



**CORE ONE LABS INC.**  
**(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)**  
**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**DECEMBER 31, 2019**



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Core One Labs Inc. (formerly Lifestyle Delivery Systems Inc.)

### Opinion

We have audited the consolidated financial statements of Core One Labs Inc. (formerly Lifestyle Delivery Systems Inc.) (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive loss, changes in shareholders’ equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively, the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes events and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

### Other Information

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

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

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

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

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

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Steven Reichert.

**DMCL**

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

August 18, 2020

**CORE ONE LABS INC.**  
**(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in Canadian Dollars)**

	Notes	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents		\$ 116,850	\$ 452,295
Amounts receivable	8	403,496	67,530
Advances receivable	9	33,860	9,549
Prepays and other current assets	7	546,478	675,810
Biological assets	11	167,881	-
Inventory	10	2,191,088	2,119,417
Marketable securities	13	295,000	541,237
<b>Total current assets</b>		<b>3,754,653</b>	<b>3,865,838</b>
Property, plant and equipment	4,5	14,048,482	17,198,355
<b>TOTAL ASSETS</b>		<b>\$ 17,803,135</b>	<b>\$ 21,064,193</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities	19,7	\$ 5,623,597	\$ 3,210,045
Amounts due to related parties	15	1,015,964	160,670
Advances payable	17	317,180	10,050
Note payable	17	206,249	721,000
Lease liability	14	665,853	-
Deposit on sale of assets	4	188,525	-
Unearned revenue	12	671,495	680,505
<b>Total current liabilities</b>		<b>8,688,863</b>	<b>4,782,270</b>
Non-current lease liability	14	3,495,731	-
<b>Total liabilities</b>		<b>12,184,594</b>	<b>4,782,270</b>
Shareholders' equity			
Share capital	16	51,372,447	42,797,498
Reserves	16	7,448,493	4,502,317
Deficit		(51,889,363)	(30,426,172)
Accumulated other comprehensive income		298,522	903,903
<b>Total parent shareholders' equity</b>		<b>7,230,099</b>	<b>17,777,546</b>
Non-controlling interests	18	(1,611,558)	(1,495,623)
<b>Total shareholders' equity</b>		<b>5,618,541</b>	<b>16,281,923</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 17,803,135</b>	<b>\$ 21,064,193</b>

Nature and continuance of operations (Note 1)  
Subsequent events (Note 28)

Approved by the Board of Directors and authorized for issue on August 18, 2020:

"Joel Shacker"	Director
"Casey Fenwick"	Director

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

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

		Year ended December 31,	
	Notes	2019	2018
Sales		\$ 5,041,651	\$ 3,925,263
Consulting revenue		-	155,484
Cost of sales		<b>6,294,362</b>	5,080,614
Gross profit, excluding fair value items and unallocated manufacturing costs		<b>(1,252,711)</b>	(999,867)
Unrealized gain on changes in fair value of biological assets		<b>(679,267)</b>	-
Realized fair value amounts included in inventory sold		<b>96,127</b>	-
Gross margin		<b>(669,571)</b>	(999,867)
Amortization expense	4	<b>3,580,455</b>	-
Bad debt expense	8	<b>154,937</b>	-
Consulting fees	15	<b>969,911</b>	1,298,314
Depreciation	4	<b>407,517</b>	54,744
Foreign exchange loss		<b>90,075</b>	(102,369)
General and administrative expenses	20	<b>4,385,160</b>	4,330,732
Impairment of advances receivable	9,14	<b>(410,889)</b>	1,204,405
Impairment of PP&E and ROU assets	5	<b>2,755,327</b>	-
Interest expense	14,17,22	<b>575,410</b>	130,290
Interest income		-	(4,343)
Loss on acquisition of assets	6	<b>1,992,607</b>	-
Gain on investment	13	<b>(1,089,360)</b>	-
Loss on settlement of debt	15	<b>88,106</b>	-
Marketing, sales and distribution		<b>1,424,963</b>	1,292,337
Research and development	15	<b>1,124,015</b>	1,116,986
Share-based payments	16	<b>2,776,906</b>	2,142,819
Write-down of inventory	10	<b>2,157,732</b>	689,604
Total operating expenses		<b>20,982,872</b>	12,153,519
<b>Net loss for the year</b>		<b>\$ (21,652,443)</b>	<b>\$ (13,153,386)</b>
<b>Net loss attributable to:</b>			
Shareholders of the Company		<b>(21,463,191)</b>	(12,286,877)
Non-controlling interests	18	<b>(189,252)</b>	(866,509)
		<b>\$ (21,652,443)</b>	<b>\$ (13,153,386)</b>
<b>Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss)</b>			
Foreign exchange translation		<b>(530,783)</b>	956,822
<b>Total comprehensive loss for the period</b>		<b>\$ (22,183,226)</b>	<b>\$ (12,196,564)</b>
<b>Other comprehensive income (loss) attributed to:</b>			
Shareholders of the Company		<b>(605,381)</b>	1,050,720
Non-controlling interests	18	<b>74,598</b>	(93,898)
		<b>\$ (530,783)</b>	<b>\$ 956,822</b>
<b>Total comprehensive loss attributable to:</b>			
Shareholders of the Company		<b>(22,068,572)</b>	(11,236,157)
Non-controlling interests	18	<b>(114,654)</b>	(960,407)
		<b>\$ (22,183,226)</b>	<b>\$ (12,196,564)</b>
Weighted average number of shares		<b>11,262,556</b>	9,311,419
Net loss per share - basic and diluted		<b>\$ (1.91)</b>	\$ (1.32)

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

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

	<u>Common shares</u>		Obligation to issue shares	Reserves	Deficit	Accumulated other comprehensive income (loss)	Non-controlling Interest	Total shareholders' equity
	Shares	Amount						
Balance at December 31, 2017	7,972,747	\$ 23,990,089	\$ 2,024,063	\$ 3,698,443	\$ (18,139,295)	\$ (146,817)	\$ (538,507)	\$ 10,887,976
Private placements	458,333	2,750,000	(2,020,000)	-	-	-	-	730,000
Exercise of warrants	1,766,111	14,834,007	-	(176,409)	-	-	-	14,657,598
Exercise of options	22,204	279,444	-	(79,606)	-	-	-	199,838
Cancelled shares issued for membership	(250,000)	-	-	-	-	-	-	-
Shares issued for finder's fee for the acquisition of technology	9,027	51,458	(4,063)	-	-	-	-	47,395
Share-based compensation	-	-	-	1,059,889	-	-	-	1,059,889
Shares released from escrow for technology	-	892,500	-	-	-	-	-	892,500
Non-controlling interest in equity	-	-	-	-	-	-	3,291	3,291
Foreign exchange translation	-	-	-	-	-	1,050,720	(93,898)	956,822
Net loss for the year	-	-	-	-	(12,286,877)	-	(866,509)	(13,153,386)
Balance at December 31, 2018	9,978,422	42,797,498	-	4,502,317	(30,426,172)	903,903	(1,495,623)	16,281,923
Private placement	1,618,680	6,422,050	-	139,669	-	-	-	6,561,719
Shares issued for assets	1,750,000	1,890,000	-	-	-	-	-	1,890,000
Exercise of options	25,000	262,899	-	(112,899)	-	-	-	150,000
Share-based compensation	-	-	-	2,776,906	-	-	-	2,776,906
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	-	-	-	-	-	(605,381)	74,598	(530,783)
Net loss for the year	-	-	-	-	(21,463,191)	-	(189,252)	(21,652,443)
Balance at December 31, 2019	13,372,102	\$ 51,372,447	\$ -	\$ 7,448,493	\$ (51,889,363)	\$ 298,522	\$ (1,611,558)	\$ 5,618,541

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

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

	Year ended December 31,	
	2019	2018
<b>Cash flows used in operating activities</b>		
Net loss	\$ (21,652,443)	\$ (13,153,386)
Non cash items:		
Depreciation	2,505,780	54,744
Amortization expense	3,580,455	-
Bad debts	154,937	-
Foreign exchange	538,158	(137,112)
Impairment (recovery) of advances receivable	(410,889)	1,204,405
Impairment of PP&E	685,598	-
Impairment of inventory	2,157,732	-
Impairment of ROU	2,069,729	-
Interest expense	575,410	130,290
Gain on equity investment	(1,089,360)	-
Loss on settlement of debt with related party	88,106	-
Loss on acquisition of assets	1,992,607	-
Loss on disposal of assets	(5,060)	-
Options issued for advertising and promotion	-	(143,037)
Share-based compensation	2,776,906	2,142,819
Unrealized gain on changes in fair value of biological assets	(679,267)	-
Changes in operating assets and liabilities:		
Amounts receivable	(499,603)	18,868
Prepays and other current assets	144,069	(429,585)
Biological assets	(1,415,634)	-
Inventory	(411,373)	(1,591,516)
Accounts payable and accrued liabilities	2,574,152	1,837,527
Amounts due to related parties	572,970	6,154
Unearned revenue	(25,009)	(97,177)
Net cash used in operating activities	(5,772,029)	(10,157,006)
<b>Cash flows used in investing activities</b>		
Advances receivable	(206,430)	(1,102,464)
Equipment purchased	(961,478)	(3,242,096)
Investment in membership	-	(1,567,500)
Production facility	(673,768)	(1,869,222)
Sale of marketable securities	1,630,487	-
Deposits on sale of assets	192,604	-
Land acquisition	-	(3,162)
Net cash provided by used in investing activities	(18,585)	(7,784,444)
<b>Cash flows provided by financing activities</b>		
Advances payable	308,771	-
Repayment of loans (net of loans received)	(700,000)	(650,855)
Interest paid on loans	(112,690)	(137,855)
Proceeds from loans	196,485	700,000
Repayment of lease	(955,368)	-
Units issued for private placements	6,561,719	730,000
Exercise of warrants	-	14,657,598
Exercise of options	150,000	199,838
Net cash provided by financing activities	5,448,917	15,498,726
Effects of foreign currency exchange	6,252	140,711
Change in cash and cash equivalents	(335,445)	(2,302,013)
Cash and cash equivalents, beginning	452,295	2,754,308
Cash and cash equivalents, ending	\$ 116,850	\$ 452,295
Cash and cash equivalents are comprised off:		
Cash	\$ 116,850	\$ 440,795
Term deposit	-	11,500
Total cash and cash equivalents	\$ 116,850	\$ 452,295

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

**CORE ONE LABS INC.**  
**(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Supplemental cash flow information**  
**(Expressed in Canadian Dollars)**

	Year ended December 31,	
	2019	2018
Supplemental cash flow information:		
Cash paid for interest	\$ 112,690	\$ 137,855
Cash received for interest	\$ -	\$ 4,343

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



**CORE ONE LABS INC.**  
**(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)**  
**Notes to the Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
For the Year Ended December 31, 2019

**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. On July 7, 2020, the Company further consolidated its issued and outstanding common shares on the basis of two (2) pre-consolidation shares for every one (1) post-consolidation share. 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 bioavailability of cannabis constituents. Through its wholly-owned subsidiaries, Core Isogenics Inc. and CSPA Group Inc., the Company operates a licensed vertically integrated cannabis cultivation, manufacturing, and distribution facility in the City of Adelanto, California. The Company’s head office is located at Suite 3123 – 595 Burrard Street, Three Bentall Centre P.O. Box 49139; Vancouver, BC, V7X 1J1, 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 these consolidated financial statements, the Company’s structure is represented by Core One Labs Inc., parent company incorporated pursuant to the provision of the Business Corporations Act (British Columbia), and the following subsidiaries:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Interest</b>	<b>Function</b>
Canna Delivery Systems Inc.	Nevada	100%	Holding company
LDS Agrotech Inc.	Nevada	75%	Consulting services – cultivation
LDS Scientific Inc.	Nevada	75%	Consulting services - extraction and manufacturing
Rêveur Holdings Inc. (formerly Adelanto Agricultural Advisors Inc.)	California	100%	Holding company
LDS Development Corporation	California	100%	Real estate holdings; equipment
Lifestyle Capital Corporation	California	100%	Financing
Omni Distribution Inc.	California	100%	No current operating activities
Optimus Prime Design Corp.	British Columbia	100%	Holding company
CSPA Group, Inc.	California	100%	Manufacturing and transportation
Core Isogenics Inc.	California	100%	Nursery and cultivation
Agrotech LLC.	California	50%	Cultivation
Rainy Daze Cannabis Corp.	British Columbia	100%	Microcultivation
Rejuva Alternative Medicine Research Centre Inc.	British Columbia	100%	Medical Clinic
Shahcor Health Services Inc.	British Columbia	25%	Medical Clinic

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) with the going concern assumption, which assumes that the Company will continue in operation for the foreseeable future and, accordingly, will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company’s ability to realize its assets and discharge its liabilities is dependent upon the Company obtaining the necessary financing and ultimately upon its ability to achieve profitable operations. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

## **1. NATURE AND CONTINUANCE OF OPERATIONS (CONTINUED)**

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 consolidated financial statements were authorized for issue on August 18, 2020, by the Directors of the Company.

### ***Statement of Compliance***

These consolidated financial statements have been prepared in accordance with accounting policies consistent with IFRS as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee.

These consolidated financial statements include the accounts of the Company and its subsidiaries, as listed in Note 1. All intercompany transactions and balances between subsidiaries have been eliminated on consolidation.

### ***Basis of Measurement and Use of Estimates***

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs basis except for certain financial instruments and contingencies which are valued at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

### ***Functional and presentation currency***

These consolidated financial statements are presented in Canadian dollars, the Company’s functional and presentation currency. The Company’s USA-based subsidiaries’ functional currency is the US dollar.

### ***Foreign currency translation***

#### **Transactions and balances:**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on the settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as qualifying cash flow or net investment hedge.

#### **Translations:**

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

#### **Foreign operations:**

The financial results and position of the Company’s USA-based subsidiaries, whose functional currency is the United States dollar, are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

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

Exchange differences arising on translation of USA-based subsidiaries are recognized in other comprehensive income (loss). These differences will be recognized in the profit or loss if and when the USA-based subsidiaries are ever disposed of.

### **Significant estimates and assumptions**

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

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

### **Significant judgments**

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's accounting policies in these financial statements were:

- Evaluating whether or not costs incurred by the Company meet the criteria for capitalization as intangible assets.
- The Company assesses the carrying values of its tangible and intangible assets annually, or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are charged against current earnings. Recoverability is dependent upon assumptions and judgments regarding market conditions, costs of production and sustaining capital requirements. Other assumptions used in the calculation of recoverable amounts are discount rates and future cash flows. A material change in assumptions may significantly impact the potential impairment of these assets.
- Management determines whether assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. The Company completed the acquisition of Rainy Daze Cannabis Corp. ("Rainy Daze") in November 2019 (Note 6) and concluded that the acquired entity did not qualify as a business combination under IFRS 3, "Business Combinations", as significant processes were not acquired. Accordingly, the acquisition has been accounted for as an asset acquisition.
- As more fully described in Note 3, on January 1, 2019, the Company adopted IFRS 16. Under IFRS 16, the Company assesses whether a contract contains a lease and, if so, recognizes a lease liability by discounting the future lease payments over the non-cancelable term of the lease, using the Company's estimated incremental borrowing rate. Differences in the estimated incremental borrowing rate could result in materially different lease liabilities and right-of-use assets. The non-cancellable term of the lease depends on the terms of the lease agreement and management's plans for the leased asset in question. The management must evaluate whether or not the Company shall exercise renewal options, the result of which could extend the non-cancellable term of the lease. Extending the lease term can have a material impact on the recorded value of lease liabilities and right-of-use assets.

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

**Significant judgments (continued)**

- The Company measures biological assets consisting of cannabis biomass at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The transfer of the fair value of biological assets to inventory may increase or decrease the deemed cost of ending inventory. In calculating the fair value of biological assets, management is required to make a number of estimates including wastage, expected yields, selling price and costs to sell at the point of harvest, and percentage of costs incurred for each stage of plant growth (Note 11).
- In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value. The valuation of crude oil, extracts, and other products also requires the estimate of conversion costs incurred, which become part of the carrying amount for the inventory. The Company must determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

Other significant judgments in applying the Company's accounting policies relate to the assessment of the Company's ability to continue as a going concern (Note 1), functional currency determinations and the classification of its financial instruments.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. The Company had no cash equivalents as at December 31, 2019 (December 31, 2018: \$11,500 in term deposits).

**Financial instruments**

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

*i) Classification*

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

The following table shows the classification of the Company's financial assets and liabilities under IFRS 9:

<b>Financial assets/liabilities</b>	<b>Classification</b>
Cash and cash equivalents	FVTPL
Amounts and advances receivable	Amortized cost
Marketable securities	FVTPL
Accounts payables and accrued liabilities	Amortized cost
Amounts due to related parties	Amortized cost
Advances payable	Amortized cost
Note payable	Amortized cost
Lease liabilities	Amortized cost

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial instruments (continued)**

##### ii) Measurement

###### *Financial assets and liabilities at amortized cost*

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

###### *Financial assets and liabilities at FVTPL*

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

###### *Debt investments at FVTOCI*

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

###### *Equity investments at FVTOCI*

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

##### iii) Impairment of financial assets at amortized cost and expected credit losses

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. The Company is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

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

Loss allowances for accounts receivables are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. Losses are recognized in the statement of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss. As at December 31, 2019, the Company had estimated its allowance for doubtful accounts to be \$154,937.

##### (iv) Derecognition

###### *Financial assets*

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

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial instruments (continued)**

##### *Financial liabilities*

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

Gains and losses on derecognition are generally recognized in profit or loss.

#### **Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the assets belong.

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years.

#### **Financing costs**

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are recognized in the statement of comprehensive loss.

#### **Revenue recognition**

Revenue consists of consulting fees associated with set up of cannabis operations and sales of cannabis products, such as CannaStrips™, live resins, distillate oils and flower. 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 Company recognizes its revenue as follows:

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

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial instruments (continued)**

Deposits received from customers prior to entry into a definitive agreement, or prior to the delivery of goods and services, and where a performance obligation exists, are recorded as unearned revenue (Note 12).

#### **Inventory**

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

Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest, which becomes the initial deemed cost. Any subsequent direct and indirect post-harvest costs are capitalized to inventories as incurred, including labor related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation.

Production costs relating to inventory sold represent all costs of inventories recognized as expense in the years, except deemed costs of inventory that arise from the fair value measurement of biological assets transferred to finished harvest inventory. Fair value adjustments on inventory sold represents the deemed costs of inventory sold that arises from the fair value measurement of biological assets, exclusive of any capitalized costs.

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

#### **Biological assets**

The Company's biological assets consist of cannabis plants and are valued using the income approach. Production costs are capitalized to biological assets and include all direct and indirect costs relating to biological transformation. While the Company's biological assets are within scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include direct cost of seeds and growing materials, and indirect costs such as utilities, supplies and equipment rentals used in the growing and harvesting process. Direct labor costs include harvesting, planting, and propagation. Indirect labor relates to quality control processes. All production costs are capitalized as they are incurred and subsequently recorded within cost of goods sold on the consolidated statements of comprehensive loss in the period that the related product is sold.

The Company measures biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of biomass inventories after harvest. Net unrealized gains or losses arising from the changes in fair value less cost to sell during the year are included in the results of operations for the related year.

#### **Share-based payments**

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes Option pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial instruments (continued)**

##### **Loss per share**

Loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported, outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive. Diluted loss per share is equal to the basic loss per share as net losses were reported during the periods presented.

##### **Property and equipment**

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

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

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

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

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

##### **Intangible assets**

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangible assets is recognized on a straight-line basis over their estimated useful lives.

##### **Research and development**

Research costs are expensed when incurred. Internally-generated technology costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. After initial recognition, internally-generated intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses.

These costs are amortized on a straight-line basis over the estimated useful lives of 5 years. The Company did not have any development costs that met the capitalization criteria for the years ended December 31, 2019 and 2018.

##### **Income taxes**

###### Current income tax:

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



### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial instruments (continued)**

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

#### Deferred tax:

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

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

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

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

#### **Recent accounting pronouncements**

##### Newly adopted accounting standards

##### *IFRS 16 - Leases*

The Company adopted IFRS 16 Leases (“IFRS 16”), which introduces a single, on-balance sheet accounting model for lessees, effective January 1, 2019. As a result, the Company, as a lessee, has recognized right-of-use assets (the “ROU Assets”) representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. The Company has elected not to apply IFRS 16 to leases with a term of less than 12 months or leases where the underlying asset is of low value.

The Company adopted IFRS 16 using the modified retrospective approach; therefore the comparative information for 2018 has not been restated.

As at January 1, 2019, the applicable leases consisted of industrial/warehouse leases that had previously been classified as operating leases. On transition, the lease liabilities for these leases were measured at the present value of remaining lease payments, discounted at the Company’s incremental borrowing rate as of January 1, 2019, which was estimated at 12.6%. The Company elected to measure the ROU assets at an amount equal to the lease liability.

On transition to IFRS 16, the recognition of ROU assets and lease liability for its leases resulted in an increase to its property, plant, and equipment of \$2,364,559 as at January 1, 2019, with a corresponding increase in lease liability. The ROU assets are presented as ROU assets within property and equipment, and lease liability presented as lease, in the statement of financial position.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial instruments (continued)**

A reconciliation of lease commitments as reported at December 31, 2018, to the lease liability recorded at January 1, 2019, is as follows:

Operating lease commitment at December 31, 2018	\$3,634,229
Impact of discounting using the incremental borrowing rate at January 1, 2019	(1,269,670)
Lease liability recognized as at January 1, 2019	\$2,364,559

The following table summarizes the impacts of adopting IFRS 16 on the consolidated financial statements:

	<b>Balance December 31, 2018</b>	<b>Adoption of IFRS 16</b>	<b>Restated balance January 1, 2019</b>
Right of use assets	\$ -	\$ 2,364,559	\$ 2,364,559
Lease liability	\$ -	\$ 326,146	\$ 326,146
Non-current lease liability	\$ -	\$ 2,038,413	\$ 2,038,413

The following is the new accounting policy for leases under IFRS 16:

A contract is or contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a ROU asset and lease liability at the lease commencement date. The ROU asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The cost of the ROU asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs; and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The carrying amount of the ROU assets is depreciated on a straight-line basis over the life of the leases, which at December 31, 2019, had an expected life of 6.25 years and 4.25 years, to March 2026 and March 2024, respectively.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial instruments (continued)**

The Company does not recognize ROU assets and lease liabilities for leases of low-value assets and leases with lease terms less than 12 months. Lease payments associated with these leases are instead recognized as an expense over the lease term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit. During the year ended December 31, 2019, the Company recorded \$124,843 in rent expense in the statement of comprehensive loss.

The Company has applied judgment to determine the lease term for those lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

ROU assets are presented in the same line item as property, plant, and equipment in the statement of financial position as it presents underlying assets of the same nature owned by the Company.

#### *Future accounting policy changes*

##### *Amendments to IFRS 3 – Definition of a business*

In October 2018, the IASB issued “Definition of a Business (Amendments to IFRS 3)”. The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business. The amendments are effective for business combinations occurring on or after the beginning of the first annual reporting period beginning on or after January 1, 2020.

Management is currently assessing the impact of the new standard on the Company’s accounting policies and financial statement presentation.

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**4. PROPERTY, PLANT AND EQUIPMENT**

	<b>Membership and CUP</b>	<b>Property</b>	<b>Plant</b>	<b>Equipment</b>	<b>ROU</b>	<b>Total</b>
<b><u>Cost</u></b>						
Balance at December 31, 2017	\$ 1,998,475	\$ 1,889,349	\$ 4,104,948	\$ 2,083,171	\$ -	\$ 10,075,943
Additions	1,567,500	3,162	1,869,222	3,242,096	-	6,681,980
Foreign exchange	21,940	165,463	457,776	305,357	-	950,536
Balance at December 31, 2018	3,587,915	2,057,974	6,431,946	5,630,624	-	17,708,459
ROU recognized on adoption of IFRS 16	-	-	-	-	2,364,559	2,364,559
Balance at December 31, 2018 (adjusted)	3,587,915	2,057,974	6,431,946	5,630,624	2,364,559	20,073,018
Additions	-	-	673,768	961,478	2,447,457	4,082,703
Impairment	-	(338,566)	(347,032)	-	(2,069,729)	(2,755,327)
Foreign exchange	-	(91,489)	(307,001)	(269,118)	(133,571)	(801,179)
<b>Balance at December 31, 2019</b>	<b>\$ 3,587,915</b>	<b>\$ 1,627,919</b>	<b>\$ 6,451,681</b>	<b>\$ 6,322,984</b>	<b>\$ 2,608,716</b>	<b>\$ 20,599,215</b>
<b><u>Accumulated Amortization</u></b>						
Balance at December 31, 2017	\$ -	\$ -	\$ -	\$ 8,705	\$ -	\$ 8,705
Depreciation	-	-	163,774	312,449	-	476,223
Foreign exchange	-	-	8,658	16,518	-	25,176
Balance at December 31, 2018	-	-	172,432	337,672	-	510,104
Depreciation	-	-	850,666	972,635	682,479	2,505,780
Amortization	3,580,455	-	-	-	-	3,580,455
Foreign exchange	7,460	-	(18,015)	(20,598)	(14,453)	(45,606)
<b>Balance at December 31, 2019</b>	<b>\$ 3,587,915</b>	<b>\$ -</b>	<b>\$ 1,005,083</b>	<b>\$ 1,289,709</b>	<b>\$ 668,026</b>	<b>\$ 6,550,733</b>
<b><u>Net Book Value</u></b>						
At December 31, 2018	\$ 3,587,915	\$ 2,057,974	\$ 6,259,514	\$ 5,292,952	\$ -	\$ 17,198,355
<b>At December 31, 2019</b>	<b>\$ -</b>	<b>\$ 1,627,919</b>	<b>\$ 5,446,598</b>	<b>\$ 5,033,275</b>	<b>\$ 1,940,690</b>	<b>\$ 14,048,482</b>

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**4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

As at December 31, 2019, the Adelanto facility was completed and fully functional.

At December 31, 2019, \$2,098,263 (December 31, 2018 - \$305,246) in amortization and depreciation expenses were included in cost of sales.

In January 2020, the Company entered into an option agreement with an affiliated party (the “Buyer”), wherein the Company granted the Buyer the exclusive right and option to purchase the Company’s land parcel in Adelanto, California for \$200,000. The option gives the Buyer the right to purchase the property for \$800,000 until August 6, 2021, or for \$1,000,000 until January 6, 2023. During the year ended December 31, 2019, the Company received \$192,604 towards this option (2018 - \$Nil). As at December 31, 2019, the option has not been exercised and the value of the land was adjusted to fair value of \$737,718 (Note 5).

**Membership and license**

In 2018, the new State of California Cannabis regulations eliminated restrictions on issuing cannabis-related licenses to nonprofit mutual benefit corporations only. As of the date the new regulations became effective, any corporation formed in the State of California, provided it remains in good standing, can apply and receive licenses to operate a cannabis business. Therefore the Company, chose to convert one of its wholly-owned subsidiaries, CSPA Group Inc., from a nonprofit mutual benefit corporation to a business corporation by filing Amended and Restated Articles of Incorporation with the Secretary of State of California, whereby the Membership was converted to regular shares of the corporation, and the shares were assigned a value of \$100, which is eliminated on consolidation.

As at December 31, 2019, due to these regulatory changes in the State of California associated with certain requirements for the companies operating within the cannabis industry, Management determined that the useful life of the Membership in CSPA Group Inc. (the “Membership”), as an intangible asset, was no longer indefinite. The annual cost of renewal, the rigor of the renewal process combined with other changes in the industry associated with competition and regulatory requirements, made the cost of renewal insignificant versus when the Membership was first purchased, where the number of permits were limited and where the ability to obtain permits was more challenging.

As the useful life of the Membership was reassessed as definite, Management determined the carrying amount should be amortized over the new useful life, being the license renewal period.

In line with its decision to amortize the Membership, the Company assessed the useful life of an initial conditional use permit (“CUP”), which the Company acquired in its fiscal 2017. It was determined that the useful life of the CUP was equivalent to its renewal period, and as at December 31, 2019, the CUP was fully amortized.

The Company recognized an amortization charge of \$3,580,455 relating to the Membership and CUP.

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**5. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

Management assesses at the end of each reporting period whether there is any indication from external and internal sources of information, that an asset may be impaired. Impairment of property, plant, and equipment for the year ended December 31, 2019:

	December 31, 2019	December 31, 2018
<b>Impairment charges:</b>		
Land – Rancho Road Property	\$ 338,566	\$ -
Architectural design	285,283	-
Leasehold improvement – Costa Mesa office	61,749	-
ROU asset	2,069,729	-
<b>Total impairment charges</b>	<b>\$ 2,755,327</b>	<b>\$ -</b>

**Land**

During the year ended December 31, 2019, the Company assessed the carrying value of its land that has not been placed into service and recognized an impairment of \$338,566. Management determined the recoverable amount using FVLCD. For the purposes of the FVLCD calculation, management used an independent appraisal of the land at the valuation date. The Company determined that the recoverable amount associated with the land was \$737,718.

**Architectural design**

During the year ended December 31, 2019, the Company assessed that its architectural designs for development of its lands had no value and recognized impairment of \$285,283.

**Leasehold improvement**

During the year ended December 31, 2019, the Company cancelled an office lease, and leasehold improvements related to this office lease of \$61,749 were impaired.

**Right-of-use asset**

As at December 31, 2019, the Company determined that the lease agreement between a landlord and the Company for the Company’s use of an additional warehouse facility in Adelanto, California, terminating on March 31, 2024, is an onerous contract, under the definition of IAS 37. As at December 31, 2019, the Company has no immediate plans to use this building. Management recognized an impairment loss of \$2,069,729 for the impairment of the ROU asset related to this onerous contract, and recorded the provision for unavoidable costs as lease liability in the statement of financial position.

**6. ASSET ACQUISITION**

**Acquisition of Rainy Daze**

On November 14, 2019, the Company completed the acquisition of Rainy Daze by purchasing all the issued and outstanding shares of Rainy Daze in exchange for \$100,000 cash and by issuing 1,750,000 common shares of the Company (the “Acquisition”).

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**6. ASSET ACQUISITION (CONTINUED)**

Rainy Daze holds a long-term lease for a bay in a micro-cultivation facility that is currently under construction with a lease term of 5 years, commencing on the day immediately following Rainy Daze receiving an occupancy permit from the Capital Regional District. As at December 31, 2019, this lease has not commenced. Rainy Daze intends to apply for a micro-cultivation license with Health Canada at a time when the building has received required approvals. Rainy Daze entered into a management agreement to complete the licensing and manage the facility operations. Rainy Daze also entered into a Cannabis Processing Agreement with a processor on October 15, 2019, whereby the processor, will become the exclusive processor and distributor of all cannabis products produced by Rainy Daze.

As at the date of the Acquisition, the Company determined that Rainy Daze did not constitute a business as defined under IFRS 3, Business Combinations, and the Acquisition was accounted for as an asset acquisition. There were no intangible assets identified that met the recognition criteria under IFRS; therefore, the excess of the consideration paid over the fair value of the monetary assets and liabilities assumed was expensed.

The details of the consideration paid, and the assets and liabilities of Rainy Daze is as follows:

	Total
<b>Consideration paid:</b>	
Fair value of shares issued (1,750,000 at \$1.08 per share)	\$ 1,890,000
Cash consideration due on closing	100,000
	<u>1,990,000</u>
<b>Less: Value of net liabilities acquired:</b>	
Cash	28
Deposit on sublease	40,000
Good and services tax receivable	2,109
Accounts payable and accrued liabilities	(2,704)
Due to related parties	(42,040)
	<u>(2,607)</u>
<b>Net liabilities acquired</b>	<u>(2,607)</u>
<b>Loss on acquisition of assets</b>	<u>\$ 1,992,607</u>

**7. PREPAIDS AND OTHER CURRENT ASSETS**

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

	December 31, 2019	December 31, 2018
Insurance	\$ 5,780	\$ 149,517
Prepaid service fees	234,821	500,980
Security deposits	244,920	25,313
Prepaid regulatory fees	60,957	-
<b>Total prepaids and other current assets</b>	<u>\$ 546,478</u>	<u>\$ 675,810</u>

During the year ended December 31, 2019, the Company paid \$244,920 which was recorded as security deposits (2018 - \$24,099) for retainers with natural gas suppliers. During the same period, the Company renewed its annual licenses to operate the Adelanto facility. The licenses have a term of one year and expire on various dates throughout fiscal 2020. The Company recorded \$60,957 as prepaid regulatory fees associated with these operating licenses (2018 - \$Nil).

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**8. AMOUNTS RECEIVABLE**

Amounts receivable as at December 31, 2019 and 2018, consisted of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Trade accounts receivable	\$ 542,788	\$ 8,686
GST receivable	12,364	58,844
Allowance for doubtful accounts	(154,937)	-
Foreign exchange	3,281	-
<b>Total amounts receivable</b>	<b>\$ 403,496</b>	<b>\$ 67,530</b>

During the year ended December 31, 2019, the Company set up an allowance for trade accounts receivable which were deemed uncollectible and recorded a bad debt expense of \$154,937 (2018 - \$nil). No additional provision for expected credit losses has been set up.

**9. ADVANCES RECEIVABLE**

During the year ended December 31, 2019, the Company advanced a net amount of \$71,252 (2018 - \$1,102,464) to affiliated companies with senior management in common. The advances are due on demand and do not accumulate interest. At December 31, 2019, the Company had a total of \$33,860 in advances receivable from affiliated entities (2018 - \$9,549).

During the year ended December 31, 2018, the Company advanced \$1,102,464 (US\$889,865) to EPG Power Corporation ("EPG"), an affiliated company with former directors and senior management in common, to acquire a power generator and supplies necessary for its operation. At December 31, 2018, the Company assessed EPG's financial position and its ability to repay the advances; it considered EPG's short cash position, negative working capital, and ongoing negotiations with the City of Adelanto to supply power to cannabis operations, which led to a decision to set up an impairment of the amount advanced to EPG being \$1,204,405.

During the year ended December 31, 2019, the Company used EPG's power generator in its cultivation operations resulting in \$540,768 in advances being recovered. The remaining \$602,269 continues to be impaired until such time that EPG completes additional financing and is able to repay the cost of the power generator.

**10. INVENTORY**

At December 31, 2019, the Company's inventory was valued at \$2,191,088 (2018 - \$2,119,417) and consisted of \$88,785 (2018 - \$1,028,447) in raw materials held for manufacturing and \$2,102,303 (2018 - \$1,090,970) in finished products ready for sale.

During the year ended December 31, 2019, the Company expensed \$6,122,182 (2018 - \$4,737,027) of inventory to cost of goods sold; in addition the Company recognized \$268,299 (2018 - \$Nil) non-cash expense relating to the changes in fair value of inventory sold.

As at December 31, 2019, the Company wrote down its inventory of cannabis-related products to the net realizable value, which resulted in an impairment of \$2,157,732 (December 31, 2018 - \$689,604).



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**11. BIOLOGICAL ASSETS**

At December 31, 2019, the Company's biological assets consisted of cannabis plants.

The continuity of biological assets for the year ended December 31, 2019:

	<b>December 31, 2019</b>
Biological assets, beginning of period	\$ -
Production of biological assets	2,430,575
Unrealized changes in fair value less costs to sell of biological assets	679,267
Transfers to inventory upon harvest	(2,927,576)
Foreign exchange	(14,385)
<b>Biological assets, end of period</b>	<b>\$ 167,881</b>

The Company's biological assets consist of cannabis plants. 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. 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 estimates the expected harvest yield in pounds ("lbs") and then adjusts the amount at point of harvest based on their stage of growth and by the expected selling costs per lbs.

The following significant unobservable inputs were used by management as model:

- Estimated selling price per lbs – with limited sales history, the Company's management evaluates available industry data and expects to closely approximate the expected selling price.
- Stage of growth – the Company applies a weighted average number of days out of the 16-week growing cycle that biological assets have reached as of the measurement date based on historical evidence. The Company assigns fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Plant yield – represents the expected number of ounces of finished cannabis flower and content of cannabidiol as a percentage of weight to be obtained from each harvested cannabis plant based on historical evidence.

Other unobservable inputs include: Estimated post-harvest costs, costs to complete and wastage. All inputs noted above are classified as level three on the fair value hierarchy.

The following table quantifies each significant unobservable input and provides the impact of a 20% increase or decrease that each input would have on the fair value of biological assets:

	<b>Indoor Cultivation</b>	<b>Impact of 20% change – December 31, 2019</b>
Estimated yield per plant	3.42 oz	\$32,973
Average selling price, mature plant	\$130/lb (USD\$100/lb)	\$32,973
Growth stage	46%	\$32,973

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**12. UNEARNED REVENUE**

At December 31, 2019, the Company recorded \$671,495 (December 31, 2018 - \$680,505) in deferred revenue on future services which were comprised of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Prepayments received from customers	\$ 57,033	\$ -
Payment for Track and Trace software	614,462	605,057
Deposit for future services from affiliate	-	75,448
<b>Total unearned revenue</b>	<b>\$ 671,495</b>	<b>\$ 680,505</b>

During the year ended December 31, 2017, the Company entered into an Intellectual Property License and Royalty Agreement (the "TCAN Agreement") with TransCanna Holdings Inc. ("TransCanna"), a company related by virtue of former common management and common directors, for its Track and Trace software, which the Company was commissioned to develop. At December 31, 2019, the Track and Trace software development was not completed, furthermore it was suspended due to changes in regulatory requirements imposed by the state of California. For these reasons, the Company recorded \$614,462 (2018 - \$605,057) as unearned revenue (Note 13). Subsequent to December 31, 2019, the Company was released from its obligation to deliver the Track and Trace software pursuant to the Settlement Agreement between the Company and TransCanna.

**13. MARKETABLE SECURITIES**

At December 31, 2019, the Company's marketable securities consisted of 250,000 common shares of TransCanna (the "TCAN Shares"), valued at \$295,000.

During the year ended December 31, 2019, the Company sold 1,102,254 TCAN Shares received as part of the TCAN Agreement, dated for reference November 15, 2017 (Note 12), for a total net proceeds of \$1,630,487. The Company recorded a net realized gain of \$1,079,360 on the sale of TCAN Shares (2018 - \$Nil).

On August 8, 2019, the Company acquired an additional 250,000 TCAN Shares from Mr. Eckenweiler, the Company's former CEO and director, who agreed to sell the TCAN 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 USD\$150,000 advance the Company received from TransCanna (Note 17).

At December 31, 2019, TCAN Shares were valued at \$295,000 (2018 - \$541,237) based on the market price of TCAN Shares at December 31, 2019. The revaluation of the equity investment in TCAN Shares resulted in a \$10,000 gain (2018 - \$Nil). The gain resulted from an increase of the market price of TCAN shares from \$1.14 per share at August 8, 2019, the purchase date of the shares that remained in the Company's portfolio on December 31, 2019, to \$1.18 per share at December 31, 2019.

**14. LEASE**

The Company leases certain assets under lease agreements. The lease liability consists of leases for the manufacturing facility terminating on March 31, 2021, and the warehouse facility terminating on March 31, 2024, and various short-term and operating leases for office space and equipment. The leases are calculated using an incremental borrowing rate of 12% per annum.

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**14. LEASE (CONTINUED)**

At December 31, 2019, the Company's lease liability related to leases is as follows:

Balance – January 1, 2019	\$	2,364,559
Additions		2,447,457
Interest expense		472,103
Lease payments		(955,368)
Foreign exchange		(167,167)
Balance – December 31, 2019	\$	4,161,584
Current portion	\$	665,853
Long-term portion	\$	3,495,731

During the year ended December 31, 2019, the Company received \$132,690 (2018 - \$nil) in rental income relating to an agreement between the Company and TCM Distribution Inc., a subsidiary of TransCanna, for sublease of its premises that is recorded as a recovery of rent expense, included as part of general and administrative expenses in the statement of comprehensive loss. The Company classified this sublease as an operating lease, as it does not transfer substantially all of the risks and rewards incidental to the rights to use the underlying asset. The Company recorded an impairment of \$129,880 for rent not received from TCM Distribution Inc.

At December 31, 2019, the Company is committed to minimum lease payments as follows:

<b>Maturity analysis</b>	<b>December 31, 2019</b>	
Less than one year	\$	1,090,992
One to five years		4,430,596
More than five years		120,399
<b>Total undiscounted lease liabilities</b>	<b>\$</b>	<b>5,641,987</b>

**15. RELATED PARTY TRANSACTIONS**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

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:

		<b>December 31,</b>	
		<b>2019</b>	<b>2018</b>
Management consulting services	a)	\$ 575,143	\$ 822,767
Consulting services for research and development	b)	\$ 144,898	\$ 122,445
Management salaries	c)	\$ 620,358	\$ 567,517
Share-based compensation	d)	\$1,893,416	\$ 1,193,185

a) Management consulting services consist of the following:

\$397,090 (2018 – \$390,125) in consulting fees paid or accrued to Mr. Eckenweiler, the former 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

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**15. RELATED PARTY TRANSACTIONS (CONTINUED)**

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 – \$70,740) 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.
  - \$119,682 (2018 - \$116,125) in consulting fees paid or accrued to Ms. Silina, the Company’s former Chief Financial Officer (the “CFO”) and former director. 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 on November 14, 2019 and as CFO effective April 30, 2020.
  - \$12,500 (2018 - \$60,000) 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.
  - \$45,871 (2018 - \$185,777) 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:
- \$79,413 (2018 – \$78,811) 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.
  - \$65,485 (2018 - \$43,634) 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.
- c) Management salaries consist of the following:
- \$238,842 (2018 – \$Nil) in management salaries paid or accrued to Mr. Fenwick, following his appointment as President and a member of the board of directors on February 4, 2019. Pursuant to the employment agreement Mr. Fenwick is entitled to a monthly salary of US\$15,000 in addition to all regular payroll benefits the Company set up for its USA-based employees
  - \$183,112 (2018 – \$178,807) in management salaries 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 USA-based employees.

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**15. RELATED PARTY TRANSACTIONS (CONTINUED)**

- \$165,863 (2018 – \$194,355) in management salaries paid to Mr. Hunt, former President and a 25% shareholder of LDS Scientific. 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 USA-based employees. Mr. Hunt's employment was terminated in November 2019.
  - \$16,619 (2018 – \$194,355) in management salaries 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. 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 \$88,106 (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.
  - \$15,923 (2018 – \$Nil) in management salaries paid to Ms. Christopherson, CEO of CSPA Group and the partner of Mr. Eckenweiler.
- d) Share-based compensation consists of the following:
- On February 6, 2019, the Company granted options to acquire up to 166,667 common shares to its President, Mr. Fenwick. The options vested over a two-year period in equal quarterly installments of 20,833 shares beginning on February 7, 2019, and could have been exercised at \$5.58 per share expiring five years after each vesting date. On December 27, 2019, the Company cancelled the options. The Company recorded \$779,738 as share-based compensation for the year ended December 31, 2019 (Note 16).
  - On February 6, 2019, the Company granted warrants to acquire up to 83,334 common shares to Mr. McNulty. The warrants vested over a two-year period in equal quarterly installments of 10,417 shares beginning on February 7, 2019, and could have been exercised at \$5.58 per share expiring five years after each vesting date. On December 27, 2019, the Company cancelled the warrants. The Company recorded \$175,681 as a share-based compensation for the year ended December 31, 2019 (Note 16).
  - On September 13, 2019, the Company granted options to purchase up to 641,500 common shares to its executive officers and directors. The options granted could have been exercised at a price of \$2.50 per share and were expiring on September 1, 2021. On December 27, 2019, the Company cancelled these options. The Company recorded \$937,998 as share-based compensation for the year ended December 31, 2019 (Note 16).
  - During the comparative year ended December 31, 2018, the share-based compensation consisted of an option to acquire up to 41,664 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 \$13.80 per share expiring on January 11, 2020. These options expired on April 15, 2019, in accordance with the Company's stock option plan. In addition, on August 15, 2018, the Company granted an option to acquire up to 235,485 common shares to its CEO and a director. The options were valued at \$850,794 and could have been exercised at a price of \$6.96 per share expiring on August 15, 2020 (Note 16). These options were cancelled on December 27, 2019.

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**15. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Brad Eckenweiler	\$ 337,532	\$ 37,424
Casey Fenwick	294,884	-
Dr. John Sanderson	38,964	20,463
James Pakulis	-	57,903
Yanika Silina	88,476	1,581
Arni Johannson	49,875	36,750
Frank McEnulty	125,077	81,852
Crystal Elrod	-	(99,450)
Jonathan Hunt	27,903	6,139
Nanostrips Inc.	8,445	18,008
Matt Ferguson	44,808	-
<b>Total payable to related parties</b>	<b>\$ 1,015,964</b>	<b>\$ 160,670</b>

**16. 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. On July 7, 2020, the Company further consolidated its share capital on the basis of two (2) 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 December 31, 2019, the Company had 13,372,103 shares issued and outstanding.

During the year ended December 31, 2019, the Company had the following transactions that resulted in issuance of its common stock:

- i. During the year ended December 31, 2019, the Company issued 25,000 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 1,618,680 units (the "Units") at \$4.20 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.

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**16. CAPITAL AND RESERVES (CONTINUED)**

**B. Issued Share Capital (Continued)**

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 55,495 brokers' warrants with a fair market value of \$139,669, which was determined using Black-Scholes Option pricing model based on the following assumptions:

	<b>May 9, 2019</b>
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 were exercisable at \$6.00 per share for a one-year period expiring on May 9, 2020. These warrants expired unexercised.

- iii. On November 14, 2019, the Company issued 1,750,000 common shares at a deemed price of \$1.08 per share in consideration of the acquisition of all the issued and outstanding shares of Rainy Daze (Note 6).

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

- iv. On January 11, 2018, the Company closed a non-brokered private placement financing (the "January Financing") for a total of 458,333 units (the "January Units") at a price of \$6.00 per January Unit (the "Issue Price") for total gross proceeds of \$2,750,000. Each January Unit sold in the January Financing consisted of one common share of the Company (each a "January Unit Share") and one common share purchase warrant (each a "January Warrant"). Each January Warrant entitled the holder to purchase one additional common share (a "January Warrant Share") at a price of \$9.00 per January Warrant Share for a period ending one year from the date of issuance. The Company had a right to accelerate the expiration date of the January Warrants if the daily volume weighted average share price of the Company's common shares on the Canadian Securities Exchange (or such other stock exchange as the Company's common shares are then trading on) was equal to or greater than \$18.00 for ten consecutive trading days. During the year ended December 31, 2018, 16,667 January Warrants were exercised; remaining January Warrants expired unexercised subsequent to December 31, 2018.
- v. During the year ended December 31, 2018, the Company issued 1,626,659 shares of the Company's common stock on the exercise of warrants for total proceeds of \$13,664,036.
- vi. During the year ended December 31, 2018, the Company issued 139,425 shares of the Company's common stock on the exercise of broker warrants for total proceeds of \$993,562. These warrants had an initial fair value of \$176,409.
- vii. During the year ended December 31, 2018, the Company issued 22,204 shares of its common stock for total proceeds of \$199,838 on the exercise of options the Company issued to an entity engaged in capital markets advisory and investor relations services. These options had an initial fair value of \$79,606.
- viii. On March 15, 2018, the Company returned to treasury and canceled 250,000 shares of the Company's common stock previously granted to NHMC under the Membership Purchase Agreement to acquire membership in NHMC, which were held in escrow pending receipt of COO.

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**16. CAPITAL AND RESERVES (CONTINUED)**

**B. Issued Share Capital (Continued)**

- ix. On October 5, 2018, the Company issued 9,028 finder's shares with a value of \$51,458 upon the Company achieving the fourth revenue milestone of generating cumulative US\$1,000,000 as contemplated under the terms of the Acquisition of Canna. Share-based compensation of \$47,395 was recorded.

**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.

*Stock Option Grants and Transactions during the year ended December 31, 2019*

On February 6, 2019, the Company granted options to acquire up to 250,000 common shares to its President and an employee and granted warrants to acquire up to 250,000 common shares to its consultants. These securities were issued outside of the Company's Plan. The options and warrants vested quarterly over a two-year period in equal installments beginning on February 7, 2019, and could have been exercised at a price of \$5.58 per share expiring five years after each vesting date. The grant date fair value of these options was \$1,169,607. These options were cancelled on December 27, 2019. During the year ended December 31, 2019, the Company recognized \$1,169,607 as share-based compensation. The value of the options was determined using the Black-Scholes Option pricing model using the following assumptions:

	<b>February 6, 2019</b>
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 year ended December 31, 2019, the Company recognized \$527,041 as share-based compensation being the fair value of 250,000 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 December 27, 2019, the date all outstanding options and warrants were cancelled, using the following assumptions:

	<b>December 27, 2019</b>	<b>February 7, 2019</b>
Expected Life of the Warrants	5 years	5 years
Risk-Free Interest Rate	1.62%	1.78%
Expected Dividend Yield	Nil	Nil
Expected Stock Price Volatility	157.14%	163.71%

On September 13, 2019, the Company granted options to purchase up to 923,800 common shares to its executive officers, directors, and consultants. The options granted could have been exercised at a price of \$2.50 per share and were expiring on September 1, 2021. Options to acquire up to 691,500 common shares vested immediately, and options to acquire up to 232,300 common shares issued to a consultant for investor relations services vested over a 12-month period beginning on December 13, 2019, at 58,075 shares per quarter. These options were cancelled on December 27, 2019. The Company recorded \$1,011,106 as share-based compensation associated with the options to acquire up to 691,500 issued to executive officers, directors and consultants for non-investor relations services, and \$69,152 for options to acquire up to 232,300 shares issued to a consultant for IR services. The above compensation was determined using the Black-Scholes Option pricing model using the following assumptions:



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**16. CAPITAL AND RESERVES (CONTINUED)**

**C. Stock Purchase Options (Continued)**

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

<b>IR Options</b>	<b>December 27, 2019</b>	<b>September 13, 2019</b>
Expected Life of the Options	1.72 years	1.97 years
Risk-Free Interest Rate	1.66%	1.64%
Expected Dividend Yield	Nil	Nil
Expected Stock Price Volatility	109.44%	114%

*Stock Option Grants and Transactions during the year ended December 31, 2018*

On January 11, 2018, the Company granted an option to acquire up to 41,667 shares of its common stock to its director. The option was exercisable for a two-year period expiring on January 11, 2020, at \$13.80 per share (Note 15). The Company recorded \$342,391 as share-based compensation associated with this option, which was determined using the Black-Scholes Option pricing model using the following assumptions:

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

At December 31, 2018, the Company recorded \$90,448 recovery of advertising and promotion expenses, associated with the vested portion of an option to acquire up to 83,333 shares the Company granted to its consultant. The option was exercisable for a two-year period expiring on July 27, 2019, at \$6.00 per share and vested over a 12-month period beginning on October 27, 2017, at 20,833 shares per quarter. The recovery was determined using the Black-Scholes Option pricing model using the following assumptions:

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

At December 31, 2018, the Company recorded \$52,588 recovery of advertising and promotion expenses associated with an option to acquire up to 44,408 shares the Company granted to its consultant. The option was exercisable for a period of 18 months expiring on January 27, 2019, at \$9.00 per share and vested over a 12-month period beginning on October 27, 2017, at 11,102 shares per quarter. The recovery was determined using the Black-Scholes Option pricing model using the following assumptions:

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

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**16. CAPITAL AND RESERVES (CONTINUED)**

**C. Stock Purchase Options (Continued)**

As at December 31, 2018, the consultant acquired 22,204 shares of the Company's common stock on exercise of the vested portion of its option for total proceeds of \$199,838.

On August 15, 2018, the Company granted an option to acquire up to 235,485 common shares to its CEO. The option vested immediately and could have been exercised at a price of \$6.96 per share expiring on August 15, 2020 (Note 15). The Company recorded \$850,794 as share-based compensation associated with this option, which was determined using the Black-Scholes Option pricing model using the following assumptions:

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

On August 15, 2018, the Company granted options to acquire up to 2,917 common shares in aggregate to two members of the Company's Scientific Advisory Board. The options vested immediately and could have been exercised at a price of \$6.96 per share expiring on August 15, 2020. The Company recorded \$9,739 as share-based compensation associated with these options, which was determined using the Black-Scholes Option pricing model using the following assumptions:

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

A continuity of options for the years ended December 31, 2019 and 2018 is as follows:

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning	996,940	\$6.60	739,075	\$6.24
Granted <sup>(1)</sup>	1,423,800	\$3.58	280,069	\$7.92
Expired	(733,538)	\$6.54	-	n/a
Exercised	(25,000)	\$6.00	(22,204)	\$9.00
Cancelled	(1,662,202)	\$4.07	-	n/a
Options outstanding, ending	-	n/a	996,940	\$6.60

<sup>(1)</sup>Includes options and warrants to acquire up to an aggregate 500,000 shares granted outside the Stock Option Plan.

On December 27, 2019, the Company cancelled 1,662,202 stock options that were granted on various dates to the Company's director, officers, and consultants.

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**16. CAPITAL AND RESERVES (CONTINUED)**

**D. Share Purchase Warrants**

The following table summarizes the continuity of share purchase warrants for the years ended December 31, 2019, and 2018:

	December 31, 2019		December 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	441,667	\$9.00	1,755,071	\$8.28
Issued	1,674,175	\$6.00	524,501	\$9.00
Exercised	-	\$0.00	(1,766,111)	\$8.52
Expired	(441,667)	\$9.00	(71,795)	\$9.00
Warrants outstanding, ending	1,674,175	\$6.00	441,667	\$9.00

As at December 31, 2019, there were 1,674,175 share purchase warrants issued and outstanding expiring on May 9, 2020. The warrants can be exercised at \$6.00 per share. These warrants expired unexercised.

**17. 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 year ended December 31, 2019, the Company recorded \$91,682 in interest expense associated with the Loan (2018 - \$21,000).

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 \$112,690, which resulted in a total payment of \$812,690.

On July 30, 2019, the Company issued a secure promissory note to TransCanna Holdings Inc. for USD\$150,000 advance by TransCanna to the Company on July 5, 2019 (the “TCAN Loan”). Outstanding principal under the TCAN Loan accrued interest at a rate of 1% per month, compounded monthly and was payable on October 30, 2019. The loan was secured by 1,100,000 TCAN Shares (Note 13). The Company did not repay the TCAN Loan at maturing, therefore the Company was in default of the TCAN Loan.

During the year ended December 31, 2019, the Company recorded \$8,800 in interest expense associated with the TCAN Loan. As at December 31, 2019, the Company owed a total of \$206,249 under the TCAN Loan.

Subsequent to December 31, 2019, the Company was released from its obligation to repay the TCAN Loan as part of the settlement agreement that was effected on May 5, 2020, between the Company and TransCanna Holdings Inc.

During the year ended December 31, 2019, the Company received a total of \$308,771 in advances required for working capital (2018 -\$Nil). The advances are due on demand and bear no interest.

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**18. NON-CONTROLLING INTERESTS**

At December 31, 2019, the Company owned a 75% interest in two of its subsidiaries, LDS Agrotech Inc., and LDS Scientific Inc. 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. On January 31, 2019, the Company reacquired the full ownership of Omni Distribution Inc. as part of the settlement agreement and release the Company negotiated with Ms. Elrod, the former President of LDS Scientific.

During the year ended December 31, 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 December 31, 2019, and 2018, the non-controlling interests consisted of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
LDS Scientific (25%)	\$ (1,838,406)	\$ (1,376,012)
LDS Agrotech (25%)	(115,847)	(120,892)
Omni Distribution (Nil and 25%, respectively)	-	1,281
Agrotech, LLC (50%)	342,699	-
	<b>\$ (1,611,554)</b>	<b>\$ (1,495,623)</b>

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**18. NON-CONTROLLING INTERESTS (CONTINUED)**

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

**As at December 31, 2019**

	<b>LDS Scientific</b>		<b>LDS Agrotech</b>		<b>Agrotech</b>		<b>Omni Distribution</b>		<b>Total</b>	
Assets	\$	15,099	\$	-	\$	1,745,731	\$	520	\$	1,761,350
Liabilities		(7,368,722)		(463,384)		(1,060,341)		-		(8,892,447)
Total net assets	\$	(7,353,623)	\$	(463,384)	\$	685,390	\$	520	\$	(7,131,097)
<b>Total net assets allocated to NCI</b>	<b>\$</b>	<b>(1,838,406)</b>	<b>\$</b>	<b>(115,847)</b>	<b>\$</b>	<b>342,695</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>(1,611,558)</b>

**As at December 31, 2018**

	<b>LDS Scientific</b>		<b>LDS Agrotech</b>		<b>Agrotech</b>		<b>Omni Distribution</b>		<b>Total</b>	
Assets	\$	2,715,618	\$	33,921	\$	-	\$	5,126	\$	2,754,662
Liabilities		(8,219,665)		(517,488)		-		-		(8,737,153)
Total net assets	\$	(5,504,047)	\$	(483,567)	\$	-	\$	5,126	\$	(5,982,488)
<b>Total net assets allocated to NCI</b>	<b>\$</b>	<b>(1,376,012)</b>	<b>\$</b>	<b>(120,892)</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>1,281</b>	<b>\$</b>	<b>(1,495,623)</b>

The following table summarizes comprehensive income (loss) incurred by the Company's subsidiaries that have non-controlling interests for the years ended December 31, 2019 and 2018:

**For the year ended at December 31, 2019**

	<b>LDS Scientific</b>		<b>LDS Agrotech</b>		<b>Agrotech</b>		<b>Omni Distribution</b>		<b>Total</b>	
Gross profit	\$	-	\$	-	\$	718,577	\$	n/a	\$	718,577
Operating expenses		(2,154,076)		(3,372)		(18,358)		n/a		(2,175,806)
Net income (loss)		(2,154,076)		(3,372)		700,219		n/a		(1,457,229)
Other comprehensive income (loss)		321,734		6,317		(14,830)		n/a		313,221
Comprehensive income (loss)	\$	(1,832,342)	\$	2,945	\$	685,389	\$	n/a	\$	(1,144,008)
<b>Comprehensive income (loss) allocated to NCI</b>	<b>\$</b>	<b>(458,085)</b>	<b>\$</b>	<b>736</b>	<b>\$</b>	<b>342,695</b>	<b>\$</b>	<b>n/a</b>	<b>\$</b>	<b>(114,654)</b>

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**18. NON-CONTROLLING INTERESTS (CONTINUED)**

**For the year ended at December 31, 2018**

	<b>LDS</b>		<b>LDS</b>		<b>Agrotech</b>		<b>Omni</b>		<b>Total</b>	
	<b>Scientific</b>		<b>Agrotech</b>				<b>Distribution</b>			
Gross profit	\$	(1,844,955)	\$	155,484	\$	n/a	\$	-	\$	(1,689,471)
Operating expenses		(1,439,082)		(329,792)		n/a		(7,692)		(1,776,566)
Net income (loss)		(3,284,037)		(174,308)		n/a		(7,692)		(3,466,037)
Other comprehensive income (loss)		(341,293)		(33,949)		n/a		(349)		(375,591)
Comprehensive income (loss)	\$	(3,625,330)	\$	(208,257)	\$	n/a	\$	(8,041)	\$	(3,841,628)
<b>Comprehensive income (loss) allocated to NCI</b>	<b>\$</b>	<b>(906,333)</b>	<b>\$</b>	<b>(52,064)</b>	<b>\$</b>	<b>n/a</b>	<b>\$</b>	<b>(2,010)</b>	<b>\$</b>	<b>(\$960,407)</b>

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**19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accounts payable	\$ 4,060,344	\$ 2,929,846
Wages payable	32,122	79,799
Accrued liabilities	531,110	200,400
Liability under crop-share arrangement	1,000,021	-
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 5,623,597</b>	<b>\$ 3,210,045</b>

During the year ended December 31, 2019, the Company's 50%-owned subsidiary, Agrotech LLC, entered into two crop-share farm lease agreements for outdoor cultivation of cannabis (the "Farm Agreements") which expired on December 31, 2019. According to the Farm Agreements, the farm owners are entitled to receive 50% of net income generated from the sale of the biological assets. At December 31, 2019, the Company recorded \$1,000,021 due to the farm owners under the crop-share agreement for their share of expected net income. The Company determined the liability based on an expected selling price of USD\$500/lb of biomass. At December 31, 2019, a 10% change in expected selling price would result in a \$160,891 change to the liability.

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

At December 31, 2019 and 2018 general and administrative expenses consisted of the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accounting fees	\$ 232,308	\$ 150,038
Gain on sale of assets	(5,060)	-
IT infrastructure	317,768	311,776
Legal fees	493,270	861,306
Meals and travel expenses	550,024	470,244
Office and general	1,371,752	1,477,989
Regulatory fees	176,673	272,192
Salaries and wages expense	1,248,425	787,187
<b>Total general and administrative expenses</b>	<b>\$ 4,385,160</b>	<b>\$ 4,330,732</b>

**21. COMMITMENTS**

Aside from lease liabilities as describe in Note 14 the Company's commitments were represented by the annual property taxes the Company is required to pay for its manufacturing and grow facility, as well as for its land parcels. The total annual property taxes are estimated at \$36,761 (US\$28,304).

**22. INTEREST EXPENSE**

At December 31, 2019 and 2018 interest expense included the following:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Interest accrued on note payable to TransCanna	\$ 8,800	\$ -
Interest accrued on the Loan Agreement signed in FY 2018	91,682	21,000
Interest accrued on credit facility arranged in FY 2017	-	109,290
Interest expense associate with amortization of lease liabilities	472,103	-
Interest accrued on trade payables	2,825	-
<b>Total interest expense</b>	<b>\$ 575,410</b>	<b>\$ 130,290</b>

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**23. GEOGRAPHICAL INFORMATION**

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

	<b>Revenue</b>	
	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
United States	\$ 5,041,651	\$ 4,080,747
	\$ 5,041,651	\$ 4,080,747

  

	<b>Long-Term Assets<sup>(1)</sup></b>	
	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
United States	\$ 14,048,482	\$ 13,881,932
Canada	-	3,316,423
	\$ 14,048,482	\$ 17,198,355

<sup>(1)</sup> Includes: Property, plant, and equipment

**24. REVENUE**

The following table presents the Company's sales disaggregated by revenue source:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Flower	\$ 456,056	\$ -
Crude	476,734	202,844
Trim	675,408	-
Distillates	2,914,023	2,937,791
Various concentrates	519,430	784,628
<b>Total revenue by source</b>	<b>\$ 5,041,651</b>	<b>\$ 3,925,263</b>

For the years ended December 31, 2019 and 2018 the following revenue was recorded from customers that comprise 10% or more of revenue:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Customer A	\$ -	\$ 505,323
Customer B	\$ 629,182	\$ -
Customer C	\$ 1,335,962	\$ 685,192
Customer D	\$ -	\$ 871,275

**25. 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



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**25. CAPITAL MANAGEMENT (CONTINUED)**

Company, is reasonable. There was no change to the Company's management of capital during the year ended December 31, 2019. The Company is not subject to any externally imposed capital requirements.

**26. INCOME TAXES**

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net loss before tax	\$(21,652,443)	\$ (13,153,386)
Statutory income tax rate	27%	26%
Expected income tax recovery	(5,821,000)	(3,419,880)
Impact of different foreign statutory tax rates on earnings of subsidiaries	(129,000)	(107,050)
Non-deductible expenditures and non-taxable revenues	3,812,000	-
Permanent differences	1,652,000	592,270
Adjustment to prior year provision versus statutory tax returns	(1,166,000)	338,230
Share issuance costs	(64,000)	-
Foreign exchange	149,711	(31,920)
Change in unrecognized deductible temporary differences	1,566,289	2,628,350
Income tax recovery	\$ -	\$ -

The significant components of deferred tax assets that have not been included in the statements of financial position are as follows:

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Deferred tax assets:		
Intangible assets	\$ 327,000	\$ 344,052
Share issuance costs	134,000	107,000
Investment tax credit	3,000	3,000
Property and equipment	41,000	2,000
Non-capital losses available for future period (USA)	4,199,000	3,117,578
Non-capital losses available for future period (Canada)	3,613,000	3,177,081
	8,317,000	6,750,711
Unrecognized deferred tax assets	(8,317,000)	(6,750,711)
	\$ -	\$ -

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Temporary differences:		
Investment tax credit	\$ 4,184	\$ 4,000
Intangible assets	\$ 1,169,849	\$ 1,229,000
Property and equipment	\$ 147,154	\$ 9,000
Share issuance costs	\$ 496,943	\$ 412,000
Non-capital losses available for future period (USA)	\$ 15,006,075	\$ 11,134,208
Non-capital losses available for future period (Canada)	\$ 13,396,163	\$ 12,219,301

**26. INCOME TAXES (CONTINUED)**

The Company has approximately \$13,396,163 of non-capital losses in Canada which expire between 2030 – 2038, and approximately \$15,006,075 of non-capital losses in the US which expire between 2034 – 2038. Tax attributes are subject to review, and potential adjustment by tax authorities.

**27. FINANCIAL INSTRUMENTS AND RISKS**

The Company uses the following hierarchy for determining and disclosing fair value of financial instruments:

Level 1 — quoted prices in active markets for identical assets and liabilities.

Level 2 — observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 — unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company has classified its cash and cash equivalents and marketable securities as measured at fair value in the statement of financial position, using level 1 inputs. Amounts and advances receivable, accounts payable and accrued liabilities, amounts due to related parties, advances payable, and unearned revenue approximate fair value due to the short-term nature of these instruments. The carrying values of financial liabilities where interest is charged based on a variable rate approximates fair value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit premium. The carrying value of long-term debt and lease obligations where interest is charged at a fixed rate is not significantly different than fair value.

**Risk management**

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk, and foreign currency risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

*Credit risk:*

Credit risk is the risk of potential loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure at December 31, 2019 is the carrying amount of cash, marketable securities, amounts and advances receivable.

The risk for cash is mitigated by holding these instruments with highly rated financial institutions in Canada and USA.

Some concentrations of credit risk with respect to amounts receivable exist due to the small number of customers. Amounts receivable are shown net of any provision made for impairment of the receivables. Due to this factor, the management of the Company believes that no additional credit risk, beyond amounts provided for collection losses, is inherent in amounts receivable.

*Market risk:*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

*i. Interest rate risk:*

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has

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**27. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)**

**Risk management (continued)**

not used any financial instruments to hedge potential fluctuations in interest rates. The exposure to interest rate risk for the Company is considered minimal.

As at December 31, 2019, the Company had a USD\$150,000 loan with a former related party lender, which accumulated interest at 1% per month and was payable on demand. Other advances and amounts payable were interest-free and payable on demand.

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

*ii. Currency risk:*

The Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, and accounts payable and accrued liabilities that are denominated in US dollars.

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Cash denominated in USD	\$ 116,470	\$ 220,034
Accounts receivable denominated in USD	391,132	9,082
Prepays and other current assets denominated in USD	478,737	558,340
Accounts and wages payable and accrued liabilities denominated in USD	(4,569,278)	(2,951,582)
Notes and advances denominated in USD	(476,191)	-
Total	\$ (4,059,130)	\$ (2,164,126)
Effect of a 10% change in exchange rates	\$ (405,913)	\$ (216,413)

*iii. Equity price risk:*

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks. At December 31, 2019, the Company held 250,000 common shares of TransCanna valued at \$295,000 (2018 - 1,082,474 shares of TransCanna valued at \$541,237). As at December 31, 2019, the Company's equity investment represented 5% of its current assets, therefore management determined that equity price risk was not material to the Company's operations.

*Liquidity risk:*

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. As at December 31, 2019, the Company had cash of \$116,850 to settle current financial liabilities of \$8,688,863. In order to meet its current liabilities, the Company will need to raise/borrow funds from either loans or private placements. Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements, with an increased grow, manufacturing and distribution operations, the likelihood of the Company generating positive cash flows is probable, however, given the industry and the global economy, remain uncertain. Likewise, the Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The Company's financial liabilities are comprised of its accounts payable and accrued liabilities and advances payable.

**CORE ONE LABS INC.**  
**(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)**  
**Notes to the Consolidated Financial Statements**  
(Expressed in Canadian Dollars)  
For the Year Ended December 31, 2019

**27. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)**

**Risk management (continued)**

The following is an analysis of the contractual maturities of the Company's financial liabilities as at December 31, 2019:

	<b>Within 12 months</b>	<b>After 12 months</b>
Accounts payables and accrued liabilities	\$ 5,623,597	\$ -
Amounts due to related parties	1,015,964	-
Advances payable	317,180	-
Note payable	206,249	-
Lease liability	665,853	3,495,731
<b>Total</b>	<b>\$ 7,828,843</b>	<b>\$ 3,495,731</b>

**28. SUBSEQUENT EVENTS**

The following material events have occurred subsequent to December 31, 2019:

- In March 2020, the Company has entered into definitive agreements with Cannabis Growth Opportunity Corporation ("CGOC") for a \$1,500,000 convertible debt facility with (the "Debt Facility"). As consideration for the Debt Facility the Company issued to CGOC a convertible debenture in the principal amount of up to \$1,500,000 (the "Debenture") and 750,000 common share purchase warrants (the "CGOC Warrants"). The aggregate principal amount available under the Debenture was to be advanced by CGOC to the Company in three equal installments of \$500,000 each, of this amount, as of the date of these financial statement, the Company received a total of \$450,000. The Debenture matures on December 31, 2022 (the "Maturity Date"), with interest accruing at a rate of 12% per annum. The amounts advanced under the Debenture will be unsecured until CGOC has advanced the full \$1,500,000 to the Company, upon which time the amounts owed under the Debenture will be secured by a general security agreement covering all of the Company's personal property. The outstanding principal amount under the Debenture, together with any accrued and unpaid interest thereon may be converted into common shares of the Company at a conversion price of \$0.80 per share. The Warrants issued to CGOC are exercisable at a price of \$1.20 per share, expiring on the Maturity Date, and will vest and become exercisable in three equal tranches of 250,000 Warrants each upon CGOC making each \$500,000 advance under the Debenture. The Company may accelerate the expiration date of the Warrants to 30 days after providing written notice to CGOC if the Company's common shares trade at or above \$3.00 per share for 10 consecutive trading days on the CSE. The Debentures and the Warrants, and any shares issued upon exercise of the conversion rights or purchase rights attached thereto, were subject to a hold period expiring on July 17, 2020.

In addition to the Debenture and the Warrants, the Company and CGOC also exchanged approximately \$2,000,000 worth of each other's common shares (the "Share-Swap"), with the Company issuing to CGOC 2,666,667 common shares at an agreed value of \$0.75 per share, and CGOC issuing 3,149,606 common shares to the Company at an agreed value of \$0.635 per share. In connection with the Share-Swap, the Company and CGOC entered into a voting and resale agreement, with each party agreeing to vote the shares acquired from the other under the Share-Swap as recommended by the issuer of the shares, and with each party agreeing not to trade the shares received in the Share-Swap for a period of 18 months. The Company has also agreed that, upon payment of the full amount of the initial advance of \$500,000 under the Debenture, CGOC will have the right to nominate one director to the Company's board and, if CGOC's nominee is not appointed or elected to the Company's board, CGOC will have the right to appoint a board observer.

**28. SUBSEQUENT EVENTS (CONTINUED)**

- In April 2020, the Company entered into agreements for the settlement of \$808,325 in debt through the issuance of common shares of the Company (the "Debt Settlements"). Pursuant to the Debt Settlements, the Company issued a total of 2,449,470 common shares of the Company at a price of \$0.33 per share to certain creditors of the Company, including certain directors and officers of the Company.
- In May 2020, the Company entered into a Settlement Agreement with TransCanna Holdings Inc., a former related part by virtue of having directors in common. Pursuant to the Settlement Agreement, the Company agreed to return to treasury 250,000 common shares of TransCanna it held as at that date to TransCanna in exchange for release of the Company from its obligations under TCAN Agreement to deliver Track and Trace software, as well as to repay US\$150,000 the Company owed to TransCanna under the loan agreement the Company signed on July 4, 2019.
- In July 2020, the Company completed a non-brokered private placement of 21,052,621 units (each, a "Unit") at a price of \$0.19 per Unit for gross proceeds of \$4,000,000. Each Unit consists of one common share of the Company, and one-half-of-one common share purchase warrant (each, a "Warrant"). Each whole Warrant entitles the holder to acquire an additional common share of the Company at a price of \$0.70 per share until July 3, 2022.

In connection with completion of the private placement, the Company paid finders' fees of \$31,947 and issued 434,891 Warrants to certain arms-length parties who assisted in introducing subscribers to the Company.

- On July 9, 2020, the Company consolidated its issued and outstanding common share capital on the basis of two (2) pre-Consolidation shares for every one (1) post-Consolidation share. All common share and per common share amounts in these financial statements have been retroactively restated to reflect the share consolidation.

On July 8, 2020, the Company granted 2,100,000 incentive stock options to certain consultants and employees of the Company. Each option will vest immediately upon grant and will be exercisable to acquire one common share of the Company, at a price of \$0.67 per share, until July 8, 2025.

- On July 10, 2020, the Company completed an acquisition (the "Rejuva Acquisition") of all of the outstanding share capital of Rejuva Alternative Medicine Research Centre Inc. ("Rejuva"), privately held company which operates walk-in medical clinic located in West Vancouver, British Columbia.

The Rejuva Acquisition was completed pursuant to share exchange agreement, dated effective July 9, 2020. In consideration for all of the outstanding share capital of Rejuva, the Company issued 23,000,000 common shares to the existing shareholders of Rejuva.

On July 10, 2020, the Company completed an acquisition (the "Shahcor Acquisition") of one-quarter of the non-voting participating share capital of Shahcor Health Services Inc. ("Shahcor"), privately held company which operates walk-in medical clinic located in Vancouver, British Columbia.

The Shahcor Acquisition was completed pursuant to share exchange agreements, dated effective July 9, 2020, whereby the Company issued 5,555,556 common shares to the existing shareholders of Shahcor in exchange for 25% of the non-voting participating share capital of Shahcor; in addition, the Company paid cash of \$400,000.

**28. SUBSEQUENT EVENTS (CONTINUED)**

The existing shareholders of Shahcor will also be eligible to receive a one-time bonus payment of \$1,000,000 (the "Bonus Payment") in the event Shahcor achieves monthly recurring revenue of at least \$30,000 in the three months following completion of the Shahcor Acquisition. At the election of the Company, the Bonus Payment will be payable in cash, or common shares of the Company, based upon the volume-weighted average closing price of the common shares of the Company on the Canadian Securities Exchange in the ten trading days prior to the issuance of the shares.

In connection with completion of the Rejuva Acquisition and the Shahcor Acquisition, the Company issued 2,300,000 common shares (the "Finder's Fee Shares"), 571,111 common shares (the "Administrative Fee Shares"), and paid \$8,000 as an administrative fee to unrelated parties that assisted in introducing the Company to Rejuva and Shahcor.

- The recent outbreak of the coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada, the USE, and other countries to contain and treat the virus. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.