LIFESTYLE DELIVERY SYSTEMS INC.

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

UNAUDITED – PREPARED BY MANAGEMENT

(Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2017 & 2016

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

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

	September 30, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,775,875	$ 440,352
GST receivable	51,600	19,483
Advances and loans receivable	12,480	90,632
Prepaids and deposits (Note 6)	834,160	28,291
Total current assets	2,674,115	578,758
CUP (Note 4)	249,600	268,540
Property, plant and equipment (Note 6)	6,847,009	336,693
Deposits on equipment (Note 6)	-	485,655
Membership (Note 5)	1,747,575	-
TOTAL ASSETS	$ 11,518,299	$ 1,669,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 265,961	$ 126,958
Accrued liabilities	65,612	46,129
Amounts due to related parties (Note 8)	83,994	70,582
Advances payable	9,236	9,899
Total liabilities	424,803	253,568
Stockholders' equity		
Share capital (Note 9)	19,844,971	6,220,229
Obligation to issue shares (Notes 3,9)	4,063	460,599
Reserves	3,156,394	282,882
Deficit	(11,607,448)	(5,543,027)
Accumulated other comprehensive loss	(235,713)	(4,605)
Attributable to shareholders of the parent	11,162,267	1,416,078
Non-controlling interests	(68,771)	-
Total shareholders' equity	11,093,496	1,416,078
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 11,518,299	$ 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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenue	$ -	$ -	$ 819,260	$ 23,052
Cost of goods sold	-	-	(573,749)	-
Gross profit	-	-	245,511	23,052
Expenses				
Accounting fees	26,000	22,500	89,700	98,060
Advertising and promotion	215,635	74,677	368,478	74,677
Amortization (Note 6)	1,746	46,445	4,837	139,762
Consulting fees (Note 8)	213,274	180,948	666,057	449,343
Finance fees	-	27,910	-	27,910
IT infrastructure	75,555	-	185,635	-
Legal fees	143,899	6,631	345,067	38,312
Meals and travel expenses	58,743	26,343	204,489	42,912
Office and general	215,642	92,727	462,151	293,614
Regulatory fees	83,842	8,605	129,854	27,880
Research and development (Note 8)	220,715	34,305	1,105,850	52,243
Share-based compensation (Notes 8, 9)	2,751,336	195,807	2,751,336	195,807
Operating expenses	4,006,387	716,898	6,313,454	1,440,520
Foreign exchange loss	(34,490)	-	(76,863)	(32)
Interest expense	(414)	-	(4,087)	-
Interest income	3,745	-	6,952	-
Net loss for the period	$ (4,037,546)	$ (716,898)	$ (6,141,941)	$ (1,417,500)
Net loss attributable to:				
Shareholders of the Company	(3,986,157)	(716,898)	(6,064,421)	(1,417,500)
Non-controlling interests (Note 10)	(51,389)	-	(77,520)	-
	$ (4,037,546)	$ (716,898)	$ (6,141,941)	$ (1,417,500)
Other comprehensive income (loss)				
Foreign exchange translation	(137,178)	5,769	(228,975)	(62,548)
Total comprehensive loss for the period	$ (4,174,724)	$ (711,129)	$ (6,370,916)	$ (1,480,048)
Other comprehensive income (loss) attributable to:				
Shareholders of the Company	(138,626)	5,769	(231,108)	(62,548)
Non-controlling interests (Note 10)	1,448	-	2,133	-
	$ (137,178)	$ 5,769	$ (228,975)	$ (62,548)
Total comprehensive loss attributable to:				
Shareholders of the Company	(4,124,783)	(711,129)	(6,295,529)	(1,480,048)
Non-controlling interests (Note 10)	(49,941)	-	(75,387)	-
	$ (4,174,724)	$ (711,129)	$ (6,370,916)	$ (1,480,048)
Net loss per share - basic and diluted	$ (0.05)	$ (0.02)	$ (0.10)	$ (0.05)
Weighted average number of shares outstanding	78,557,534	31,430,378	62,659,145	28,208,859

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		Obligation				Accumulated Other	
	Number of Shares	Amount	to Issue Shares	Reserves	Deficit	Non-controlling Interests	Comprehensive 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	8,281,003	1,345,058	-	-	-	-	-	1,345,058
Share issuance costs - cash	-	(1,575)	-	-	-	-	-	(1,575)
Finder's warrants for private placement	-	(8,246)	-	8,246	-	-	-	-
Exercise of warrants	3,726,000	394,166	-	(14,566)	-	-	-	379,600
Subscription for shares	-	-	-	-	-	-	-	-
Share-based compensation	-	-	-	195,807	-	-	-	195,807
Warrants issued for debt	-	-	-	42,941	-	-	-	42,941
Foreign exchange translation	-	-	-	-	-	-	(62,548)	(62,548)
Net loss for the period ended September 30, 2016	-	-	-	-	(1,417,500)	-	-	(1,417,500)
Balance at September 30, 2016	44,557,732	5,276,666	33,594	363,032	(4,094,183)	-	(39,742)	1,539,367
Exercise of warrants	6,246,891	854,815	-	(8,461)	-	-	-	846,354
Exercise of options	500,000	88,748	-	(28,748)	-	-	-	60,000
Subscription for shares	-	-	427,005	-	-	-	-	427,005
Warrants issued for debt	-	-	-	(42,941)	-	-	-	(42,941)
Foreign exchange translation	-	-	-	-	-	-	35,137	35,137
Net loss for the period ended December 31, 2016	-	-	-	-	(1,448,844)	-	-	(1,448,844)
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	10,954,285	2,132,140	-	(14,120)	-	-	-	2,118,020
Exercise of options	2,905,595	515,731	-	(167,060)	-	-	-	348,671
Private placements	19,407,316	9,703,658	(427,005)	-	-	-	-	9,276,653
Share issuance costs - cash	-	(765,315)	-	-	-	-	-	(765,315)
Finders' units issued for private placement	164,100	82,050	-	-	-	-	-	82,050
Finders' warrants issued for private placement	-	(223,053)	-	223,053	-	-	-	-
Shares issued for membership (Note 5)	6,000,000	1,560,000	-	-	-	-	-	1,560,000
Shares issued for research and development	1,000,000	590,000	-	-	-	-	-	590,000
Shares issued for finder's fee for the acquisition of Technology	315,000	29,531	(29,531)	-	-	-	-	-
Share-based compensation	-	-	-	2,831,639	-	-	-	2,831,639
Non-controlling interests in equity	-	-	-	-	-	6,616	-	6,616
Foreign exchange translation	-	-	-	-	-	2,133	(231,108)	(228,975)
Net loss for the period ended September 30, 2017	-	-	-	-	(6,064,421)	(77,520)	-	(6,141,941)
Balance at September 30, 2017	92,050,919	$ 19,844,971	$ 4,063	$ 3,156,394	$ (11,607,448)	$ (68,771)	$ (235,713)	$ 11,093,496

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

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash flows used in operating activities		
Net loss	$ (6,141,941)	$ (1,417,500)
Non cash items		
Amortization	4,837	139,762
Foreign exchange	(11,784)	-
Interest on notes payable	4,087	1,370
Non-cash interest accretion	-	27,910
Shares issued for advertising and promotion	80,303	-
Shares issued for research and development	590,000	-
Share-based compensation	2,751,336	195,807
Changes in operating assets and liabilities		
Amounts receivable	(32,117)	3,675
Prepaids and other current assets	(791,433)	21,313
Inventory	(29,415)	(7,359)
Accounts payable and accrued liabilities	114,875	177,878
Amounts due to related parties	3,089	108,387
Unearned revenue	-	(16,535)
Net cash used in operating activities	(3,458,163)	(765,292)
Cash flows from financing activities		
Advances payable	1,971	9,851
Notes received	285,123	125,000
Issuance of common stock for private placements	9,076,653	1,343,483
Cash share issuance costs	(683,264)	-
Interest paid on convertible debt	-	(6,000)
Proceeds from warrant exercise	2,118,020	379,600
Proceeds from option exercise	261,706	-
Net cash provided by financing activities	11,060,209	1,851,934
Cash flows used in investing activities		
Advances made	77,006	-
Equipment purchased	(1,052,565)	(82,101)
Cash paid for membership	(187,575)	-
Production facility	(3,195,806)	-
Land acquisition	(2,072,746)	-
CUP	-	(264,560)
Net cash used in investing activities	(6,431,686)	(346,661)
Effects of foreign currency exchange	165,163	(16,911)
Change in cash and cash equivalents	1,335,523	723,070
Cash and cash equivalents, beginning	440,352	119,261
Cash and cash equivalents, ending	$ 1,775,875	$ 842,331
Cash and cash equivalents are comprised of:		
Cash	$ 275,875	$ 842,331
Term deposit	1,500,000	-
Total cash and cash equivalents	$ 1,775,875	$ 842,331

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

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 cannabis-infused strips ("CannaStrips™") (similar to breath strips). 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 (the "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

These financial statements were authorized for issue on November 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.

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%
Adelanto Agricultural Advisors Inc.	USA	100%
LDS Development Corporation	USA	100%
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

(Expressed in Canadian Dollars)

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

New Accounting Standards and Interpretations Issued but Not Yet Adopted (continued)

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 of Canna Delivery Systems Inc. (“CDS”), a company incorporated in the State of Nevada, in exchange for 7,800,000 shares of the Company (the “Shares”), subject to certain conditions (the “Acquisition”). After the Acquisition, CDS became a wholly-owned subsidiary of LDS.

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 (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 November 3, 2017, the eligibility period was extended until December 31, 2017.

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:

	Number of shares to be issued
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 September 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.

(Expressed in Canadian Dollars)

4. CUP

As at September 30, 2017, the Company paid $249,600 (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.

5. MEMBERSHIP

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.

On September 18, 2017, CSPA received its Certificate of Occupancy, and, as such, the Company recorded $1,560,000 associated with fair value of 3,000,000 shares issued as part of the Membership Agreement with CSPA and made a partial cash payment of $187,575 (US$150,000).

NHMC has yet to receive its Certificate of Occupancy. Due to the delays in receiving the Certificates of Occupancy by NHMC and CSPA, the Issuer and the parties involved are renegotiating the extension of the escrow agreements, which were originally set to expire on August 31, 2017. As the parties have not reached the final agreements, the shares continue to remain in escrow and no additional payments have been made.

6. PROPERTY, PLANT AND EQUIPMENT

As part of the agreements 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.

	Property	Equipment	Plant	Total
Cost				
Balance at December 31, 2016	$ -	$ 102,217	$ 236,260	$ 338,477
Additions	2,072,746	1,526,914	3,195,806	6,795,466

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Property	Equipment	Plant	Total
Foreign exchange	(63,087)	(66,372)	(150,854)	(280,313)
Balance at September 30, 2017	2,009,659	1,562,759	3,281,212	6,853,630
Accumulated Amortization				
Balance at December 31, 2016	-	1,784	-	1,784
Amortization	-	4,837	-	4,837
Balance at September 30, 2017	-	6,621	-	6,621
Net Book Value				
At December 31, 2016	-	100,433	236,260	336,693
At September 30, 2017	$ 2,009,659	$ 1,556,138	$ 3,281,212	$ 6,847,009

7. PREPAIDS

During the nine-month period ended September 30, 2017, the Company entered into a number of agreements for marketing, business advisory and consulting services. The Company paid a total of $779,644, of which $576,382 is included in prepaids.

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:

		September 30, 2017	September 30, 2016
Management consulting services	a)	$ 404,580	$ 220,913
Consulting services for research and development	b)	$ 283,337	$ -
Share-based compensation	c)	$2,751,336	$ 195,807
Shares issued for license and recorded as part of research and development fees	d)	$ 590,000	$ -

a) Management consulting services consist of the following:

- $293,108 (2016 – $152,387) 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 extend 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.

- $58,622 (2016 – $59,526) 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.

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (CONTINUED)

- $52,850 (2016 - $9,000) 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:

- $149,159 (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.

- $114,638 (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.

- $19,540 (2016 – $Nil) in consulting fees paid or accrued to Dr. Sanderson, Chief Science Officer (the "CSO") of the Company. On July 1, 2017, the Company and Dr. Sanderson entered into a consulting agreement for US$5,000 per month extending for a term of three years expiring on June 30, 2020, with automatic renewals for successive one year periods thereafter.

c) On July 27, 2017, the Company granted options to purchase up to 7,311,000 common shares to its executive officers and directors. The options were valued at $2,751,336 and may be exercised at a price of $0.50 per share expiring on July 27, 2019 (Note 9).

d) Shares issued for license:

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.

Related Party Payables at September 30, 2017, consisted of the following:

	September 30, 2017	December 31, 2016
Brad Eckenweiler	$ 77,847	$ 58,247
Dr. Sanderson	6,147	-
James Pakulis	-	3,335
Yanika Silina	-	9,000
Total payable to related parties	$ 83,994	$ 70,582

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (CONTINUED)

Related party loans payable

During the nine-month period ended September 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 in a non-brokered transaction as part of the May Financing (Note 9), and remaining $86,964 (US$68,245) in outstanding principal and $658 (US$838) in accrued interest to exercise his option to acquire up to 1,450,000 shares of the Company's common stock at $0.12 per share as to a portion of those shares.

9. CAPITAL AND RESERVES

Common Shares

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

Issued Share Capital

As at September 30, 2017, the Company had 92,050,919 shares issued and outstanding of which 8,196,000 remain in escrow.

During the nine months ended September 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%

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (CONTINUED)

Issued Share Capital (continued)

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.

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 nine months ended September 30, 2017, the Company issued a total of 10,464,501 shares of its common stock upon exercise of warrants for total proceeds of $2,037,617.

iv. During the nine months ended September 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 nine months ended September 30, 2017, the Company issued a total of 2,905,595 shares of its common stock upon exercise of options granted to senior officers and directors of the Company, for total proceeds of $348,671. These options had an initial fair value of $167,060 (Note 8).

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

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (CONTINUED)

Issued Share Capital (continued)

two years after the granting of the respective COO. On September 18, 2017, the Company recorded $1,560,000 associated with fair market value of 3,000,000 shares issued to CSPA (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).

Stock Options

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

On July 27, 2017, the Company granted 7,311,000 options to its executive officers and directors. The options are exercisable for a two-year period expiring on July 27, 2019 at $0.50 per share. The Company recorded $2,751,336 as share-based compensation associated with these options, which was determined using the Black-Scholes Option pricing model using the following assumptions:

Expected Warrant Life	2 years
Average Risk-Free Interest Rate	1.3%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	176%

On July 27, 2017, the Company granted 1,000,000 options to its consultant. The options are exercisable for a two-year period expiring on July 27, 2019 at $0.50 per share and vest over a 12-month period beginning on October 27, 2017, at 250,000 shares per quarter. The Company recorded $64,642 associated with these options as part of advertising and promotion expenses. The Value was determined using the Black-Scholes Option pricing model using the following assumptions:

Expected Warrant Life	2 years
Average Risk-Free Interest Rate	1.5%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	90.4% - 111%

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. 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. The Company recorded $15,661 associated with these options as part of advertising and promotion expenses. The value was determined using the Black-Scholes Option pricing model using the following assumptions:

Expected Warrant Life	1.5 years
Average Risk-Free Interest Rate	1.5%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	82% - 106%

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (CONTINUED)

Stock Options (continued)

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

	September 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	8,843,900	$0.52	3,405,595	$0.12
Exercised	(2,905,595)	$0.12	(500,000)	$0.12
Expired	-	n/a	(57,500)	$1.00
Options outstanding, ending	8,868,900	$0.52	2,930,595	$0.13
Options exercisable, ending	7,336,000	$0.50	2,930,595	$0.13

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

Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	25,000	$ 0.80	3.88	August 15, 2021
8,311,000	7,311,000	$ 0.50	1.82	July 27, 2019
532,900	-	$ 0.75	1.33	January 27, 2019
8,868,900	7,336,000	$ 0.52	3.72	

Share Purchase Warrants

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

	September 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	$0.19	15,704,411	$0.16
Exercised	(10,954,285)	$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	24,466,901	$0.65	15,512,523	$0.19

(Expressed in Canadian Dollars)

9. CAPITAL AND RESERVES (CONTINUED)

Share Purchase Warrants (continued)

The warrants outstanding and exercisable at September 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
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
24,466,901		0.63	

(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 September 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 September 30, 2017, consisted of the following:

LDS Scientific (25%)	$ (43,111)
LDS Agrotech (25%)	(25,660)
	$ (68,771)

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

	LDS Scientific	LDS Agrotech
Current:		
Assets	$ 345,133	$ 1,235,692
Liabilities	(517,577)	(1,338,329)
Total net assets	$ (172,444)	$ (102,637)

(Expressed in Canadian Dollars)

10. NON-CONTROLLING INTERESTS (CONTINUED)

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

	LDS Scientific	LDS Agrotech
Gross profit	$ -	$ 245,511
Operating expenses	(195,187)	(360,402)
Net loss	(195,187)	(114,891)
Other comprehensive loss	9,452	(920)
Comprehensive loss	$ (185,735)	$ (115,811)

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 Options").

To exercise the LDS Options, 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 LDS Options are exercised on or before July 31, 2017 (which were subsequently extended to January 31, 2018, per amended agreements with Mr. Fergusson and Ms. Elrod) or
  (ii) US$1,000,000 in cash each, if the LDS Options are exercised after January 31, 2018, but on or before January 31, 2019, as amended.
  (the "Option Price").

The LDS Options, as amended on July 31, 2017 and on August 31, 2017, 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 Options, 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 Options, as amended, expire on January 31, 2019, 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. First rights of refusal expire January 31, 2022.

11. SUBSEQUENT EVENTS

Subsequent to the nine-month period ended September 30, 2017, the Company issued 24,000 shares of the Company's common stock on exercise of broker warrants for proceeds of $3,600.

Subsequent to the nine-month period ended September 30, 2017, the Company issued 235,200 shares and a warrant to acquire up to 235,200 common shares of the Company at $0.75 per share expiring on November 22, 2018, on exercise of broker units for proceeds of $117,600.

Subsequent to the nine-month period ended September 30, 2017, pursuant to its agreements with CSPA and NHMC (Note 4), the Company paid approximately $637,250 (US$503,000) in renovations and improvement costs of the Adelanto Facility. In addition, the Company paid approximately $378,800 (US$299,000) for production equipment.

Subsequent to the nine-month period ended September 30, 2017, the Company paid $395,000 (US$312,000) to acquire raw fresh frozen whole plant material for the purpose of conversion into medicinal cannabis products.

11. SUBSEQUENT EVENTS (CONTINUED)

On November 13, 2017, the Company arranged a US$500,000 secured credit facility (the "Credit Facility") with an unrelated third party creditor. Outstanding principal under the Credit Facility accrues interest at a rate of 3% per month, compounded monthly and payable on maturity on May 16, 2018. The Credit Facility is secured by a general security agreement covering all of the Company's personal property, and first deeds of trust on three parcels of unimproved real property totaling 20.5 acres owned by the Company in the City of Adelanto, San Bernardino County, California.