LIFESTYLE DELIVERY SYSTEMS INC.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

December 31, 2018

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lifestyle Delivery Systems Inc.

Opinion

We have audited the consolidated financial statements of Lifestyle Delivery Systems Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in stockholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company has incurred losses and negative operating cash flows since inception and the Company's ability to continue its operations is dependent on its ability to raise additional equity financing and to generate operational cash flow from product revenue. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David J. Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

May 5, 2019

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

		December 31, 2018		December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	452,295	$	2,754,308
Amounts receivable (Note 6)		67,530		77,712
Advances receivable (Notes 6 and 10)		9,549		-
Prepaids and other current assets (Note 5)		675,810		231,168
Inventory (Note 7)		2,119,417		-
Marketable securities (Note 9)		541,237		-
Total current assets		3,865,838		3,063,188
Property, plant and equipment (Note 4)		17,198,355		10,067,238
TOTAL ASSETS	$	21,064,193	$	13,130,426
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$	2,929,846	$	1,103,419
Accrued liabilities		200,400		103,915
Wages payable		79,799		-
Amounts due to related parties (Note 10)		160,670		143,099
Advances payable		10,050		9,282
Note payable (Note 12)		721,000		655,446
Unearned revenue (Note 8)		680,505		227,289
Total liabilities		4,782,270		2,242,450
Stockholders' equity				
Share capital (Note 11)		42,797,498		23,990,089
Obligation to issue shares (Notes 11)		-		2,024,063
Reserves (Note 11)		4,502,317		3,698,443
Deficit		(30,426,172)		(18,139,295)
Accumulated other comprehensive income (loss)		903,903		(146,817)
Total parent shareholders' equity		17,777,546		11,426,483
Non-controlling interests (Note 14)		(1,495,623)		(538,507)
Total shareholders' equity		16,281,923		10,887,976
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	21,064,193	$	13,130,426

Nature and continuance of operations (Note 1)
Subsequent events (Note 18)

"Brad Eckenweiler"
Brad Eckenweiler, Director

"Casey Fenwick"
Casey Fenwick, Director

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

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

	Year ended December 31, 2018	2017
Revenue	$ 3,925,263	$ -
Consulting revenue	155,484	191,126
Cost of sales	(5,770,218)	-
Gross margin	(1,689,471)	191,126
Expenses		
Accounting fees	150,038	159,700
Advertising and promotion	1,292,337	1,775,860
Amortization (Note 4)	54,744	6,921
Consulting fees (Note 10)	1,298,314	957,340
IT infrastructure	311,776	262,967
Finance fees (accretion)	-	19,724
Legal fees	861,306	548,461
Meals and travel expenses	470,244	296,187
Office and general	1,477,989	850,064
Regulatory fees	272,192	162,606
Research and development (Note 10)	1,116,986	2,710,620
Salaries and wages expense (Note 10)	787,187	-
Share-based compensation (Notes 10 and 11)	2,142,819	5,430,805
Operating expenses	10,235,932	13,181,255
Foreign exchange gain (loss)	102,369	(89,093)
Loss on investment	-	(64,930)
Interest expense (Note 12)	(130,290)	(32,652)
Interest income	4,343	12,647
Impairment of advances receivable	(1,204,405)	-
Net loss for the year	**$ (13,153,386)**	**$ (13,164,157)**
Net loss attributable to:		
Shareholders of the Company	(12,286,877)	(12,596,268)
Non-controlling interests (Note 14)	(866,509)	(567,889)
	$ (13,153,386)	$ (13,164,157)
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss)		
Foreign exchange translation	956,822	(119,446)
Total comprehensive loss for the year	**$ (12,196,564)**	**$ (13,283,603)**
Other comprehensive income (loss) attributed to:		
Shareholders of the Company	1,050,720	(142,212)
Non-controlling interests (Note 14)	(93,898)	22,766
	$ 956,822	$ (119,446)
Total comprehensive loss attributable to:		
Shareholders of the Company	(11,236,157)	(12,738,480)
Non-controlling interests (Note 14)	(960,407)	(545,123)
	$ (12,196,564)	$ (13,283,603)
Net loss per share - basic and diluted	$ (0.12)	$ (0.19)
Weighted average number of shares outstanding	111,737,032	69,007,717

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

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

	Common shares						Accumulated Other	
	Number of Shares	Amount	Obligation to Issue Shares	Reserves	Deficit	Non-controlling Interest	Comprehensive Income / (Loss)	Total
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
Share issuance costs - cash and shares	164,100	(673,640)	-	-	-	-	-	(673,640)
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
Finder's warrants for private placement	-	(218,974)	-	218,974	-	-	-	-
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
Shares released from escrow for technology	-	2,520,000	-	-	-	-	-	2,520,000
Share-based compensation	-	-	-	3,427,092	-	-	-	3,427,092
Subscription for shares	-	-	2,020,000	-	-	-	-	2,020,000
Non-controlling interest 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
Private placement	5,500,000	2,750,000	(2,020,000)	-	-	-	-	730,000
Exercise of warrants	21,193,329	14,834,007	-	(176,409)	-	-	-	14,657,598
Exercise of options	266,450	279,444	-	(79,606)	-	-	-	199,838
Cancelled shares issued for membership	(3,000,000)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	1,059,889	-	-	-	1,059,889
Shares released from escrow for technology	-	892,500	-	-	-	-	-	892,500
Shares issued for finder's fee for the acquisition of technology	108,333	51,458	(4,063)	-	-	-	-	47,395
Non-controlling interest in equity	-	-	-	-	-	3,291	-	3,291
Foreign exchange translation	-	-	-	-	-	(93,898)	1,050,720	956,822
Net loss for the year	-	-	-	-	(12,286,877)	(866,509)	-	(13,153,386)
Balance at December 31, 2018	119,741,031	$ 42,797,498	$ -	$ 4,502,317	$ (30,426,172)	$ (1,495,623)	$ 903,903	$ 16,281,923

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

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

	Year ended December 31, 2018	Year ended December 31, 2017
Cash flows used in operating activities		
Net loss	$ (13,153,386)	$ (13,164,157)
Non cash items		
Amortization	54,744	6,921
Foreign exchange	(137,112)	17,895
Impairment of advances receivable	1,204,405	-
Interest on notes payable	130,290	32,652
Loss (gain) on investment	-	64,930
Non-cash interest accretion	-	17,436
Options issued for advertising and promotion	(143,037)	675,756
Shares issued for research and development	-	590,000
Share-based compensation	2,142,819	5,430,805
Changes in operating assets and liabilities		
Amounts receivable	18,868	(58,229)
Prepaids and other current assets	(429,585)	(207,279)
Inventory	(1,591,516)	(338,069)
Accounts payable and accrued liabilities	1,761,735	1,392,225
Wages and salaries payable	75,792	-
Amounts due to related parties	6,154	100,743
Unearned revenue	(97,177)	233,035
Net cash used in operating activities	(10,157,006)	(5,205,336)
Cash flows from financing activities		
Notes receivable	(1,102,464)	922,373
Repayment of notes (net of loans received)	(88,710)	-
Issuance of common stock for private placements	730,000	8,830,018
Proceeds from warrant exercise	14,657,598	3,520,640
Proceeds from option exercise	199,838	261,706
Subscription to shares	-	1,592,995
Net cash provided by financing activities	14,396,262	15,127,732
Cash flows used in investing activities		
Advances repaid	-	87,656
Equipment purchased	(3,242,096)	(1,580,154)
Investment in license	(1,567,500)	(187,575)
Production facility	(1,869,222)	(4,020,749)
Land acquisition	(3,162)	(2,025,418)
Net cash used in investing activities	(6,681,980)	(7,726,240)
Effects of foreign currency exchange	140,711	117,800
Change in cash and cash equivalents	(2,302,013)	2,313,956
Cash and cash equivalents, beginning	2,754,308	440,352
Cash and cash equivalents, ending	$ 452,295	$ 2,754,308
Cash and cash equivalents are comprised of:		
Cash	$ 440,795	$ 2,742,808
Term deposit	11,500	11,500
Total cash and cash equivalents	$ 452,295	$ 2,754,308
Supplemental cash flow information:		
Cash paid for interest	$ 137,855	$ -
Cash received for interest	$ 4,343	$ 12,647
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 these audited consolidated financial statements.

(Expressed in Canadian Dollars)

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). LDS is a technology company that licenses its technology to a state-of-the-art production and packaging facility located in Southern California. The Company's technology produces sublingual strips (similar to breath strips).

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".

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 – cultivation
LDS Scientific Inc.	USA	January 23, 2017	75%	Consulting services - extraction and manufacturing
Rêveur Holdings Inc. (formerly Adelanto Agricultural Advisors Inc.)	USA	July 7, 2017	100%	Holding company
LDS Development Corporation	USA	July 20, 2017	100%	Real estate holdings; equipment
Lifestyle Capital Corporation	USA	July 19, 2017	100%	Financing
Omni Distribution Inc.	USA	August 14, 2017	75%	No current operating activities
Optimus Prime Design Corp.	Canada	February 21, 2014	100%	Holding company
CSPA Group, Inc.	USA	October 1, 2018	100%	Manufacturing and transportation
Core Isogenics Inc.	USA	June 15, 2017	100%	Nursery and cultivation

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 May 5, 2019, by the Directors of the Company.

Statement of Compliance
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 have been eliminated on consolidation.

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

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 basis except for certain financial instruments and contingencies which are valued at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all years presented. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Functional and presentation currency
These consolidated financial statements are presented in Canadian dollars, the Company's functional and presentation currency. The Company's US subsidiaries' functional currency is the US dollar.

Foreign currency translation
Transactions and balances:
Foreign currency transactions are translated into the 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 the 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 qualifying cash flow or net investment hedge.

Translations:
Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. 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 (loss). These differences will be recognized in the profit or loss if and when the US subsidiaries are ever disposed of.

Significant estimates and assumptions
The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is a significant risk of material adjustments to assets and liabilities in future accounting periods include fair value of its capital assets, the useful life of technology, fair value measurements for financial instruments, recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Significant judgments
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:

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

Significant judgments (Continued)

- 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
The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carry value of any of the financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

i) Classification
The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash and cash equivalents	FVTPL	FVTPL
Accounts receivable	Amortized cost	Amortized cost
Unearned revenue	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholder's equity at the beginning of the 2018 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive loss on January 1, 2018.

ii) Measurement
Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net loss in the period in which they arise.

Debt investments at FVTOCI
These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

iii) Impairment of financial assets at amortized cost
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition
Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or when they expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (Continued)

is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

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

If the recoverable amount of an asset or cash-generating unit ("CGU") is estimated to be less than its carrying amount, the carrying amount of the asset or CGU 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 CGU 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 CGU 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 consulting fees associated with set up of cannabis operations and sales of cannabis products, such as CannaStrips™, Rêveur live resins, and distillate oils. Once the Company finalizes development of its Track and Trace software the additional revenue will be coming from licensing fees. The Company recognizes its revenue as follows:

- Revenue from sales of products is recognized when the transfer of ownership to the customer has occurred and customer has accepted the product.
- Consulting revenues are recognized when services have been provided, the income is determinable, and collectability is reasonably assured. The Company's contract terms do not include a provision for significant post-service delivery obligations.
- Licensing revenue is recognized pro rata over the license term.

Deposits received from customers prior to 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 8).

Inventory
Inventories, which comprise raw materials and supplies, work-in-progress and finished products, are stated at the lower of cost and net realizable value. Costs of inventories are determined using the weighted average cost method and include the cost of purchase, the cost of conversion (labour and overhead) and other costs required to bring the inventories to their present location and condition. Net realizable value represents the estimated selling price for inventories, less all estimated costs of completion and costs necessary to make the sale. The cost of work-in-process and finished product inventories includes the cost of materials, the cost of direct labour, and a systematic allocation of manufacturing overheads based on a normal range of capacity for the production facility.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of write-down previously recorded is reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss. Amortization is calculated as follows:

- Production equipment is amortized using double declining balance depreciation method ("DDB") at a rate of 20%;
- Transportation vehicles are amortized using DDB at a rate of 30%;
- Leasehold improvements and facility upgrade costs are amortized using a straight-line method ("SL") over the asset's useful life or a lease period plus one renewal period;
- Buildings are amortized on a straight-line basis over 15 to 40 years; and
- Land, having an unlimited useful life, is not depreciated.

No amortization is recorded where an asset is in development and not yet ready for its intended use.

Intangible assets
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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and development (Continued)

These costs are amortized on a straight-line basis over the estimated useful lives of 5 years. The Company did not have any development costs that met the capitalization criteria for the years ended December 31, 2018 and 2017.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is recognized on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

Recent accounting pronouncements

Newly adopted accounting standards

IFRS 15 - Revenue from Contracts with Customers

The Company adopted IFRS 15, "*Revenue from Contracts with Customers*", on January 1, 2018, using the cumulative effect method. The core principle of IFRS 15 is to recognize revenue in accordance with the transfer of control of contracted goods or services to customers in an amount that reflects the consideration to which the entity is, or expects to be, entitled on the basis of principles pertaining to the nature, timing and uncertainty of revenue and cash flows arising from the contracts. As a result of applying the requirements of IFRS 15, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption.

The Company recognizes revenue as the Company satisfies the performance obligations with its customers as it delivers the goods to a customer. Transaction prices are determined based on the agreed upon prices with customers for the Company's goods and services at the time contracts are entered into. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money and expenses any incremental costs of obtaining contracts with customers as incurred. The nature and timing of revenue recognized during the period has not changed as compared to amounts presented in the annual consolidated financial statements for the year ended December 31, 2017, and prior.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent accounting pronouncements (Continued)

Future accounting policy changes

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 the new standard on the Company's accounting policies and financial statement presentation.

4. PROPERTY, PLANT AND EQUIPMENT

		Property		Equipment		Plant		Total
Cost								
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
Additions		3,162		3,242,096		1,869,222		5,114,480
Membership		1,567,500		-		-		1,567,500
Foreign exchange		165,463		288,839		471,058		925,360
Balance at December 31, 2018	$	5,373,049	$	5,614,106	$	6,696,128	$	17,683,283
Accumulated Amortization								
Balance at December 31, 2016	$	-	$	1,784	$	-	$	1,784
Amortization		-		6,921		-		6,921
Balance at December 31, 2017		-		8,705		-		8,705
Amortization		-		312,449		163,774		476,223
Balance at December 31, 2018	$	-	$	321,154	$	163,774	$	484,928
Net Book Value								
At December 31, 2017	$	3,636,924	$	2,074,466	$	4,355,848	$	10,067,238
At December 31, 2018	$	5,373,049	$	5,292,952	$	6,532,354	$	17,198,355

As at December 31, 2018, the manufacturing division of the Adelanto facility and transportation vehicles were ready for utilization. Therefore, the Company started amortizing manufacturing and packaging equipment using DDB method at a 20% annual amortization rate, and transportation vehicles using a DDB method at a rate of 30% per year. The construction of the manufacturing division of the facility was also completed and the Company started amortizing cost of the construction and leasehold improvements over 10 years using a straight-line amortization method.

At December 31, 2018, $305,246 in amortization costs were included in cost of sales, and $116,233 in amortization costs was included in inventory.

(Expressed in Canadian Dollars)

4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at December 31, 2018, the nursery and the cultivation divisions of the Adelanto Facility were not completed and not ready for use for their intended purposes, as such amortization on these assets was not charged.

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 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 division of the Adelanto Facility, and one-third of the Escrowed Shares and cash purchase price for CSPA was to be paid upon grant of the COO for the extraction and manufacturing division 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 the fair value of 3,000,000 escrowed shares issued as part of the Membership Agreement with CSPA and made a partial cash payment of $187,575 (US$150,000).

On February 21, 2018, the Company reached an agreement with the principals of CSPA and NHMC (the "Sellers") to restructure the membership purchase agreements, whereby the Company agreed to a payment of $1,567,500 (US$1,250,000) and a release of 3,000,000 previously escrowed shares to members of CSPA. In addition, the Company and the Sellers agreed to an additional one-time payment of $150,480 (US$120,000).

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 and canceled on March 15, 2018. The Company's obligation to pay an additional US$1,400,000 was also canceled.

5. PREPAIDS AND OTHER CURRENT ASSETS

Prepaids and other current assets as at December 31, 2018 and 2017, consisted of the following:

	December 31, 2018	December 31, 2017
Insurance	$ 149,517	$ 20,310
Prepaid service fees	500,980	190,427
Security deposits	25,313	20,431
Total prepaids and other current assets	$ 675,810	$ 231,168

6. AMOUNTS RECEIVABLE

As at December 31, 2018, the amounts receivable consisted of $58,844 (2017 - $77,712) in GST receivable and $8,686 (2017 - $Nil) receivable from customers.

During the year ended December 31, 2018, the Company advanced $1,102,464 (US$889,865) to affiliated companies with directors and senior management in common. The advances are due on demand and do not accumulate interest (Note 10). At December 31, 2018 the Company impaired $1,204,405.

As at December 31, 2018, the Company had a total of $9,549 (US$7,500) in advances receivable from an affiliated entity.

(Expressed in Canadian Dollars)

7. INVENTORY

At December 31, 2018, the Company's inventory was valued at $2,119,417 and consisted of $1,028,447 (US$753,861) in raw materials held for manufacturing and $1,090,970 (US$799,691) in finished products ready for resale.

The cost of inventory expensed in cost of sales for the year ended December 31, 2018, was $4,737,027 (2017 – $Nil). As at December 31, 2018, $689,604 included as part of cost of sales was attributable to inventory valuation write-downs (2017 – $Nil).

8. UNEARNED REVENUE

At December 31, 2018, the Company recorded $680,505 (2017 - $227,289) in deferred revenue on future services with affiliated entities.

During the year ended December 31, 2017, the Company entered into an Intellectual Property License and Royalty Agreement (the "TCAN Agreement") for its Track and Trace software, which the Company is developing (Note 9). At December 31, 2018, the Track and Trace software was not ready for use; therefore, the Company recorded $605,057 as unearned revenue until such time that the Company will be able to provide the services as contemplated under the Agreement, at which time the cost will be expensed over the life of the TCAN Agreement (Note 9).

9. MARKETABLE SECURITIES

The Company's marketable securities consist of 1,082,473 common shares of Transcanna Holdings Inc. (the "TCAN Shares"), a company related by virtue of former common management and common directors. The Company acquired TCAN Shares as part of the TCAN Agreement, dated for reference November 15, 2017 (Note 8).

Pursuant to the TCAN Agreement, the Company granted to Transcanna Holdings Inc. ("Transcanna") non-exclusive rights to utilize the Company's Track and Trace software for a period of 5 years. Since the software is in the development stage, the Company recorded an initial cash license fee of $63,820 (US$50,000) received from Transcanna during the year ended December 31, 2017, as unearned revenue (Note 8).

On February 20, 2018, the TCAN Agreement was amended to include a payment of 9% of the outstanding shares of Transcanna prior to it completing the initial public offering ("IPO"). As at December 31, 2018, the Company was issued a total of 1,082,473 common shares of Transcanna. Subsequent to December 31, 2018, the Company received an additional 19,780 TCAN Shares.

At the time of the issuance, the fair market value of Transacanna shares was $0.50; therefore, the Company recorded $541,237 as unearned revenue during the year ended December 31, 2018.

10. RELATED PARTY TRANSACTIONS

The aggregate value of transactions (excluding wages paid as part of payroll) with key management personnel and entities over which they have control or significant influence were as follows:

		December 31,	
		2018	**2017**
Management consulting services	a)	$ 822,767	$ 549,412
Consulting services for research and development	b)	$ 453,497	$ 406,462
Share-based compensation	c)	$1,193,185	$ 2,751,336
Shares issued for license	d)	$ -	$ 590,000

10. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Management consulting services consist of the following:

- $390,125 (2017 – $389,580) in consulting fees paid or accrued to Mr. Eckenweiler, the Chief Executive Officer ("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.

- $70,740 (2017 – $77,916) in consulting fees paid or accrued to Mr. Pakulis, the Company's former 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. Mr. Pakulis resigned from his management and directorship positions with the Company on November 16, 2018, effectively terminating the management consulting agreement.

- $116,125 (2017 - $81,916) in consulting fees paid to Ms. Silina, the Company's Chief Financial Officer ("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.

- $60,000 (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. Mr. Johannson resigned as a director of the Company subsequent to December 31, 2018, effectively terminating his management consulting agreement with the Company.

- $185,777 (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:

- $113,374 (2017 – $210,373) in consulting fees paid to Ms. Elrod, former President and a 25% shareholder of LDS Scientific, and 25% owner of Omni Distribution Inc. (Note 14). The Company agreed to pay Ms. Elrod US$12,500 per month for her services. As of August 1, 2018, Ms. Elrod chose to receive her fees as part of regular monthly payroll, and as such her remuneration is included as part of salaries and wages expense. Subsequent to December 31, 2018, Ms. Elrod resigned from the management positions she held with the Company (Notes 14 and 17).

- $104,304 (2017 – $157,131) 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. As of August 1, 2018, Mr. Ferguson chose to receive his fees as part of regular monthly payroll, and as such his remuneration is included as part of salaries and wages expense.

- $113,374 (2017 – n/a) in consulting fees paid to Mr. Hunt, President and a 25% shareholder of LDS Scientific (Note 14). The Company agreed to pay Mr. Hunt US$12,500 per month for his services. As of August 1, 2018, Mr. Hunt chose to receive his fees as part of regular monthly payroll, and as such his remuneration is included as part of salaries and wages expense.

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (CONTINUED)

- $78,811 (2017 – $38,958) in consulting fees paid or accrued to Dr. Sanderson, Chief Science Officer ("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.

- $43,634 (2017 - $Nil) in consulting fees paid or accrued to Nanostrips Inc. a company controlled by Dr. Sanderson, CSO of the Company ("Nanostrips").

c) Share-based compensation consists of the following:

- On January 11, 2018, the Company granted an option to acquire up to 500,000 common shares to Mr. Johannson, the former director and a consultant. The option was valued at $342,391 and may be exercised at a price of $1.15 per share expiring on January 11, 2020 (Note 10).

- On August 15, 2018, the Company granted an option to acquire up to 2,825,820 common shares to its CEO and a director. The option was valued at $850,794 and may be exercised at a price of $0.58 per share expiring on August 15, 2020 (Note 10).

- During the comparative period ended December 31, 2017, the share-based compensation consisted of the fair market value of options to acquire up to 7,311,000 common shares the Company granted 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 10).

d) Shares issued for license:

On May 3, 2017, the Company entered into an exclusive worldwide license agreement with the Company's CSO and Nanostrips (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, on May 23, 2017, the Company issued Dr. Sanderson 1,000,000 common shares (the "License Shares"); the shares were valued at $590,000 and were recorded as part of research and development costs.

In addition to the License Shares, the Company agreed to issue Dr. Sanderson an additional 1,000,000 shares of its common stock (the "Patent Shares") 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. As of the date of these financial statements, the patent application is being reviewed by the United States Patent and Trademark Office, and therefore the Patent Shares have not been issued and remain an obligation.

Related party payables at December 31, 2018 and 2017, consisted of the following:

	December 31, 2018	December 31, 2017
Brad Eckenweiler	$ 37,424	$ 116,727
Dr. John Sanderson	20,463	17,470
James Pakulis	57,903	3,067
Yanika Silina	1,581	5,835
Arni Johannson	36,750	-
Frank McEnulty	81,852	-

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (CONTINUED)

	December 31, 2018	December 31, 2017
Crystal Elrod (Note 14)	(99,450)	-
Jonathan Hunt[(1)]	6,139	n/a
Nanostrips Inc.	18,008	-
Total payable to related parties	$ 160,670	$ 143,099

[(1)] Mr. Hunt became a related party to the Company in June 2018, on organization of Omni Distribution, as he obtained 25% control of Omni Distribution (Note 14).

Related party advances receivable

During the year ended December 31, 2018, the Company advanced a total of $1,093,394 (US$882,865) to a company with a director in common to acquire equipment. At December 31, 2018, the Company impaired the full amount receivable, being $1,204,405. In addition, the Company advanced $9,070 (US$7,000) for working capital to an affiliated company with senior management in common. The advances are due on demand and do not accumulate interest.

As at December 31, 2018 a total of $9,549 was receivable from the related entity (Note 6).

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, 2018, the Company did not borrow any funds from its related parties.

11. CAPITAL AND RESERVES

A. Common Shares

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

B. Issued share capital

As at December 31, 2018, the Company had 119,741,031 shares issued and outstanding.

During the year ended December 31, 2018, the Company had the following transactions that resulted in the issuance of its common stock:

i. 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 entitled 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 had a right to 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) was equal to or greater than $1.50 for 10 consecutive trading days. During the year ended December 31, 2018, 200,000 January Warrants were exercised; remaining January Warrants expired unexercised subsequent to December 31, 2018.

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

B. Issued share capital (Continued)

ii. During the year ended December 31, 2018, the Company issued 19,519,909 shares of the Company's common stock on the exercise of warrants for total proceeds of $13,664,036.

iii. During the year ended December 31, 2018, the Company issued 1,673,420 shares of the Company's common stock on the exercise of broker warrants for total proceeds of $993,562. These warrants had an initial fair value of $176,409.

iv. During the year ended December 31, 2018, the Company issued 266,450 shares of its common stock for total proceeds of $199,838 on the exercise of options the Company issued to an entity engaged in capital markets advisory and investor relations services. These options had an initial fair value of $79,606.

v. On March 15, 2018, the Company returned to treasury and canceled 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 (Note 4).

vi. On October 5, 2018, the Company issued 108,333 finder's shares with a value of $51,458 upon the Company achieving the fourth revenue milestone of generating cumulative US$1,000,000 as contemplated under the terms of the Acquisition of Canna (Note 11.E). Share-based compensation of $47,395 was recorded.

During the year ended December 31, 2017, the Company had the following transactions that resulted in the issuance of its common stock:

vii. 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 had a right to 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) was 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 the issuance of 164,100 Units, and $415,405 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 was exercisable into one Unit at $0.50 per Unit expiring on May 31, 2018. The fair value of Broker Warrants was calculated to be $211,706, and was determined using the Black-Scholes Option pricing model at the date of issuance using the following assumptions:

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

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

B. Issued share capital (Continued)

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

viii. 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 had a right to 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) was equal to or greater than $1.50 for 10 consecutive trading days.

In connection with the June Financing, the Company 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 was exercisable for one June Unit at $0.50 per June Unit for a period expiring on June 27, 2018. The fair value of the June Broker's Warrants was calculated to be $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%

ix. 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.

x. 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.

xi. 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.

xii. On May 23, 2017, The Company issued 6,000,000 shares (3,000,000 shares each) to the then 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 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 of the Escrowed Shares issued for CSPA was to be released upon the grant of a COO for the extraction and manufacturing division 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 the fair market value of 3,000,000 shares issued to CSPA (Note 4).

On February 21, 2018, 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 canceled on March 15, 2018.

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

B. Issued share capital (Continued)

xiii. 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. The shares were valued at $590,000 (Note 10).

xiv. 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 Canna Delivery Systems Inc. ("Canna") (Note 11.E). Share-based compensation of $159,469 was recorded.

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 January 11, 2018, the Company granted an option to acquire up to 500,000 shares of its common stock to its director. The option is exercisable for a two-year period expiring on January 11, 2020, at $1.15 per share (Note 10). The Company recorded $342,391 as share-based compensation associated with this option, which was determined using the Black-Scholes Option pricing model using the following assumptions:

	January 11, 2018
Expected Life of the Option	2 years
Risk-Free Interest Rate	1.76%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	116%

At December 31, 2018, the Company recorded $90,448 recovery of advertising and promotion expenses, associated with the vested portion of an option to acquire up to 1,000,000 shares the Company granted to its consultant. The option is exercisable for a two-year period expiring on July 27, 2019, at $0.50 per share and vested over a 12-month period beginning on October 27, 2017, at 250,000 shares per quarter. The recovery was determined using the Black-Scholes Option pricing model using the following assumptions:

	December 31, 2018
Expected Life of the Option	1.75 – 1.0 years
Average Risk-Free Interest Rate	1.42 – 2.06 %
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	108.99% - 103.24%

At December 31, 2018, the Company recorded $52,588 recovery of advertising and promotion expenses associated with an option to acquire up to 532,900 shares the Company granted to its consultant. The option was exercisable for a period of 18 months expiring on January 27, 2019, at $0.75 per share and vested over a 12-month period beginning on October 27, 2017, at 133,225 shares per quarter. The recovery was determined using the Black-Scholes Option pricing model using the following assumptions:

	December 31, 2018
Expected Life of the Option	1.25 - 0.50 years
Average Risk-Free Interest Rate	1.42 – 2.06%
Expected Dividend Yield	Nil
Average Expected Stock Price Volatility	97.39% - 114.78%

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

C. Stock purchase option compensation plan (Continued)

As at December 31, 2018, the consultant acquired 266,450 shares of the Company's common stock on exercise of the vested portion of its option for total proceeds of $199,838.

On August 15, 2018, the Company granted an option to acquire up to 2,825,820 common shares to its CEO. The option vested immediately and may be exercised at a price of $0.58 per share expiring on August 15, 2020 (Note 10). The Company recorded $850,794 as share-based compensation associated with this option, which was determined using the Black-Scholes Option pricing model using the following assumptions:

	August 15, 2018
Expected Life of the Option	2 years
Risk-Free Interest Rate	2.09%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	103.52%

On August 15, 2018, the Company granted options to acquire up to 35,000 common shares in aggregate to two members of the Company's Scientific Advisory Board. The options vested immediately and can be exercised at a price of $0.58 per share expiring on August 15, 2020. The Company recorded $9,740 as share-based compensation associated with these options, which was determined using the Black-Scholes Option pricing model using the following assumptions:

	August 15, 2018
Expected Life of the Option	2 years
Risk-Free Interest Rate	1.91%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	105.69%

A continuity of options for the years ended December 31, 2018 and 2017 is as follows:

	December 31, 2018		December 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the year	8,868,900	$0.52	2,930,595	$0.13
Granted	3,360,820	$0.66	8,843,900	$0.52
Exercised	(266,450)	$0.75	(2,905,595)	$0.12
Options outstanding, ending	11,963,270	$0.55	8,868,900	$0.52
Options exercisable, ending	11,963,270	$0.55	7,719,225	$0.51

The options outstanding and exercisable at December 31, 2018, are as follows:

Number Outstanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	$ 0.80	2.62	August 15, 2021
8,311,000	$ 0.50	0.57	July 27, 2019
266,450	$ 0.75	0.07	January 27, 2019
500,000	$1.15	1.03	January 11, 2020
2,860,820	$0.58	1.62	August 15, 2020
11,963,270	$ 0.55	0.83	

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

D. Share Purchase Warrants

The table below summarizes the continuity of share purchase warrants for the years ended December 31, 2018, and 2017:

	December 31, 2018		December 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	21,060,851	$0.69	15,512,523	$0.19
Issued	6,294,010	$0.75	20,835,826	$0.74
Exercised	(21,193,329)	$0.71	(14,576,285)	$0.24
Expired	(861,532)	$0.75	(711,213)	$0.44
Warrants outstanding, ending	5,300,000	$0.75	21,060,851	$0.69

As at December 31, 2018, there were 5,300,000 share purchase warrants issued and outstanding expiring on January 11, 2019. These warrants expired unexercised.

E. Escrow shares

During the year ended December 31, 2018, the Company had 8,196,000 common shares held in escrow pursuant to the following contractual obligations:

- 2,100,000 (2017 – 2,100,000) common shares were held in escrow pursuant to the share exchange agreement between the Company and the original shareholders of Canna dated for reference March 20, 2015. Pursuant to the share exchange agreement the Company agreed to purchase, and the original shareholders of Canna agreed to sell all of the issued and outstanding shares of Canna in exchange for 7,800,000 common shares of the Company ("Escrowed Shares"). Under the terms of the escrow agreements the Escrowed Shares were subject to release upon the Company achieving certain financial milestones. Of the Escrowed Shares, 1,500,000 shares were released during the year ended December 31, 2015, and 4,200,000 shares were released during the year ended December 31, 2017.

  The release of 2,100,000 Escrowed Shares was subject to the Company achieving certain financial milestones by September 30, 2018 (as amended on June 28, 2018). The milestone to release the remaining Escrowed Shares and issue 108,333 finder's shares was US$1,000,000 in cumulative gross revenue from the Company's operations and was considered to be achieved as at September 30, 2018. On release of Escrowed Shares, the Company recorded an additional $892,500 as share-based compensation for acquisition of technology (2017 - $2,520,000) and issued 108,333 finder's shares with a fair value of $51,458 (2017 - 315,000 finder's shares with a fair value of $189,000) (Note 11.B).

- 96,000 (2017 – 96,000) common shares were held in escrow under additional covenants with Brad Eckenweiler, in accordance with the policies of the CSE, which contemplated a time release for escrowed shares issued to insiders of a reporting issuer. These shares were released during the year ended December 31, 2018, without triggering an additional revaluation.

- 6,000,000 shares were held in escrow pursuant to the Membership Agreements, of which 3,000,000 shares were pending receipt of the COO by members of NHMC and remaining 3,000,000 shares were subject to a time release over a two-year period. On February 21, 2018, the Company renegotiated the Membership Agreements and released 3,000,000 shares held in escrow associated with the Membership Agreement to acquire the membership of CSPA. 3,000,000 shares held in escrow pending receipt of COO by NHMC were returned to treasury and cancelled on March 15, 2018.

As at December 31, 2018, the Company did not have any shares remaining in escrow.

12. NOTE PAYABLE

On December 13, 2018, the Company entered into a loan agreement (the "Loan Agreement") with an arms-length entity for $700,000 (the "Loan"). Outstanding principal under the Loan accrues interest at a rate of 3% per month, compounded monthly and is payable on maturity on June 13, 2019. The Company may prepay the Loan at any time, subject to the payment of $70,000 in minimum interest. The Loan is secured by a general security agreement covering first deeds of trust on three parcels of unimproved real property totaling 20.5 acres owned by the Company's wholly-owned subsidiary, LDS Development Corporation, in the City of Adelanto, San Bernardino County, California.

During the year ended December 31, 2018, the Company recorded $21,000 in interest expense associated with the Loan. As at December 31, 2018, the Company owed $721,000 under the Loan Agreement.

On November 13, 2017, the Company entered into a $637,250 (US$500,000) secured credit facility (the "Credit Facility") with an arms-length entity (the "Lender"), which closed on November 16, 2017. The Credit Facility was 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 had the right to prepay the Credit Facility at any time, subject to the payment of minimum interest in the amount of US$50,000.

The Credit Facility was secured by a general security agreement covering all 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, San Bernardino County, California.

During the year ended December 31, 2018, the Company recorded $109,290 in interest expense associated with the Credit Facility (2017 - $28,565).

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.

13. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts 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.

Even though the Company has generated $4,080,747 in revenue from its operations, its cost of sales has exceeded the revenue at $5,770,218, which contributed to negative cash flows from the Company's operating activities, trend that existed since the Company's 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 adjusts 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 ended December 31, 2018. The Company is not subject to any externally imposed capital requirements.

14. NON-CONTROLLING INTERESTS

At December 31, 2018, the Company owned a 75% interest in three of its subsidiaries, LDS Agrotech Inc., LDS Scientific Inc., and Omni Distribution Inc. The remaining 25% of LDS Agrotech were held by Matthew Fergusson, its President; the remaining 25% of LDS Scientific were held by Jonathan Hunt, its President; and the remaining 25% of Omni Distribution were held by Crystal Elrod. The Company holds options to purchase the remaining 25% of LDS Agrotech, LDS Scientific, and Omni Distribution pursuant to the separate option and first right of refusal agreements (the "Option Agreements").

(Expressed in Canadian Dollars)

14. NON-CONTROLLING INTERESTS (CONTINUED)

The Option Agreements to acquire shares of LDS Agrotech and LDS Scientific are dated for reference May 1, 2017, and were amended on July 31, 2017, August 31, 2017, January 28, 2018, and on July 12, 2018.

To exercise the options to acquire shares of LDS Agrotech and/or LDS Scientific, the Company is required to:

(a) issue to each 25% equity holder 2,500,000 common shares of the Company; and
(b) make the following cash payments to each 25% equity holder:
  (i) US$500,000 if the options are exercised on or before July 31, 2019, or
  (ii) US$1,000,000 if the options are exercised after July 31, 2019, but on or before July 31, 2020, (the "Option Price").

The Option Agreement to acquire shares of Omni Distribution was dated for reference June 25, 2018.

To exercise the option to acquire shares of Omni Distribution, the Company is required to:

(a) issue to the 25% equity holder 2,500,000 common shares of the Company; and
(b) make the following cash payments:
  (i) US$500,000 if the option is exercised on or before December 31, 2019, or
  (ii) US$1,000,000 if the option is exercised after December 31, 2019, but on or before December 31, 2020, (the "Option Price").

The 25% equity of LDS Scientific was initially held by Ms. Elrod. On July 12, 2018, Ms. Elrod, the Company, LDS Scientific, Omni Distribution Inc, and Jonathan Hunt, entered into a transaction whereby Ms. Elrod transferred her shares of LDS Scientific to Mr. Hunt and agreed to transfer the option agreement to acquire shares of LDS Scientific to Mr. Hunt.

Subsequent to December 31, 2018, the Company and Ms. Elrod entered into a settlement agreement and release (the "Settlement Agreement"). Pursuant to the Settlement Agreement the Company reacquired shares of Omni Distribution held by Ms. Elrod in exchange for forgiveness of $96,040 (US$70,400) of cash advances the Company extended to Ms. Elrod during the year ended December 31, 2018, and Ms. Elrod resigned from all the positions she held with the Company and its subsidiaries.

At December 31, 2018, and 2017, the non-controlling interests consisted of the following:

	December 31, 2018	December 31, 2017
LDS Scientific (25%)	$ (1,376,012)	$ (469,680)
LDS Agrotech (25%)	(120,892)	(68,827)
Omni Distribution (25%)	1,281	-
	$ (1,495,623)	$ (538,507)

The following are the summarized statements of financial position of LDS Scientific, LDS Agrotech and Omni Distribution as at December 31, 2018 and 2017:

	LDS Scientific December 31,		LDS Agrotech December 31,		Omni Distribution[1] December 31,	
	2018	2017	2018	2017	2018	2017
Assets	$2,715,618	$ 629,566	$ 33,921	$ 1,561,714	$ 5,126	-
Liabilities	(8,219,665)	(2,508,284)	(517,488)	(1,837,023)	-	-
Total net assets	$(5,504,047)	$(1,878,718)	$ (483,567)	$ (275,309)	$ 5,126	-
Total net assets allocated to NCI	$ (1,376,012)	$(469,680)	$ (120,892)	$(68,827)	$ 1,281	-

(Expressed in Canadian Dollars)

14. NON-CONTROLLING INTERESTS (CONTINUED)

(1) Net assets of Omni Distribution include retained earnings of $1,195, which Omni Distribution accumulated in Fiscal 2017. Since 25% ownership was transferred to Mr. Hunt and subsequently to Ms. Elrod during the year ended December 31, 2018, the retained earnings as at December 31, 2017, are deducted from the calculation of non-controlling interests.

The following is the summarized comprehensive loss incurred by LDS Scientific, LDS Agrotech and Omni Distribution for the years ended December 31, 2018 and 2017:

	LDS Scientific December 31,		**LDS Agrotech December 31,**		**Omni Distribution(1) December 31,**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Gross profit	$ (1,844,955)	$ -	$ 155,484	$ 191,126	$ -	-
Operating expenses	(1,439,082)	(1,957,743)	(329,792)	(504,940)	(7,692)	-
Net loss	(3,284,037)	(1,957,743)	(174,308)	(313,814)	(7,692)	-
Other comprehensive income (loss)	(341,293)	65,736	(33,949)	25,330	(349)	
Comprehensive loss	$(3,625,330)	$(1,892,007)	$ (208,257)	$ (288,484)	$ (8,041)	
Comprehensive loss allocated to NCI	$(906,333)	$(473,002)	$(52,064)	(72,121)	$ (2,010)	-

The following a the summarized cash flows generated/used by LDS Scientific, LDS Agrotech and Omni Distribution for the years ended December 31, 2018 and 2017:

	LDS Scientific December 31,		**LDS Agrotech December 31,**		**Omni Distribution(1) December 31,**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities	$ (153,031)	$ 706,602	$(1,583,569)	$ 1,605,092	$ -	$ -
Cash flows from investing activities	349,526	(688,362)	1,550,885	(1,591,123)	-	-
Cash flows from financing activities	-	3,247	-	3,247	-	-
Effect of foreign exchange on cash	2,394	(737)	1,227	14,246		
Net increase/ (decrease) in cash and cash equivalents	$ 198,889	$ 20,750	$(31,457)	$ 31,462	$ -	$ -

15. COMMITMENTS

The Company has commitments with payments due as follows:

Less than 1 year	$ 677,058
1-5 years	3,755,670
5+ years	670,919
Office and facility rent, and other	$ 5,103,647

Payments denominated in foreign currencies have been translated using the December 31, 2018 exchange rate.

Under the terms of the property leases, the Company's subsidiary, LDS Development Corp., is responsible for all major repairs necessary to maintain the leased properties in a state of good order and condition over the duration of the leases. As at December 31, 2018, no definitive schedule of major repairs has been determined.

(Expressed in Canadian Dollars)

15. COMMITMENTS (CONTINUED)

The Company leases its manufacturing and grow facility from an arms-length party; the original lease term is for five years expiring on March 31, 2021, with monthly rent expenses fixed over the lease term. A renewal option exists for three additional five-year terms with monthly rental rates to be determined at the time of renewals.

The Company leases its two offices from an arms-length party; the lease terms for both offices are three years, with monthly rent expenses fixed over the lease term.

The Company pays annual property taxes for its manufacturing and grow facility, as well as for the parcels of land the Company acquired in its Fiscal 2017. The total annual property taxes are estimated at CAD$38,612 (US$28,304).

16. GEOGRAPHICAL INFORMATION

Geographical information relating to the Company's activities is as follows:

	Revenue Year ended December 31, 2018	2017
United States	$ 4,080,747	$ 191,126
	$ 4,080,747	$ 191,126

	Long-Term Assets Year ended December 31, 2018	2017
United States	$ 13,881,932	$ 8,311,830
Canada	3,316,423	1,755,408
	$ 17,198,355	$ 10,067,238

(1) Includes: Property, plant and equipment

17. INCOME TAXES

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

	Year ended December 31, 2018	2017
Net loss before tax	$(13,153,386)	$(13,164,157)
Statutory income tax rate	26%	26%
Expected income tax recovery	(3,419,880)	(3,422,680)
Impact of different foreign statutory tax rates on earnings of subsidiaries	(107,050)	(263,350)
Permanent differences	592,270	1,493,410
Adjustment to prior year provision versus statutory tax returns	338,230	(247,900)
Share issuance costs	-	(175,150)
Foreign exchange	(31,920)	98,548
Change in unrecognized deductible temporary differences	2,628,350	2,517,122
Income tax recovery	$ -	$ -

(Expressed in Canadian Dollars)

17. INCOME TAXES (CONTINUED)

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, 2018	2017
Deferred tax assets:		
Intangible assets	$ 344,052	$ 384,182
Share issuance costs	107,000	144,000
Investment tax credit	3,000	3,000
Property and equipment	2,000	(23,280)
Non-capital losses available for future period (USA)	3,117,578	1,694,863
Non-capital losses available for future period (Canada)	3,177,081	1,708,403
	6,750,711	3,911,168
Unrecognized deferred tax assets	(6,750,711)	(3,911,168)
	$ -	$ -

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	Year ended December 31, 2018	2017
Temporary differences:	$	$
Investment tax credit	4,000	4,000
Intangible assets	1,229,000	901,000
Property and equipment	9,000	(51,000)
Share issuance costs	412,000	554,000
Non-capital losses available for future period (USA)	11,134,208	3,973,608
Non-capital losses available for future period (Canada)	12,219,301	6,572,517

The Company has approximately $12,219,301 of non-capital losses in Canada which expire between 2030 – 2038, and approximately $11,134,208 of non-capital losses in the US which expire between 2034 – 2038. Tax attributes are subject to review, and potential adjustment by tax authorities.

18. SUBSEQUENT EVENTS

i. Subsequent to December 31, 2018, the Company announced a non-brokered private placement offering of up to 14,285,715 units of the Company (the "2019 Units"), at a price of $0.35 per 2019 Unit for aggregate gross proceeds to the Company of up to $5,000,000 (the "2019 Offering").

Each 2019 Unit will consist of one common share of the Company (a "2019 Share") and one 2019 Share purchase warrant (a "2019 Warrant"). Each 2019 Warrant will entitle the holder to purchase one 2019 Share (a "2019 Warrant Share") for a period of one year from the date of issuance at an exercise price of $0.50 per 2019 Warrant Share. The Company may accelerate the expiry of the 2019 Warrants if the Company's daily volume weighted average share price on the Canadian Stock Exchange (or such other stock exchange the Company may be trading on) is equal to or greater than $1.00 for 10 consecutive trading days.

The Company agreed to finders' fees of 7% cash and 7% warrants, which will be paid to eligible finders.

Net proceeds from the Offering will be used primarily towards the Company's strategic growth initiatives including its planned construction of a dispensary, initiation of Canadian operations pursuant to the LOI with National Green Biomed Ltd, and for general working capital purposes.

As of the date of these financial statements, the Company has received subscriptions for a total of $5,973,663 representing 17,067,608 2019 Units.

18. SUBSEQUENT EVENTS (CONTINUED)

ii. On February 27, 2019, the Company signed a Memorandum of Understanding for a Joint Venture (the "JV") with National Green Biomed Ltd ("NGB") to build a manufacturing facility in Mission, British Columbia, Canada to produce CannaStrips™.

Under the terms of the proposed JV agreement, NGB will provide an extension of its Rosebud Health Canada License to the JV and land for the new facility to manufacture CannaStrips™. Upon completion of a definitive agreement, the Company will invest a total of $255,000 in a private placement for shares of common stock of NGB at $0.30 per share. The Company will contribute funds for the permits, design and build-out of the facility. NGB will receive a 5% royalty on sales in Canada and a 3% royalty on all sales outside of Canada. The Mission facility will be required to purchase raw material from NGB and provide custom processing for future products or business opportunities presented by NGB.

iii. On April 10, 2019, the Company's subsidiary entered into a five-year lease agreement for 20,000 square feet of warehouse space for a monthly fee of US$40,000. The new facility will be used to expand the Company's transportation and distribution operations in Adelanto, California. At the same time, the Company entered into a sub-lease agreement with TCM Distribution Inc., the wholly-owned subsidiary of Transcanna Holdings Inc. to sub-lease a portion of the warehouse space to Transcanna at a monthly fee of US$20,000.