



LIFESTYLE DELIVERY SYSTEMS INC.

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

UNAUDITED – PREPARED BY MANAGEMENT

(Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED

MARCH 31, 2019 AND 2018

**NOTICE OF NO AUDITOR REVIEW
OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 and 2018**

The accompanying unaudited condensed consolidated interim financial statements of Lifestyle Delivery Systems Inc. (the “Company”) for the periods ended March 31, 2019 and 2018, have been prepared by, and are the responsibility of, the Company’s management.

The Company’s independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim statements by an entity’s auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the financial position, results of operations and cash flows.

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

	March 31, 2019	December 31, 2018
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 650,995	\$ 452,295
Amounts receivable (Note 5)	122,042	67,530
Advances receivable (Note 5)	19,784	9,549
Prepays and other current assets (Note 4)	889,962	675,810
Inventory (Note 6)	482,059	2,119,417
Marketable securities (Note 8)	4,727,538	541,237
Total current assets	6,892,380	3,865,838
Property, plant and equipment (Note 3)	16,705,580	17,198,355
TOTAL ASSETS	\$ 23,597,960	\$ 21,064,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 2,624,531	\$ 2,929,846
Accrued liabilities	365,978	200,400
Wages payable	82,577	79,799
Amounts due to related parties (Note 9)	302,752	160,670
Advances payable	9,854	10,050
Note payable (Note 11)	773,835	721,000
Unearned revenue (Note 7)	688,852	680,505
Total liabilities	4,848,379	4,782,270
Stockholders' equity		
Share capital (Note 10)	42,797,498	42,797,498
Obligation to issue shares (Notes 10 and 16)	927,973	-
Reserves (Note 10)	5,178,022	4,502,317
Deficit	(28,941,473)	(30,426,172)
Accumulated other comprehensive income	593,991	903,903
Total parent shareholders' equity	20,556,011	17,777,546
Non-controlling interests (Note 13)	(1,806,430)	(1,495,623)
Total shareholders' equity	18,749,581	16,281,923
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 23,597,960	\$ 21,064,193

Subsequent event (Note 16)

"Brad Eckenweiler"
Brad Eckenweiler, Director

"Casey Fenwick"
Casey Fenwick, Director

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

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

	Three months ended	
	March 31,	
	2019	2018
Revenue	\$ 2,714,801	\$ -
Cost of sales	(3,182,575)	-
Gross margin	(467,774)	-
Expenses		
Accounting fees	60,537	28,400
Advertising and promotion	146,398	181,683
Amortization (Note 3)	40,594	2,039
Consulting fees (Note 9)	254,688	440,706
IT infrastructure	79,352	75,992
Legal fees	84,933	172,520
Meals and travel expenses	50,313	75,098
Office and general	264,467	246,830
Regulatory fees	155,684	70,311
Research and development (Note 9)	42,837	528,673
Salaries and wages expense (Note 9)	512,818	-
Share-based compensation (Notes 9 and 10)	675,705	301,623
Operating expenses	2,368,326	2,123,875
Foreign exchange gain (loss)	(46,287)	11,653
Gain on marketable securities	4,176,411	-
Interest expense (Note 11)	(52,835)	(59,236)
Interest income	-	1,142
Loss on settlement of debt with related party (Note 9)	(88,279)	-
Net income (loss) for the period	\$ 1,152,910	\$ (2,170,316)
Net income (loss) attributable to:		
Shareholders of the Company	1,484,699	(1,978,901)
Non-controlling interests (Note 13)	(331,789)	(191,415)
	\$ 1,152,910	\$ (2,170,316)
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss)		
Foreign exchange translation	(287,649)	247,993
Total comprehensive income (loss) for the period	\$ 865,261	\$ (1,922,323)
Other comprehensive income (loss) attributable to:		
Shareholders of the Company	(309,912)	267,518
Non-controlling interests (Note 13)	22,263	(19,525)
	\$ (287,649)	\$ 247,993
Total comprehensive income (loss) attributable to:		
Shareholders of the Company	1,174,787	(1,711,383)
Non-controlling interests (Note 13)	(309,526)	(210,940)
	\$ 865,261	\$ (1,922,323)
Net income (loss) per share - basic and diluted	\$ 0.01	\$ (0.02)
Weighted average number of shares outstanding - basic and diluted	119,741,031	101,201,754

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

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

	Common shares		Obligation to Issue Shares	Reserves	Deficit	Non-controlling Interest	Accumulated Other Comprehensive Income / (Loss)	Total
	Number of Shares	Amount						
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	6,343,750	4,654,859	90,000	(158,549)	-	-	-	4,586,310
Exercise of options	133,225	114,711	-	(14,792)	-	-	-	99,919
Cancelled shares issued for membership	(3,000,000)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	114,904	-	-	-	114,904
Foreign exchange translation	-	-	-	-	-	(19,525)	267,518	247,993
Net loss for the period	-	-	-	-	(1,978,901)	(191,415)	-	(2,170,316)
Balance at March 31, 2018	104,649,894	31,509,659	94,063	3,640,006	(20,118,196)	(749,447)	120,701	14,496,786
Exercise of warrants	14,849,579	10,179,148	(90,000)	(17,860)	-	-	-	10,071,288
Exercise of options	133,225	164,733	-	(64,814)	-	-	-	99,919
Share-based compensation	-	-	-	944,985	-	-	-	944,985
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	-	-	-	-	-	(74,373)	783,202	708,829
Net loss for the period	-	-	-	-	(10,307,976)	(675,094)	-	(10,983,070)
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
Subscription to shares	-	-	927,973	-	-	-	-	927,973
Share-based compensation	-	-	-	675,705	-	-	-	675,705
Repurchase of non-controlling interest in equity	-	-	-	-	-	(1,281)	-	(1,281)
Foreign exchange translation	-	-	-	-	-	22,263	(309,912)	(287,649)
Net income (loss) for the period	-	-	-	-	1,484,699	(331,789)	-	1,152,910
Balance at March 31, 2019	119,741,031	\$ 42,797,498	\$ 927,973	\$ 5,178,022	\$ (28,941,473)	\$ (1,806,430)	\$ 593,991	\$ 18,749,581

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

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

	Three months ended	
	March 31,	
	2019	2018
Cash flows used in operating activities		
Net income (loss)	\$ 1,152,910	\$ (2,170,316)
Non-cash items		
Amortization	350,954	2,039
Foreign exchange	18,546	(35,476)
Loss on settlement of debt with related party	88,279	-
Interest on note payable	52,835	59,236
Gain on marketable securities	(4,176,411)	-
Options issued for advertising and promotion	-	(186,719)
Share-based compensation	675,705	301,623
Changes in operating assets and liabilities		
Amounts receivable	(54,182)	(10,597)
Prepays and other current assets	(209,289)	(301,220)
Inventory	1,585,900	-
Accounts payable and accrued liabilities	(140,361)	(106,123)
Wages and salaries payable	4,387	-
Amounts due to related parties	(27,563)	89,017
Net cash used in operating activities	(678,290)	(2,358,536)
Cash flows from financing activities		
Notes receivable	(10,377)	(972,439)
Issuance of common stock for private placement	-	730,000
Proceeds from warrant exercise	-	4,586,310
Proceeds from option exercise	-	99,919
Subscription to shares	927,973	-
Net cash provided by financing activities	917,596	4,443,790
Cash flows used in investing activities		
Equipment purchased	(4,576)	(610,383)
Investment in license	-	(1,567,500)
Production facility	(138,569)	(1,241,963)
Land acquisition	-	(3,162)
Net cash used in investing activities	(143,145)	(3,423,008)
Effects of foreign currency exchange	102,539	(91,469)
Change in cash and cash equivalents	198,700	(1,429,223)
Cash and cash equivalents, beginning	452,295	2,754,308
Cash and cash equivalents, ending	\$ 650,995	\$ 1,325,085
Cash and cash equivalents are comprised off:		
Cash	\$ 650,995	\$ 62,464
Term deposit	-	1,262,621
Total cash and cash equivalents	\$ 650,995	\$ 1,325,085

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

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

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 the filing of these interim consolidated financial statements, the Company’s structure is represented by Lifestyle Delivery Systems Inc., parent company incorporated pursuant to the provisions 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
Agrotech LLC.	USA	April 24, 2019	100%	Cultivation

These interim 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 29, 2019, by the Directors of the Company.

Statement of Compliance and Basis of Presentation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting. The unaudited condensed interim financial statements, prepared in conformity with IAS 34, follow the same accounting principles and methods of application as the most recent audited annual financial statements. Since the unaudited condensed consolidated interim financial

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

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

Statement of Compliance and Basis of Presentation (Continued)

statements do not include all disclosures required by the International Financial Reporting Standards (“IFRS”) for annual financial statements, they should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2018.

Basis of Measurement and Use of Estimates

These unaudited condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable, and include the accounts of the Company and its subsidiaries. On consolidation the Company eliminates all intercompany transactions and balances between subsidiaries.

All amounts are expressed in Canadian dollars, the Company’s functional currency.

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, 2018, and prior.

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.

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

3. PROPERTY, PLANT AND EQUIPMENT

	Property		Equipment		Plant		Total
Cost							
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
Additions		-		4,576		138,569	143,145
Foreign exchange		(42,088)		(109,341)		(133,537)	(284,966)
Balance at March 31, 2019	\$	5,330,961	\$	5,509,341	\$	6,701,160	\$ 17,541,462
Accumulated Amortization							
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
Amortization		-		224,072		126,882	350,954
Balance at March 31, 2019	\$	-	\$	545,226	\$	290,656	\$ 835,882
Net Book Value							
At December 31, 2018	\$	5,373,049	\$	5,292,952	\$	6,532,354	\$ 17,198,355
At March 31, 2019	\$	5,330,961	\$	4,964,115	\$	6,410,504	\$ 16,705,580

As at March 31, 2019, the manufacturing division of the Adelanto facility and the transportation vehicles were ready for utilization. The Company amortizes its manufacturing and packaging equipment using double declining balance depreciation method ("DDB") at a 20% annual amortization rate, and the transportation vehicles using a DDB method at a rate of 30% per year. The construction of the manufacturing division of the facility was completed in late 2018, and the Company started amortizing cost of the construction and leasehold improvements over 10 years using a straight-line amortization method.

At March 31, 2019, \$310,360 in amortization costs were included in cost of sales.

As at March 31, 2019, the nursery and the cultivation divisions of the Adelanto Facility were not ready for their intended uses, as such amortization on these assets was not charged.

4. PREPAIDS AND OTHER CURRENT ASSETS

Prepays and other current assets as at March 31, 2019 and December 31, 2018, consisted of the following:

	March 31, 2019		December 31, 2018	
Insurance	\$	139,796	\$	149,517
Prepaid service fees		679,321		500,980
Security deposits		22,122		25,313
Prepaid regulatory fees		48,723		-
Total prepaids and other current assets	\$	889,962	\$	675,810

5. AMOUNTS RECEIVABLE

As at March 31, 2019, the amounts receivable consisted of \$13,814 (2018 - \$58,844) in GST receivable and \$108,228 (2018 - \$8,686) receivable from customers.

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

5. AMOUNTS RECEIVABLE (CONTINUED)

During the three-month period ended March 31, 2019, the Company advanced \$10,377 (US\$7,805) to affiliated company with senior management in common. The advance is due on demand and does not accumulate interest. At March 31, 2019 the Company had a total of \$19,784 (US\$14,805) in advances receivable from an affiliated entity (2018 - \$9,549 (US\$7,000)).

6. INVENTORY

At March 31, 2019, the Company's inventory was valued at \$482,059 (2018 - \$2,119,417) and consisted of \$153,703 (US\$115,021) in raw materials held for manufacturing and \$328,356 (US\$245,721) in finished products ready for resale (2018 - \$1,028,447 (US\$753,861) and \$1,090,970 (US\$799,691), respectively).

The cost of inventory expensed in cost of sales for the three-month period ended March 31, 2019, was \$3,182,575 (2018 - \$Nil) and included \$674,638 in allocated manufacturing overhead costs.

7. UNEARNED REVENUE

At March 31, 2019, the Company recorded \$688,852 (2018 - \$680,505) 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. At March 31, 2019, the Track and Trace software was not ready for use; therefore, the Company recorded \$614,947 (2018 - \$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 8).

8. MARKETABLE SECURITIES

The Company's marketable securities consist of 1,102,254 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 7).

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.

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 March 31, 2019, the Company held a total of 1,102,254 common shares of Transcanna valued at \$4,727,538. At March 31, 2019, the Company recorded \$4,176,411 gain on holding of the TCAN Shares (2018 - \$Nil).

9. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		March 31,	
		2019	2018
Management consulting services	a)	\$ 189,188	\$ 202,593
Consulting services for research and development	b)	\$ 26,910	\$ 169,945
Share-based compensation	c)	\$ 329,226	\$ 301,623
Management salaries	b)	\$ 176,159	\$ -

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

9. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Management consulting services consist of the following:

- \$99,190 (2018 – \$94,990) in consulting fees paid or accrued to Mr. Eckenweiler, the CEO and director of the Company pursuant to a consulting agreement with Mr. Eckenweiler. The Company agreed to pay Mr. Eckenweiler US\$25,000 per month for his services for a term expiring on February 28, 2021, and automatically renewable for successive one-year periods thereafter. In case the Company decides to terminate the consulting agreement with Mr. Eckenweiler without due cause, the Company agreed to pay Mr. Eckenweiler a lump sum amount equal to the product of monthly remuneration otherwise payable to Mr. Eckenweiler under the consulting agreement multiplied by 18 months regardless of the length of time remaining under the then current term.
- \$Nil (2018 – \$18,828) in consulting fees paid or accrued to Mr. Pakulis, the Company's former President and a member of the board of directors pursuant to a management consulting agreement. Mr. Pakulis resigned from his management and directorship positions with the Company on November 16, 2018, effectively terminating the management consulting agreement.
- \$29,966 (2018 - \$28,246) in consulting fees paid to Ms. Silina, the Company's Chief Financial Officer (the "CFO"). The Company agreed to pay Ms. Silina US\$7,500 per month for her services pursuant to a management consulting agreement expiring May 1, 2019, with automatic renewals for successive one-year periods thereafter.
- \$12,500 (2018 - \$15,000) in consulting fees paid to Mr. Johannson, a former 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. Mr. Johannson resigned as a director of the Company on March 15, 2019, effectively terminating his management consulting agreement with the Company.
- \$47,532 (2018 - \$45,529) 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:

- \$19,943 (2018 – \$20,078) in consulting fees paid or accrued to Dr. Sanderson, Chief Science Officer (the "CSO") of the Company. On July 1, 2017, the Company and Dr. Sanderson entered into a consulting agreement for US\$5,000 per month extending for a term of three years expiring on June 30, 2020, with automatic renewals for successive one-year periods thereafter.
- \$6,967 (2018 - \$Nil) in consulting fees paid or accrued to Nanostrips Inc. a company controlled by Dr. Sanderson ("Nanostrips"). In addition to the research and development fees, the Company incurred \$12,231 with Nanostrips during the three months ended March 31, 2019, which were associated with the manufacturing of CannaStrips™ and therefore included in cost of sales.
- \$Nil (2018 – \$58,809) in consulting fees paid to Ms. Elrod, former President and a 25% shareholder of LDS Scientific, and 25% owner of Omni Distribution Inc. (Note 13). 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 in salaries and wages expense. On January 31, 2019, 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 \$88,279

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

9. RELATED PARTY TRANSACTIONS (CONTINUED)

(US\$66,400) 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.

- \$Nil (2018 – \$43,632) in consulting fees paid or accrued to Mr. Ferguson, President and a 25% shareholder of LDS Agrotech. As of August 1, 2018, Mr. Ferguson is being remunerated through the regular monthly payroll. Mr. Ferguson is entitled to a monthly salary of US\$11,500 in addition to all regular payroll benefits the Company set up for its US-based employees.
- \$Nil (2018 – \$47,426) in consulting fees paid to Mr. Hunt, President and a 25% shareholder of LDS Scientific (Note 13). As of August 1, 2018, Mr. Hunt is being remunerated through the regular monthly payroll. Mr. Hunt is entitled to a monthly salary of US\$12,500 in addition to all regular payroll benefits the Company set up for its US-based employees.

c) Share-based compensation consists of the following:

- On February 6, 2019, the Company granted options to acquire up to 2,000,000 common shares to its President, Mr. Fenwick. The options vest over a two-year period in equal quarterly installments of 250,000 shares beginning on February 7, 2019, and may be exercised at \$0.465 per share expiring five years after each vesting date. The Company recorded \$207,982 as a share-based compensation for the three-month period ended March 31, 2019 (Note 10).
- On February 6, 2019, the Company granted warrants to acquire up to 1,000,000 common shares to Mr. McEnulty. The warrants vest over a two-year period in equal quarterly installments of 125,000 shares beginning on February 7, 2019, and may be exercised at \$0.465 per share expiring five years after each vesting date. The Company recorded \$121,244 as a share-based compensation for the three-month period ended March 31, 2019 (Note 10).
- During the comparative period ended March 31, 2018, the share-based compensation consisted of an option to acquire up to 500,000 common shares the Company granted to its former director on January 11, 2018. The options were initially valued at \$301,623 and could have been exercised at a price of \$1.15 per share expiring on January 11, 2020.

Related party payables at March 31, 2019 and December 31, 2018 consisted of the following:

	March 31, 2019	December 31, 2018
Brad Eckenweiler	\$ 22,712	\$ 37,424
Dr. John Sanderson	13,363	20,463
James Pakulis	56,719	57,903
Yanika Silina	10,626	1,581
Arni Johansson	49,875	36,750
Frank McEnulty	128,285	81,852
Crystal Elrod (Note 13)	-	(99,450)
Jonathan Hunt	2,675	6,139
Nanostrips Inc.	18,497	18,008
Total payable to related parties	\$ 302,752	\$ 160,670

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

10. CAPITAL AND RESERVES**A. Common Shares**

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

B. Issued Share Capital

As at March 31, 2019, the Company had 119,741,031 shares issued and outstanding.

During the three-month period ended March 31, 2019, the Company did not have any transactions that resulted in issuance of its common stock.

As at March 31, 2019, the Company had received \$927,973 in subscriptions for units of its common stock not yet issued and recorded an obligation to issue 2,651,351 units (Note 16).

C. Stock Purchase Options

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

On February 6, 2019, the Company granted options to acquire up to 3,000,000 common shares to its President and a consultant and granted warrants to acquire up to 3,000,000 common shares to its consultants. These securities were issued outside of the Company's Plan. The options and warrants vest quarterly over a two-year period in equal installments beginning on February 7, 2019, and may be exercised at a price of \$0.465 per share expiring five years after each vesting date. The grant date fair value of these options was \$1,169,612. During the three-month period ended March 31, 2019, the Company recognized \$363,732 as share-based compensation. The value of the Options was determined using the Black-Scholes Option pricing model using the following assumptions:

	February 6, 2019
Expected Life of the Option	5 years
Risk-Free Interest Rate	1.83%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	163.67%

During the three-month period ended March 31, 2019, the Company recognized \$311,973 as share-based compensation being fair value of 3,000,000 warrants granted to its consultants. The value of the warrants was determined using the Black-Scholes Option pricing model as at February 7, 2019, and was revalued at March 31, 2019 using the following assumptions:

	March 31, 2019	February 7, 2019
Expected Life of the Option	5 years	5 years
Risk-Free Interest Rate	1.52%	1.78%
Expected Dividend Yield	Nil	Nil
Expected Stock Price Volatility	161.59%	163.71%

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

10. CAPITAL AND RESERVES (CONTINUED)

C. Stock Purchase Options (Continued)

A continuity of options for the three-month period ended March 31, 2019, and for the year ended December 31, 2018 is as follows:

	March 31, 2019		December 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning	11,963,270	\$0.55	8,868,900	\$0.52
Granted ⁽¹⁾	6,000,000	\$0.465	3,360,820	\$0.66
Expired	(266,450)	\$0.75	-	n/a
Exercised	-	-	(266,450)	\$0.75
Options outstanding, ending	17,696,820	\$0.52	11,963,270	\$0.55
Options exercisable, ending	12,446,820	\$0.54	11,963,270	\$0.55

⁽¹⁾Includes warrants to acquire up to 3,000,000 shares. All securities were granted outside the Stock Option Plan.

The options outstanding and exercisable at March 31, 2019, are as follows:

Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Life	Expiry Date
25,000	25,000	\$ 0.80	0.07	April 26, 2019
8,311,000	8,311,000	\$ 0.50	0.32	July 27, 2019
500,000	500,000	\$1.15	0.04	April 14, 2019
2,860,820	2,860,820	\$0.58	1.38	August 15, 2020
6,000,000	750,000	\$0.465	5.88	November 6, 2025
17,696,820	12,446,820	\$ 0.55	1.09	

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the three months ended March 31, 2019, and for the year ended December 31, 2018:

	March 31, 2019		December 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	5,300,000	\$0.75	21,060,851	\$0.69
Issued	-	-	6,294,010	\$0.75
Exercised	-	-	(21,193,329)	\$0.71
Expired	(5,300,000)	\$0.75	(861,532)	\$0.75
Warrants outstanding, ending	-	-	5,300,000	\$0.75

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

11. 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 three-month period ended March 31, 2019, the Company recorded \$52,835 in interest expense associated with the Loan. As at March 31, 2019, the Company owed \$773,835 under the Loan Agreement.

The Company repaid the Loan in full subsequent to March 31, 2019.

12. 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.

The Company has generated only minimal revenue and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There was no change to the Company’s management of capital during the quarter ended March 31, 2019. The Company is not subject to any externally imposed capital requirements.

13. NON-CONTROLLING INTERESTS

At March 31, 2019, the Company owned a 75% interest in two of its subsidiaries, LDS Agrotech Inc., and LDS Scientific Inc.; the Company reacquired the full ownership of Omni Distribution Inc. on January 31, 2019, as part of the settlement agreement and release the Company negotiated with Ms. Elrod, the former President of LDS Scientific. The remaining 25% of LDS Agrotech are held by Matthew Ferguson, its President; and the remaining 25% of LDS Scientific are held by Jonathan Hunt, its President.

At March 31, 2019, and December 31, 2018, the non-controlling interests consisted of the following:

	March 31, 2019	December 31, 2018
LDS Scientific (25%)	\$ (1,687,969)	\$ (1,376,012)
LDS Agrotech (25%)	(118,461)	(120,892)
Omni Distribution (Nil and 25%, respectively)	-	1,281
	\$ (1,806,430)	\$ (1,495,623)

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

(Expressed in Canadian Dollars)

For the Three Months Ended March 31, 2019 and 2018

13. NON-CONTROLLING INTERESTS (CONTINUED)

The following are the summarized statements of financial position of LDS Scientific, LDS Agrotech and Omni Distribution as at March 31, 2019 and December 31, 2018:

	LDS Scientific		LDS Agrotech December 31,		Omni Distribution ⁽¹⁾ December 31,	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Assets	\$ 1,368,929	\$ 2,715,618	\$ 33,107	\$ 33,921	\$ 520	\$ 5,126
Liabilities	(8,120,808)	(8,219,665)	(506,947)	(517,488)	-	-
Total net assets	\$(6,751,879)	\$(5,504,047)	\$(473,840)	\$(483,567)	\$ 520	\$ 5,126
Total net assets allocated to NCI	\$ (1,687,970)	\$ (1,376,012)	\$ (118,460)	\$ (120,892)	\$ -	\$ 1,281

The following is the summarized comprehensive loss incurred by LDS Scientific and LDS Agrotech for the three-month periods ended March 31, 2019 and 2018:

	LDS Scientific March 31,		LDS Agrotech March 31,	
	2019	2018	2019	2018
Gross profit	\$ (467,774)	\$ -	\$ -	\$ -
Operating expenses	(859,224)	(597,760)	(154)	(167,898)
Net loss	(1,326,998)	(597,760)	(154)	(167,898)
Other comprehensive income (loss)	79,171	(57,868)	9,882	(11,169)
Comprehensive loss	\$(1,247,827)	\$(655,628)	\$ 9,728	\$(179,069)
Comprehensive loss allocated to NCI	\$ (311,958)	\$ (163,907)	\$ 2,432	\$ (44,767)

The following are the summarized cash flows generated/used by LDS Scientific and LDS Agrotech for the three-month periods ended March 31, 2019 and 2018:

	LDS Scientific March 31,		LDS Agrotech March 31,	
	2019	2018	2019	2018
Cash flows from (used in) operating activities	\$ 83,081	\$ (19,706)	\$ 25	\$ 25,307
Cash flows used in investing activities	-	(1,257)	-	(56,374)
Cash flows used in financing activities	(10,377)	-	-	-
Effect of foreign exchange on cash	(4,119)	233	2	313
Net increase (decrease) in cash and cash equivalents	\$ 68,585	\$ (20,730)	\$ 27	\$ (30,754)

14. COMMITMENTS

The Company has commitments with payments due as follows:

Less than 1 year	\$ 663,211
1-5 years	3,598,683
5+ years	533,323
Office and facility rent, and other	\$ 4,795,217

Payments denominated in foreign currencies have been translated using the March 31, 2019 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 March 31, 2019, no definitive schedule of major repairs has been determined.

LIFESTYLE DELIVERY SYSTEMS INC.**Notes to the Interim Condensed Consolidated Financial Statements (unaudited)**

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14. 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\$37,823 (US\$28,304).

15. GEOGRAPHICAL INFORMATION

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

	Revenue	
	Three months ended March 31, 2019	2018
United States	\$ 2,714,801	\$ -
	\$ 2,714,801	\$ -

	Long-Term Assets	
	Three months ended March 31, 2019	Year ended December 31, 2018
United States	\$ 13,389,659	\$ 13,881,932
Canada	3,315,921	3,316,423
	\$ 16,705,580	\$ 17,198,355

⁽¹⁾ Includes: Property, plant and equipment

16. SUBSEQUENT EVENTS

- i. Subsequent to March 31, 2019, the Company closed its non-brokered private placement offering by issuing a total of 19,424,163 units of the Company's common stock (the "2019 Units"), at a price of \$0.35 per 2019 Unit for aggregate gross proceeds to the Company of \$6,798,457 (the "2019 Offering").

Each 2019 Unit consisted of one common share of the Company (a "2019 Share") and one 2019 Share purchase warrant (a "2019 Warrant"). Each 2019 Warrant entitles the holder to purchase one 2019 Share (a "2019 Warrant Share") for a period of one year expiring on May 9, 2020 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.

In connection with the 2019 Offering, the Company agreed to pay cash commissions of \$233,076 and to issue 665,931 finder's warrants (the "Finder's Warrant"). Each Finder's Warrant is exercisable for one common share at \$0.50 per share for a period ending on May 9, 2020.

The securities issued under the 2019 Offering are subject to a hold period expiring on September 10, 2019, pursuant to applicable Canadian securities laws.

LIFESTYLE DELIVERY SYSTEMS INC.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

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16. SUBSEQUENT EVENTS (CONTINUED)

- ii. 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 affiliate company of Transcanna Holdings Inc. to sub-lease a portion of the warehouse space to Transcanna at a monthly fee of US\$20,000.
- iii. Subsequent to March 31, 2019, the Company entered into an agreement with a licensed California cannabis farm to start its grow operations in California. Based on the agreement, the Company's newly created subsidiary, Agrotech LLC will have 50% control over the operations of the farm. The Company will be responsible for supplying expertise, seedlings and nutrients to the farm. In order to secure the agreement, the Company was required to make a USD\$300,000 payment for the license and operating fees.
- iv. Subsequent to March 31, 2019, a former director of the Company exercised his option to acquire 300,000 shares of the Company for total proceeds of \$150,000.