -	\$ 38,500
Investment tax credit	3,000	3,000
Share issuance costs	5,700	7,200
Non-capital losses available for future period	1,305,000	680,420
Fixed and intangible assets	80,520	44,100
	1,394,220	773,220
Unrecognized deferred tax assets	(1,394,220)	(773,220)
	\$ -	\$ -

The Company has approximately \$2,451,000 of non-capital losses in Canada which expire between 2030 – 2036, and approximately \$1,938,000 of non-capital losses in the US which expire between 2034 – 2036.

Tax attributes are subject to review, and potential adjustment by tax authorities.

**18. SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2016, the Company issued a total of 4,793,723 shares of the Company's common stock on exercise of 4,763,723 warrants and 30,000 options for proceeds of \$916,925.

The Company entered into an agreement with Canaccord Genuity Corp. (the "Agent"), pursuant to which the Agent agreed to sell, on a commercially reasonable efforts basis, up to 20,000,000 units of the Company (the "Units"), at a price of \$0.50 per Unit for aggregate gross proceeds to LDS of up to \$10,000,000 (the "Offering"), subject to the Agent's completion of satisfactory due diligence. Subsequently, the Company elected to increase the size of the Offering by an additional 4,000,000 Units, for total gross proceeds of up to \$12,000,000. Each Unit will consist of one common share of the Company (a "Common Share") and one warrant. Each warrant will entitle the holder to purchase one additional common share for a period of one year from the date of issuance at an exercise price of \$0.75 per share.

As consideration for the Offering, the Company agreed to pay the Agent a cash commission equal to 7% of the aggregate gross proceeds of the Offering, which can be paid in cash, Units or a combination of cash and Units, as requested by the Agent. In addition to the cash commission, the Company also agreed to issue to the Agent the agent warrants to acquire up to 7% of the number of Units sold, exercisable at \$0.50 per Unit for a period of one year from closing date.

Subsequent to the year ended December 31, 2016, pursuant to its MOU (Note 6), the Company paid approximately \$615,000 (US\$464,000) in renovations and improvement costs. In addition, the Company paid approximately \$328,000 (US\$248,000) for production equipment.

Subsequent to the year ended December 31, 2016, the Company borrowed \$217,115 (US\$164,000) from its CEO and director. The advances are due on demand, are unsecured and bear interest at 6% per annum. CEO, at his own discretion, can convert an amount up to US\$64,000 with accrued interest thereon into shares of the Company's common stock as part of a private placement offering conducted by the Company upon the same terms and conditions of such offering.

**LIFESTYLE DELIVERY SYSTEMS INC.**

(Expressed in Canadian Dollars)

**Notes to the Consolidated Financial Statements**

For the Year Ended December 31, 2016

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**18. SUBSEQUENT EVENTS (Continued)**

In February 2017, the Company engaged Future Money Trends, LLC, and Wealth Research Group, LLC. to provide the Company with an online marketing services. The agreements are for a four-month term ending on June 6, 2017. The Company agreed to pay Future Money Trends, LLC US\$350,000, of which \$165,362 (US\$125,000) has been paid in February 2017, and Wealth Research Group, LLC US\$175,000.

On February 28, 2017, the Company amended a consulting agreement with its CEO, Brad Eckenweiler (note 10) (the "Consulting Agreement"). Pursuant to the Consulting Agreement, as amended, the initial term of the Consulting Agreement was extended to February 28, 2021, with automatic renewals for successive one year periods thereafter. In case of the termination of the Consulting Agreement by the Company without due cause, the Company agreed to pay Mr. Eckenweiler a lump sum amount equal to the product of monthly remuneration otherwise payable to Mr. Eckenweiler under the Consulting Agreement (USD\$25,000 per month, as amended on July 31, 2016) multiplied by 18 months regardless of the length of time remaining under the then current term.

In January 2017, the Company incorporated two additional subsidiaries in the state of Nevada, LDS Agrotech Inc., and LDS Scientific Inc. The Company holds 75% of the issued and outstanding shares of each subsidiary.

During January through April 2017, the Company received US\$134,000 on account of design and building services to customers of LDS Agrotech Inc.

On November 28, 2016, the Company entered into a provisional patent license agreement (the "License") with an entity controlled by the Company's Chief Science Officer (the "CSO"), Dr. Sanderson, to acquire a world-wide, exclusive, royalty-free license to use a patent-pending method developed by Dr. Sanderson, which allows for improved delivery of biological molecules through mucous membranes. The Company's use of the License is limited to the field of use, which was agreed to include any bioactive ingredients derived from the plant Cannabis Sativa. To acquire the License, the Company agreed to issue to Dr. Sanderson 1,000,000 shares of the Company's common stock no later than on March 28, 2017. In addition, the Company agreed to issue to Dr. Sanderson further 1,000,000 shares of its common stock upon the grant of the final patent based on the provision patent application. As of the date of these financial statements, no shares have yet been issued to Dr. Sanderson.