LIFESTYLE DELIVERY SYSTEMS INC.

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

UNAUDITED – PREPARED BY MANAGEMENT

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2017 & 2016

NOTICE OF NO AUDITOR REVIEW
OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 & 2016

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

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

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

	June 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,119,492	$ 440,352
GST receivable	38,651	19,483
Advances receivable	-	90,632
Prepaids and other current assets (Notes 6,7)	833,169	28,291
Total current assets	6,991,312	578,758
License (Note 4)	259,540	268,540
Equipment and production facility (Note 5)	2,493,404	336,693
Deposits on equipment (Note 5)	-	485,655
Land (Note 6)	663,220	-
Intangibles (Note 8)	590,000	-
TOTAL ASSETS	$ 10,997,476	$ 1,669,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 153,875	$ 126,958
Accrued liabilities	80,694	46,129
Amounts due to related parties (Note 8)	205,681	70,582
Advances payable	35,538	9,899
Related party loans payable (Note 8)	88,998	-
Total liabilities	564,786	253,568
Stockholders' equity		
Share capital (Note 9)	17,087,470	6,220,229
Obligation to issue shares (Notes 3,9)	4,063	460,599
Reserves	488,365	282,882
Deficit	(7,031,291)	(5,543,027)
Accumulated other comprehensive loss	(97,087)	(4,605)
	10,451,520	1,416,078
Non-controlling interests (Note 10)	(18,830)	-
Total shareholders' equity	10,432,690	1,416,078
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 10,997,476	$ 1,669,646

Subsequent events (Note 11)

"Brad Eckenweiler"
Brad Eckenweiler, Director

"James Pakulis"
James Pakulis, Director

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

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenue	$ 641,871	$ 14,459	$ 819,260	$ 23,052
Cost of goods sold	(573,749)	-	(573,749)	-
Gross profit	68,122	14,459	245,511	23,052
Expenses				
Accounting fees	40,500	53,060	63,700	75,560
Advertising and promotion	40,365	-	152,843	-
Amortization (Note 5)	1,554	45,148	3,091	93,317
Consulting fees (Note 8)	231,437	129,105	452,783	268,395
IT infrastructure	60,437	-	110,080	-
Legal fees	171,762	15,001	201,168	31,681
Meals and travel expenses	80,043	9,325	145,746	16,569
Office and general	157,117	96,033	246,509	200,887
Regulatory fees	23,785	10,719	46,012	19,275
Research and development (Note 8)	152,165	15,224	295,135	17,938
Operating expenses	959,165	373,615	1,717,067	723,622
Foreign exchange loss	(24,591)	-	(42,373)	(32)
Interest expense	(2,891)	-	(3,673)	-
Interest income	3,207	-	3,207	-
Net loss for the period	$ (915,318)	$ (359,156)	$ (1,514,395)	$ (700,602)
Net loss attributable to:				
Shareholders of the Company	(879,343)	(359,156)	(1,488,264)	(700,602)
Non-controlling interests (Note 10)	(35,975)	-	(26,131)	-
	$ (915,318)	$ (359,156)	$ (1,514,395)	$ (700,602)
Other comprehensive loss				
Foreign exchange translation	(90,283)	(1,919)	(91,797)	(68,317)
Total comprehensive loss for the period	$ (1,005,601)	$ (361,075)	$ (1,606,192)	$ (768,919)
Other comprehensive income (loss) attributable to:				
Shareholders of the Company	(90,914)	(1,919)	(92,482)	(68,317)
Non-controlling interests (Note 10)	631	-	685	-
	$ (90,283)	$ (1,919)	$ (91,797)	$ (68,317)
Total comprehensive loss attributable to:				
Shareholders of the Company	(970,257)	(361,075)	(1,580,746)	(768,919)
Non-controlling interests (Note 10)	(35,344)	-	(25,446)	-
	$ (1,005,601)	$ (361,075)	$ (1,606,192)	$ (768,919)
Net loss per share - basic and diluted	$ (0.02)	$ (0.01)	$ (0.03)	$ (0.03)
Weighted average number of shares outstanding	58,833,086	26,910,070	53,183,207	26,580,399

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

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

	Common shares							
	Number of Shares	**Amount**	**Obligation to Issue Shares**	**Reserves**	**Deficit**	**Non-controlling Interest**	**Accumulated Other Comprehensive Income / (Loss)**	**Total**
Balance at December 31, 2015	32,550,729	$ 3,547,263	$ 33,594	$ 130,604	$ (2,676,683)	$ -	$ 22,806	$ 1,057,584
Private placements	1,000,000	100,000	-	-	-	-	-	100,000
Finder's warrants for private placement	-	(8,246)	-	8,246	-	-	-	-
Exercise of warrants	100,000	10,000	-	-	-	-	-	10,000
Subscription for shares	-	-	52,418	-	-	-	-	52,418
Foreign exchange translation	-	-	-	-	-	-	(68,317)	(68,317)
Net loss for the period ended June 30, 2016	-	-	-	-	(700,602)	-	-	(700,602)
Balance at June 30, 2016	33,650,729	3,649,017	86,012	138,850	(3,377,285)	-	(45,511)	451,083
Private placements	7,281,003	1,245,058	-	-	-	-	-	1,245,058
Share issuance costs - cash	-	(1,575)	-	-	-	-	-	(1,575)
Exercise of warrants	9,872,891	1,238,981	-	(23,027)	-	-	-	1,215,954
Exercise of options	500,000	88,748	-	(28,748)	-	-	-	60,000
Share-based compensation	-	-	-	195,807	-	-	-	195,807
Subscription for shares	-	-	374,587	-	-	-	-	374,587
Foreign exchange translation	-	-	-	-	-	-	40,906	40,906
Net loss for the period ended December 31, 2016	-	-	-	-	(2,165,742)	-	-	(2,165,742)
Balance at December 31, 2016	51,304,623	6,220,229	460,599	282,882	(5,543,027)	-	(4,605)	1,416,078
Exercise of warrants	7,107,507	1,439,720	-	(14,120)	-	-	-	1,425,600
Exercise of options	60,000	10,650	-	(3,450)	-	-	-	7,200
Private placements	19,407,316	9,703,658	(427,005)	-	-	-	-	9,276,653
Share issuance costs - cash	-	(765,315)	-	-	-	-	-	(765,315)
Finder's units issued for private placement	164,100	82,050	-	-	-	-	-	82,050
Finder's warrants issued for private placement	-	(223,053)	-	223,053	-	-	-	-
Shares issued for membership (Note 4)	6,000,000	-	-	-	-	-	-	-
Shares issued for intangibles	1,000,000	590,000	-	-	-	-	-	590,000
Shares issued for finder's fee for the acquisition of Technology	315,000	29,531	(29,531)	-	-	-	-	-
Non-controlling interest in equity	-	-	-	-	-	6,616	-	6,616
Foreign exchange translation	-	-	-	-	-	685	(92,482)	(91,797)
Net loss for the period ended June 30, 2017	-	-	-	-	(1,488,264)	(26,131)	-	(1,514,395)
Balance at June 30, 2017	85,358,546	$ 17,087,470	$ 4,063	$ 488,365	$ (7,031,291)	$ (18,830)	$ (97,087)	$ 10,432,690

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

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

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows used in operating activities		
Net loss	$ (1,514,395)	$ (700,602)
Non cash items		
Amortization	3,091	93,317
Foreign exchange	(6,742)	-
Interest on notes payable	3,673	340
Changes in operating assets and liabilities		
Amounts receivable	(19,168)	10,522
Prepaids and other current assets	(808,840)	25,308
Inventory	-	(7,408)
Accounts payable and accrued liabilities	64,476	234,151
Amounts due to related parties	143,373	96,538
Unearned revenue	-	(16,646)
Net cash used in operating activities	(2,134,532)	(264,480)
Cash flows from financing activities		
Advances payable	27,133	9,351
Notes received	285,123	50,000
Issuance of common stock for private placements	9,076,653	100,000
Cash share issuance costs	(683,264)	-
Obligation to issue common stock	-	52,418
Proceeds from warrant exercise	1,425,600	10,000
Proceeds from option exercise	7,200	-
Net cash provided by financing activities	10,138,445	221,769
Cash flows used in investing activities		
Advances made	90,033	-
Equipment purchased	(805,002)	(67,042)
Production facility	(1,394,597)	-
Land acquisition	(663,220)	-
Deposits on equipment	474,349	-
Net cash used in investing activities	(2,298,437)	(67,042)
Effects of foreign currency exchange	(26,336)	(3,865)
Change in cash and cash equivalents	5,679,140	(113,618)
Cash and cash equivalents, beginning	440,352	119,261
Cash and cash equivalents, ending	$ 6,119,492	$ 5,643
Cash and cash equivalents are comprised of:		
Cash	$ 1,107,992	$ 5,643
Term deposit	5,011,500	-
Total cash and cash equivalents	$ 6,119,492	$ 5,643

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

The following are non-cash transactions for the period ended June 30, 2017:

The Company issued 1,000,000 common shares valued at $590,000 for intangibles.

The Company applied 400,000 units issued in its May Financing valued at $200,000 against related party loans payable.

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 manufacturing of cannabis-infused strips "CannaStrips" (similar to breath strips), based on the patent-pending technology, that are not only a safer, healthier option to smoking, but also a new way to accurately meter the dosage and assure the purity of the product. In addition, the Company is directly involved in the growing of medicinal ingredients for, and the manufacturing of, its products. The Company's head office is located at 820 – 1130 West Pender Street, Vancouver, British Columbia, V6E 4A4, Canada. 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 3).

On January 23, 2017, the Company incorporated a new subsidiary, LDS Scientific Inc. ("LDS Scientific"), under the laws of the state of Nevada, and on January 24, 2017, the Company incorporated an additional subsidiary, LDS Agrotech Inc. ("LDS Agrotech"), under the laws of the state of Nevada. The Company holds 75% of the issued and outstanding shares of each subsidiary. LDS Agrotech will form cultivation and biomass production division of the Company and LDS Scientific will form extraction and formulation division of the Company (Notes 4, 10).

The Company's wholly-owned subsidiary, 0994537 B.C. Ltd., and majority-owned subsidiary, 0994540 B.C. Ltd., were incorporated on February 21, 2014, and remained inactive during the period ended June 30, 2017.

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 having the necessary financing and ultimately upon its ability to achieve profitable operations. As of the date of these consolidated financial statements the Company's revenue represents consulting and design revenue for construction of cannabis growing facilities; the Company has not started generating revenue from its main operations, being production of CannaStrips. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements were authorized for issue on August 29, 2017, by the Directors of the Company.

Statement of Compliance and Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting. The unaudited condensed interim financial statements, prepared in conformity with IAS 34, follow the same accounting principles and methods of application as the most recent audited annual consolidated financial statements. Since the unaudited condensed consolidated interim financial statements do not include all disclosures required by the International Financial Reporting Standards ("IFRS") for annual financial statements, they should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2016.

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

These unaudited condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable, and include the accounts of the Company and the following subsidiaries:

	Country of Incorporation	% of Interest
Canna Delivery Systems Inc.	USA	100%
LDS Agrotech Inc.	USA	75%
LDS Scientific Inc.	USA	75%
0994537 B.C. Ltd.	Canada	100%
0994540 B.C. Ltd.	Canada	95%

On consolidation the Company eliminates all intercompany transactions and balances between subsidiaries.

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

New accounting standards and interpretations issued but not yet adopted

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

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

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

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

3. ACQUISTION

On May 1, 2015 (the "Closing Date"), 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, in exchange for 7,800,000 shares of the Company (the "Shares"), subject to certain conditions (the "Acquisition"). Upon acquisition, CDS became a wholly-owned subsidiary of LDS.

(Expressed in Canadian Dollars)

3. ACQUISTION (Continued)

On the Closing Date the Shares were placed in escrow to be released upon the Company achieving certain milestones (the "Milestones") over a period of 24 months from the Closing Date as follows:

Milestone	Number of Shares to be released
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 (Milestone reached and shares issued)
USD $600,000 in cumulative gross revenues	2,100,000 (Milestone reached and shares issued)
USD $1,000,000 in cumulative gross revenues	2,100,000

On April 30, 2017, the Company extended the period eligible for release of shares based on achievement of Milestones from 24 months to 30 months.

On May 24, 2017, the Company's board of directors determined that it had reached the second and the third Milestones, and as such released 4,200,000 shares from Escrow. 96,000 of these shares, which are to be released to Mr. Eckenweiler, the CEO of the Company, continue to be escrowed in accordance with the policies of the Canadian Securities Exchange (the "CSE").

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:

	Number of shares to be issued
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 (Milestone reached and shares issued)
USD $600,000 in cumulative gross revenues	157,500 (Milestone reached and shares issued)
USD $1,000,000 in cumulative gross revenues	108,333

On May 24, 2017, the Company released 315,000 finders' shares upon achievement of the second and the third Milestones.

As at June 30, 2017, the Company had recorded an obligation to issue shares of $4,063 for the remaining finders' shares to be issued upon successful completion of the milestones.

4. 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").

On May 1, 2017, the October MOU was superseded by formal binding management agreements with CSPA and NHMC, Inc. ("NHMC"), related nonprofit mutual benefit corporations having the same sole members, whereby LDS, through its majority owned subsidiaries, LDS Agrotech Inc. ("LDS Agrotech") and LDS Scientific Inc. ("LDS Scientific"), will manage medicinal marijuana cultivation, extraction and manufacturing operations on behalf of NHMC and CSPA in the City of Adelanto, California. NHMC is the holder of permits granted by the City of Adelanto for the operation of an indoor medicinal marijuana cultivation facility (the "Adelanto Facility"), while CSPA is the holder of permits granted by the City of Adelanto for the operation of an indoor medicinal marijuana extraction and manufacturing facility.

As at June 30, 2017, the Company recorded $259,540 (2016 – $268,540) for the conditional use permits ("CUP") held by CSPA and NHMC.

4. LICENSE (Continued)

Under the terms of the management services agreements, LDS Agrotech and LDS Scientific will perform all functions related to the cultivation, extraction and manufacturing operations of NHMC and CSPA, respectively. LDS Agrotech and LDS Scientific will be primarily responsible for advancing the operating costs of those operations, and will be reimbursed for such operating costs out of NHMC's and CSPA's respective revenues. In addition, LDS Agrotech and LDS Scientific will receive management fees equal to 75% of revenues over operating expenses, as defined in the respective management services agreements, with NHMC and CSPA receiving the remaining 25% balance. Neither NHMC nor CSPA may disburse funds held by them without the consent of LDS Agrotech or LDS Scientific, respectively.

On May 1, 2017, concurrent with the execution of the management services agreements, the Company entered into separate agreements to purchase the sole outstanding membership interests of each of NHMC and CSPA (the "Membership Agreements"). LDS has agreed to purchase the sole membership interest of each of NHMC and CSPA in exchange for 3,000,000 common shares of the Company and US$1,400,000 in cash, each (6,000,000 common shares of the Company and US$2,800,000 in cash total).

The Company issued the 6,000,000 shares on May 23, 2017, which were placed in escrow (the "Escrowed Shares") pending receipt of the Certificates of Occupancy (the "COO") and as such no monetary value was attributed to the escrowed shares at the time of the issuance. One-third (1/3) of the Escrowed Shares and cash purchase price for NHMC will be paid upon the grant of the COO for the cultivation wing of the Adelanto Facility, and one-third (1/3) of the Escrowed Shares and cash purchase price for CSPA will be paid upon the grant of the COO for the extraction and manufacturing wing of the Adelanto Facility. The balance of the purchase price and Escrowed Shares for NHMC and CSPA will be paid in equal annual installments during the two years after the granting of the respective COO. LDS has the right to accelerate payment of the purchase price for NHMC and CSPA earlier than scheduled. If the COO are not granted on or prior to August 31, 2017, the members of NHMC and CSPA will forfeit their rights to the share consideration, and the purchase price for each will consist solely of the cash consideration. As of the day of the filing of these unaudited consolidated financial statements, the COO have not been received, and the Company is negotiating an extension of the escrow agreements with NHMC and CSPA, which are expected to be finalized on or prior to August 31, 2017.

If, at any time prior to the payment of the full purchase price, NHMC or CSPA breach their respective management services agreements or the provisions of their governing documents, or their respective cultivation and extraction and manufacturing permits are revoked, then LDS will have the right to acquire NHMC or CSPA without the payment of any additional consideration.

5. EQUIPMENT AND PRODUCTION FACILITY

As part of the agreement with CSPA and NHMC, the Company agreed to make all necessary upgrades and renovations to the Adelanto Facility leased by NHMC and CSPA under the CUP issued by the City of Adelanto, California. These upgrades and renovations included a build out of a medical marijuana manufacturing warehouse. As at June 30, 2017, the Company had recorded $1,584,685 as cost for building out the Adelanto Facility (2016 - $236,260).

(Expressed in Canadian Dollars)

5. EQUIPMENT AND PRODUCTION FACILITY (Continued)

	Equipment	Adelanto Facility	Total
Cost			
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
Additions	826,973	1,394,597	2,221,570
Foreign exchange – June 30, 2017	(15,596)	(46,172)	(61,768)
Balance at June 30, 2017	$ 913,594	$ 1,584,685	$ 2,498,279
Accumulated Amortization			
Balance December 31, 2015	$ -	$ -	$ -
Amortization	1,784	-	1,784
Balance at December 31, 2016	1,784	-	1,784
Amortization	3,091	-	3,091
Balance at June 30, 2017	$ 4,875	$ -	$ 4,875
Net Book Value			
At December 31, 2016	$ 100,433	$ 236,260	$ 336,693
At June 30, 2017	$ 908,719	$ 1,584,685	$ 2,493,404

No deprecation was taken for strip coating or the production equipment for the six months ended June 30, 2017.
As of June 30, 2017 the Company had paid $Nil (December 31, 2016 - $485,655) in deposits on machinery.

6. LAND

During the quarter ended June 30, 2017, pursuant to its planned business expansion strategy, the Company entered into four separate land purchase agreements to acquire land in close proximity to the Production Facility.

On June 19, 2017, the Company closed on a 10-acre land parcel paying $663,220 (US$501,556) in total cash acquisition costs. The 10-acre land parcel is suitable for approximately ten individual 20,000 square foot cultivation facilities, which will form a part of the Company's contract cultivation projects. The Company intends to develop these cultivation facilities based on the designs of the current Adelanto Facility; once built, they will be leased to permitted cultivation entities that hold Conditional Use Permits in Adelanto.

As of June 30, 2017, the Company paid additional $91,599 (US$60,010) in deposits on three other land parcels varying in size from 4 acres to 20 acres. These payments were held in escrow pending completion of regulatory due-diligence including land-title searches, which were completed subsequent to June 30, 2017 (Note 11). The funds held in escrow were recorded as part of prepaids and other current assets on the statement of financial position as of June 30, 2017.

7. AGREEMENTS FOR INVESTOR RELATION AND MARKET AWARENESS SERVICES

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 were for a four-month term ending on June 6, 2017. Due to extended closing of the brokered private placement with Canaccord Genuity Corp. completed on May 31, 2017 (the "May Financing") (Note 9B), the Company reached a verbal agreement to extend the commencement of these services after the closing of the May Financing. The Company paid Future Money Trends, LLC US$350,000, of which $379,439 (US$287,500) is included in prepaids and other current assets as of June 30, 2017.

(Expressed in Canadian Dollars)

7. AGREEMENTS FOR INVESTOR RELATION AND MARKET AWARENESS SERVICES (Continued)

The Company paid Wealth Research Group, LLC $66,045 (US$50,000), which is included in prepaids and other current assets as of June 30, 2017.

On June 26, 2017, the Company paid $132,680 (US$100,000) to MAPH Enterprises, LLC. ("MAPH") for business advisory and consulting services to create market awareness for the Company. The Company is negotiating the final details of the engagement with MAPH, and expects to finalize the agreement for commencement in September 2017 for duration of six months. This amount is included in prepaids and other current assets as of June 30, 2017.

On June 3, 2017, the Company finalized a six-month market awareness and public relations services contract with Sutton Ventures Ltd. The Company paid Sutton Ventures $20,000 for the services. As of June 30, 2017, $16,667 is included in prepaids and other current assets.

8. RELATED PARTY TRANSACTIONS

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

		June 30,	
		2017	**2016**
Management consulting services	a)	$ 264,189	$ 99,485
Consulting services for research and development	b)	$ 176,128	$ -
Shares issued for intangibles	c)	$ 590,000	$ -

a) Management consulting services consist of the following:

- $200,145 (2016 – $53,534) in consulting fees paid or 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 US$25,000 per month. On February 28, 2017, the Consulting Agreement was further amended to extended the initial term 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 (US$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.
- $40,029 (2016 – $39,951) in consulting fees paid or accrued to Mr. Pakulis, the Company's President and a member of the Board of Directors. The Company agreed to pay Mr. Pakulis US$5,000 per month for his services. On May 1, 2017, the Company and Mr. Pakulis entered into a management consulting agreement for US$5,000 per month extending for a term of two years expiring on May 1, 2019, with automatic renewals for successive one year periods thereafter.
- $24,015 (2016 - $6,000) in consulting fees paid or accrued to Yanika Silina, the Company's Chief Financial Officer (the "CFO"). The Company agreed to pay Ms. Silina $1,000 per month for her services. On May 1, 2017, the Company and Ms. Silina entered into a management consulting agreement for US$7,500 per month extending for a term of two years expiring on May 1, 2019, with automatic renewals for successive one year periods thereafter.

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

- $102,741 (2016 – $Nil) in consulting fees paid or accrued to Ms. Elrod, President and a 25% shareholder of LDS Scientific. The Company agreed to pay Ms. Elrod US$12,500 per month for her services.

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (Continued)

- $73,387 (2016 – $Nil) in consulting fees paid or accrued to Mr. Ferguson, President and a 25% shareholder of LDS Agrotech. The Company agreed to pay Mr. Ferguson US$11,000 per month for his services.

c) Shares issued for intangibles:

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

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

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

	June 30, 2017	December 31, 2016
Brad Eckenweiler	$ 161,004	$ 58,247
Jim Pakulis	29,008	3,335
Yanika Silina	15,669	9,000
Total payable to related parties[1]	$ 205,681	$ 70,582

[1] Amounts are unsecured, due on demand and bear no interest.

Related party loans payable

During the six-month period ended June 30, 2017, the Company borrowed $285,123 (US$214,000) from its CEO and director. The loans were due on demand, unsecured and bore interest at 6% per annum compounded monthly. At May 31, 2017, Mr. Eckenweiler chose to convert $200,000 of the amounts owed to him into 400,000 units of the Company's common stock as part of a non-brokered part of the May Financing (Note 9B).

As of June 30, 2017, the Company owed Mr. Eckenweiler $88,998, which consisted of $88,561 (US$68,245) in principal and $437 (US$337) in interest accrued.

9. CAPITAL AND RESERVES

A. Common Shares

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

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (Continued)

B. Issued share capital

During the six months ended June 30, 2017, the Company had the following transactions that resulted in issuance of its common stock:

i. On May 31, 2017, the Company closed its private placement financing (the "May Financing"), by issuing 14,213,000 units (the "Units") at a price of $0.50 per Unit as part of a brokered tranche of its May Financing, and by issuing a total of 3,174,776 Units at a price of $0.50 per Unit as part of a non-brokered tranche of the May Financing for a combined total gross proceeds of $8,693,888. Funds of $427,005 received in the prior year were included as part of the May Financing. Each Unit sold as part of the May Financing consisted of one common share of the Company ("Unit Share") and one common share purchase warrant (a "Warrant") entitling the holder to purchase one additional common share (a "Warrant Share") at a price of $0.75 per Warrant Share for a period ending on May 31, 2018. The Company may accelerate the expiration date of the Warrants if the daily volume weighted average share price of the Company's common shares on the Canadian Securities Exchange (or such other stock exchange as the Company's common shares are then trading on) is equal to or greater than $1.50 for 10 consecutive trading days.

   Canaccord Genuity Corp. (the "Agent") acted as agent for the brokered tranche of the May Financing. In consideration of its services, the Agent received a commission equal to 7.0% of the gross proceeds of the brokered tranche of May Financing, paid by issuance of 164,100 Units, and $415,405 in cash. As additional consideration, the Company issued to the Agent 994,910 broker warrants ("Broker Warrants") representing 7.0% of the aggregate number of Units sold under the brokered tranche of the May Financing. Each Broker Warrant is exercisable into one Unit at $0.50 per Unit expiring on May 31, 2018. The fair value of Broker Warrants was calculated to be $211,706, and was determined using the Black-Scholes Option pricing model at the date of issuance using the following assumptions:

Expected Warrant Life	1 year
Average Risk-Free Interest Rate	0.69%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	112%

   In addition to the broker fees, the Company incurred an additional $238,189 in legal and regulatory costs associated with the May Financing.

   The securities issued under the May Financing are subject to a hold period expiring on October 1, 2017, pursuant to applicable Canadian securities laws.

ii. On June 27, 2017, the Company closed a non-brokered private placement financing (the "June Financing") for a total of 2,019,540 units (the "June Units") at a price of $0.50 per June Unit, for total gross proceeds of $1,009,770. Each June Unit sold in the June Financing consisted of one common share of the Company (each a "June Unit Share") and one common share purchase warrant (each a "June Warrant") entitling the holder to purchase one additional common share (a "June Warrant Share") at a price of $0.75 per June Warrant Share for a period ending on June 27, 2018. The Company may accelerate the expiration date of the June Warrants if the daily volume weighted average share price of the Company's common shares on the Canadian Securities Exchange (or such other stock exchange as the Company's common shares are then trading on) is equal to or greater than $1.50 for 10 consecutive trading days.

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (Continued)

B. Issued share capital (Continued)

In connection with the June Financing, the Company has agreed to pay cash commissions of $26,775 pursuant to the agency agreement entered into as part of the May Financing, of which $17,150 has been remitted to the Agent and $9,625 has been accrued; in addition, the Company issued 53,550 finder's warrants to the Agent (the "June Finder's Warrant"). Each June Finder's Warrant is exercisable for one June Unit at $0.50 per June Unit for a period expiring on June 27, 2018. The fair value of the June Broker's Warrants was calculated to be $11,347, and was determined using the Black-Scholes Option pricing model at the date of issuance using the following assumptions:

Expected Warrant Life	1 year
Average Risk-Free Interest Rate	0.97%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	111%

The securities issued under the June Financing are subject to a hold period expiring on October 28, 2017, pursuant to applicable Canadian securities laws.

iii. During the six months ended June 30, 2017, the Company issued a total of 6,617,723 shares of its common stock upon exercise of warrants for total proceeds of $1,345,197.

iv. During the six months ended June 30, 2017, the Company issued a total of 489,784 shares of its common stock upon exercise of broker warrants for total proceeds of $80,403. These warrants had an initial fair value of $14,120.

v. During the six months ended June 30, 2017, the Company issued a total of 60,000 shares of its common stock upon exercise of 60,000 options granted to Ms. Silina, the Company's CFO, for total proceeds of $7,200. These options had an initial fair value of $3,450.

vi. On May 23, 2017, The Company issued 6,000,000 shares (3,000,000 shares each) to the sole members of NHMC and CSPA as part of the Membership Agreements dated for reference May 1, 2017, to purchase the outstanding membership interests of each of NHMC and CSPA. The shares were placed in escrow pending receipt of COO by NHMC and CSPA, and as such no cost was attributed to the Escrowed Shares. One-third (1/3) of the Escrowed Shares issued for NHMC will be released from escrow upon the grant of a COO for the cultivation wing of the Adelanto Facility, and one-third (1/3) of the Escrowed Shares issued for CSPA will be released upon the grant of a COO for the extraction and manufacturing wing of the Adelanto Facility. The balance of the Escrowed Shares for NHMC and CSPA will be released in equal annual installments during the two years after the granting of the respective COO (Note 4).

vii. On May 23, 2017, the Company issued Dr. Sanderson 1,000,000 common shares of its common stock. The shares were issued in consideration for the exclusive worldwide license agreement with Dr. Sanderson and Nanostrips, Inc., a company controlled by Dr. Sanderson. The shares were valued at $590,000 (Note 8).

viii. On May 24, 2017, the Company issued 315,000 finder's shares with a value of $29,531 upon the Company achieving the second and the third Milestones as contemplated under the terms of the Acquisition of CDS (Note 3).

C. Stock purchase option compensation plan

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

Options granted under the Plan, including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (Continued)

C. Stock purchase option compensation plan (continued)

A continuity of options for the six months ended June 30, 2017, and the year ended December 31, 2016, is as follows:

	June 30, 2017		**December 31, 2016**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning	2,930,595	$0.13	82,500	$0.94
Granted	-	n/a	3,405,595	$0.12
Exercised	(60,000)	$0.12	(500,000)	$0.12
Expired	-	n/a	(57,500)	$1.00
Options outstanding and exercisable, ending	2,870,595	$0.13	2,930,595	$0.13

The options outstanding and exercisable at June 30, 2017 are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	$ 0.80	4.13	August 15, 2021
2,845,595	$ 0.12	0.04	July 13, 2017
2,870,595	$ 0.13	0.07	

D. Share purchase warrants

The following table summarizes the continuity of share purchase warrants for the six months ended June 30, 2017 and the year ended December 31, 2016:

	June 30, 2017		**December 31, 2016**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	15,512,523	$0.16	15,704,411	$0.16
Exercised	(7,107,507)	$0.19	(9,972,891)	$0.12
Expired	(711,213)	$0.44	-	n/a
Issued	20,619,876	$0.74	9,781,003	$0.16
Warrants outstanding, ending	28,313,679	$0.58	15,512,523	$0.19

The warrants outstanding and exercisable at June 30, 2017 are as follows:

Number of Warrants outstanding	Exercise Price	Weighted Average Remaining Life	Expiration Date
2,091,800	$0.15	0.45	December 11, 2017
1,000,000	$0.20	0.86	May 9, 2018
100,000	$0.12	0.86	May 9, 2018
655,225	$0.10	1.02	July 6, 2018
1,284,000	$0.18	0.15	August 25, 2017
2,562,778	$0.18	0.19	September 9, 2017
17,551,876	$0.75	0.92	May 31, 2018
994,910(1)	$0.50	0.92	May 31, 2018
2,019,540	$0.75	0.99	June 27, 2018
53,550(1)	$0.50	0.99	June 27, 2018
28,313,679		0.79	

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (Continued)

D. Share purchase warrants (Continued)

(1) The warrants are exercisable into one common share of the Company, and one common share purchase warrant, with the common share purchase warrant being exercisable into one common share of the Company at $0.75 for a period of 1 year from the exercise of the agent warrant.

E. Escrow shares

As at June 30, 2017, the Company had 8,196,000 common shares held in escrow (December 31, 2016 – 6,300,000), of which 2,100,000 were to be release as outlined in Note 3; 6,000,000 were to be released as outlined in Note 4; and 96,000 were to be released per additional escrow covenants with Brad Eckenweiler, in accordance with the policies of the CSE, which contemplate a time release for escrowed shares issued to insiders of a reporting issuer.

10. NON-CONTROLLING INTERESTS

The non-controlling interests as at June 30, 2017, consisted of the following:

LDS Scientific (25%)	$ (25,577)
LDS Agrotech (25%)	6,747
	$ (18,830)

The following are the summarized statements of financial position of LDS Scientific and LDS Agrotech as at June 30, 2017:

	LDS Scientific	**LDS Agrotech**
Current:		
Assets	$ 4,461	$ 387,528
Liabilities	(106,769)	(360,534)
Total net assets	$ (102,308)	$ 26,994

The following is the summarized comprehensive loss of LDS Scientific and LDS Agrotech for the period from acquisition to June 30, 2017:

	LDS Scientific	**LDS Agrotech**
Gross profit	$ -	$ 245,511
Operating expenses	(118,779)	(231,254)
Net income (loss)	(118,779)	14,257
Other comprehensive income (loss)	3,179	(438)
Comprehensive income (loss)	$ (115,600)	$ 13,819

On May 1, 2017, the Company entered into separate option and first right of refusal agreements with each of Mr. Fergusson, President and a 25% interest holder of LDS Agrotech, and Ms. Elrod, President and a 25% interest holder of LDS Scientific, pursuant to which LDS was granted options to purchase the remaining 25% of each of LDS Agrotech and LDS Scientific from Mr. Fergusson and Ms. Elrod, respectively (the “LDS Agrotech Option” and the “LDS Scientific Option”, respectively).

To exercise the LDS Agrotech Option and the LDS Scientific Option, the Company is required to:

(a) issue to Mr. Fergusson and Ms. Elrod 2,500,000 LDS common shares, respectively; and
(b) make the following cash payments to Mr. Fergusson and Ms. Elrod:
    (i) US$500,000 in cash each, if the options are exercised on or before July 31, 2017 (which was extended to October 31, 2017, per amended agreements with Mr. Fergusson and Ms. Elrod) or

10. NON-CONTROLLING INTERESTS (Continued)

(ii) US$1,000,000 in cash each, if the options are exercised after October 31, 2017, but on or before October 31, 2018, as amended.

(the "Option Price").

The LDS Agrotech Option and the LDS Scientific Option, as amended, may be exercised in whole or in part, with the Option Price being allocated pro rata to the number of shares being purchased. Upon exercise of the LDS Agrotech Option and the LDS Scientific Option, in whole or in part, LDS will have the immediate right to vote and receive distributions on the LDS Agrotech and LDS Scientific shares acquired, with the Option Price being payable in five annual installments from the date of exercise. The LDS Agrotech Option and the LDS Scientific Option, as amended, expire on October 31, 2018, after which LDS will have a right of first refusal over any proposed sale of the 25% interest in LDS Agrotech held by Mr. Fergusson, or in LDS Scientific held by Ms. Elrod, expiring October 31, 2021.

11. SUBSEQUENT EVENTS

Subsequent to the six-month period ended June 30, 2017, the Company issued a total of 2,033,667 shares of the Company's common stock on exercise of warrants for proceeds of $366,060.

Subsequent to June 30, 2017, the Company issued a total of 2,845,595 shares of the Company's common stock on exercise of options for total cash proceeds of $341,471. The options were granted to the senior officers and directors of the Company and were expiring on July 13, 2017.

On July 27, 2017, the Company granted options to purchase up to 8,311,000 common shares to its executive officers, directors, and a consultant. The options granted may be exercised at a price of $0.50 per share and expire on July 27, 2019. Options to acquire up to 7,311,111 common shares vested immediately, and options to acquire up to 1,000,000 common shares issued to a consultant for investor relations services vest over a 12-month period beginning on October 27, 2017, at 250,000 shares per quarter.

Subsequent to the six-month period ended June 30, 2017, pursuant to its agreements with CSPA and NHMC (Note 4), the Company paid approximately $754,679 (US$596,302) in renovations and improvement costs. In addition, the Company paid approximately $122,050 (US$96,435) for production equipment.

Subsequent to the six-month period ended June 30, 2017, the Company made the following land acquisition payments:

- On July 21, 2017, the Company closed on a 4.25-acre land parcel paying an additional $80,654 (US$64,716) for total cash acquisition cost of the land parcel of $83,890 (US$74,726).
- On August 23, 2017, the Company closed on a 4-acre land parcel paying an additional $123,633 (US$98,496) for total cash acquisition cost of the land parcel of $127,102 (US$108,496).
- On August 24, 2017, the Company closed on a 6.5-acre land parcel paying an additional $967,327 (US$770,656) for total cash acquisition cost of the land parcel of $1,035,177 (US$820,655).

The above properties were registered into LDS Development Corporation, the Company's wholly owned subsidiary incorporated on July 20, 2017.

In July 2017, the Company entered into a consulting agreement (the "Consulting Agreement") with Skanderbeg Capital Advisors Inc. ("Skanderbeg") for capital markets advisory and investor relations services. The Consulting Agreement is for a 12-month period beginning on July 1, 2017, and may be renewed on a month-to-month basis thereafter. The Company agreed to pay Skanderbeg $181,000, payable in advance for the initial period of 12 months, and to grant Skanderbeg options to acquire up to 532,900 shares of the Company's common stock at $0.75 per share expiring on

(Expressed in Canadian Dollars)

11. SUBSEQUENT EVENTS (Continued)

January 27, 2019. Pursuant to the Company's stock option plan, the options vest over a 12-month period beginning on October 27, 2017, at 133,225 shares per quarter.

Subsequent to June 30, 2017, pursuant to its planned business expansion strategy the Company incorporated the following wholly-owned subsidiaries:

Incorporation Date	**State of Incorporation**	**Name**	**Function**
July 7, 2017	California	Adelanto Agricultural Advisors Inc.	Cultivation and biomass extraction
July 19, 2017	California	Lifestyle Capital Corporation	Financing
July 20, 2017	California	LDS Development Corporation	Real Estate Holdings