CORE ONE LABS INC.

(Formerly Lifestyle Delivery Systems Inc.)

Condensed Interim Consolidated

Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

For the Three and Nine Months Ended

September 30, 2019 and 2018

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

The accompanying unaudited condensed consolidated interim financial statements of Core One Labs Inc. (formerly Lifestyle Delivery Systems Inc.) (the “Company”) for the periods ended September 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.

CORE ONE LABS INC.

(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

	September 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 119,524	$ 452,295
Amounts receivable (Note 5)	475,683	67,530
Advances receivable (Note6)	182,790	9,549
Prepaids and other current assets (Note 4)	1,057,910	675,810
Biological assets (Note 8)	2,019,558	-
Inventory (Note 7)	2,047,029	2,119,417
Marketable securities (Note 10)	187,500	541,237
Total current assets	6,089,994	3,865,838
Property, plant and equipment (Note 3)	16,453,291	17,198,355
TOTAL ASSETS	$ 22,543,285	$ 21,064,193
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,071,988	$ 2,929,846
Accrued liabilities	285,153	200,400
Wages payable	95,612	79,799
Amounts due to related parties (Note 11)	707,423	160,670
Advances payable (Note 13)	259,770	10,050
Note payable (Note 13)	177,825	721,000
Crop-share arrangements (Note 8)	1,157,934	-
Unearned revenue (Note 9)	688,189	680,505
Total liabilities	5,443,894	4,782,270
Stockholders' equity		
Share capital (Note 12)	49,482,447	42,797,498
Reserves (Note 12)	7,046,732	4,502,317
Deficit	(38,515,187)	(30,426,172)
Accumulated other comprehensive income	464,281	903,903
Total parent shareholders' equity	18,478,273	17,777,546
Non-controlling interests (Note 15)	(1,378,882)	(1,495,623)
Total shareholders' equity	17,099,391	16,281,923
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 22,543,285	$ 21,064,193

Subsequent events (Note 18)

"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.

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue	$ 605,427	$ 600,649	$ 4,378,545	$ 916,340
Cost of sales	(966,399)	(418,883)	(5,757,373)	(418,883)
Unrealized gain on changes in fair value of biological assets (Note 8)	324,715	-	1,368,526	-
Fair value changes in biological assets included in inventory (Notes 7 and 8)	(206,308)	-	(206,308)	-
Gross margin	(242,565)	181,766	(216,610)	497,457
Expenses				
Accounting fees	26,413	26,464	109,678	77,427
Advertising and promotion	130,975	64,645	1,302,780	1,179,126
Amortization (Note 3)	35,703	1,363	116,414	5,464
Consulting fees (Note 11)	244,177	289,872	676,705	1,024,591
IT infrastructure	79,468	78,034	238,894	231,606
Legal fees	87,783	233,879	329,855	746,419
Meals and travel expenses	69,737	121,593	336,031	334,715
Office and general	207,268	561,123	769,001	1,410,269
Regulatory fees	84,176	59,012	312,015	222,812
Research and development (Note 11)	59,941	180,685	175,536	1,325,165
Salaries and wages expense	435,098	460,950	1,491,164	460,950
Share-based compensation (Notes 11 and 12)	1,069,512	1,790,688	2,375,146	2,142,819
Operating expenses	2,530,251	3,868,308	8,233,219	9,161,363
Foreign exchange gain (loss)	(27,346)	(34,823)	(110,761)	20,303
Gain (loss) on investment	(2,986,255)	-	981,859	-
Gain on disposition of assets	5,069	-	5,069	-
Interest expense (Note 13)	(5,671)	-	(97,353)	(109,290)
Interest income	26	1,086	26	4,302
Impairment of advances receivable	-	-	(250,329)	-
Loss on settlement of debt with related party	-	-	(88,279)	-
Net loss for the period	**$ (5,786,993)**	**$ (3,720,279)**	**$ (8,009,597)**	**$ (8,748,591)**
Net income (loss) attributable to:				
Shareholders of the Company	(6,010,837)	(3,573,323)	(8,089,015)	(8,299,171)
Non-controlling interests (Note 15)	223,844	(146,956)	79,418	(449,420)
	$ (5,786,993)	(3,720,279)	$ (8,009,597)	$ (8,748,591)
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss)				
Foreign exchange translation	196,928	9,572	(401,018)	257,565
Total comprehensive loss for the period	**$ (5,590,065)**	**$ (3,710,707)**	**$ (8,410,615)**	**$ (8,491,026)**
Other comprehensive income (loss) attributable to:				
Shareholders of the Company	219,304	10,440	(439,622)	277,958
Non-controlling interests (Note 15)	(22,376)	(868)	38,604	(20,393)
	$ 196,928	$ 9,572	$ (401,018)	$ 257,565
Total comprehensive loss attributable to:				
Shareholders of the Company	(5,791,533)	(3,562,883)	(8,528,637)	(8,021,213)
Non-controlling interests (Note 15)	201,468	(147,824)	118,022	(469,813)
	$ (5,590,065)	$ (3,710,707)	$ (8,410,615)	$ (8,491,026)
Net loss per share - basic and diluted	$ (0.25)	$ (0.20)	$ (0.37)	$ (0.48)
Weighted average number of shares outstanding - basic and diluted	23,244,206	18,247,690	21,693,036	18,173,616

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

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

Nine months

	Common shares						Accumulated Other	
	Number of Shares	Amount	Obligation to Issue Shares	Reserves	Deficit	Non-controlling Interests	Comprehensive Income / (Loss)	Total
Balance at December 31, 2017	15,945,492	$ 23,990,089	$ 2,024,063	$ 3,698,443	$ (18,139,295)	$ (538,507)	$ (146,817)	$ 10,887,976
Private placements	916,667	2,750,000	(2,020,000)	-	-	-	-	730,000
Exercise of warrants	3,532,222	14,833,800	-	(176,202)	-	-	-	14,657,598
Exercise of options	44,408	279,444	-	(79,606)	-	-	-	199,838
Cancelled shares issued for membership	(500,000)	-	-	-	-	-	-	-
Share-based compensation	-	-	-	1,059,889	-	-	-	1,059,889
Cash payments to acquire non-controlling interest	-	(75,545)	-	-	-	-	-	(75,545)
Shares released from escrow for technology	-	892,500	-	-	-	-	-	892,500
Shares issued for finder's fee for the acquisition of technology	-	-	47,395	-	-	-	-	47,395
Foreign exchange translation	-	-	-	-	-	(20,393)	277,958	257,565
Net loss for the period	-	-	-	-	(8,299,171)	(449,420)	-	(8,748,591)
Balance at September 30, 2018	19,938,789	42,670,288	51,458	4,502,524	(26,438,466)	(1,008,320)	131,141	19,908,625
Exercise of warrants	-	207	-	(207)	-	-	-	-
Shares issued for finder's fee for the acquisition of technology	18,056	51,458	(51,458)	-	-	-	-	-
Non-controlling interest in equity	-	75,545	-	-	-	3,291	-	78,836
Foreign exchange translation	-	-	-	-	-	(73,505)	772,762	699,257
Net loss for the period	-	-	-	-	(3,987,706)	(417,089)	-	(4,404,795)
Balance at December 31, 2018	19,956,845	42,797,498	-	4,502,317	(30,426,172)	(1,495,623)	903,903	16,281,923
Private placement	3,237,361	6,422,050	-	139,668	-	-	-	6,561,718
Exercise of options	50,000	262,899	-	(112,899)	-	-	-	150,000
Share-based compensation	-	-	-	2,375,146	-	-	-	2,375,146
Discount on marketable securities acquired from related party	-	-	-	142,500	-	-	-	142,500
Repurchase of non-controlling interest in equity	-	-	-	-	-	(1,281)	-	(1,281)
Foreign exchange translation	-	-	-	-	-	38,604	(439,622)	(401,018)
Net income (loss) for the period	-	-	-	-	(8,089,015)	79,418	-	(8,009,597)
Balance at September 30, 2019	23,244,206	$ 49,482,447	$ -	$ 7,046,732	$ (38,515,187)	$ (1,378,882)	$ 464,281	$ 17,099,391

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

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

		Nine months ended September 30, 2019		2018
Cash flows used in operating activities				
Net loss	$	(8,009,597)	$	(8,748,591)
Non-cash items				
Amortization		1,041,291		5,464
Foreign exchange		(15,032)		(50,957)
Loss on settlement of debt with related party		88,279		-
Impairment of advances receivable		250,329		-
Interest on notes payable		97,353		109,290
Gain on investment		(981,859)		-
Gain on disposition of assets		(5,069)		-
Options issued for advertising and promotion		-		(143,037)
Share-based compensation		2,375,146		2,142,819
Unrealized gain on changes in fair value of biological assets		(1,162,218)		-
Changes in operating assets and liabilities				
Amounts receivable		(410,073)		28,265
Prepaids and other current assets		(370,010)		(364,574)
Biological assets		(892,848)		-
Inventory		1,200,693		(1,253,677)
Accounts payable and accrued liabilities		(644,030)		(743,498)
Wages and salaries payable		18,216		70,370
Amounts due to related parties		390,805		152,542
Unearned revenue		-		(96,570)
Net cash used in operating activities		(7,028,624)		(8,892,154)
Cash flows from financing activities				
Advances payable		250,000		-
Notes receivable		(410,537)		(1,271,916)
Repayment of notes (net of loans received)		(642,826)		(788,710)
Issuance of common stock for private placements		6,561,719		730,000
Proceeds from warrant exercise		-		14,657,598
Proceeds from option exercise		150,000		199,838
Net cash provided by financing activities		5,908,356		13,526,810
Cash flows provided by (used in) investing activities				
Equipment purchased		(241,464)		(3,040,396)
Investment in license		-		(1,567,500)
Sale of marketable securities		1,487,987		-
Production facility		(454,463)		(1,507,553)
Land acquisition		-		(3,162)
Cash paid for NCI		-		(75,545)
Net cash provided by (used in) investing activities		792,060		(6,194,156)
Effects of foreign currency exchange		(4,563)		69,256
Change in cash and cash equivalents		(332,771)		(1,490,244)
Cash and cash equivalents, beginning		452,295		2,754,308
Cash and cash equivalents, ending	$	119,524	$	1,264,064
Cash and cash equivalents are comprised off:				
Cash	$	119,524	$	1,252,491
Term deposit		-		11,573
Total cash and cash equivalents	$	119,524	$	1,264,064
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.

(Unaudited, Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Core One Labs Inc. (formerly Lifestyle Delivery Systems Inc.) (the "Company" or "Core One") was incorporated on September 14, 2010, pursuant to the provision of the Business Corporations Act (British Columbia). On September 6, 2019, the Company changed its name from Lifestyle Delivery Systems Inc. to Core One Labs Inc. The name change was done to more accurately reflect the Company's operational expertise, as well as the Company's overall product and service offerings. In conjunction with changing its name, the Company consolidated its issued and outstanding common shares on the basis of six (6) pre-consolidation shares for every one (1) post-consolidation share (the "Consolidation"). All shares, options, warrants, and per share amounts were adjusted to reflect the consolidation ratio and are presented in these financial statements on a post-consolidation basis.

Core One 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 infused strips that allow for superior bioavailability of cannabis constituents at the same time providing safer and healthier delivery of active ingredients to the human body. The technology offers a new way to accurately meter the dosage and assure the purity of the selected product. From start to finish, the production process, based on the Company's technology, tests for quality and composition of all the ingredients resulting in a safe, consistent and effective delivery system.

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 "COOL," on the OTCQX under the trading symbol "CLABF," 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 Core One Labs 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 November 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 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.

(Unaudited, 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	-	241,464	454,463	695,927
Foreign exchange	(60,191)	(148,196)	(191,313)	(399,700)
Balance at September 30, 2019	$ 5,312,858	$ 5,707,374	$ 6,959,278	$ 17,979,510
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	-	656,131	385,160	1,041,291
Balance at September 30, 2019	$ -	$ 977,285	$ 548,934	$ 1,526,219
Net Book Value				
At December 31, 2018	$ 5,373,049	$ 5,292,952	$ 6,532,354	$ 17,198,355
At September 30, 2019	$ 5,312,858	$ 4,730,089	$ 6,410,344	$ 16,453,291

As at September 30, 2019, the manufacturing division of the Adelanto facility and the transportation vehicles were being used in manufacturing and sales activities. 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 September 30, 2019, $924,877 in amortization and depreciation expenses were included in cost of sales.

As at September 30, 2019, the nursery and the cultivation divisions of the Adelanto Facility were ready for their intended uses, however, the Company did not start amortizing the costs due to very limited usage of the space.

4. PREPAIDS AND OTHER CURRENT ASSETS

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

	September 30, 2019	December 31, 2018
Insurance	$ 98,765	$ 149,517
Prepaid service fees	663,340	500,980
Security deposits	48,410	25,313
Prepaid regulatory fees	48,751	-
Farm leasing costs	198,645	-
Total prepaids and other current assets	$ 1,057,911	$ 675,810

5. AMOUNTS RECEIVABLE

As at September 30, 2019, the amounts receivable consisted of $16,940 (2018 - $58,844) in GST receivable and $458,743 (2018 - $8,686) receivable from customers.

(Unaudited, Expressed in Canadian Dollars)

6. ADVANCES RECEIVABLE

During the nine-month period ended September 30, 2019, the Company advanced $410,537 to affiliated companies with senior management in common. The advances are due on demand and do not accumulate interest. At September 30, 2019, the Company had a total of $182,790 in advances receivable from an affiliated entities (2018 - $9,549).

Of the full amount advanced during the nine-month period ended September 30, 2019, the Company impaired $250,329 as the collectability of these advances was not certain.

7. INVENTORY

At September 30, 2019, the Company's inventory was valued at $2,047,029 (2018 - $2,119,417) and consisted of $562,164 (US$424,499) in raw materials held for manufacturing $298,997 (US$225,778) in finished products ready for resale, and $1,185,868 (US$895,468) in untrimmed biomass which the Company harvested from its two licensed California cannabis farms in Northern California (Note 8). As of September 30, 2019, the biomass was ready to be sold in its untrimmed state. At December 31, 2018, the inventory consisted of $1,028,447 (US$753,861) in raw materials and $1,090,970 (US$799,691) in finished products.

The cost of inventory expensed in cost of sales for the nine-month period ended September 30, 2019, was $5,757,373 (2018 – $418,883) and included $2,186,601 in allocated manufacturing overhead costs.

8. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants the Company cultivates at two licensed 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 US$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 nine months ended September 30, 2019:

	September 30, 2019
Biological assets, beginning of period	$ -
Acquisition of biological assets	100,996
Increase in biological assets due to capitalized subsequent costs	788,561
Harvested plants moved to inventory	(1,596,962)
Unrealized gain on changes in fair value of biological assets	2,726,963
Biological assets, end of period	$ 2,019,558

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 September 30, 2019, all biological assets reached their maturity. The following assumptions were used to determine fair market value of biological assets:

(Unaudited, Expressed in Canadian Dollars)

8. BIOLOGICAL ASSETS (CONTINUED)

	September 30, 2019
Estimated Yield per Plant	0.6 lbs
Average Selling Price	$500/lb
Spoilage	15%

According to the Farm Agreements, the farm owners are entitled to 50% of net income generated from the sale of biological assets. Therefore, at September 30, 2019, the Company recorded $1,157,934 due to the farm owners, being 50% of unrealized changes in fair value of biological assets and inventory of finished product.

9. UNEARNED REVENUE

At September 30, 2019, the Company recorded $688,189 (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 September 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 10).

10. MARKETABLE SECURITIES

At September 30, 2019, the Company's marketable securities consisted of 250,000 common shares of Transcanna Holdings Inc. (the "TCAN Shares"), a company related by virtue of former common management and common directors.

During the nine-month period ended September 30, 2019, the Company sold 1,102,254 TCAN Shares received as part of the TCAN Agreement, dated for reference November 15, 2017 (Note 8) for a total net proceeds of $1,630,487. During the same period the Company acquired an additional 250,000 TCAN Shares from Mr. Eckenweiler, who agreed to sell the shares at a 50% discount to market price in exchange for $142,500 non-interest-bearing note payable. The shares were acquired as security required under the US$150,000 advance the Company received from Transcanna Holdings Inc. (Note 13).

At September 30, 2019, TCAN Shares were valued at $187,500 (2018 - $541,237). During the nine-month period ended September 30, 2019 the Company recorded $3,870,614 gain on holding of the TCAN Shares (2018 - $Nil) and recognized loss on the sale of 1,102,254 TCAN Shares of $2,888,755 (2018 - $Nil).

11. 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:

		September 30,	
		2019	2018
Management consulting services	a)	$ 390,590	$ 617,818
Consulting services for research and development	b)	$ 117,773	$ 291,325
Share-based compensation	c)	$1,671,876	$ 1,193,185
Management salaries	b)	$ 495,131	$ -

11. RELATED PARTY TRANSACTIONS (CONTINUED)

a) Management consulting services consist of the following:

- $276,028 (2018 – $289,913) 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 – $57,795) in consulting fees paid 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.

- $79,909 (2018 - $86,707) in consulting fees paid or accrued 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 automatically renewed for an additional one-year term on May 1, 2019, as provided under the renewal provision included in the agreement. Ms. Silina resigned from the Company's board of directors subsequent to September 30, 2019. Ms. Silina's consulting agreement is not contingent on her serving as a director of the Company, therefore the Company continues to accrue the consulting fees payable to Ms. Silina.

- $12,500 (2018 - $45,000) in consulting fees paid or accrued 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. Mr. Johannson resigned as a director of the Company on March 15, 2019, effectively terminating his management consulting agreement with the Company.

- $22,153 (2018 - $138,403) in consulting fees paid or accrued 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:

- $53,069 (2018 – $58,914) 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.

- $66,275 (2018 - $Nil) in consulting and product development fees paid or accrued to Nanostrips Inc. a company controlled by Dr. Sanderson ("Nanostrips"). As the product development fees are associated with the manufacturing of CannaStrips™, these fees are included in cost of sales.

- $Nil (2018 – $112,665) in consulting fees paid to Ms. Elrod, former President and a 25% shareholder of LDS Scientific. 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

11. RELATED PARTY TRANSACTIONS (CONTINUED)

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 – $103,652) 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 – $112,665) in consulting fees paid to Mr. Hunt, former President and a 25% shareholder of LDS Scientific (Note 15). As of August 1, 2018, Mr. Hunt was remunerated through the regular monthly payroll. Mr. Hunt was 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. Mr. Hunt's employment was terminated for cause subsequent to September 30, 2019.

c) Share-based compensation consists of the following:

- On February 6, 2019, the Company granted options to acquire up to 333,333 common shares to its President, Mr. Fenwick. The options vest over a two-year period in equal quarterly installments of 41,666 shares beginning on February 7, 2019, and may be exercised at $2.79 per share expiring five years after each vesting date. The Company recorded $565,322 as share-based compensation for the nine-month period ended September 30, 2019 (Note 12).

- On February 6, 2019, the Company granted warrants to acquire up to 166,667 common shares to Mr. McEnulty. The warrants vest over a two-year period in equal quarterly installments of 20,833 shares beginning on February 7, 2019, and may be exercised at $2.79 per share expiring five years after each vesting date. The Company recorded $168,556 as a share-based compensation for the nine-month period ended September 30, 2019 (Note 12).

- On September 13, 2019, the Company granted options to purchase up to 1,283,000 common shares to its executive officers and directors. The options granted may be exercised at a price of $1.25 per share and expire on September 1, 2021. The Company recorded $937,998 as share-based compensation for the nine-month period ended September 30, 2019 (Note 12).

- During the comparative period ended September 30, 2018, the share-based compensation consisted of an option to acquire up to 83,333 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 $6.90 per share expiring on January 11, 2020.

(Unaudited, Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	September 30, 2019	December 31, 2018
Brad Eckenweiler	$ 257,330	$ 37,424
Casey Fenwick	224,043	-
Dr. John Sanderson	13,243	20,463
James Pakulis	-	57,903
Yanika Silina	55,845	1,581
Arni Johannson	49,875	36,750
Frank McEnulty	99,211	81,852
Crystal Elrod	-	(99,450)
Jonathan Hunt	2,652	6,139
Nanostrips Inc.	-	18,008
Matt Ferguson	5,224	-
Total payable to related parties	$ 707,423	$ 160,670

12. CAPITAL AND RESERVES

A. Common Shares

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

On September 6, 2019, the Company effected a consolidation of its capital on the basis of six (6) existing common shares for one (1) new common share. All shares, options, warrants, and per share amounts were adjusted to reflect the consolidation ratio.

B. Issued Share Capital

As at September 30, 2019, the Company had 23,244,206 shares issued and outstanding.

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

i. During the nine months ended September 30, 2019, the Company issued 50,000 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 3,237,361 units (the "Units") at $2.10 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 $3.00 per Warrant Share for a period ending on May 9, 2020.

    In connection with the Financing, the Company paid cash commissions of $233,076 and recognized $3,663 as share issuance costs. In addition, the Company issued 110,989 brokers' warrants with a fair market value of $139,668, which was determined using Black-Scholes Option pricing model based on the following assumptions:

(Unaudited, Expressed in Canadian Dollars)

12. CAPITAL AND RESERVES (CONTINUED)

B. Issued Share Capital (Continued)

	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 $3.00 per share for a period ending on May 9, 2020.

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 500,000 common shares to its President and a consultant and granted warrants to acquire up to 500,000 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 $2.79 per share expiring five years after each vesting date. The grant date fair value of these options was $1,169,612. During the nine-month period ended September 30, 2019, the Company recognized $847,984 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 Options	5 years
Risk-Free Interest Rate	1.83%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	163.67%

During the nine-month period ended September 30, 2019, the Company recognized $505,667 as share-based compensation being fair value of 500,000 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 September 30, 2019 using the following assumptions:

	September 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	157.26%	163.71%

On September 13, 2019, the Company granted options to purchase up to 1,847,600 common shares to its executive officers, directors, and consultants. The options granted may be exercised at a price of $1.25 per share and expire on September 1, 2021. Options to acquire up to 1,383,000 common shares vested immediately, and options to acquire up to 464,600 common shares issued to a consultant for investor relations services vest over a 12-month period beginning on December 13, 2019, at 116,150 shares per quarter. The Company recorded $1,011,106 as share-based compensation associated with the options to acquire up to 1,383,000 issued to executive officers, directors and consultants for non-investor relations services, and $10,389 for an option to acquire up to 464,600 shares issued to a consultant for IR services. The above compensations were determined using the Black-Scholes Option pricing model using the following assumptions:

(Unaudited, Expressed in Canadian Dollars)

12. CAPITAL AND RESERVES (CONTINUED)

C. Stock Purchase Options (Continued)

Non-IR Options	**September 13, 2019**
Expected Life of the Options	1.97 years
Risk-Free Interest Rate	1.64%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	114%

IR Options	**September 30, 2019**	**September 13, 2019**
Expected Life of the Options	1.72 years	1.97 years
Risk-Free Interest Rate	1.58%	1.64%
Expected Dividend Yield	Nil	Nil
Expected Stock Price Volatility	109.44%	114%

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

	September 30, 2019		**December 31, 2018**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning	1,993,878	$3.30	1,478,149	$3.12
Granted[(1)]	2,847,600	$1.79	560,137	$3.96
Expired	(1,467,075)	$3.27	-	n/a
Exercised	(50,000)	$3.00	(44,408)	$4.50
Options outstanding, ending	3,324,403	$1.98	1,993,878	$3.30
Options exercisable, ending	2,234,803	$2.03	1,993,878	$3.30

[(1)]Includes options and warrants to acquire up to an aggregate 1,000,000 shares granted outside the Stock Option Plan.

The options outstanding and exercisable at September 30, 2019, are as follows:

Number Outstanding	**Number Exercisable**	**Weighted Average Exercise Price**	**Weighted Average Remaining Life**	**Expiry Date**
476,803	476,803	$3.48	0.88	August 15, 2020
1,000,000[(1)]	375,000	$2.79	4.36	November 6, 2025
1,847,600	1,383,000	$1.25	1.92	September 1, 2021
3,324,403	**2,234,803**	**$ 2.03**	**2.51**	

[(1)]Granted outside the Stock Option Plan.

(Unaudited, Expressed in Canadian Dollars)

12. CAPITAL AND RESERVES (CONTINUED)

D. Share Purchase Warrants

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

	September 30, 2019		**December 31, 2018**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	883,333	$4.50	3,510,142	$4.14
Issued	3,348,349	$3.00	1,049,002	$4.50
Exercised	-	-	(3,532,222)	$4.26
Expired	(883,333)	$4.50	(143,589)	$4.50
Warrants outstanding, ending	3,348,349	$3.00	883,333	$4.50

As at September 30, 2019, there were 3,348,349 share purchase warrants issued and outstanding expiring on May 9, 2020. The warrants can be exercised at $3.00 per share.

Subsequent to September 30, 2019, the Company's board of directors proposed to reduce the exercise price of the outstanding share purchase warrants from $3.00 per share to $1.25 per share (the "Warrant Repricing"). Effectiveness of the proposed Warrant Repricing is subject to the unanimous approval of the registered holders of the warrants.

13. NOTES AND ADVANCES 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 nine-month period ended September 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.

On July 5, 2019, the Company entered into a loan agreement with TransCanna Holdings Inc. for US$150,000 (the "TCAN Loan"). Outstanding principal under the TCAN Loan accrues interest at a rate of 1% per month, compounded monthly and is payable on demand. During the nine-month period ended September 30, 2019, the Company recorded $5,671 in interest expense associated with the TCAN Loan. The loan is secured by 250,000 TCAN Shares (Note 10). As at September 30, 2019, the Company owed a total of $204,311 under the TCAN Loan. The amount of the TCAN Loan was offset by $26,486 (US$20,000) lease payment TCM Distribution Inc., an affiliated company of TransCanna Holdings Inc., failed to make pursuant to the sub-lease agreement with the Company for additional warehouse space (Note 16).

During the nine-month period ended September 30, 2019, the Company received a total of $250,000 in advances required for working capital. The advances are due on demand and bear no interest. Subsequent to September 30, 2019, further $30,500 and US$189,295 were advanced to the Company under non-interest-bearing advances due on demand. Of the total amount advanced subsequent to September 30, 2019, Casey Fenwick, the Company's President, lent the Company approximately US$139,295.

(Unaudited, Expressed in Canadian Dollars)

14. 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 generating 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 September 30, 2019. The Company is not subject to any externally imposed capital requirements.

15. NON-CONTROLLING INTERESTS

At September 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% equity interest of LDS Agrotech is held by Matthew Ferguson, its President; and the remaining 25% equity interest of LDS Scientific is held by Jonathan Hunt, its former President.

During the nine-month period ended September 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 September 30, 2019, and December 31, 2018, the non-controlling interests consisted of the following:

	September 30, 2019	December 31, 2018
LDS Scientific (25%)	$ (1,835,805)	$ (1,376,012)
LDS Agrotech (25%)	(117,941)	(120,892)
Omni Distribution (Nil and 25%, respectively)	-	1,281
Agrotech, LLC (50%)	574,864	-
	$ (1,378,882)	$ (1,495,623)

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

As at September 30, 2019	LDS Scientific	LDS Agrotech	Agrotech	Omni Distribution
Assets	$ 454,498	$ 32,691	$ 3,408,909	$ 520
Liabilities	(7,797,718)	(504,452)	(2,259,181)	-
Total net assets	$ (7,343,220)	$ (471,761)	$ 1,149,728	$ 520
Total net assets allocated to NCI	$ (1,835,805)	$ (117,941)	$ 574,864	$ -

(Unaudited, Expressed in Canadian Dollars)

15. NON-CONTROLLING INTERESTS (CONTINUED)

As at December 31, 2018	**LDS Scientific**	**LDS Agrotech**	**Agrotech**	**Omni Distribution**
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 nine-month periods ended September 30, 2019 and 2018:

For the nine-month period ended at September 30, 2019	**LDS Scientific**	**LDS Agrotech**	**Agrotech**	**Omni Distribution**
Gross profit	$ -	$ -	$ 1,162,218	n/a
Operating expenses	(1,987,756)	(2,537)	(8,237)	n/a
Net income (loss)	(1,987,756)	(2,537)	1,153,981	n/a
Other comprehensive income	143,017	2,894	4,254	n/a
Comprehensive income (loss)	$(1,844,739)	$ 357	$ 1,158,235	n/a
Comprehensive income (loss) allocated to NCI	$ (461,185)	$ 89	$ 579,118	n/a

For the nine-month period ended at September 30, 2018	**LDS Scientific**	**LDS Agrotech**	**Agrotech**	**Omni Distribution**
Gross profit	$ 336,507	$ 160,950	n/a	n/a
Operating expenses	(1,972,148)	(322,988)	n/a	n/a
Net loss	(1,635,641)	(162,038)	n/a	n/a
Other comprehensive loss	(5,503)	15,313	n/a	n/a
Comprehensive loss	$ (1,641,144)	$ (146,725)	n/a	n/a
Comprehensive loss allocated to NCI	$ (410,286)	$ (36,681)	n/a	n/a

16. COMMITMENTS

The Company has commitments with payments due as follows:

Less than 1 year	$ 975,087
1-5 years	5,443,562
5+ years	855,900
Offices and facility rent fees, and other commitments	$ 7,274,549

Payments denominated in foreign currencies have been translated using the September 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 September 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.

(Unaudited, Expressed in Canadian Dollars)

16. COMMITMENTS (CONTINUED)

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 TCM Distribution 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$37,483 (US$28,304).

17. GEOGRAPHICAL INFORMATION

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

	Revenue Nine months ended September 30, 2019	 2018
United States	$ 4,378,545	$ 916,340
	$ 4,378,545	$ 916,340

17. GEOGRAPHICAL INFORMATION (CONTINUED)

	Long-Term Assets(1) Nine months ended September 30, 2019	 Year ended December 31, 2018
United States	$ 13,138,216	$ 13,881,932
Canada	3,315,075	3,316,423
	$ 16,453,291	$ 17,198,355

(1) Includes: Property, plant and equipment

18. SUBSEQUENT EVENTS

The following material events have occurred subsequent to September 30, 2019:

- On November 15, 2019, the Company acquired all of the issued and outstanding shares of Rainy Daze Cannabis Corp. ("Rainy Daze"), a British Columbia private corporation with assets located in British Columbia, in exchange for $100,000 cash and by issuing an aggregate of 3,500,000 unrestricted common shares of the Company to the original shareholders of Rainy Daze. The acquisition of Rainy Daze included long term lease for a building currently under construction, the facility consisting of 2,210 square feet of canopy space and 3,500 square feet of operational-purpose-built building, and 15 top proprietary genetics with the farming procedures and SOPs to ensure compliance and maximum yield. In addition, the Company also entered into a management agreement with a director of Rainy Daze to complete the licensing and manage the facility operations.

- On November 21, 2019, the Company entered into a one-year unsecured convertible note payable (the "Convertible Loan") for a total of $300,000. The principal advanced under the Convertible Loan will accumulate interest at 6% per annum compounded monthly and may be converted, together with accrued interest, in whole, or in part, into shares of the Company's common stock at $0.64 per share.

18. SUBSEQUENT EVENTS (CONTINUED)

In addition, the Company entered into negotiations for further $300,000 to be advanced to the Company under substantially the same terms as the above Convertible Loan. The conversion price of the additional advance will be determined by the closing price of the Company's shares on the day before the Company requests for a price protection.

- On November 26, 2019, the Company engaged a marketing advisor to assist with its marketing and shareholder awareness program. The services are provided under a month-to-month agreement at US$40,000 per month.

- During the month of November 2019, the Company entered into discussions for marketing advisory services with a marketing agency located in Europe. The Company made an initial payment of €50,000, which will be applied towards the definitive agreement, once it is finalized.

- The Company received a total of US$141,445 in advances from an affiliated company with a director in common. The funds are due on demand and bear no interest. The Company will use the funds to finance the construction of HWY 395 Dispensary.