LIFESTYLE DELIVERY SYSTEMS INC.

MANAGEMENT'S DISCUSSION

AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2018

INTRODUCTION

The following Management Discussion and Analysis ("MD&A") of Lifestyle Delivery Systems Inc. (the "Company" or "LDS"), has been prepared by management, in accordance with the requirements of National Instrument 51-102 as of August 29, 2018, and should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the three and six months ended June 30, 2018, and the related notes contained therein which have been prepared under International Financial Reporting Standards ("IFRS").

The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com and the Company's website at www.lifestyledeliverysystems.com.

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting currency of the Company, unless specifically noted.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in the foregoing MD&A constitute forward-looking statements. Forward-looking statements often, but not always, are identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could", or "might" occur or be achieved and other similar expressions. Forward-looking statements in this MD&A include statements regarding the Company's future plans and expenditures, the satisfaction of rights and performance of obligations under agreements to which the Company is a part, the ability of the Company to hire and retain employees and consultants and estimated administrative assessment and other expenses. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statements were made, and readers are advised to consider such forward-looking statements in light of the risks set forth below.

COMPANY OVERVIEW AND DESCRIPTION OF BUSINESS

The Company was incorporated on September 14, 2010, pursuant to the Business Corporations Act, British Columbia. The Company is a technology and intellectual property company participating in a strategic alliance, comprising of a licensed and state-compliant vertically integrated operations. The Company's main focus is its technology, which allows to produce infused strips (similar to breath strips) that are not only a safer, healthier option to any other form of delivery but also allows for inclusion of a wide spectrum of ingredients from over the counter medications to homeopathic, nutraceutical, vitamins and supplements. The technology provides a new way to accurately meter the dosage and assure the purity of selected product.

As of the date of the filing of this MD&A, the Company has the following subsidiaries:

	Jurisdiction of Incorporation	% of Interest
Canna Delivery Systems Inc.	Nevada	100%
LDS Agrotech Inc.	Nevada	75%
LDS Scientific Inc.	Nevada	75%
Adelanto Agricultural Advisors Inc.	California	100%
Lifestyle Capital Corporation	California	100%
LDS Development Corporation	California	100%
Optimus Prime Design Corp.	British Columbia	100%
0994540 B.C. Ltd.	British Columbia	95%

The Company's shares trade on the Canadian Securities Exchange under the trading symbol "LDS", on OTC Link alternative trading system OTCQX platform under the trading symbol "LDSYF", and on the Frankfurt Stock Exchange under the symbol "LD6, WKN: A14XHT".

On May 1, 2015, the Company acquired all the issued and outstanding shares in the capital of Canna Delivery Systems Inc. ("CDS"), a company incorporated under the State of Nevada. As consideration for the Canna Acquisition, on May 1, 2015 (the "Closing Date"), the Company issued to the Canna Shareholders, 7,800,000 shares of the Company (the "Performance Shares") at a deemed price of $0.15 per share. The Performance Shares were issued in escrow on the Closing Date and are being released from escrow upon the Company achieving certain financial milestones (the "Milestones"). As of the date of the filing of this MD&A the eligibility period for the release of escrowed shares has been extended to September 30, 2018.

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, with fair value of $1,260,000[(1)])
US$600,000 in cumulative gross revenues	2,100,000 (released, with fair value of $1,260,000[(1)])
US$1,000,000 in cumulative gross revenues	2,100,000

(1) *The fair market value of released shares was calculated based on $0.60 per share, the trading price of the Company's common shares on the date the shares were released from escrow.*

In the event that the Milestones are not achieved by September 30, 2018, any Performance Shares remaining in escrow will have to be returned to treasury for cancellation.

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

	Number of shares to be issued
At the Closing Date	83,333 (Issued)
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

In November 2016, the Company entered into a provisional patent license agreement with an entity controlled by the Company's Chief Science Officer (the "CSO"), Dr. Sanderson, to acquire a world-wide, exclusive, royalty-free license to use a patent-pending method developed by Dr. Sanderson, which allows for improved delivery of biological molecules through mucous membranes, which can target specific processes in the body (the "CannaStrips™ Technology"). On May 3 2017, the original license agreement was amended and superseded by a revised license agreement (the "License Agreement"). Under the terms of the License Agreement, the Company agreed to issue to Dr. Sanderson 1,000,000 common shares of the Company in exchange for the license rights, and a further 1,000,000 common shares upon the granting of a patent by the U.S. Patent and Trademark Office for the process developed by Dr. Sanderson. The licensing of this technology from Dr. Sanderson allowed the Company to further refine its CannaStrips™ formula.

On December 18, 2017, Dr. Sanderson filed an enhanced provisional patent for the CannaStrips™ Technology. The new provisional patent filing added additional enhanced capabilities to the current CannaStrips™ formula, which have been implemented into the 2018 CannaStrips™ product line.

On August 19, 2016, the Company entered into a memorandum of understanding (the "Original MOU") with NHMC to set up a joint venture (the "JV") for the development, manufacturing, production, and commercialization of products based on the CannaStrips™ Technology. On October 6, 2016, the Company signed an additional letter of intent (the "LOI") with NHMC and CSPA Group Inc. ("CSPA"), which confirmed the intention of the parties to enter into the JV, as contemplated under the Original MOU. CSPA and NHMC are non-profit mutual benefit organizations controlled by the same parties.

Pursuant to the terms set out in the Original MOU, the Company agreed to design and retrofit a 20,000 square-foot facility (the "Adelanto Facility") located in the City of Adelanto, California to meet California energy

efficiency standards and provide the JV with all equipment necessary to run the operations. The Adelanto Facility, when ready, will house a full manufacturing cycle starting with nursery, cultivation, extraction, distillation, strip coating, and packaging line.

In preparation for the JV with CSPA and NHMC, in January of 2017 the Company incorporated two additional majority-owned subsidiaries, LDS Agrotech Inc. ("LDS Agrotech") and LDS Scientific Inc. ("LDS Scientific"). On May 1, 2017, the Company, LDS Agrotech, LDS Scientific, NHMC and CSPA agreed to replace the original JV arrangements with a set of agreements with Management Services Agreements being main agreements for defining and setting up the business relationships of each entity.

LDS Agrotech entered into a management services agreement with NHMC, whereby LDS Agrotech agreed to act as the sole manager of NHMC's medicinal marijuana cultivation operations. Concurrently, LDS Scientific entered into a substantially identical management services agreement with CSPA, whereby LDS Scientific acts as the sole manager of CSPA's medicinal marijuana extraction and manufacturing operations. Under the terms of the management services agreements, LDS Agrotech and LDS Scientific supervise and cause to be performed all functions related to the cultivation, extraction and manufacturing operations of NHMC and CSPA, respectively. LDS Agrotech and LDS Scientific are primarily responsible for advancing the operating costs of those operations, and will be reimbursed for such operating costs out of NHMC's and CSPA's respective revenues. In addition, LDS Agrotech and LDS Scientific will receive management fees equal to 75% of the excess of revenues over operating expenses, as defined in the respective management services agreements, with NHMC and CSPA retaining the remaining 25%. Neither NHMC nor CSPA may disburse funds held by them without the consent of LDS Agrotech or LDS Scientific, respectively. Both the NHMC/LDS Agrotech's cultivation operations and CSPA/LDS Scientific's extraction and manufacturing operations will be operated out of the same indoor Adelanto Facility.

Concurrent with the execution of the management services agreements, the Company entered into separate agreements to purchase the sole outstanding membership interests of each of NHMC and CSPA. The Company has agreed to purchase the sole membership interest of each of NHMC and CSPA in exchange for 3,000,000 common shares of the Company and US$1,400,000 in cash, each (for a total of 6,000,000 common shares and US$2,800,000 in cash). One-third (1/3) of the share consideration and cash purchase price for NHMC was to be paid upon the grant of a Certificate of Occupancy for the cultivation wing of the Adelanto Facility, and one-third (1/3) of the share consideration and cash purchase price for CSPA was to be paid upon the grant of a Certificate of Occupancy for the extraction and manufacturing wing of the Adelanto Facility (which Certificate of Occupancy has been issued and which partial share issuances and cash payments have been made). The balance of the purchase price for NHMC and CSPA was to be paid in equal annual installments during the two years after the granting of the respective Certificates of Occupancy. The Company had the right to accelerate payment of the purchase price for NHMC and CSPA and acquire the outstanding membership interests earlier than scheduled. The agreements provided that if at any time prior to the payment of the full purchase price, NHMC or CSPA breach their respective management services agreements or the provisions of their governing documents, or their respective cultivation and extraction and manufacturing permits are revoked, then the Company would have the right to acquire NHMC or CSPA without the payment of any additional consideration.

On February 21, 2018, 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 the treasury of the Company and were cancelled in March of 2018. The Company's obligation to pay an additional US$1,400,000 was also cancelled.

The rights of the Company to purchase the memberships of both NHMC and CSPA 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 and CSPA 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 permittee.

The Company started retrofitting the Adelanto Facility in late November of 2016 pursuant to the original JV arrangements, and continued under the May 1, 2017, agreements without substantial changes. In September of 2017, the majority of required improvements for the extraction and manufacturing wing were completed, allowing the Company to schedule a required facility inspection, which was completed on September 13, 2017. The fire department of San Bernardino County carried out an inspection of the Adelanto Facility, and on September 18, 2017, CSPA received a Certificate of Occupancy ("COO"). The approval of the facility in Adelanto, California allowed CSPA to begin operations managed by LDS Scientific. Upon receipt of the COO by CSPA, the Company recorded $1,560,000, being the fair value of the 3,000,000 shares issued as part of the May 1, 2017, Membership Agreement with CSPA, and made a cash payment of $187,575 (US$150,000).

On December 21, 2017, the Manufactured Cannabis Safety Branch of the California Department of Public Health issued CSPA a Temporary Category M Type 7 Manufacturing with Volatile Solvents License which became effective on January 1, 2018, and was good through April 30, 2018. On April 30, 2018, CSPA filed an application with the California Department of Public Health for a permanent license. The approval to extend the Temporary State Volatile and Non-Volatile Extraction and Manufacturing License to July 28, 2018, was granted on May 1, 2018. The temporary license will allow CSPA Group, Inc. to continue to operate while the application for an annual license is being reviewed.

On January 16, 2018, the Mojave Desert Air Quality Management District ("MDAQMD") issued a permit to LDS Scientific, Inc., to operate under the Temporary Category M Type 7 Manufacturing with Volatile Solvents License. The MDAQMD Permit is valid through June 2018, at which time the facility and its operations will be reviewed by MDAQMD. Upon a favorable review the permit can be renewed for one year.

LDS Agrotech and LDS Scientific

As previously discussed, the Company owns a 75% interest in each of LDS Agrotech and LDS Scientific. The remaining 25% of LDS Agrotech is owned by its President, Matthew Fergusson, and the remaining 25% of LDS Scientific is owned by its President, Crystal Elrod.

On May 1, 2017, the Company entered into separate option and first right of refusal agreements with each of Mr. Fergusson and Ms. Elrod, pursuant to which the Company was granted options to purchase the remaining 25% of each of LDS Agrotech and LDS Scientific from Mr. Fergusson and Ms. Elrod, respectively (the "LDS Agrotech Option" and the "LDS Scientific Option", respectively). The LDS Agrotech Option and the LDS Scientific Option were subsequently amended on July 31, 2017, August 31, 2017, and on January 28, 2018.

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

(a) issue to Mr. Fergusson and Ms. Elrod, a total of 2,500,000 common shares, each; and

(b) make the following cash payments to each of Mr. Fergusson and Ms. Elrod:

  (i) US$500,000 in cash, if the options are exercised on or before July 31, 2018, per amended LDS Agrotech Option and LDS Scientific Option agreements with Mr. Fergusson and Ms. Elrod), or

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

The LDS Agrotech Option and the LDS Scientific Option, as amended, may be exercised in whole or in part, with the Option Price being allocated pro rata to the number of shares being purchased. Upon exercise of the LDS Agrotech Option and the LDS Scientific Option, in whole or in part, the Company 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 (5) annual installments from the date of exercise. The LDS Agrotech Option and the LDS Scientific Option, as amended, expire on July 31, 2019, after which the Company will have a right of first refusal over any proposed sale of the 25% interest in LDS Agrotech held by Mr. Fergusson, and 25% interest in LDS Scientific held by Ms. Elrod expiring July 31, 2022.

As of the date of this MD&A the Company is in discussions with Ms. Elrod and Mr. Ferguson to amend the terms of the LDS Agrotech Option and the LDS Scientific Option. As part of these negotiations the Company paid Ms. Elrod $51,313 (US$39,400), which will be applied towards the cash consideration once the final terms are agreed upon by both parties.

Private Placement Financing

On January 11, 2018, the Company closed a non-brokered private placement (the "January Offering") for a total of 5,500,000 units (the "January Units") at a price of $0.50 per January Unit for total gross proceeds of $2,750,000. Each January Unit sold in the January Offering consisted of one common share of the Company (each a "January Unit Share") and one common share purchase warrant (each a "January Warrant") entitling 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 on January 11, 2019. 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 $1.50 for 10 consecutive trading days.

Five Hundred Thousand Dollar Secured Credit Facility

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 accrued interest at a rate of 3% per month, compounded monthly and was payable on maturity on May 16, 2018. The Company had a right to prepay the Credit Facility at any time, subject to the payment of US$50,000 in minimum interest. The Credit Facility was 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 LDS Development Corporation in the City of Adelanto, San Bernardino County, California.

The Company repaid the Credit Facility on June 4, 2018, in accordance with a verbal extension granted by the lender. At the time of the repayment, the total due under the Credit Facility was $788,710 (US$608,385) and consisted of US$500,000 principal and US$108,385 in accrued interest.

Introduction of New Luxury Product Line

In March 2018, the Company announced that CSPA, under LDS Scientific's management, launched Rêveur, a new luxury brand of cannabis products for the California market.

The new product was test marketed in selected retail stores in California yielding very positive initial results. Rêveur was designed to focus on the higher upscale luxury market using only fresh frozen organically grown cannabis strains processed at -50˚ Celsius preserving all the natural terpenes and flavonoids.

Lab test results of the initial product confirmed zero pesticides and zero residual solvents. The tests also revealed high levels of terpenes (up to 13%) and THC levels in the mid 80% range. Completion of the required testing allows for distribution of the product line in selected retail stores in California.

Scientific Advisory Board

During the second quarter of its Fiscal 2018, the Company established a Scientific Advisory Board in order to provide further guidance and expert advice to its affiliates. Dr. George Taylor, M.D. and Dr. Jonathan Lakey, Ph.D., agreed to join the Company as members of its Scientific Advisory Board. The Company, Dr. George Taylor, M.D., and Dr. Jonathan Lakey, Ph.D. entered into consulting agreements dated for reference August 15, 2018, which were made effective May 1, 2018, for an initial period up to December 31, 2018, renewing on a month-to-month basis thereafter. The Company agreed to pay both consultants US$1,000 per month for their contribution. In addition, the Company granted Dr. Taylor and Dr. Lakey options to acquire up to 35,000 of its common shares in aggregate. The options vested on August 15, 2018, and may be exercised at a price of $0.58 per share expiring on August 15, 2020.

Stock Option Grant

On August 15, 2018, the Company granted an option to acquire up to 2,825,820 common shares to its Chief Executive Officer. The option vested immediately and may be exercised at a price of $0.58 per share expiring on August 15, 2020.

OVERALL PERFORMANCE

The following discussion of the Company's financial performance is based on the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2018, and the audited consolidated financial statements for the year ended December 31, 2017.

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Total Revenue	$ 315,691	$ 191,126
Net Loss	$ 5,028,312	$ 13,164,157
Loss per Share	$ 0.05	$ 0.19
Working Capital	$ 6,503,661	$ 820,738
Total Assets	$ 23,121,383	$ 13,130,426
Property, Plant and Equipment	$ 15,614,650	$ 10,067,238
Total Liabilities	$ 1,003,072	$ 2,242,450
Share Capital and Reserves	$ 45,400,081	$ 27,688,532
Deficit	$ 22,865,143	$ 18,139,295

The statements of financial position as of June 30, 2018 and December 31, 2017, indicated a cash position of $5,967,361 and $2,754,308, respectively, and total current assets of $7,506,733 and $3,063,188, respectively. The change in total current assets was mainly associated with $730,000 in cash receipts from the January Financing, and with $14,657,599 and $199,838 we received on exercise of warrants and options, respectively. These cash injections were offset by the funds we used on retrofitting and additional improvements to the Adelanto Facility in order to facilitate CSPA's anticipated operations; to acquire production and manufacturing equipment, and to advance funds to a related company with a director in common.

The long-term assets of the Company consisted of property, plant and equipment totaling $15,614,650 (2017 - $10,067,238). Of this amount $1,986,469 (2017 – $1,889,349) was associated with the land acquisition costs associated with 24.5 acres represented by four undeveloped land parcels varying in size from 4 to 10 acres; $3,315,075 (2017 – $1,747,575) was associated with acquisition of membership interest in CSPA pursuant to the membership purchase agreement between the Company and CSPA; $4,443,526 (2017 - $2,074,466) was associated with production equipment; and $5,869,580 (2017 - $4,355,848) was attributed to costs of building out the Adelanto Facility.

As at the date of this MD&A, the Company continues to work on expansion of the cultivation and nursery divisions of the permitted Adelanto Facility for use by CSPA Group and other affiliates of the Company.

At June 30, 2018, current liabilities totaled $1,003,072 (2017 - $2,242,450) and included $494,949 in accounts payable and accrued liabilities (2017 - $1,207,334), $361,758 in amounts due to related parties (2017 - $143,099), and $9,718 in advances payable (2017 - $9,282). In addition to the above, at June 30, 2018, the Company's current liabilities included $136,647 (2017 – $227,289) in unearned revenue, which was associated with deposits the Company collected from its customers, of which $63,820 (US$50,000) the Company received from Transcanna Holdings Inc., of which the Company's President is the CEO and a director, and of which the Company's CEO is a major shareholder, pursuant to the License Agreement, and $71,312 (US$55,305) the Company received from an entity of which the Company's CEO is a sole director of. During the six-month period ended June 30, 2018, the Company repaid its Credit Facility which, at the time of the payment, totaled $788,710, or US$608,385 (2017 – $655,446).

At June 30, 2018, the Company had a working capital of $6,503,661, as compared to $820,738 at December 31, 2017. Based on the current plans of operation, the Company may be required to find an alternative source of financing before it will be in position to support its operations from its core business activities. Once the construction and improvements of the Adelanto Facility are completed, the Company believes it will be able to generate sufficient revenue to fund its day-to-day operations as well as support its affiliate's overhead costs required to carry out the cultivation and extraction operations.

Parent shareholders' equity was comprised of share capital of $41,727,020 (2017 - $23,990,089), reserves of $3,673,061 (2017 - $3,698,443), obligation to issue shares of $79,063 (2017 – $2,024,063), accumulated other comprehensive income of $382,218 (2017 - $146,817 loss) and accumulated deficit of $22,865,143 (2017 - $18,139,295) for a total parent shareholders' equity of $22,996,219 (2017 – $11,426,483). In addition, the Company recorded $877,908 (2017 – $538,507) in non-controlling interests associated with 25% allocations to LDS Agrotech and LDS Scientific, which are controlled by minority shareholders.

The weighted average number of common shares outstanding for the three months ended June 30, 2018, was 105,398,938 (2017 – 58,833,086). The weighted average number of common shares outstanding for the six months ended June 30, 2018, was 104,728,593 (2017 –53,183,207).

COMPARISON OF RESULTS OF OPERATIONS

Net Loss

During the three months ended June 30, 2018, the Company reported a net loss of $2,857,996 ($0.03 basic and diluted loss per share) and a total comprehensive loss of $2,613,891 compared to a net loss of $915,318 ($0.02 basic and diluted loss per share) and a total comprehensive loss of $1,005,601 during the three months ended June 30, 2017.

During the six months ended June 30, 2018, the Company reported a net loss of $5,028,312 ($0.05 basic and diluted loss per share) and a total comprehensive loss of $4,536,214 compared to a net loss of $1,514,395 ($0.03 basic and diluted loss per share) and a total comprehensive loss of $1,606,192 during the six months ended June 30, 2017.

The increased loss during the three and six months ended June 30, 2018, was associated with the overall increase in business activity related to the current operations of the Company and its affiliates, which resulted in increased research and development, consulting, legal fees, as well as the fees for advertising and investor relation services and IT development. The share-based compensation increased by $352,131, and comprised of fair market value of options the Company issued to its director for consulting services and to its members of scientific advisory board. In order to bring awareness about the Company to a general public the Company incurred $1,114,481 in corporate communication and marketing activities, these cash outlays were in part reduced by $121,706 recovery of share-based compensation associated with options the Company granted in its fiscal 2017 to its investor relations and marketing consultants.

Revenue

During the three and six months ended June 30, 2018, the Company recognized $315,691 in revenue, of this amount $159,763 was associated with design and project management services provided by LDS Agrotech to its customers and $155,928 was associated with management revenue associated with the operating activities of CSPA Group, Inc.

During the comparative period the Company recognized $641,871 in revenue from design and construction services provided by LDS Agrotech to its customers. The Company recorded $573,749 in costs associated with the construction project for one of its customers, which resulted in $68,122 in gross profit during the three-month period ended June 30, 2017. During the six-month period ended June 30, 2017, the Company recognized $819,260 in revenue from design and construction services provided by LDS Agrotech to its customers. The Company recorded $573,749 in costs associated with the construction project for one of its customers, which resulted in $245,511 in gross profit during the six-month period ended June 30, 2017.

Operating Expenses

During the three months ended June 30, 2018, the Company recorded $3,169,180 in operating expenses (2017 - $959,165). The largest factor contributing to the increase in operating expenses was associated with $932,798 (2017 - $40,365) in advertising and promotion expenses the Company incurred during the second quarter of its Fiscal 2018. Research and development fees of $615,807 (2017 - $152,165) were the second largest expense during this quarter and were associated with testing the technology to achieve the best quality extracted product, as well as to fine-tune production, and packaging operations. Consulting fees of $294,013 (2017 - $231,437), $602,316 (2017 - $157,117) in office and general expenses, and $340,020 (2017 - $171,762) in legal fees further contributed to increase in operating expenses of the Company. In addition to these expenses the Company spent $138,024 on meals and travel expenses (2017 - $80,043), $77,580 on supporting its IT infrastructure (2017 - $60,437), and $22,563 (2017 - $40,500) on accounting fees. During the same period, the Company recorded $50,508 (2017 - $Nil) in share-based compensation associated with the adjustment to fair market value of options to acquire up to 500,000 common shares the Company granted to its director and to accrue the share-based compensation associated with the options to acquire up to 35,000 shares the Company granted to the members of its scientific advisory board.

On a year-to-date basis the Company's operating expenses were $5,293,055 (2017 - $1,717,067). The largest factor contributing to the increase in operating expenses during the first part of the Company's Fiscal 2018 was associated with $1,144,480 (2017 - $295,135) in research and development which included testing the technology to achieve the best quality extracted product, fine-tune production and packaging operations, and to source the raw product required for the research and testing of the processes. Advertising and promotion expenses were second largest operating expense item at $1,114,481 (2017 - $152,843). Consulting fees of $734,719 (2017 - $452,783), $849,146 (2017 - $246,509) in office and general expenses, and $512,540 (2017 - $201,168) in legal fees further contributed to increase in operating expenses of the Company. In addition to these expenses the Company spent $213,122 on meals and travel expenses (2017 - $145,746), $153,572 on supporting its IT infrastructure (2017 - $110,080), and $50,963 (2017 - $63,700) on accounting fees. During the same period, the Company recorded $352,131 (2017 - $Nil) in share-based compensation associated with the fair market value of options to acquire up to 500,000 common shares the Company granted to its director and to accrue the share-based compensation associated with the options to acquire up to 35,000 shares the Company granted to the members of its scientific advisory board.

As the Company's current operations do not generate significant revenues, until such time that the building of the Adelanto Facility is completed and equipment for cultivation and nursery divisions of the Adelanto Facility is successfully installed and fully operational, the Company will continue relying on equity and debt financing in order to meet its ongoing day-to-day operating requirements. The Company's current cash reserves are sufficient to be able to support its operations for the next six-month period. Should anticipated revenue from production be delayed, the Company will be required to seek additional financing either through debt or equity. There can be no assurance that such financing will be available to the Company in the amount required at any particular time, or, if available, it can be obtained on terms satisfactory to the Company.

Non-controlling Interests

Of $2,857,996 net loss the Company recorded during the three months ended June 30, 2018 (2017 - $915,318), loss of $111,049 (2017 – $35,975) was attributed to the non-controlling interests associated with 25% control of LDS Agrotech and LDS Scientific by minority shareholders. In addition, the total other comprehensive income of $244,105 (2017 – loss of $90,283) included a loss of $17,412 (2017 - $631 income) associated with the non-controlling interests.

Of $5,028,312 net loss the Company recorded during the six months ended June 30, 2018 (2017 - $1,514,395), loss of $302,464 (2017 – $26,131) was attributed to the non-controlling interests associated with 25% control of LDS Agrotech and LDS Scientific by minority shareholders. In addition, the total other comprehensive income of $492,098 (2017 – loss of $91,797) included a loss of $36,937 (2017 - $685 income) associated with the non-controlling interests.

SUMMARY OF QUARTERLY RESULTS

The following tables set forth selected financial information of the Company for the eight most recently completed quarters. This information is derived from unaudited quarterly financial statements and audited annual financial statements prepared by management in accordance with IFRS.

	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Total Revenue	$ 315,691	$ -	$ (628,134)	$ -
Net Loss	$ 2,857,996	$ 2,170,316	$ 7,022,216	$ 4,037,546
Loss per Share	$ 0.03	$ 0.02	$ 0.08	$ 0.05
Technology	$ -	$ -	$ -	$ -
Total Assets	$ 23,121,383	$ 16,679,237	$ 13,130,426	$ 11,518,299
Working Capital	$ 6,503,661	$ 798,391	$ 820,738	$ 2,249,312

	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Total Revenue	$ 641,871	$ 177,389	$ 33,034	$ -
Net Loss	$ 1,505,318	$ 599,077	$ 1,448,844	$ 716,898
Loss per Share	$ 0.02	$ 0.01	$ 0.03	$ 0.02
Technology	$ -	$ -	$ -	$ 658,405
Total Assets	$ 10,407,476	$ 2,252,321	$ 1,669,646	$ 2,277,406
Working Capital	$ 6,426,526	$ (128,354)	$ 325,190	$ 141,182

Overall, consulting, accounting, legal, regulatory fees, amortization, research and development, and office and general expenses, advertising and marketing were the major components that caused variances in net losses from quarter to quarter. The quarters ended March 31, 2018, December 31, 2017, September 30, 2017, and September 30, 2016, were also significantly affected by non-cash share-based compensation issued to the Company's management team, and for shares released from escrow for the Canna Acquisition, as well as for options granted to consultants for advertising and marketing services.

During the quarter ended June 30, 2018, the Company's operating expenses totaled $3,169,180 and comprised of $615,807 the Company incurred in research and development costs, $294,013 in consulting fees, which included $206,700 in consulting fees paid to the top management team, $50,508 in share-based compensation which included an adjustment to a fair market value of an option to acquire up to 500,000 shares the Company granted to its director and market value of the services provided to the Company by the new members of the Company's advisory board, $602,316 in office and other general expenses, and $932,798 the Company spent on its advertising and investor relation activities.

During the quarter ended March 31, 2018, the Company's operating expenses totaled $2,123,875 and comprised of $528,673 the Company incurred in research and development costs, $440,706 in consulting fees, which included $202,593 in consulting fees paid to the top management team, $301,623 in share-based compensation for an option to acquire up to 500,000 shares the Company granted to its director, $246,830 in office and other general expenses, and $181,683 the Company spent on its advertising and investor relation activities.

During the quarter ended December 31, 2017, the Company's operating expenses totaled $6,867,801. The largest expense item during the quarter ended December 31, 2017, was associated with $2,679,469 share-based compensation the Company recorded on 4,200,000 shares released from escrow associated with the Canna Acquisition, and for 315,000 shares the Company issued as finders' fees for the Canna Acquisition. Research and development costs amounted to $1,443,744 and included $1,132,928 the Company paid for fresh frozen whole plant material; advertising and promotion fees amounted to $1,407,382, of which $595,453 was attributed to vested portion of options to acquire up to 1,532,900 common shares issued to the consultants for investor relations. The research and development, and advertising and promotion expenses were followed by office and other general expenses of $387,913, which included rent of Adelanto Facility, among other general expenses, and consulting fees of $291,283. Other significant items included meals and entertainment expenses for a total of $91,698, costs of maintaining IT infrastructure for a total of $77,332, audit and accounting fees of $70,000, and regulatory fees of $32,752. The restructuring of the Company's

organization and setting up strategic partnerships to streamline the operations in anticipation of the completion of the Adelanto Facility resulted in $203,394 in legal fees. During the quarter ended December 31, 2017, the Company's net loss was further increased by $54,385 reversal of net revenue, as the Company determined that certain long-term projects that were initially recorded through revenue were not completed as at December 31, 2017, and as such the revenue was deferred to future periods.

During the quarter ended September 30, 2017, the Company's operating expenses totaled $4,006,387, and included $2,751,336 in share-based compensation the Company recognized in association with the options to acquire up to 7,311,000 common shares the Company granted to its executive officers and directors, consulting fees of $213,274, research and development costs of $220,715, advertising and promotion of $215,635, of which $80,303 was associated with vested portion of options to acquire up to 1,532,900 common shares issued to the consultants for investor relations, office and other general expenses of $215,642, regulatory fees of $83,842, and audit and accounting fees of $26,000. The restructuring of the Company's organization and setting up strategic partnerships to streamline the operations in anticipation of the completion of the Adelanto Facility resulted in $143,899 in legal fees.

During the quarter ended June 30, 2017, the Company recorded $641,871 in revenue associated with design and construction services provided by LDS Agrotech, the cost of these services amounted to $573,749. Operating expenses totaled $1,505,318 and included $742,165 in research and development costs, of which $590,000 were associated with a fair value of 1,000,000 common shares the Company issued to Dr. Sanderson for licensing agreement; consulting fees of $231,437, amortization expense of $1,554, office and other general expenses of $157,117, of which $146,269 was associated with the rental fees the Company paid for its Adelanto Facility and the office facility, regulatory fees of $23,785, and accounting fees of $40,500. The restructuring of the Company's organization and setting up strategic partnerships to streamline the operations in anticipation of the completion of the Adelanto Facility resulted in $171,762 legal fees.

During the quarter ended March 31, 2017, the Company recorded $177,389 in revenue which was associated with the design and building services provided by LDS Agrotech. Operating expenses totaled $758,684 and included consulting fees of $221,346, amortization expense of $1,537, office and other general expenses of $90,174, of which $55,725 was associated with the rental fees the Company paid for its Adelanto Facility and the office facility, regulatory fees of $22,227, accounting fees of $23,200, legal fees of $29,406 and research and development costs of $142,970.

During its first and second quarters of Fiscal 2017 the Company was working with Canaccord Genuity Corp. on due-diligence process for its Brokered Private Placement, which closed on May 31, 2017. The Company incurred a total $238,189 in legal and regulatory fees, which were offset against the proceeds received on the close of the financing. In addition, the Company continued working on retrofitting and rebuilding its Adelanto Facility, for which majority of fees has been capitalized as part of the equipment and production facility costs.

During the quarter ended December 31, 2016, the Company recorded $33,034 in revenue which was associated with the non-refundable annual license fee the Company received pursuant to the MOU with an unrelated party dated for reference July 30, 2015. Operating expenses totaled $556,129 and included consulting fees of $198,780, amortization expense of $47,802, office and other general expenses of $72,300, of which $47,722 was associated with the rental fees the Company paid for its production facility, regulatory fees of $65,586, accounting fees of $57,500, legal fees of $12,387 and research and development costs of $12,836. In addition, at December 31, 2016, the Company recorded an impairment of $388,833 on certain parts of its production equipment, as certain modifications in the Company's business plans rendered its originally acquired strip coating equipment not capable of operating under required capacity. Inventory was impaired by $14,784. As a result of modifications in the Company's plan of operations and acquisition of the License during the quarter ended December 31, 2016, the original CannaStrips technology, acquired from Canna, was impaired, resulting in $618,937 impairment charge.

During the quarter ended September 30, 2016, the Company did not generate any revenue from its operations. Its operating expenses totaled $716,898 and included $195,807 in share-based compensation associated with the grant of options to its officers and directors, $180,948 in consulting fees, $92,727 in office and general expenses as well as $74,677 in advertising and promotion fees.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2018, the Company had $5,967,361 (2017 – $2,754,308) in cash and cash equivalents and had a working capital of $6,503,661 (2017 – $820,738). Of the total cash balance $511,982 (2017 - $11,500) were held in Guaranteed Investment Certificate ("GIC") at floating interest rates with reference to the market. The Company's share capital was $41,727,020 (2017 - $23,990,089) representing 119,532,698 (2017 – 95,672,919) common shares, of which 2,100,000 (2017 - 8,196,000) were held in escrow, reserves of $3,673,061 (2017 - $3,698,443), and an obligation to issue shares of $79,063 (2017 - $2,024,063). As at June 30, 2018, the Company had accumulated $22,865,143 in deficit (2017 – $18,139,295), recorded other comprehensive income of $382,218 (2017 - $146,817 loss) and allocated a portion of its comprehensive loss totaling $877,908 (2017 - $538,507) to non-controlling interests associated with 25% ownership of the LDS Agrotech and LDS Scientific by minority shareholders of these subsidiaries.

During the six months ended June 30, 2018, the Company generated $315,691 in revenue from its operations, however, this revenue is not considerable enough to support the working capital needs of the Company. As such the Company continues to depend on the equity and debt markets as its additional source of operating capital.

Until the Company is able to increase its revenue from the main business activities, the Company will have to continue relying on equity and debt financing. There can be no assurance that financing, whether debt or equity, will be available to the Company in the amount required at any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

CONTRACTUAL OBLIGATIONS

A summary of the Company`s contractual obligations at June 30, 2018, is detailed in the table below.

Payments Due by Period					
	Total	**Less than 1 Year**	**1 – 3 Years**	**4 – 5 Years**	**After 5**
Accounts Payable	$ 455,141	$ 455,141	n/a	n/a	n/a
Accrued Liabilities	$ 39,808	$ 39,808	n/a	n/a	n/a
Amounts due to Related Parties	$ 361,758	$ 361,758	n/a	n/a	n/a
Advances Payable	$ 9,718	$ 9,718	n/a	n/a	n/a
Unearned Revenue	$ 136,647	$ 136,647			
Total	**$ 1,003,072**	**$ 1,003,072**	**n/a**	**n/a**	**n/a**

Management believes that the Company will be able to generate sufficient cash to meet its current obligations for the next twelve months.

OFF BALANCE SHEET ARRANGEMENTS

To the best of management's knowledge, there are no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company.

RELATED PARTY TRANSACTIONS

		June 30, 2018	June 30, 2017
Management consulting fees	a)	$ 409,293	$ 264,189
Consulting services for research and development and	b)	$ 223,452	$ 176,128
Share-based compensation	c)	$ 342,391	$ -
Shares issued for intangibles	d)	$ -	$ 590,000

a) Management consulting services consist of the following:

- $192,370 (2017 – $200,145) in consulting fees paid or accrued to Mr. Eckenweiler, the CEO and director of the Company pursuant to a consulting agreement with Mr. Eckenweiler. The Company agreed to pay Mr. Eckenweiler US$25,000 per month for his services for a term expiring on February 28, 2021, and automatically renewable for successive one-year periods thereafter. In case the Company decides to terminate the consulting agreement with Mr. Eckenweiler 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 multiplied by 18 months regardless of the length of time remaining under the then current term.

- $38,182 (2017 – $40,029) 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 pursuant to a management consulting agreement expiring on May 1, 2019, with automatic renewals for successive one-year periods thereafter.

- $57,277 (2017 - $24,015) in consulting fees paid to Ms. Silina, the Company's Chief Financial Officer (the "CFO"). The Company agreed to pay Ms. Silina US$7,500 per month for her services pursuant to a management consulting agreement expiring May 1, 2019, with automatic renewals for successive one-year periods thereafter.

- $30,000 (2017 - $Nil) in consulting fees paid to Mr. Johannson, a member of the board of directors of the Company. The Company agreed to pay Mr. Johannson $5,000 per month for his services pursuant to a consulting agreement expiring January 1, 2020, with automatic renewals for successive one-year periods thereafter.

- $91,464 (2017 - $Nil) in consulting fees paid to Mr. McEnulty, director and executive officer of the Company's wholly-owned California subsidiaries. The Company agreed to pay Mr. McEnulty US$12,000 per month for his services pursuant to a consulting agreement expiring December 30, 2020, with automatic renewals for successive one-year periods thereafter.

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

- $95,858 (2017 – $102,741) in consulting fees paid 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.

- $88,189 (2017 – $73,387) 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. As of January 1, 2018, the Company agreed to increase Mr. Ferguson's consulting fee to US$11,500 per month.

- $39,405 (2017 – $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 January 11, 2018, the Company granted an option to purchase up to 500,000 common shares to its director and a consultant. The options were valued at $342,391 and may be exercised at a price of $1.15 per share expiring on January 11, 2020 (Note 7).

d) Shares issued for intangibles:

On May 3, 2017, the Company entered into an exclusive worldwide license agreement with the Company's Chief Science Officer, Dr. John D. Sanderson, and Nanostrips, Inc., a company controlled by Dr. Sanderson (the "Sanderson License Agreement"). Under the terms of the Sanderson License Agreement, the Company was 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:

	June 30, 2018	December 31, 2017
Brad Eckenweiler	$ 209,184	$ 116,727
James Pakulis	42,724	3,067
Dr. Sanderson	6,584	17,470
Yanika Silina	3,206	5,835
Arni Johannson	5,250	-
Frank McEnulty	94,810	-
Total payable to related parties	**$ 361,758**	**$ 143,099**

During the six-month period ended June 30, 2018, the Company advanced a total of $1,102,479 (US$885,722) to a company with a director in common to acquire equipment. The advance is non-interest bearing, due on demand, and secured by the equipment purchased with the proceeds of the advance. As at June 30, 2018, a total of $1,166,319 was receivable from the related entity.

SIGNIFICANT ACCOUNTING POLICIES AND CRITIAL ACCOUNTING ESTIMATES

All significant accounting policies and critical accounting estimates are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2017.

FINANCIAL INSTRUMENTS

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables, other financial liabilities or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments are measured at amortized cost using the effective interest rate method with any changes to the carrying amount of the investment, including impairment losses, recognized in the statement of comprehensive loss. Loans and receivables are measured at cost less any provision for impairment. Other financial liabilities are recognized initially at fair value and subsequently at amortized cost.

The Company has implemented the following classifications for its financial instruments:

a) Cash, short-term investments, and receivables have been classified as loans and receivable;
b) Accounts payable, accrued liabilities, advances payable, amounts due to related parties, related and unrelated party loans payable, and unearned revenue have been classified as other financial liabilities.

Assets measured at fair value on a recurring basis were presented on the Company's statement of financial position as at June 30, 2018 as follows:

	Fair Value Measurements Using				
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance, June 30, 2018	Balance, December 31, 2017
	$	$	$	$	$
Cash	5,317,095	-	-	5,317,095	2,742,808
Funds held in trust	138,284	-	-	138,284	-
Term deposit	511,982	-	-	511,982	11,500
Cash and cash equivalents	5,967,361	-	-	5,967,361	2,754,308

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, interest rate and currency risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

Credit risk
Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and short-term investments. The Company limits its exposure to credit loss by placing its cash and short-term investment with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure.

Interest rate risk
Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks and GIC carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instruments to hedge potential fluctuations in interest rates. The exposure to interest rate risk for the Company is considered minimal. The Company has no interest bearing borrowings.

The Company considers its interest rate risk policies to be effective and has been following them consistently.

Price Risk
The Company is not exposed to commodity price risk as its current business operations do not depend on fluctuations in the market price of commodities.

OUTSTANDING SHARE DATA

As of August 29, 2018, the Company had the following securities issued and outstanding:

Type	Amount	Exercise Price	Expiry Date
Common shares[(1),(2)]	119,632,698	n/a	Issued and outstanding
Warrants	5,300,000	$0.75	January, 11, 2019
Stock options	25,000	$0.80	August 15, 2021
Stock options	8,311,000	$0.50	July 27, 2019
Stock options	266,450	$0.75	January 27, 2019
Stock options	500,000	$1.15	January 11, 2020
Stock options	2,860,820	$0.58	August 15, 2020
	136,895,968		Total shares outstanding (fully diluted)

(1) *Authorized: Unlimited common shares without par value.*

(2) *Of the 119,632,698 common shares issued and outstanding, 2,100,000 common shares remain in escrow pending release to original shareholders of Canna upon achievement of financial milestones.*

ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published and are fully disclosed in Note 3 of the audited consolidated financial statements for the year ended December 31, 2017. Management is assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

RISKS AND UNCERTAINTIES

The following are certain risk factors relating to the business carried out by the Company which prospective investors should carefully consider before deciding whether to purchase the Company's securities. The risks presented below may not be all of the risks that the Company may face. The Company will face a number of challenges in the development of its business. Due to the nature of the Company's business and present stage of the business, the Company may be subject to significant risks. Sometimes new risks emerge and management may not be able to predict all of them, or be able to predict how they may cause actual results to be different from those contained in any forward-looking statements. Readers should not rely upon forward-looking statements as a prediction of future results. Readers should carefully consider all such risks, including those set out in the discussion below.

Regulatory Risks

The activities of the Company will be subject to strict regulation by governmental authorities imposed on the affiliates of the Company. Achievement of the Company's business objectives are contingent, in part, upon compliance of its affiliates with regulatory requirements enacted by various governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of their products. The Company cannot predict the time required for its affiliates and itself to secure all appropriate regulatory approvals for the Company's technology and the related products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products by the Company and its affiliates and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Although the Company and mainly its affiliates actively seek to comply with U.S. local and state marijuana laws, marijuana remains a Schedule I drug under the United States Controlled Substances Act of 1970 (the "CSA") and the cultivation and distribution or marijuana and marijuana related products remains illegal under U.S. federal law. Although the State of California has enacted laws legalizing the use, cultivation, extraction, manufacture and distribution of cannabis and cannabis products, U.S. federal law criminalizing the use of marijuana may pre-empt state laws that legalize its use and production. Although Congress has prohibited the US Justice Department from spending federal funds to interfere with the implementation of state medical marijuana laws, this prohibition must be renewed each year to remain in effect. There are no assurances that

these spending prohibitions will continue in the future. If these spending prohibitions are not renewed, unless the CSA is amended, of which there can be no assurance, the Company's operations and operations of its affiliates may be deemed to be in violation of United States federal law and the Company and/or its affiliates could become subject to enforcement proceedings under United States federal law. Active enforcement of United States federal law as it currently exists could adversely affect the Company's future business prospects, cash flows, earnings, results of operations and financial condition and would likely prevent the Company from being able to proceed with its current business plan.

Change in Laws, Regulations and Guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the business activities of its affiliates, the acquisition, manufacture, management, transportation, storage and disposal of cannabis and cannabis-related products as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company and its affiliates and may cause adverse effects to the operations of the Company's affiliates thereby affective the results of operations of the Company.

As of the date of this MD&A, twenty-nine states and the District of Columbia allow the use of cannabis. These jurisdictions have passed laws either decriminalizing or legalizing the medicinal and/or recreational use of cannabis. While the Company believes that the number of states legalizing the use of cannabis will increase, there is no assurance of the trend. There is no assurance that the twenty-nine existing states or the District of Columbia will not reverse their position on cannabis and revoke the legal use of cannabis. These changes would materially impact the growth of the Company's business and the Company may experience declining revenues if the market for its product and services declines as a result of such changes.

Even in areas where the recreational and/or medicinal use of cannabis is legal under state law, there are local laws and regulations that affect the Company's licensees. In some municipalities, a retail cannabis dispensary is prohibited from being located within a certain distance from schools, community centers and/or churches. These local laws and regulations may cause some of the licensee's customers to close, which will impact the revenue of the Company and have a material effect on the Company's business and operations. The enforcement of identical rules or regulations with respect to cannabis may vary from municipality to municipality or city to city.

While the impact of such changes is uncertain and highly dependent on the specific laws, regulations or guidelines being changed and on the outcome of any such court actions, it is not expected that any such changes would have an effect on the Company's operations that are materially different than the effect on similar-sized companies in the same business as the Company.

Internet websites are accessible everywhere, not just in jurisdictions where the activities described therein are considered legal. The assets of the Company include several domain names and websites which provide information about the Company's business, and business and products of its affiliates. The Company may face legal action from a state or other jurisdiction for engaging in activity or abiding the activity that is illegal in that state or jurisdiction by way of its website.

Summary of California Regulatory Environment for Marijuana Related Businesses

Currently, California's medicinal and adult-use cannabis regulatory frameworks are merged under one licensing structure under the Medicinal and Adult-Use Cannabis Regulation and Safety Act ("MAUCRSA").

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators: (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the "MCSB"), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the "BCC"), issues licenses to cannabis distributors, testing laboratories, retailers, and micro-businesses.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license

approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license.

Under California state law, all state licensed cannabis businesses are entitled to rely on certain transition provisions until June 30, 2018. These provisions were included to ease the transition of businesses into the new regulatory regime introduced on January 1, 2018 in California. The provisions grandfather the sale of certain products compliantly produced prior to January 1, 2018, and, among other things, also allow state licensees to transact with other state licensees regardless of the parties' adult-use (A) or medical (M) license until July 1, 2018.

CSPA currently holds Conditional Use Permits from the City of Adelanto for the extraction and manufacturing of medicinal cannabis products at the Adelanto Facility. In addition, CSPA has been granted a Temporary Category M Type 7 Manufacturing with Volatile Solvents License by the MCSB, which was good through April 30, 2018. On April 30, 2018, CSPA filed an application with the California Department of Public Health for a permanent license, which extended the temporary license term until July 28, 2018.

LDS Scientific also holds a permit issued by the Mojave Desert Air Quality Management District ("MDAQMD") to operate on behalf of CSPA under the Temporary Category M Type 7 Manufacturing with Volatile Solvents License. The MDAQMD Permit is valid through June 2018, at which time the facility and its operations will be reviewed by MDAQMD. Upon a favorable review the permit can be renewed for additional one year periods.

As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as the facility's books and records to monitor and enforce compliance with state law.

Risks Related to Conflicting Federal and State Laws

The cannabis industry is currently conducted in twenty-nine states and the District of Columbia. These jurisdictions have passed laws either decriminalizing or legalizing the medicinal or recreational use of cannabis. However, under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis remains illegal. The Federal, and, in some cases, State law enforcement authorities have frequently closed down retail dispensaries, growers, and producers of cannabis products and have investigated or closed physician offices that provide medicinal cannabis recommendations. To the extent that an affected retail dispensary, grower, producer, or physician office is a customer of the Company, it will affect the Company's revenue. Enforcement actions that impact new retail dispensaries, growers, producers and physician offices entering the cannabis industry may materially affect the Company's business and operations.

Banking Risks

As the use, cultivation, manufacture and distribution of marijuana remains illegal under U.S. federal law. U.S. banks may not be able or willing to accept for deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding banks willing to accept their business. An inability to open or maintain bank accounts in the U.S. may make it difficult for the Company to operate its business.

Liability, Enforcement Complaints etc.

The participation of the Company's affiliates in the marijuana industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company, its subsidiaries, or its affiliates. Litigation, complaints, and enforcement actions involving the Company could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Operation Permits and Authorizations

The regulatory environment for marijuana operations in California remains complex. Although the Company's affiliate, CSPA Group, Inc. currently has state and local licenses and permits for its existing operations, maintaining those licenses and permits can be a complex process. The Company and its affiliates may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate its medical marijuana business. In addition, the Company or its affiliates may not be able to comply fully with the wide variety of laws and regulations applicable to the marijuana industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on the Company's ability to operate its business and ability to execute its business plan.

Supply of Raw Cannabis Material

The Company's affiliates currently obtain raw cannabis materials from third parties. However, there can be no assurance that there will continue to be a supply of raw cannabis material available to meet the production needs. Additionally, the price of raw cannabis may be volatile which would increase the cost of goods. If the Company's affiliates are unable to acquire raw cannabis in amounts sufficient to meet its business needs or if the price of raw cannabis increases significantly, the Company's affiliates as well as the Company's business prospects, operations and financial condition could be adversely affected.

Lack of Operating History

The Company has only recently started to carry on its business and is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. The failure by the Company to meet any of these conditions could have a material adverse effect on the Company and may force it to reduce, curtail, or discontinue operations. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations. The Company may not successfully address all of the risks and uncertainties or successfully implement its existing and new products and services. If the Company fails to do so, it could materially harm its business and impair the value of its common stock, resulting in a loss to shareholders. Even if the Company accomplishes these objectives, the Company may not generate the anticipated positive cash flows or profits. No assurance can be given that the Company can or will ever be successful in its operations and operate profitably.

Reliance on Management and Key Personnel

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. The Company attempts to enhance its management and technical expertise by recruiting qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees as well as information technology, engineering, and technical support resources could have a material adverse impact on the Company's financial condition and results of operation. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Additional Financing

The Company's future capital requirements depend on many factors, including its ability to market products successfully, cash flows from operations, locating and retaining talent, and competing market developments. The Company's business model requires spending money (primarily on advertising and marketing) in order to generate revenue. Based on the Company's current financial situation, the Company may have difficulty continuing operations at the current level, or at all, if it does not start generating sufficient revenue from its operations in the near future.

In order to execute the Company's business plan, the Company will require some additional equity and/or debt financing to undertake capital expenditures. There can be no assurance that additional financing will be

available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing or earn revenue to support on-going operations or to fund capital expenditures could limit the Company's operations and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of current holders of the Company Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital or to pursue business opportunities, including potential acquisitions. If adequate funds are not obtained, the Company may be required to reduce, curtail, or discontinue operations. There is no assurance that the Company's existing cash flow will be adequate to satisfy its existing operating expenses and capital requirements.

Competition

There is potential that the Company and its affiliates will face intense competition from numerous other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Because of early stage of the industry in which the Company provides its services in, the Company expects to face additional competition from new entrants. If the number of users of medical or recreational marijuana in the United States increases, the demand for products based on the Company's technology or on similar technologies will increase and the Company expects that competition will become even more intense, as current and future competitors begin to offer an increasing number of diversified products and develop technologies similar to the Company's core technology. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

Growth and Consolidation in the Industry

The cannabis industry is undergoing rapid growth and substantial change, which may result in increased consolidation and formation of strategic relationships. The Company expects this consolidation and strategic partnering to continue. Acquisitions or other consolidating transactions could have adverse effects on the Company and its affiliates. The Company could lose strategic relationships if its partners are acquired by or enter into agreements with a competitor, causing the Company to lose access to distribution, content and other resources. The relationships between the Company and its strategic partners may deteriorate and cause an adverse effect on the business. The Company could lose customers if competitors or user of competing technology consolidate with the Company's current or potential customers and affiliates. Furthermore, the Company's current competitors could become larger players in the market or new competitors could form from consolidations. Any of the foregoing events could put the Company at a competitive disadvantage, which could cause the Company to lose customers, revenue, and market share. Consolidation in the industry could also force the Company to divert greater resources to meet new or additional competitive threats, which could harm the Company's operating results.

Intellectual Property Risks

The Company`s ability to compete largely depends on the superiority, uniqueness, and value of its intellectual property and technology, including both internally-developed technology and the ability to acquire patent protection and/or trademark protection. To protect its proprietary rights, the Company will rely on a combination of trademark, copyright, and trade secret laws, trademark and patent applications, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, certain risks may reduce the value of the Company's intellectual property. The Company's applications for trademarks and copyrights relating to its business may not be granted, and if granted, may be challenged or

invalidated. There is no guarantee that issued trademarks and registered copyrights will provide the Company with any competitive advantages. The Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of its technology and may not prevent the development and design by others of products or technology similar to, competitive with, or superior to those the Company develops. There is a risk that another party may obtain a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products.

Risks Inherent in an Agricultural Business

The Company's business will indirectly rely on the growing of cannabis, an agricultural product, for use by its affiliates. As a result, the business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. There can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Unfavorable Publicity or Consumer Perception

The Company believes the marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the product. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or the Company's products specifically, or associating the consumption of marijuana with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company will face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of the Company's affiliates' products based on the Company's technology may involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company and its affiliates may become subject to various product liability claims, including, among others, that the products based on the Company's technology caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's affiliates' products based on the Company's technology are recalled due to an alleged product defect or for any other reason, the Company may be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company's affiliates may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company will ensure that its affiliates have detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the significant brands based on the Company's technology were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's technology and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the affiliates operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

Difficulty to Forecast

The Company will have to rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the cannabis industry in the United States. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Operating Risk and Insurance Coverage

The Company maintains insurance to protect its assets, operations and employees. Due to the nature of the Company's business, the insurance such as workers compensation, general liability, directors and officers insurance, even though available, is more costly. There are no guarantees that the Company will be able to renew current insurance policies or that the cost will be affordable to the Company. While the Company believes its insurance coverage is adequate to protect it from the material risks to which it is exposed as of the date of this MD&A, no assurance can be given that such insurance will be adequate to cover the Company's future liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Growth Management

The Company and its affiliates have, and may in the future, experience rapid growth and development in a relatively short period of time by aggressively marketing its technology and services. The Company and its affiliates may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company and its affiliates to manage growth effectively will require them to continue to implement and improve the operational and financial systems and to expand, train and manage their employee base. The inability of the Company and its affiliates to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Conflicts of Interest

Certain directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

Litigation

The Company may be forced to litigate, enforce, or defend its intellectual property rights, protect its trade secrets, or determine the validity and scope of other parties' proprietary rights. Such litigation would be a drain on the financial and management resources of the Company which may affect the operations and business of the Company. Furthermore, because the content of most of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions, the Company may face additional difficulties in defending its intellectual property rights.

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue its operations, the market price for Company Shares, and could significantly drain the Company's resources? Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

The market price of the Company Shares may be subject to wide price fluctuations

The market price of the Company shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Company shares.

Environmental and Employee Health and Safety Regulations

The Company's operations will be subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's manufacturing operations. In addition, changes in environmental, employee health and safety, or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

CONTINGENCIES

There are no contingent liabilities.

ADDITIONAL INFORMATION

Additional information about the Company is available for viewing on SEDAR at www.sedar.com.