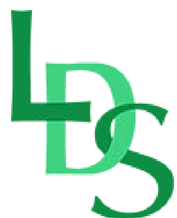

LIFESTYLE DELIVERY SYSTEMS INC.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

December 31, 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 financial statements of Lifestyle Delivery Systems Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in stockholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lifestyle Delivery Systems Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 30, 2018

LIFESTYLE DELIVERY SYSTEMS INC.

(Expressed in Canadian Dollars)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,754,308	$ 440,352
Amounts receivable	77,712	19,483
Advances receivable	-	90,632
Prepaids and other current assets (Note 6)	231,168	28,291
Total current assets	3,063,188	578,758
License	-	268,540
Property, plant and equipment (Note 5)	10,067,238	336,693
Deposits on equipment	-	485,655
TOTAL ASSETS	$ 13,130,426	$ 1,669,646
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,103,419	$ 126,958
Accrued liabilities	103,915	46,129
Amounts due to related parties (Note 8)	143,099	70,582
Advances payable	9,282	9,899
Notes payable (Note 10)	655,446	-
Unearned revenue (Note 7)	227,289	-
Total liabilities	2,242,450	253,568
Stockholders' equity		
Share capital (Note 9)	23,990,089	6,220,229
Obligation to issue shares (Notes 4,9 and 14)	2,024,063	460,599
Reserves (Note 9)	3,698,443	282,882
Deficit	(18,139,295)	(5,543,027)
Accumulated other comprehensive loss	(146,817)	(4,605)
Total parent shareholders' equity	11,426,483	1,416,078
Non-controlling interests (Note 12)	(538,507)	-
Total shareholders' equity	10,887,976	1,416,078
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 13,130,426	$ 1,669,646

Nature and continuance of operations (Note 1)

Subsequent events (Note 14)

"Brad Eckenweiler"
Brad Eckenweiler, Director

"James Pakulis"
James Pakulis, Director

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

LIFESTYLE DELIVERY SYSTEMS INC.

(Expressed in Canadian Dollars)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31, 2017	2016
Revenue	$ 191,126	$ 56,086
Expenses		
Accounting fees	159,700	155,560
Advertising and promotion	1,775,860	112,870
Amortization (Note 5)	6,921	187,564
Consulting fees (Note 8)	957,340	648,123
IT infrastructure	262,967	49,710
Finance fees (accretion)	19,724	-
Legal fees	548,461	50,699
Meals and travel expenses	296,187	71,857
Office and general	850,064	365,914
Regulatory fees	162,606	93,466
Research and development (Note 8)	2,710,620	65,079
Share-based compensation (Notes 4,8, and 9)	5,430,805	195,807
Operating expenses	13,181,255	1,996,649
Foreign exchange loss	(89,093)	(19,534)
Gain on settlement of debt	-	116,307
Interest expense (Notes 10)	(32,652)	-
Interest income	12,647	-
Impairment of equipment (Note 5)	-	(388,833)
Impairment of inventory	-	(14,784)
Impairment of technology	-	(618,937)
Loss on investment (Note 5)	(64,930)	-
Net loss for the year	$ (13,164,157)	$ (2,866,344)
Net loss attributable to:		
Shareholders of the Company	(12,596,268)	(2,866,344)
Non-controlling interests (Note 12)	(567,889)	-
	$ (13,164,157)	$ (2,866,344)
Other comprehensive loss		
Foreign exchange translation	(119,446)	(27,411)
Total comprehensive loss for the period	$ (13,283,603)	$ (2,893,755)
Other comprehensive income (loss) attributed to:		
Shareholders of the Company	(142,212)	(27,411)
Non-controlling interests (Note 12)	22,766	-
	$ (119,446)	$ (27,411)
Total comprehensive loss attributable to:		
Shareholders of the Company	(12,738,480)	(2,893,755)
Non-controlling interests (Note 12)	(545,123)	-
	$ (13,283,603)	$ (2,893,755)
Net loss per share - basic and diluted	$ (0.19)	$ (0.09)
Weighted average number of shares outstanding	69,007,717	31,579,021

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

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

	Common shares						Accumulated Other Comprehensive	
	Number of Shares	Amount	Obligation to Issue Shares	Reserves	Deficit	Non-controlling Interests	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	8,281,003	1,345,058	-	-	-	-	-	1,345,058
Share issuance costs - cash	-	(1,575)	-	-	-	-	-	(1,575)
Finder's warrants for private placement	-	(8,246)	-	8,246	-	-	-	-
Exercise of warrants	9,972,891	1,248,981	-	(23,027)	-	-	-	1,225,954
Exercise of options	500,000	88,748	-	(28,748)	-	-	-	60,000
Share-based compensation	-	-	-	195,807	-	-	-	195,807
Subscription for shares	-	-	427,005	-	-	-	-	427,005
Foreign exchange translation	-	-	-	-	-	-	(27,411)	(27,411)
Net loss for the year	-	-	-	-	(2,866,344)	-	-	(2,866,344)
Balance at December 31, 2016	51,304,623	6,220,229	460,599	282,882	(5,543,027)	-	(4,605)	1,416,078
Private placements	19,407,316	9,703,658	(427,005)	-	-	-	-	9,276,653
Exercise of warrants	14,576,285	3,584,085	-	(63,445)	-	-	-	3,520,640
Exercise of options	2,905,595	515,731	-	(167,060)	-	-	-	348,671
Share issuance costs - cash and shares	164,100	(673,640)	-	-	-	-	-	(673,640)
Finder's warrants for private placement	-	(218,974)	-	218,974	-	-	-	-
Shares released from escrow for Technology	-	2,520,000	-	-	-	-	-	2,520,000
Shares issued for membership	6,000,000	1,560,000	-	-	-	-	-	1,560,000
Shares issued for patent	1,000,000	590,000	-	-	-	-	-	590,000
Shares issued for finder's fee for the acquisition of Technology	315,000	189,000	(29,531)	-	-	-	-	159,469
Share-based compensation	-	-	-	3,427,092	-	-	-	3,427,092
Subscription for shares	-	-	2,020,000	-	-	-	-	2,020,000
Non-controlling interests in equity	-	-	-	-	-	6,616	-	6,616
Foreign exchange translation	-	-	-	-	-	22,766	(142,212)	(119,446)
Net loss for the year	-	-	-	-	(12,596,268)	(567,889)	-	(13,164,157)
Balance at December 31, 2017	95,672,919	$ 23,990,089	$ 2,024,063	$ 3,698,443	$ (18,139,295)	$ (538,507)	$ (146,817)	$ 10,887,976

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

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

	Year Ended December 31, 2017	2016
Cash flows used in operating activities		
Net loss	$ (13,164,157)	$ (2,866,344)
Non cash items		
Amortization	6,921	187,564
Foreign exchange	17,895	6,581
Gain on settlement of debt	-	(116,307)
Impairment of equipment	-	388,833
Impairment of inventory	-	14,784
Impairment of technology	-	618,937
Interest on notes payable	32,652	8,640
Loss on investment	64,930	-
Non-cash interest accretion	17,436	-
Options issued for advertising and promotion	675,756	-
Shares issued for research and development	590,000	-
Share-based compensation	5,430,805	195,807
Changes in operating assets and liabilities		
Amounts receivable	(58,229)	(228)
Prepaids and other current assets	(207,279)	(1,055)
Inventory	(338,069)	(6,394)
Accounts payable and accrued liabilities	1,392,225	64,895
Amounts due to related parties	100,743	61,218
Unearned revenue	233,035	(49,710)
Net cash used in operating activities	(5,205,336)	(1,492,779)
Cash flows from financing activities		
Advances payable	-	9,851
Notes received	922,373	109,340
Repayment of notes	-	(125,000)
Interest paid on convertible debt	-	(2,640)
Issuance of common stock for private placements	8,830,018	1,345,058
Share issuance costs	-	(1,575)
Proceeds from warrant exercise	3,520,640	1,225,954
Proceeds from option exercise	261,706	-
Subscription to shares	1,592,995	427,005
Net cash provided by financing activities	15,127,732	2,987,993
Cash flows used in investing activities		
Advances made	87,656	(90,033)
Equipment purchased	(1,580,154)	(578,990)
Investment in license	(187,575)	(259,988)
Production facility	(4,020,749)	(229,405)
Land acquisition	(2,025,418)	-
Net cash used in investing activities	(7,726,240)	(1,158,416)
Effects of foreign currency exchange	117,800	(15,707)
Change in cash and cash equivalents	2,313,956	321,091
Cash and cash equivalents, beginning	440,352	119,261
Cash and cash equivalents, ending	$ 2,754,308	$ 440,352
Cash and cash equivalents are comprised off:		
Cash	$ 2,742,808	$ 440,352
Term deposit	11,500	-
Total cash and cash equivalents	$ 2,754,308	$ 440,352
Non-cash investing and financing activites:	$ -	$ -
Shares issued to settle related party loan	$ 200,000	$ -
Options exerised to settle related party loan	$ 86,964	$ -

The accompanying notes are an integral part of 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 is a licensed, state-compliant vertically integrated cannabis-related company. The Company's main business activities encompass the complete cannabis production cycle that starts with isogenic pollination nursery to its cutting edge, state-of-the-art production facility located in Southern California, which uses innovation and science as the backbone to its operations.

The Company's technology produces infused strips (similar to breath strips) 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. From start to finish, the production process tests for quality and composition of all the ingredients used in each and every strip, resulting in a delivery system that is safe, consistent and effective.

The Company's head office is located at 1130 West Pender Street, Suite 820, Vancouver, British Columbia, V6E 4A4, Canada. The Company's shares trade on the Canadian Securities Exchange under the trading symbol "LDS", on OTCQX under the trading symbol "LDSYF", and on the Borse Frankfurt Exchange under the symbol "LD6, WKN: A14XHT".

On May 1, 2015, the Company acquired all of the issued and outstanding shares in the capital of Canna Delivery Systems Inc. ("CDS"), a company incorporated under the State of Nevada, and changed its name to "Lifestyle Delivery Systems Inc." under the British Columbia Business Corporations Act (the "Acquisition"). Upon acquisition, CDS became a wholly-owned subsidiary of LDS (Note 4).

As of the date of these consolidated financial statements, the Company's structure is represented by Lifestyle Delivery Systems Inc., parent company incorporated pursuant to the provision of the Business Corporations Act (British Columbia), and the following subsidiaries:

Name	Incorporation	Incorporation/ Acquisition Date	Interest	Function
Canna Delivery Systems Inc.	USA	May 1, 2015	100%	Holding company
LDS Agrotech Inc.	USA	January 24, 2017	75%	Consulting services
LDS Scientific Inc.	USA	January 23, 2017	75%	Extraction and manufacturing
Adelanto Agricultural Advisors Inc.	USA	July 7, 2017	100%	Cultivation and biomass extraction
LDS Development Corporation	USA	July 20, 2017	100%	Real estate holdings
Lifestyle Capital Corporation	USA	July 19, 2017	100%	Financing
Optimus Prime Design Corp.	Canada	February 21, 2014	100%	Holding company
0994540 B.C. Ltd.	Canada	February 21, 2014	95%	Dormant entity

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

These financial statements were authorized for issue on April 30, 2018, by the Directors of the Company.

Statement of Compliance and Basis of Presentation

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

These consolidated financial statements include the accounts of the Company and its subsidiaries, as listed in Note 1. All intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

Basis of Measurement and Use of Estimates

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

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 the Company's US-based 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 US-based subsidiaries are recognized in other comprehensive income. These differences will be recognized in the profit or loss if and when the US-based 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.

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

Significant estimates and assumptions (Continued)

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

Significant judgements

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

- 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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, unearned revenue, advances payable and amounts due to related parties, all of which are recognized initially at fair value and subsequently at amortized cost.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

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

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

Financing costs

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

Revenue recognition

Revenue consists of sales of packaging supplies, management fees associated with operations of the non-profit entities that are managed by the Company's US-based subsidiaries, and licensing revenue. Sales of packing supplies are recognized when the Company has transferred ownership to the customer. Management revenues are recognized when services have been provided, the income is determinable and collectability is reasonably assured. Licensing revenue is recognized pro rata over the license term.

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

Inventory

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

Share-based payments

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

Loss per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss. Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. No amortization is recorded where an asset is in development and not yet ready for its intended use.

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

Research and development
Research costs are expensed when incurred. Internally-generated technology costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. These costs are amortized on a straight-line basis over the estimated useful lives of five years. The Company did not have any development costs that met the capitalization criteria for the years ended December 31, 2017 and 2016.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (Continued)

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

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

New accounting standards and interpretations issued but not yet adopted

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

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

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

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

4. 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").

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

a)

Milestone	Number of Shares to be released
US$50,000 in cumulative gross revenues	1,500,000 (Released)
US$200,000 in cumulative gross revenues	2,100,000 (Released)
US$600,000 in cumulative gross revenues	2,100,000 (Released)
US$1,000,000 in cumulative gross revenues	2,100,000

On May 24, 2017, the Company released 4,200,000 shares from escrow. During the year ended December 31, 2017, the Company recorded $2,520,000 of share based compensation.

4. ACQUISTION (CONTINUED)

On December 28, 2017, the Company extended the deadline for releasing the final 2,100,000 escrowed shares based on satisfying certain financial milestones to June 30, 2018.

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)
US$50,000 in cumulative gross revenues	141,667 (Issued)
US$200,000 in cumulative gross revenues	157,500 (Issued)
US$600,000 in cumulative gross revenues	157,500 (Issued)
US$1,000,000 in cumulative gross revenues	108,333

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

As at December 31, 2017, the Company had recorded an obligation to issue shares of $4,063 for the remaining 108,333 finders' shares to be issued.

5. 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 December 31, 2015	$	-	$	418,566	$	-	$	418,566
Additions		-		104,641		236,260		340,901
Impairments		-		(388,833)		-		(388,833)
Foreign exchange		-		(32,157)		-		(32,157)
Balance at December 31, 2016		-		102,217		236,260		338,477
Additions		2,025,418		2,065,809		4,289,289		8,380,516
Membership		1,747,575		-		-		1,747,575
Foreign exchange		(71,139)		(84,855)		(169,701)		(325,695)
Loss on investment		(64,930)		-		-		(64,930)
Balance at December 31, 2017	$	3,636,924	$	2,083,171	$	4,355,848	$	10,075,943
Accumulated Amortization								
Balance at December 31, 2015	$	-	$	-	$	-	$	-
Amortization		-		1,784		-		1,784
Balance at December 31, 2016		-		1,784		-		1,784
Amortization		-		6,921		-		6,921
Balance at December 31, 2017	$	-	$	8,705	$	-	$	8,705
Net Book Value								
At December 31, 2016	$	-	$	100,433	$	236,260	$	336,693
At December 31, 2017	$	3,636,924	$	2,074,466	$	4,355,848	$	10,067,238

See Note 10 for details of assets pledged as security. Substantially all of the above assets were under development at December 31, 2017 and were not ready for their intended use. Therefore, no amortization was charged.

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

CUP

As at December 31, 2017, the Company paid $250,900 (US$200,000) for the conditional use permits ("CUP") issued to CSPA and NHMC (2016 - $268,540). The cost of CUP was included in plant costs as part of property, plant and equipment.

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 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 were to 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 was to 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 was to be paid in equal annual installments during the two years after the granting of the respective COO's.

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

Subsequent to December 31, 2017, the Company reached an agreement with principals of CSPA and NHMC (the "Sellers") to restructure the membership purchase agreements, whereby the Company agreed to a one-time cash payment of US$1,250,000 and a release of 3,000,000 previously escrowed shares of the Company's common stock to members of CSPA. In addition, the Company and the Sellers agreed to an additional payment of US$120,000, to pay the salaries for service as officers of each of NHMC and CSPA up to January 31, 2018.

Three million (3,000,000) shares of the Company's common stock previously granted to NHMC under the Membership Purchase Agreement to acquire membership in NHMC, which were held in escrow pending receipt of COO were returned to treasury of the Company and were cancelled in March of 2018.

The rights of the Company to purchase the memberships of both NHMC Inc. and CSPA Group Inc. were assigned to a non-arms length party, and the current member of a medical cannabis nursery and a medical cannabis retailer located in Adelanto, CA. In exchange, the Company was granted a five-year option to purchase the NHMC, Inc. and CSPA Group, Inc. memberships for US$100 each. The assignment was required to facilitate the transfer of the permits granted to CSPA and NHMC by the City of Adelanto to a new licensee.

6. PREPAIDS

During the year ended December 31, 2017, the Company entered into a number of agreements for marketing, business advisory and consulting services. The Company paid a total of $951,593 for these services of which $90,740 is included in prepaids. In addition, in June 2017 the Company paid alternative city taxes imposed by City of Adelanto totaling $134,610 (US$100,000), of which at December 31, 2017, $62,791 were included in prepaids.

7. UNEARNED REVENUE

At December 31, 2017, unearned revenue consisted of $227,289 (US$105,306) in deposits the Company received on future services to be provided. Of this amount $133,201 was associated with deposits the Company received from the companies with officers and directors in common.

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:

		December 31,	
		2017	**2016**
Management consulting services	a)	$ 549,412	$ 343,665
Consulting services for research and development	b)	$ 406,462	$ -
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:

- $389,580 (2016 – $252,129) in consulting fees accrued to Mr. Eckenweiler, the CEO and director of the Company. On July 31, 2015, the Company entered into a consulting agreement with Mr. Eckenweiler for a one year term for US$6,700 per month. Effective July 1, 2016, the Company agreed to extend the agreement for an additional one year term for 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.

- $77,916 (2016 – $79,536) 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.

- $81,916 (2016 - $12,000) in consulting fees paid 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:

- $210,373 (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, in addition, the Company paid Ms. Elrod US$10,000 bonus for assisting CSPA in receiving its COO.

- $157,131 (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.

- $38,958 (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.

8. RELATED PARTY TRANSACTIONS (CONTINUED)

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 on December 18, 2017, 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 December 31, 2017 and 2016 consisted of the following:

	December 31, 2017	December 31, 2016
Brad Eckenweiler	$ 116,727	$ 58,247
Dr. Sanderson	17,470	-
James Pakulis	3,067	3,335
Yanika Silina	5,835	9,000
Total payable to related parties	$ 143,099	$ 70,582

Related party loans payable

During the year ended December 31, 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.

Mr. Eckenweiler chose to use the remaining $86,964 (US$68,245) in outstanding principal and $838 (US$658) 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.

During the year ended December 31, 2017, the Company recorded $4,087 in interest expense associated with the notes payable issued to Mr. Eckenweiler (2016 - $Nil).

9. CAPITAL AND RESERVES

A. Common Shares

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

9. CAPITAL AND RESERVES (CONTINUED)

B. Issued share capital

As at December 31, 2017, the Company had 95,672,919 shares issued and outstanding of which 8,196,000 remained in escrow.

During the year ended December 31, 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.

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 $20,046 pursuant to the agency agreement entered into as part of the May Financing; in addition, the Company issued 34,300 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

9. CAPITAL AND RESERVES (CONTINUED)

B. Issued share capital (Continued)

Warrants was calculated to be $7,268, 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%

iii. During the year ended December 31, 2017, the Company issued a total of 13,759,501 shares of its common stock upon exercise of warrants for total proceeds of $3,310,467.

iv. During the year ended December 31, 2017, the Company issued a total of 816,784 shares of its common stock upon exercise of broker warrants for total proceeds of $210,173. These warrants had an initial fair value of $63,445.

v. During the year ended December 31, 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 at grant date. One-third (1/3) of the Escrowed Shares issued for NHMC was to 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 was to 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 was to be released in equal annual installments during the 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).

Subsequent to December 31, 2017, the Company renegotiated the Membership Agreements and 3,000,000 shares held in escrow for CSPA were released immediately. 3,000,000 shares held in escrow pending receipt of COO by NHMC were returned to treasury and cancelled in March 2018.

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 4). Share based compensation of $159,469 was recorded.

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

ix. The Company closed a non-brokered private placement (the "April Offering") by issuing a total of 1,000,000 units ("April Units") at a price of $0.10 per Unit for total gross proceeds of $100,000. Each April Unit consisted of one common share of the Company and one share purchase warrant entitling the holder to purchase one additional common share for a period of two years expiring on May 9, 2018, at an exercise price of $0.12 per share until May 9, 2017, and at $0.20 per share thereafter.

In connection with the April Offering, the Company issued 100,000 finder's warrants (the "Finder's Warrants"). The Finder's Warrants entitle the holder to purchase one common share of the Company at $0.12 per share for a period of two years expiring on May 9, 2018. The fair value of broker's warrants is $8,246, and

9. CAPITAL AND RESERVES (CONTINUED)

B. Issued share capital (Continued)

was determined using the Black-Scholes Option pricing model at the date of issuance using the following assumptions:

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

x. The Company closed a non-brokered private placement offering 655,225 units (the "May Offering") at a price of $0.08 per unit (the "May Unit") for gross proceeds of $52,418.

   Each May Unit consisted of one common share of the Company and one share purchase warrant entitling a holder to purchase one additional common share, for a period of two years expiring on July 6, 2018, at an exercise price of $0.10 per common share.

xi. The Company closed the first tranche of its non-brokered private placement offering (the "August Offering") of 2,653,000 units (the "August Units") at a price of $0.18 per August Unit, by issuing 2,653,000 units for total gross proceeds of $477,540.

   Each August Unit consisted of one common share of the Company and one share purchase warrant entitling a holder to purchase one additional common share for a period of one year expiring on August 25, 2017, at an exercise price of $0.18 per share.

xii. The Company closed the second tranche of its August Offering by issuing an additional 3,972,778 August Units for gross proceeds of $715,100.

xiii. During the year ended December 31, 2016, the Company issued a total of 9,972,891 shares of its common stock upon exercise of 9,601,491 warrants and 371,400 broker warrants for total proceeds of $1,225,954. The initial fair value associated with these warrants was $23,027.

xiv. During the year ended December 31, 2016, the Company issued a total of 500,000 shares of its common stock upon exercise of 500,000 options granted to Mr. Pakulis, the Company's President and a member of the board of directors. Mr. Pakulis chose to apply $60,000 owed to him on account of consulting fees towards payment of the exercise fee. These options had an initial fair value of $28,748.

xv. As at December 31, 2016, the Company had received $427,005 in subscription for shares not yet issued and recorded an obligation to issue 854,010 shares.

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.

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:

9. CAPITAL AND RESERVES (CONTINUED)

C. Stock purchase option compensation plan (Continued)

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 grant date fair value of these options was $744,252. During the year ended December 31, 2017, the Company recognized $484,475 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:

	July 27, 2017	December 31, 2017
Expected Warrant Life	2 years	1.5 years
Average Risk-Free Interest Rate	1.5%	1.68%
Expected Dividend Yield	Nil	Nil
Average Expected Stock Price Volatility	90.4% - 111%	99.2% - 110.7%

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 grant date fair value of these options was $296,573. During the year ended December 31, 2017, the Company recognized $191,281 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:

	July 27, 2017	December 31, 2017
Expected Warrant Life	1.5 years	1.5 years
Average Risk-Free Interest Rate	1.5%	1.68%
Expected Dividend Yield	Nil	Nil
Average Expected Stock Price Volatility	82% - 106%	97.4% - 106.9%

A continuity of options for the years ended December 31, 2017 and 2016 is as follows:

	December 31, 2017		**December 31, 2016**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the year	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	7,719,225	$0.51	2,930,595	$0.13

9. CAPITAL AND RESERVES (CONTINUED)

C. Stock purchase option compensation plan (Continued)

The options outstanding and exercisable at December 31, 2017 are as follows:

Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	25,000	$ 0.80	3.62	August 15, 2021
8,311,000	7,561,000	$ 0.50	1.57	July 27, 2019
532,900	133,225	$ 0.75	1.07	January 27, 2019
8,868,900	7,719,225	$ 0.52	1.57	

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the years ended December 31, 2017 and 2016:

	December 31, 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	(14,576,285)	$0.24	(9,972,891)	$0.12
Expired	(711,213)	$0.44	-	n/a
Issued	20,835,826	$0.74	9,781,003	$0.16
Warrants outstanding, ending	21,060,851	$0.69	15,512,523	$0.19

The warrants outstanding and exercisable at December 31, 2017 are as follows:

Number of Warrants outstanding	Exercise Price	Weighted Average Remaining Life	Expiration Date
1,000,000	$0.20	0.35	May 9, 2018
100,000	$0.12	0.35	May 9, 2018
655,225	$0.10	0.51	July 6, 2018
16,506,876	$0.75	0.41	May 31, 2018
759,710(1)	$0.50	0.41	May 31, 2018
235,200	$0.75	0.41	May 31, 2018
1,769,540	$0.75	0.49	June 27, 2018
34,300(1)	$0.50	0.49	June 27, 2018
21,060,851		0.42	

(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 date of issuance of the agent unit.

E. Escrow shares

As at December 31, 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 4; 6,000,000 were to be released as outlined in Note 5; 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. NOTES PAYABLE

$500,000 Credit Facility

On November 13, 2017, the Company entered into a $637,250 (US$500,000) secured credit facility (the "Credit Facility") with an unrelated third party lender (the "Lender"), which closed on November 16, 2017. The Credit Facility is for a six-month term ending on May 16, 2018, with outstanding principal accruing interest at a rate of 3% per month, compounded monthly and payable on maturity. The Company may prepay the Credit Facility at any time, subject to the payment of minimum interest in the amount of US$50,000.

The Credit Facility is secured by a general security agreement covering all of the Company's personal property, plus deeds of trust covering three parcels of unimproved real property totaling 20.5 acres owned by the Company in the City of Adelanto. This property has a carrying value of $1,795,437.

During the year ended December 31, 2017, the Company recorded $28,565 in interest expense associated with the Credit Facility (2016 - $Nil). As at December 31, 2017, the Company owed $655,446 (2016 - $Nil) under the Credit Facility.

$100,000 Loan Facility

Effective June 30, 2016, the Company secured a $100,000 credit facility (the "Loan Facility") with a third party creditor.

Under the terms of the Loan Facility, the Company received an initial advance of $50,000 upon signing of the Loan Facility (the "Initial Advance"), with remaining $50,000 to be advanced when requested by the Company and at the discretion of the lender. The outstanding principal under the Loan Facility accrues interest at a rate of 3% per month, compounded monthly, with the outstanding principal due on or before January 1, 2017.

The Initial Advance under the Loan Facility was divided into two advances of $25,000 each, of which the first advance was received by the Company on June 24, 2016, and the second $25,000 advance was received on July 5, 2016. The remaining $50,000 advance (the "Subsequent Advance") was received in two installments of $30,000 and $20,000 on July 13, 2016 and August 24, 2016, respectively. The final instalment of $20,000 was reduced by $6,000 as early prepayment of estimated interest accrued on the Loan Facility.

The Company issued to an affiliate of the lender share purchase warrants for the purchase of up to 700,000 common shares of the Company, exercisable at a price of $0.08 per share for a period expiring on January 15, 2018 (the "Initial Warrants"). In addition, the Company issued to the lender an additional 700,000 share purchase warrants exercisable at a price of $0.10 per share. The additional warrants expire on January 15, 2018.

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

The Company repaid the loan facility on October 4, 2016, prior to its maturity, when the total of the loan including interest accrued on the principal was determined to be $101,082.

Note Payable

On May 20, 2016, the Company borrowed $25,000 from an unrelated party in exchange for a 90-day note payable (the "Note"). The principal advanced under the Note accumulated interest at 1% per month compounded monthly and was unsecured. The Company repaid the Note together with $2,167 in accrued interest on December 13, 2016.

11. CAPITAL MANAGEMENT

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

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

12. NON-CONTROLLING INTERESTS

The non-controlling interests as at December 31, 2017, consisted of the following:

LDS Scientific (25%)	$ (469,680)
LDS Agrotech (25%)	(68,827)
	$ (538,507)

The following are the summarized statements of financial position of LDS Scientific and LDS Agrotech as at December 31, 2017:

	LDS Scientific	LDS Agrotech
Current:		
Assets	$ 629,566	$ 1,561,714
Liabilities	(2,508,284)	(1,837,023)
Total net assets	$ (1,878,718)	$ (275,309)

The following is the summarized comprehensive loss of LDS Scientific and LDS Agrotech for the period from acquisition to December 31, 2017:

	LDS Scientific	LDS Agrotech
Gross profit	$ -	$ 191,126
Operating expenses	(1,957,743)	(504,940)
Net loss	(1,957,743)	(313,814)
Other comprehensive loss	56,669	25,330
Comprehensive loss	$ (1,892,007)	$ (288,484)

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, 2018, as subsequently amended on July 31, 2017, August 31, 2017, and on January 28, 2018, or

12. NON-CONTROLLING INTERESTS (CONTINUED)

(ii) US$1,000,000 in cash each, if the LDS Options are exercised after July 31, 2018, but on or before July 31, 2019, as amended.
(the "Option Price").

The LDS Options, as amended on July 31, 2017, August 31, 2017, and on January 28, 2018, 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 July 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 July 31, 2022. No value has been recorded in connection with these options.

13. INCOME TAXES

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

	Year ended December 31,	
	2017	**2016**
Net loss before tax	$(13,164,157)	$ (2,247,407)
Statutory income tax rate	26%	26%
Expected income tax recovery	(3,422,680)	(584,316)
Change in statutory, foreign tax, foreign exchange rates and other	(263,350)	(112,096)
Permanent differences	1,493,410	-
Adjustment to prior year provision versus statutory tax returns	(247,900)	(8,693)
Share issuance costs	(175,150)	(9,013)
Foreign exchange	98,548	93,367
Change in unrecognized deductible temporary differences	2,517,122	620,751
Income tax recovery	$ -	$ -

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

	Year ended December 31,	
	2017	**2016**
Deferred tax assets:		
Investment tax credit	$ 3,000	$ 3,096
Share issuance costs	144,000	5,736
Non-capital losses available for future period	3,403,266	1,304,905
Fixed and intangible assets	360,902	80,309
	3,911,168	1,394,246
Unrecognized deferred tax assets	(3,911,168)	(1,394,246)
	$ -	$ -

The Company has approximately $6,572,517 of non-capital losses in Canada which expire between 2030 – 2037, and approximately $3,973,608 of non-capital losses in the US which expire between 2034 – 2037.

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

14. SUBSEQUENT EVENTS

On January 11, 2018, the Company closed a non-brokered private placement financing (the "January Financing") for a total of 5,500,000 units (the "January Units") at a price of $0.50 per January Unit (the "Issue Price") for total gross proceeds of $2,750,000. Each January Unit sold in the January Financing consisted of one common share of the Company (each a "January Unit Share") and one common share purchase warrant (each a "January Warrant"). Each January Warrant entitles the holder to purchase one additional common share (a "January Warrant Share") at a price of $0.75 per January Warrant Share for a period ending one year from the date of issuance. The Company may accelerate the expiration date of the January 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 Cdn$1.50 for 10 consecutive trading days. At December 31, 2017, subscriptions of $2,020,000 had been received in connection with this financing.

The securities issued under the January Financing are subject to a hold period expiring on May 12, 2018.

On January 11, 2018, the Company granted an option to acquire up to 500,000 stock options to the Company's consultant. The option is exercisable into common shares of the Company at an exercise price of $1.15 per common share and expires on a two-year anniversary of the grant.

Subsequent to December 31, 2017, the Company issued 6,292,740 shares of the Company's common stock on exercise of warrants and 894,010 shares of the Company's common stock on exercise of broker warrants for total proceeds of $5,128,560.

Subsequent to December 31, 2017, the Company issued 133,225 shares of its common stock for total proceeds of $99,919 on exercise of options the Company issued to an entity engaged in capital markets advisory and investor relations services.

Subsequent to December 31, 2017, pursuant to its agreements with CSPA and NHMC (Note 5), the Company paid approximately $1,064,562 (US$841,000) in renovations and improvement costs of the Adelanto Facility. In addition, the Company paid approximately $644,000 (US$509,000) for production equipment.