LIFESTYLE DELIVERY SYSTEMS INC.

CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

UNAUDITED – PREPARED BY MANAGEMENT

(Expressed in Canadian Dollars)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2019 AND 2018

NOTICE OF NO AUDITOR REVIEW
OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

The accompanying unaudited condensed consolidated interim financial statements of Lifestyle Delivery Systems Inc. (the "Company") for the periods ended June 30, 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)

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 402,139	$ 452,295
Amounts receivable (Note 5)	236,043	67,530
Advances receivable (Note 5)	34,098	9,549
Prepaids and other current assets (Note 4)	1,313,755	675,810
Biological assets (Note 7)	2,496,365	-
Inventory (Note 6)	811,053	2,119,417
Marketable securities (Note 9)	4,519,241	541,237
Total current assets	9,812,694	3,865,838
Property, plant and equipment (Note 3)	16,515,172	17,198,355
TOTAL ASSETS	$ 26,327,866	$ 21,064,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,105,926	$ 2,929,846
Accrued liabilities	293,359	200,400
Wages payable	165,186	79,799
Amounts due to related parties (Note 10)	372,753	160,670
Advances payable	209,661	10,050
Note payable (Note 12)	-	721,000
Crop-share arrangements (Note 7)	1,024,322	-
Unearned revenue (Note 8)	687,326	680,505
Total liabilities	4,858,533	4,782,270
Stockholders' equity		
Share capital (Note 11)	49,474,336	42,797,498
Reserves (Note 11)	5,834,720	4,502,317
Deficit	(32,504,350)	(30,426,172)
Accumulated other comprehensive income	244,977	903,903
Total parent shareholders' equity	23,049,683	17,777,546
Non-controlling interests (Note 14)	(1,580,350)	(1,495,623)
Total shareholders' equity	21,469,333	16,281,923
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 26,327,866	$ 21,064,193

Subsequent event (Note 17)

"Brad Eckenweiler"
Brad Eckenweiler, Director

"Casey Fenwick"
Casey Fenwick, Director

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

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

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenue	$ 1,058,317	$ 315,691	$ 3,773,118	$ 315,691
Cost of sales	(1,608,399)	-	(4,790,974)	-
Unrealized gain on changes in fair value of biological assets	1,043,811	-	1,043,811	-
Gross profit	493,729	315,691	25,955	315,691
Expenses				
Accounting fees	22,728	22,563	83,265	50,963
Advertising and promotion	1,025,407	932,798	1,171,805	1,114,481
Amortization (Note 3)	40,117	2,062	80,711	4,101
Consulting fees (Note 10)	177,840	294,013	432,528	734,719
IT infrastructure	80,074	77,580	159,426	153,572
Legal fees	157,139	340,020	242,072	512,540
Meals and travel expenses	215,981	138,024	266,294	213,122
Office and general	297,266	602,316	561,733	849,146
Regulatory fees	72,155	93,489	227,839	163,800
Research and development (Note 10)	72,758	615,807	115,595	1,144,480
Salaries and wages expense	543,248	-	1,056,066	-
Share-based compensation (Notes 10 and 11)	629,929	50,508	1,305,634	352,131
Operating expenses	3,334,642	3,169,180	5,702,968	5,293,055
Foreign exchange gain (loss)	(37,128)	43,473	(83,415)	55,126
Gain (loss) on investment	(208,297)	-	3,968,114	-
Interest expense (Note 12)	(38,847)	(50,054)	(91,682)	(109,290)
Interest income	-	2,074	-	3,216
Impairment of advances receivable	(250,329)	-	(250,329)	-
Loss on settlement of debt with related party	-	-	(88,279)	-
Net loss for the period	**$ (3,375,514)**	**$ (2,857,996)**	**$ (2,222,604)**	**$ (5,028,312)**
Net loss attributable to:				
Shareholders of the Company	(3,562,877)	(2,746,947)	(2,078,178)	(4,725,848)
Non-controlling interests (Note 14)	187,363	(111,049)	(144,426)	(302,464)
	$ (3,375,514)	(2,857,996)	$ (2,222,604)	$ (5,028,312)
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss)				
Foreign exchange translation	(310,297)	244,105	(597,946)	492,098
Total comprehensive loss for the period	**$ (3,685,811)**	**$ (2,613,891)**	**$ (2,820,550)**	**$ (4,536,214)**
Other comprehensive income (loss) attributed to:				
Shareholders of the Company	(349,014)	261,517	(658,926)	529,035
Non-controlling interests (Note 14)	38,717	(17,412)	60,980	(36,937)
	$ (310,297)	$ 244,105	$ (597,946)	$ 492,098
Total comprehensive loss attributable to:				
Shareholders of the Company	(3,911,891)	(2,485,430)	(2,737,104)	(4,196,813)
Non-controlling interests (Note 14)	226,080	(128,461)	(83,446)	(339,401)
	$ (3,685,811)	$ (2,613,891)	$ (2,820,550)	$ (4,536,214)
Net loss per share - basic and diluted	$ (0.03)	$ (0.03)	$ (0.02)	$ (0.05)
Weighted average number of shares outstanding - basic and diluted	130,943,209	105,398,938	125,427,531	104,728,593

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
(Expressed in Canadian Dollars)

Nine months

	Common shares Number of Shares	Common shares Amount	Obligation to Issue Shares	Reserves	Deficit	Non-controlling Interest	Accumulated Other Comprehensive Income / (Loss)	Total
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	21,093,329	14,758,800	75,000	(176,202)	-	-	-	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	-	-	-	230,426	-	-	-	230,426
Non-controlling interest in equity	-	(51,313)	-	-	-	-	-	(51,313)
Foreign exchange translation	-	-	-	-	-	(36,937)	529,035	492,098
Net loss for the period	-	-	-	-	(4,725,848)	(302,464)	-	(5,028,312)
Balance at June 30, 2018	119,532,698	41,727,020	79,063	3,673,061	(22,865,143)	(877,908)	382,218	22,118,311
Exercise of warrants	100,000	75,207	(75,000)	(207)	-	-	-	-
Share-based compensation	-	-	-	829,463	-	-	-	829,463
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	-	51,313	-	-	-	3,291	-	54,604
Foreign exchange translation	-	-	-	-	-	(56,961)	521,685	464,724
Net loss for the period	-	-	-	-	(7,561,029)	(564,045)	-	(8,125,074)
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
Private placement	19,424,163	6,413,939	-	139,668	-	-	-	6,553,607
Exercise of options	300,000	262,899	-	(112,899)	-	-	-	150,000
Share-based compensation	-	-	-	1,305,634	-	-	-	1,305,634
Repurchase of non-controlling interest in equity	-	-	-	-	-	(1,281)	-	(1,281)
Foreign exchange translation	-	-	-	-	-	60,980	(658,926)	(597,946)
Net loss for the period	-	-	-	-	(2,078,178)	(144,426)	-	(2,222,604)
Balance at June 30, 2019	139,465,194	$ 49,474,336	$ -	$ 5,834,720	$ (32,504,350)	$ (1,580,350)	$ 244,977	$ 21,469,333

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

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

	Six months ended June 30, 2019	2018
Cash flows used in operating activities		
Net loss	$ (2,222,604)	$ (5,028,312)
Non cash items		
Amortization	704,547	4,101
Foreign exchange	(46,065)	(62,212)
Loss on settlement of debt with related party	88,279	-
Impairment of advances receivable	250,329	-
Interest on notes payable	91,682	109,290
Gain on investment	(3,968,114)	-
Options issued for advertising and promotion	-	(121,706)
Share-based compensation	1,305,634	352,131
Unrealized gain on changes in fair value of biological assets	(1,043,811)	-
Changes in operating assets and liabilities		
Amounts receivable	(171,858)	38,002
Prepaids and other current assets	(628,727)	(40,670)
Biological assets	(456,239)	-
Inventory	1,245,392	-
Accounts payable and accrued liabilities	(542,891)	(730,980)
Wages and salaries payable	90,321	
Amounts due to related parties	33,111	222,263
Unearned revenue	-	(166,544)
Net cash used in operating activities	(5,271,014)	(5,424,637)
Cash flows from financing activities		
Advances payable	200,000	-
Notes receivable	(278,018)	(1,102,479)
Repayment of loans	(812,689)	(788,710)
Issuance of common stock for private placements	6,553,607	730,000
Proceeds from warrant exercises	-	14,657,599
Proceeds from option exercise	150,000	199,838
Net cash provided by financing activities	5,812,900	13,696,248
Cash flows used in investing activities		
Equipment purchased	(237,876)	(2,263,181)
Investment in license	-	(1,567,500)
Production facility	(346,015)	(1,259,288)
Land acquisition	-	(3,162)
Net cash used in investing activities	(583,891)	(5,093,131)
Effects of foreign currency exchange	(8,152)	34,573
Change in cash and cash equivalents	(50,157)	3,213,053
Cash and cash equivalents, beginning	452,295	2,754,308
Cash and cash equivalents, ending	$ 402,138	$ 5,967,361
Cash and cash equivalents are comprised off:		
Cash	$ 402,138	$ 5,455,379
Term deposit	-	511,982
Total cash and cash equivalents	$ 402,138	$ 5,967,361
Supplemental cash flow information:		
Cash paid for interest	$ 112,689	$ 140,510

The accompanying notes are an integral part of these unaudited interim condensed 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 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	50%	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 August 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

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.

(Expressed in Canadian Dollars)

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		-		237,876		346,015		583,891
Foreign exchange		(83,724)		(211,373)		(267,430)		(562,527)
Balance at June 30, 2019	$	5,289,325	$	5,640,609	$	6,774,713	$	17,704,647
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		-		448,118		256,429		704,547
Balance at June 30, 2019	$	-	$	769,272	$	420,203	$	1,189,475
Net Book Value								
At December 31, 2018	$	5,373,049	$	5,292,952	$	6,532,354	$	17,198,355
At June 30, 2019	$	5,289,325	$	4,871,337	$	6,354,510	$	16,515,172

As at June 30, 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 June 30, 2019, $623,836 in amortization and depreciation expenses were included in cost of sales.

As at June 30, 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

Prepaids and other current assets as at June 30, 2019 and December 31, 2018, consisted of the following:

	June 30, 2019	December 31, 2018
Insurance	$ 91,211	$ 149,517
Prepaid service fees	737,230	500,980
Security deposits	81,818	25,313
Prepaid regulatory fees	48,330	-
Farm leasing costs	355,166	-
Total prepaids and other current assets	$ 1,313,755	$ 675,810

5. AMOUNTS RECEIVABLE

As at June 30, 2019, the amounts receivable consisted of $70,523 (2018 - $58,844) in GST receivable and $165,520 (2018 - $8,686) receivable from customers.

(Expressed in Canadian Dollars)

5. AMOUNTS RECEIVABLE (CONTINUED)

During the six-month period ended June 30, 2019, the Company advanced $25,659 (US$19,055) to affiliated company with senior management in common. The advance is due on demand and does not accumulate interest. At June 30, 2019 the Company had a total of $34,098 (US$26,055) in advances receivable from an affiliated entity (2018 - $9,549 (US$7,000)).

In addition, the Company made certain payments on behalf of an entity with a common director totaling $250,329. Since the collectability of these advances is not certain, the Company impaired the full balance of the advances made.

6. INVENTORY

At June 30, 2019, the Company's inventory was valued at $811,053 (2018 - $2,119,417) and consisted of $17,486 (US$13,361) in raw materials held for manufacturing and $793,567 (US$606,378) 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 six-month period ended June 30, 2019, was $4,790,974 (2018 – $Nil) and included $1,520,163 in allocated manufacturing overhead costs.

7. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants the Company cultivates at two licensed California cannabis farms in Northern California. The cultivation is governed by the crop-share farm lease agreements, dated for reference April 25, 2019 (the "Farm Agreements") and expiring on December 31, 2019. Based on the Farm Agreements, the Company's newly incorporated 50% owned subsidiary, Agrotech LLC, is responsible for carrying out the farm operations, including, but not limited to, supplying seedlings, nutrients, utilities, salaries and wages, general liability insurance and any other costs required to bring the crop to harvest. In order to commence the cultivating operations, the Company was required to make upfront lease payments totaling USD$300,000. Since the Farm Leases are short-term in nature, the Company recorded the payments as part of prepaid expenses, and will subsequently capitalize them to cost of biological assets based on the growth stage of the cannabis plants.

The continuity of biological assets for the six months ended June 30, 2019:

	June 30, 2019
Balance, beginning of period	$ -
Acquisition of biological assets	99,807
Increase in biological assets due to capitalized subsequent costs	347,915
Unrealized gain on changes in fair value of biological assets	2,048,643
Balance, end of period	$ 2,496,365

Biological assets are valued in accordance with IAS 41, *Agriculture*, based on a market approach where fair value at the point of harvest is estimated based on selling prices less costs to sell at harvest. The Company's biological assets consist of cannabis plants. Since there is no actively traded commodity market for cannabis plants in California, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

For in-process biological assets, the Company adjusts the fair value at point of harvest based on the stage of growth of cannabis plants. As at June 30, 2019, the average stage of growth for the biological assets was 38%. The following assumptions were used to determine fair market value of biological assets:

	June 30, 2019
Estimated Yield per Plant	1lbs
Average Selling Price	$588/lb
Spoilage	15%

(Expressed in Canadian Dollars)

7. BIOLOGICAL ASSETS (CONTINUED)

According to the Farm Agreements, the farm owners are entitled to 50% of net income generated from the sale of biological assets. Therefore, at June 30, 2019, the Company recorded $1,024,322 due to the farm owners, being 50% of unrealized gain on changes in fair value of biological assets.

8. UNEARNED REVENUE

At June 30, 2019, the Company recorded $687,326 (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 June 30, 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 TCAN Agreement, at which time the cost will be expensed over the life of the TCAN Agreement (Note 9).

9. MARKETABLE SECURITIES

At June 30, 2019, the Company's marketable securities consisted 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 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.

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 June 30, 2019, the Company held a total of 1,102,254 common shares of Transcanna valued at $4,519,241. At June 30, 2019, the Company recorded $3,968,114 gain on holding of the TCAN Shares (2018 - $Nil).

10. 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:

		June 30,	
		2019	**2018**
Management consulting services	a)	$ 278,379	$ 409,293
Consulting services for research and development	b)	$ 46,763	$ 319,310
Share-based compensation	c)	$ 653,803	$ 342,391
Management salaries	b)	$ 336,683	$ -

a) Management consulting services consist of the following:

- $199,283 (2018 – $192,370) 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.

10. RELATED PARTY TRANSACTIONS (CONTINUED)

- $Nil (2018 – $38,182) 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.

- $60,153 (2018 - $57,277) 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 which expired on May 1, 2019, and was automatically renewed for an additional year, as provided under the renewal provision included in the agreement.

- $12,500 (2018 - $30,000) 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.

- $6,443 (2018 - $91,464) 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. During the second quarter of its Fiscal 2019, the Company re-negotiated the consulting agreement with Mr. McEnulty due to a change in the scope of services provided by Mr. McEnulty. Pursuant to the amended agreement, Mr. McEnulty's consulting fees were set at US$6,000 per month and were retroactively adjusted from August 1, 2018.

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

- $39,775 (2018 – $39,405) 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.

- $6,988 (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, during the six months ended June 30, 2019 the Company incurred $44,261 with Nanostrips, which were associated with the manufacturing of CannaStrips™ and therefore included in cost of sales.

- $Nil (2018 – $95,858) in consulting fees paid to Ms. Elrod, former President and a 25% shareholder of LDS Scientific, and a 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 was 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 (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.

- $Nil (2018 – $88,189) 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.

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (CONTINUED)

- $Nil (2018 – $95,858) in consulting fees paid to Mr. Hunt, President and a 25% shareholder of LDS Scientific (Note 14). 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 $437,182 as a share-based compensation for the six-month period ended June 30, 2019 (Note 11).

- 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 $216,621 as a share-based compensation for the six-month period ended June 30, 2019 (Note 11).

- During the comparative period ended June 30, 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 $342,391 and could have been exercised at a price of $1.15 per share expiring on January 11, 2020.

Related party payables at June 30, 2019 and December 31, 2018 consisted of the following:

	June 30, 2019	December 31, 2018
Brad Eckenweiler	$ 44,964	$ 37,424
Casey Fenwick	166,946	-
Dr. John Sanderson	19,631	20,463
James Pakulis	-	57,903
Yanika Silina	19,902	1,581
Arni Johannson	49,875	36,750
Frank McEnulty	63,650	81,852
Crystal Elrod (Note 14)	-	(99,450)
Jonathan Hunt	2,621	6,139
Nanostrips Inc.	-	18,008
Matt Ferguson	5,164	-
Total payable to related parties	$ 372,753	$ 160,670

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 June 30, 2019, the Company had 139,465,194 shares issued and outstanding.

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

B. Issued Share Capital (Continued)

During the six months ended June 30, 2019, the Company had the following transactions that resulted in issuance of its common stock:

i. During the six months ended June 30, 2019, the Company issued 300,000 shares for total proceeds of $150,000 to a former director on exercise of an option to acquire common shares of the Company granted under the Company's rolling stock option plan.

ii. On May 9, 2019, the Company closed a non-brokered private placement financing (the "Financing") by issuing a total of units (the "Units") at $0.35 per Unit for total gross proceeds of $6,798,457. Each Unit sold in the Financing consisted of one common share of the Company (each a "Unit Share") and one common share purchase warrant (each a "Warrant") entitling the holder to purchase one additional common share (a "Warrant Share") at a price of $0.50 per Warrant Share for a period ending one year from the date of issuance.

   In connection with the Financing, the Company paid cash commissions of $233,076 and recognized $11,774 as share issuance costs. In addition, the Company issued 665,931 brokers' warrants with a fair market value of $139,668, which was determined using Black-Scholes Option pricing model based on the following assumptions:

	May 9, 2019
Expected Life of the Broker Warrants	1 year
Risk-Free Interest Rate	1.61%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	109%

   The brokers' warrants are exercisable at $0.50 per share for a period ending on May 9, 2020.

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

C. Stock Purchase Options

The Company maintains a rolling 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 six-month period ended June 30, 2019, the Company recognized $655,774 as share-based compensation. The value of the Options was determined using the Black-Scholes Option pricing model using the following assumptions:

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

C. Stock Purchase Options (Continued)

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

During the six-month period ended June 30, 2019, the Company recognized $649,862 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 June 30, 2019 using the following assumptions:

	June 30, 2019	**February 7, 2019**
Expected Life of the Warrants	5 years	5 years
Risk-Free Interest Rate	1.58%	1.78%
Expected Dividend Yield	Nil	Nil
Expected Stock Price Volatility	161.59%	163.71%

A continuity of options for the six-month period ended June 30, 2019, and for the year ended December 31, 2018 is as follows:

	June 30, 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	(791,450)	$1.23	-	n/a
Exercised	(300,000)	$0.50	(266,450)	$0.75
Options outstanding, ending	16,871,820	$0.50	11,963,270	$0.55
Options exercisable, ending	12,371,820	$0.51	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 June 30, 2019, are as follows:

Number Outstanding	**Number Exercisable**	**Weighted Average Exercise Price**	**Weighted Average Remaining Life**	**Expiry Date**
8,011,000	8,011,000	$ 0.50	0.07	July 27, 2019
2,860,820	2,860,820	$0.58	1.13	August 15, 2020
6,000,000	1,500,000	$0.465	4.61	November 6, 2025
16,871,820	**12,371,820**	**$ 0.50**	**1.87**	

Subsequent to June 30, 2019, options to acquire up to 8,011,000 shares of the Company's common stock expired unexercised.

(Expressed in Canadian Dollars)

11. CAPITAL AND RESERVES (CONTINUED)

D. Share Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the six months ended June 30, 2019, and for the year ended December 31, 2018:

	June 30, 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	20,090,094	$0.50	6,294,010	$0.75
Exercised	-	-	(21,193,329)	$0.71
Expired	(5,300,000)	$0.75	(861,532)	$0.75
Warrants outstanding, ending	20,090,094	$0.50	5,300,000	$0.75

As at June 30, 2019, there were 20,090,094 share purchase warrants issued and outstanding expiring on May 9, 2020. The warrants can be exercised at $0.50 per share (Note 17).

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 accrued interest at a rate of 3% per month, compounded monthly and was payable on maturity on June 13, 2019. The Company had a right to prepay the Loan at any time, subject to the payment of $70,000 in minimum interest. The Loan was 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 six-month period ended June 30, 2019, the Company recorded $91,682 in interest expense associated with the Loan.

On May 16, 2019, the Company repaid the loan in full. At the time of the payment, the interest accrued on the principal of the loan was calculated to be $112,689, which resulted in a total payment of $812,689.

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.

The Company only recently started generateing revenue and cash flows used in its operations are still negative; as such, 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 June 30, 2019. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian Dollars)

14. NON-CONTROLLING INTERESTS

At June 30, 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.

During the six-month period ended June 30, 2019, the Company incorporated a new subsidiary, Agrotech, LLC ("Agrotech"), of which 50% of equity was transferred to an arms-length US Person. The Company determined that it has control over the operations of Agrotech, and therefore the financial statements of Agrotech are consolidated with the Company's financial statements, as required under IFRS 10.

At June 30, 2019, and December 31, 2018, the non-controlling interests consisted of the following:

	June 30, 2019	December 31, 2018
LDS Scientific (25%)	$ (1,974,978)	$ (1,376,012)
LDS Agrotech (25%)	(116,535)	(120,892)
Omni Distribution (Nil and 25%, respectively)	-	1,281
Agrotech, LLC (50%)	511,163	-
	$ (1,580,350)	$ (1,495,623)

The following are the summarized statements of financial position of LDS Scientific, LDS Agrotech, Agrotech, LLC, and Omni Distribution as at June 30, 2019 and December 31, 2018:

As at June 30, 2019	LDS Scientific	LDS Agrotech	Agrotech	Omni Distribution[1]
Assets	$1,632,235	$ 32,305	$ 2,852,840	$ 520
Liabilities	(9,532,147)	(498,445)	(1,830,514)	-
Total net assets	$(7,899,912)	$ (466,140)	$ 1,022,326	$ 520
Total net assets allocated to NCI	$ (1,974,978)	$ (116,535)	$ 511,163	$ -

As at December 31, 2018	LDS Scientific	LDS Agrotech	Agrotech	Omni Distribution[1]
Assets	$2,715,618	$ 33,921	$ -	$ 5,126
Liabilities	(8,219,665)	(517,488)	-	-
Total net assets	$(5,504,047)	$ (483,567)	$ -	$ 5,126
Total net assets allocated to NCI	$ (1,376,012)	$ (120,892)	$ -	$ 1,281

The following table summarizes comprehensive income/(loss) incurred by the Company's subsidiaries that have non-controlling interests for the six-month periods ended June 30, 2019 and 2018:

For the six-month period ended at June 30, 2019	LDS Scientific	LDS Agrotech	Agrotech	Omni Distribution[1]
Gross profit/(loss)	$ (1,017,856)	$ -	$ 1,043,811	n/a
Operating expenses	(1,640,852)	(2,547)	(2,035)	n/a
Net loss	(2,658,708)	(2,547)	1,041,776	n/a
Other comprehensive loss	262,840	19,980	(19,450)	n/a
Comprehensive loss	$(2,395,868)	$ 17,433	$ 1,022,326	n/a
Comprehensive loss allocated to NCI	$ (598,967)	$ 4,358	$ 511,163	n/a

(Expressed in Canadian Dollars)

14. NON-CONTROLLING INTERESTS (CONTINUED)

For the six-month period ended at June 30, 2018	**LDS Scientific**	**LDS Agrotech**	**Agrotech**	**Omni Distribution(1)**
Gross profit	$ 155,928	$ 159,763	n/a	n/a
Operating expenses	(1,249,402)	(276,141)	n/a	n/a
Net loss	(1,093,474)	(116,378)	n/a	n/a
Other comprehensive loss	(130,146)	(17,606)	n/a	n/a
Comprehensive loss	$ (1,223,620)	$ (133,984)	n/a	n/a
Comprehensive loss allocated to NCI	$ (305,905)	$ (33,496)	n/a	n/a

15. COMMITMENTS

The Company has commitments with payments due as follows:

Less than 1 year	$ 963,601
1-5 years	5,624,819
5+ years	845,818
Office and facility rent, and other	$ 7,434,238

Payments denominated in foreign currencies have been translated using the June 30, 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 June 30, 2019, no definitive schedule of major repairs has been determined.

The Company leases its manufacturing and grow facility from an arms-length party; the original lease term is for five years expiring on June 30, 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.

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. The lease term is for five years expiring on April 10, 2024, 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$37,041 (US$28,304).

16. GEOGRAPHICAL INFORMATION

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

	Revenue Six months ended June 30, 2019	**2018**
United States	$ 3,773,118	$ 315,691
	$ 3,773,118	$ 315,691

(Expressed in Canadian Dollars)

16. GEOGRAPHICAL INFORMATION (CONTINUED)

	Long-Term Assets	
	Six months ended June 30, 2019	**Year ended December 31, 2018**
United States	$ 13,199,759	$ 13,881,932
Canada	3,315,413	3,316,423
	$ 16,515,172	$ 17,198,355

(1) Includes: Property, plant and equipment

17. SUBSEQUENT EVENTS

- On July 1, 2019, the Company announced its entry into an exclusive agreement (the "LOI") to negotiate a proposed business amalgamation between TransCanna and the Company. The proposed business amalgamation was expected to involve the acquisition by TransCanna of all of the outstanding common shares of the Company. On July 12, 2019, the Company announced the termination of the LOI to amalgamate, as the Company's management determined that the proposed transaction would not be in the best interests of its shareholders.

- Subsequent to June 30, 2019, the Company sold 1,102,254 TCAN Shares for a total net proceeds of approximately $1,630,469 and acquired an additional 250,000 TCAN Shares from its CEO, who agreed to sell the shares at 50% discount to market price in exchange for a non-interest bearing note payable. The shares were acquired as security required under a short-term advance the Company received from TransCanna for a total of USD$150,000.

- On August 15, 2019, the Company announced that its board of directors has approved a consolidation of all of its issued and outstanding common shares on the basis of six (6) pre-consolidation shares for every one (1) post-consolidation share (the "Consolidation"). Upon completion of the Consolidation, the Company anticipates that there will be approximately 23,244,199 common shares issued and outstanding, not including rounding for any fractional amounts resulting from the Consolidation.