



**LIFESTYLE DELIVERY SYSTEMS INC.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**(Expressed in Canadian Dollars)**

**JUNE 30, 2017**



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 statement of financial position of Lifestyle Delivery Systems Inc. as at June 30, 2017, and a summary of significant accounting policies and other explanatory information (together "the consolidated financial statement").

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

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

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statement based on our audit. We conducted our audit 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statement, 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 statement 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 statement.

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

### Opinion

In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of Lifestyle Delivery System Inc. as at June 30, 2017, in accordance with International Financial Reporting Standards.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
September 27, 2017

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

**June 30, 2017**

**ASSETS**

Current assets		
Cash and cash equivalents	\$	6,119,492
GST receivable		38,651
Prepays and deposits (Notes 5,6)		833,169
Total current assets		6,991,312
CUP (Note 4)		259,540
Property, plant and equipment (Note 5)		3,156,624
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>10,407,476</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities		
Accounts payable	\$	153,875
Accrued liabilities		80,694
Amounts due to related parties (Note 7)		205,681
Advances payable		35,538
Related party loans payable (Note 7)		88,998
Total liabilities		564,786
Stockholders' equity		
Share capital (Note 8)		17,087,470
Obligation to issue shares (Notes 3,8)		4,063
Reserves		488,365
Deficit		(7,621,291)
Accumulated other comprehensive loss		(97,087)
Attributable to shareholders of the parent		9,861,520
Non-controlling interests		(18,830)
Total shareholders' equity		9,842,690
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$</b>	<b>10,407,476</b>

Subsequent events (Note 10)

/s/ Brad Eckenweiler  
Brad Eckenweiler, Director

/s/ James Pakulis  
James Pakulis, Director

The accompanying notes are an integral part of this consolidated statement of financial position.

## **LIFESTYLE DELIVERY SYSTEMS INC.**

### **Notes to the Consolidated Statement of Financial Position**

(Expressed in Canadian Dollars)

As at June 30, 2017

---

#### **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 patent-pending technology. 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 (“CSE”) under the trading symbol “LDS”, on OTCQB under the trading symbol “LDSYF”, and on the Frankfurt Exchange under the symbol “LD6, WKN: A14XHT”.

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

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

On January 23, 2017, the Company incorporated a subsidiary, LDS Scientific Inc. (“LDS Scientific”), under the laws of the state of Nevada. 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.

The consolidated statement of financial position includes the accounts of the Company and its subsidiaries as follows:

	<u>Country of Incorporation</u>	<u>% of Interest</u>
Canna Delivery Systems Inc.	USA	100%
LDS Agrotech	USA	75%
LDS Scientific	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.

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

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

#### **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, LDS Agrotech and LDS Scientific, together referred as the “US Subsidiaries”, whose functional currency is the United States dollar, are 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 the US Subsidiaries 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 US Subsidiaries are 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 CUP, equipment and production facility and intangibles, fair value measurements for financial instruments, the probability of reaching certain financial milestones for the acquisition of CDS and recoverability and measurement of deferred tax assets.

### **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 the preparation of the consolidated statement of financial position were:

- Evaluating whether or not costs incurred by the Company meet the criteria for capitalizing as intangible assets.
- 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.

### **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.

At June 30, 2017, the cash and cash equivalents were comprised of \$1,107,992 in cash and \$5,011,500 held in Guaranteed Investment Certificates (“GIC”) at floating interest rates with reference to the market.

### **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 on 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.

*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, 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.

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.

### **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.

### **Property, plant and equipment**

Property, plant and equipment 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 at June 30, 2017.

### **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.

#### 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.

### **3. ACQUISITION**

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”).

On the Closing Date the Shares were placed in escrow to be released upon the Company achieving certain milestones (the “Milestones”) as follows:

<b>Milestone</b>	<b>Number of Shares to be released</b>
USD \$50,000 in cumulative gross revenues	1,500,000 (Released)
USD \$200,000 in cumulative gross revenues	2,100,000 (Released)
USD \$600,000 in cumulative gross revenues	2,100,000 (Released)
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 released 4,200,000 shares from escrow. 96,000 of these shares, which are to be released to the CEO of the Company, continue to be escrowed in accordance with the policies of the CSE.



The Company is to issue 648,333 shares with a 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 (Issued)
USD \$200,000 in cumulative gross revenues	157,500 (Issued)
USD \$600,000 in cumulative gross revenues	157,500 (Issued)
USD \$1,000,000 in cumulative gross revenues	108,333

On May 24, 2017, the Company released 315,000 finders' shares.

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.

#### **4. CUP**

##### **Agreement for Medical Marijuana Cultivation, Extraction and Manufacturing Operations**

As at June 30, 2017, the Company paid \$259,540 (US\$200,000) for the conditional use permits ("CUP") held by CSPA and NHMC.

On May 1, 2017, the Company entered into separate management agreements with CSPA Group Inc. ("CSPA") and NHMC, Inc. ("NHMC"), related non-profit mutual benefit corporations having the same sole members. These agreements superseded a memorandum of understanding for a joint venture the Company signed with CSPA on October 6, 2016.

The Company, through LDS Agrotech and 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.

LDS Agrotech and LDS Scientific will receive management fees equal to 75% of revenues over operating expenses.

##### **Acquisition of membership interests**

On May 1, 2017, the Company entered into agreements to purchase the outstanding membership interests of each of NHMC and CSPA (the "Membership Agreements") 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 cash in 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 of the Escrowed Shares and cash for NHMC will be paid upon the grant of the COO for the cultivation wing of the Adelanto Facility, and one-third 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's. LDS has the right to accelerate payment of the purchase price for NHMC and CSPA earlier than scheduled.

CSPA received its COO on September 18, 2017. As of the date of the filing of this consolidated statement of financial position, the Company has not released the escrowed shares and has not made the cash payment.

#### **5. PROPERTY, PLANT AND EQUIPMENT**

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 facility.

	<b>Property</b>	<b>Equipment</b>	<b>Plant</b>	<b>Total</b>
<b><u>Cost</u></b>				
Balance at December 31, 2016	\$ -	\$ 102,217	\$ 236,260	\$ 338,477
Additions	663,220	826,973	1,394,597	2,884,790
Foreign exchange – June 30, 2017	-	(15,596)	(46,172)	(61,768)
Balance at June 30, 2017	663,220	913,594	1,584,685	3,161,499
<b><u>Accumulated Amortization</u></b>				
Balance at December 31, 2016	-	1,784	-	1,784
Amortization	-	3,091	-	3,091
Balance at June 30, 2017	-	4,875	-	4,875
<b><u>Net Book Value</u></b>				
At December 31, 2016	-	100,433	236,260	336,693
At June 30, 2017	\$ 663,220	\$ 908,719	\$ 1,584,685	\$ 3,156,624

As of June 30, 2017, the Company paid additional \$91,599 (US\$70,010) in deposits on three other land parcels. 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 10).

## 6. PREPAIDS

In February 2017, the Company entered into agreements for marketing services. The Company paid US\$400,000, of which \$445,484 (US\$337,500) is included in prepaids.

On June 26, 2017, the Company paid \$132,680 (US\$100,000) for business advisory and consulting services which is included in prepaids. On June 3, 2017, the Company entered into an agreement for \$20,000 for consulting services. As of June 30, 2017, \$16,667 is included in prepaids.

## 7. RELATED PARTY TRANSACTIONS

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, on May 23, 2017, the Company issued Dr. Sanderson 1,000,000 common shares valued at \$590,000, which were recorded as part of the research and development costs on the statement of operations. 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:

	<b>June 30, 2017</b>
Brad Eckenweiler	\$ 161,004
Jim Pakulis	29,008
Yanika Silina	15,669
Total payable to related parties <sup>(1)</sup>	\$ 205,681

<sup>(1)</sup> 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. At May 31, 2017, Mr. Eckenweiler chose to convert \$200,000 of the amount owed to him into 400,000 units as part of the May financing.

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.

## 8. SHARE CAPITAL

### Common Shares

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

### Issued share capital

As at June 30, 2017, the Company had 85,358,546 shares issued and outstanding of which 8,196,000 remained in escrow.

### Stock purchase option 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.

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	

### Warrants

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 <sup>(1)</sup>	\$0.50	0.92	May 31, 2018
2,019,540	\$0.75	0.99	June 27, 2018
53,550 <sup>(1)</sup>	\$0.50	0.99	June 27, 2018
28,313,679		0.79	

- (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.

### 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.

## 9. 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
	<u>\$ (18,830)</u>

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”).

To exercise the LDS Agrotech Option and the LDS Scientific Option, the Company is required to issue 2,500,000 common shares and make the following cash payments: US\$1,000,000, if the options are exercised on or before October 31, 2017, or \$2,000,000 in cash each, if the options are exercised after October 31, 2017, but on or before October 31, 2018, (the “Option Price”).

The LDS Agrotech Option and the LDS Scientific Option, 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.

## 10. SUBSEQUENT EVENTS

Subsequent to June 30, 2017, the Company issued a total of 3,846,778 shares on exercise of warrants for proceeds of \$692,420.

Subsequent to June 30, 2017, the Company issued a total of 2,845,595 shares on exercise of options for proceeds of \$341,471.

On July 27, 2017, the Company granted 8,311,000 options to its executive officers, directors, and a consultant. The exercise price is \$0.50 and expire on July 27, 2019.

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 parcel of land by paying \$80,654 (US\$64,716) for total cash acquisition cost of \$93,900 (US\$74,726).
- On August 23, 2017, the Company closed on a 4-acre land parcel of land by paying \$123,633 (US\$98,496.32) for total cash acquisition cost of \$137,102 (US\$108,496).
- On August 24, 2017, the Company closed on a parcel of land by paying an additional \$967,327 (US\$770,656) for total cash acquisition cost of the land parcel of \$1,035,177 (US\$820,655).

In addition to the above acquisitions, the Company executed a purchase agreement and deposited \$96,018 (US\$75,000) in escrow to acquire an additional land parcel in Adelanto. The purchase price of the property is US\$1,249,000 and the Company expects to close on this acquisition on or before October 15th, 2017.

In July 2017, the Company entered into a one year consulting agreement for capital markets advisory and investor relations services for \$181,000 and 532,900 options at \$0.75 expiring on January 27, 2019.