



CORE ONE LABS INC.
(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)
THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

**NOTICE OF NO AUDITOR REVIEW
OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019**

The accompanying unaudited condensed interim consolidated financial statements of Core One Labs Inc. (formerly Lifestyle Delivery Systems Inc.) (the “Company” or “Core One”) for the periods ended June 30, 2020 and 2019, have been prepared by, and are the responsibility of, the Company’s management.

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

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

	Notes	June 30, 2020	December 31, 2019
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,003,059	\$ 116,850
Amounts receivable	5	717,490	403,496
Advances receivable	6	36,248	33,860
Prepays and other current assets	4	686,070	546,478
Biological assets	8	110,766	167,881
Inventory	7	2,654,437	2,191,088
Debtore receivable	15	50,000	-
Marketable securities	10	1,244,094	295,000
Total current assets		6,502,164	3,754,653
Property, plant and equipment	3	13,519,226	14,048,482
TOTAL ASSETS		\$ 20,021,390	\$ 17,803,135
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	17	\$ 7,435,150	\$ 5,623,597
Amounts due to related parties	12	1,260,124	1,015,964
Advances payable	14	193,603	317,180
Note payable	14	-	206,249
Lease liability	11	704,179	665,853
Deposit on sale of assets	3	198,415	188,525
Unearned revenue	9	33,525	671,495
Total current liabilities		9,824,996	8,688,863
Convertible debenture	15	253,675	-
Non-current lease liability	14	3,341,534	3,495,731
Total liabilities		13,420,205	12,184,594
Shareholders' equity			
Share capital	13	52,905,180	51,372,447
Obligation to issue shares	25	880,601	-
Reserves	13	7,756,163	7,448,493
Deficit		(54,023,725)	(51,889,363)
Accumulated other comprehensive income		730,772	298,522
Total parent shareholders' equity		8,248,991	7,230,099
Non-controlling interests	16	(1,647,806)	(1,611,558)
Total shareholders' equity		6,601,185	5,618,541
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 20,021,390	\$ 17,803,135

Nature and continuance of operations (Note 1)
Subsequent events (Note 25)

Approved by the Board of Directors and authorized for issue on October 15, 2020:

"Joel Shacker"	Director
"Casey Fenwick"	Director

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

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Sales		\$ 893,819	\$ 1,058,317	\$ 1,253,282	\$ 3,773,118
Cost of sales	7	183,091	1,608,399	448,830	4,790,974
Gross profit, excluding fair value items and unallocated manufacturing costs		710,728	(550,082)	804,452	(1,017,856)
Realized fair value amounts included in inventory sold		35,531	(1,043,811)	72,490	(1,043,811)
Gross margin		675,197	493,729	731,962	25,955
Consulting fees	12	233,583	177,840	487,362	432,528
Depreciation	3	141,878	40,117	249,710	80,711
Foreign exchange loss		(9,253)	37,128	76,151	83,415
General and administrative expenses	18	499,900	1,388,591	1,167,157	2,596,696
Impairment of advances receivable		-	250,329	-	250,329
Interest expense	11	7,491	38,847	26,313	91,682
Loss (gain) on investment	10	(1,132,311)	208,297	(751,957)	(3,968,114)
Loss (gain) on settlement of debt	12	(225,066)	-	(225,066)	88,279
Marketing, sales and distribution		70,812	1,025,407	102,573	1,171,805
Research and development	12	29,034	72,758	58,566	115,595
Share-based payments		26,267	629,929	26,267	1,305,633
Write-down of inventory	7	663,693	-	1,596,558	-
Total operating expenses		306,028	3,869,243	2,813,634	2,248,559
Net income (loss) for the period		\$ 369,169	\$ (3,375,514)	\$ (2,081,672)	\$ (2,222,604)
Net income (loss) attributable to					
Shareholders of the Company		486,283	(3,562,877)	(2,134,362)	(2,078,178)
Non-controlling interests	16	(117,114)	187,363	52,690	(144,426)
		\$ 369,169	\$ (3,375,514)	\$ (2,081,672)	\$ (2,222,604)
Other comprehensive income (loss) (items that may be subsequently reclassified to profit and loss)					
Foreign exchange translation		941,258	(310,297)	343,312	(597,946)
Total comprehensive income (loss) for the period		\$ 1,310,427	\$ (3,685,811)	\$ (1,738,360)	\$ (2,820,550)
Other comprehensive income (loss) attributed to					
Shareholders of the Company		1,091,176	(349,014)	432,250	(658,926)
Non-controlling interests	16	(149,918)	38,717	(88,938)	60,980
		\$ 941,258	\$ (310,297)	\$ 343,312	\$ (597,946)
Total comprehensive income (loss) attributable to					
Shareholders of the Company		1,577,459	(3,911,891)	(1,702,112)	(2,737,104)
Non-controlling interests	16	(267,032)	226,080	(36,248)	(83,446)
		\$ 1,310,427	\$ (3,685,811)	\$ (1,738,360)	\$ (2,820,550)
Weighted average number of shares		17,707,638	10,911,934	15,759,650	10,452,294
Net income (loss) per share - basic and diluted		\$ 0.03	\$ (0.33)	\$ (0.14)	\$ (0.20)

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

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

	Common shares		Obligation to issue shares	Reserves	Deficit	Accumulated other comprehensive income (loss)	Non-controlling Interest	Total shareholders' equity
	Shares	Amount						
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	6,413,939	-	139,669	-	-	-	6,553,608
Exercise of options	25,000	262,899	-	(112,899)	-	-	-	150,000
Share-based compensation	-	-	-	1,305,634	-	-	-	1,305,634
Repurchase of non-controlling interest in equity	-	-	-	-	-	-	(1,281)	(1,281)
Foreign exchange translation	-	-	-	-	-	(658,926)	60,980	(597,946)
Net loss for the period	-	-	-	-	(2,078,178)	-	(144,426)	(2,222,604)
Balance at June 30, 2019	11,622,102	49,474,336	-	5,834,721	(32,504,350)	244,977	(1,580,350)	21,469,334
Private placement adjustment	-	8,111	-	-	-	-	-	8,111
Shares issued for assets	1,750,000	1,890,000	-	-	-	-	-	1,890,000
Share-based compensation	-	-	-	1,471,272	-	-	-	1,471,272
Discount on marketable securities acquired from related party	-	-	-	142,500	-	-	-	142,500
Repurchase of non-controlling interest in equity	-	-	-	-	-	-	-	-
Foreign exchange translation	-	-	-	-	-	53,545	13,618	67,163
Net loss for the period	-	-	-	-	(19,385,013)	-	(44,826)	(19,429,839)
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
Shares issued on acquisition of investment	2,666,667	724,408	-	-	-	-	-	724,408
Subscription to shares	-	-	880,601	-	-	-	-	880,601
Convertible debt	-	-	-	268,356	-	-	-	268,356
Warrnat issued for convertible debenture	-	-	-	13,047	-	-	-	13,047
Shares issued for debt settlement	2,449,470	808,325	-	-	-	-	-	808,325
Share-based compensation	-	-	-	26,267	-	-	-	26,267
Foreign exchange translation	-	-	-	-	-	432,250	(88,938)	343,312
Net loss for the period	-	-	-	-	(2,134,362)	-	52,690	(2,081,672)
Balance at June 30, 2020	18,488,239	\$ 52,905,180	\$ 880,601	\$ 7,756,163	\$ (54,023,725)	\$ 730,772	\$ (1,647,806)	\$ 6,601,185

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

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

	Six months ended June 30,	
	2020	2019
Cash flows generated by (used in) operating activities		
Net income (loss)	\$ (2,081,672)	\$ (2,222,604)
Non cash items:		
Depreciation	1,198,978	704,547
Foreign exchange	391,444	(46,065)
Impairment of advances receivable	-	250,329
Impairment of inventory	881,596	-
Interest expense	(44,565)	91,682
Loss (gain) on equity investment	(839,632)	(3,968,114)
Loss on settlement of debt with related party	(225,066)	88,279
Share-based compensation	26,267	1,305,634
Warrants issued for convertible debenture	13,047	-
Gain on changes in fair value of biological assets	-	(1,043,811)
Changes in operating assets and liabilities:		
Amounts receivable	(295,197)	(171,858)
Prepays and other current assets	(88,443)	(628,727)
Biological assets	(816,098)	(456,239)
Inventory	(704,775)	1,245,392
Accounts payable and accrued liabilities	1,779,284	(452,570)
Amounts due to related parties	604,821	33,111
Unearned revenue	(26,363)	-
Net cash generated by (used in) operating activities	(226,374)	(5,271,014)
Cash flows used in investing activities		
Equipment purchased, net of disposals	24,595	(237,876)
Production facility	-	(346,015)
Net cash used in used in investing activities	24,595	(583,891)
Cash flows provided by (used in) financing activities		
Advances payable	14,965	(78,018)
Issuance of common stock for private placements	-	6,553,607
Proceeds from loans	450,000	-
Proceeds from option exercise	-	150,000
Repayment of loans	-	(812,689)
Repayment of lease	(245,718)	-
Subscriptions to shares	880,601	-
Net cash provided by (used in) financing activities	1,099,848	5,812,900
Effects of foreign currency exchange	(11,860)	(8,152)
Change in cash and cash equivalents	886,209	(50,157)
Cash and cash equivalents, beginning	116,850	452,295
Cash and cash equivalents, ending	\$ 1,003,059	\$ 402,138

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

CORE ONE LABS INC.
(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian Dollars) (Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company 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 condensed interim 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:

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

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 condensed interim 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 condensed interim consolidated financial statements were authorized for issue on October 15, 2020, by the Directors of the Company.

Statement of Compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard IAS 34 – Interim Financial Reporting. The unaudited condensed interim consolidated financial statements, prepared in conformity with IAS 34, follow the same accounting principles and methods of application as the most recent audited annual financial statements. Since the unaudited condensed interim consolidated financial statements do not include all disclosures required by the International Financial Reporting Standards (“IFRS”) for annual financial statements, they should be read in conjunction with the Company’s audited annual financial statements for the year ended December 31, 2019.

These condensed interim 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 condensed interim 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.

Functional and presentation currency

These condensed interim 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.

Newly adopted accounting standards

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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Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian Dollars) (Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

3. PROPERTY, PLANT AND EQUIPMENT

	Membership and CUP	Property	Plant	Equipment	ROU	Total
<u>Cost</u>						
Balance at December 31, 2018	\$ 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)
Balance at December 31, 2019	3,587,915	1,627,919	6,451,681	6,322,984	2,608,716	20,599,215
Additions	-	-	43,610	-	-	43,610
Disposals	-	-	-	(68,163)	-	(68,163)
Foreign exchange	-	80,218	180,860	248,022	94,423	603,523
Balance at June 30, 2020	\$ 3,587,915	\$ 1,708,137	\$ 6,676,151	\$ 6,502,843	\$ 2,703,139	\$ 21,178,185
<u>Accumulated Amortization</u>						
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)
Balance at December 31, 2019	3,587,915	-	1,005,083	1,289,709	668,026	6,550,733
Depreciation	-	-	431,397	516,727	161,974	1,110,098
Foreign exchange	-	-	(727)	(871)	(275)	(1,873)
Balance at June 30, 2020	\$ 3,587,915	\$ -	\$ 1,435,753	\$ 1,805,566	\$ 829,725	\$ 7,658,959
<u>Net Book Value</u>						
At December 31, 2019	\$ -	\$ 1,627,919	\$ 5,446,598	\$ 5,033,275	\$ 1,940,690	\$ 14,048,482
At June 30, 2020	\$ -	\$ 1,708,137	\$ 5,240,398	\$ 4,697,277	\$ 1,873,414	\$ 13,519,226

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For the Three and Six Months Ended June 30, 2020 and 2019

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At June 30, 2020, \$1,061,206 (2019 - \$623,836) 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. As at June 30, 2020, the Company recognized \$206,554 as deposit on option (December 31, 2019 - \$188,525). As at June 30, 2020, the option has not been exercised.

4. PREPAIDS AND OTHER CURRENT ASSETS

Prepays and other current assets as at June 30, 2020 and December 31, 2019 consisted of the following:

	June 30, 2020	December 31, 2019
Insurance	\$ 719	\$ 5,780
Prepaid construction costs	68,140	-
Prepaid service fees	246,326	234,821
Prepaid IR fees	67,835	-
Security deposits	255,018	244,920
Prepaid regulatory fees	48,032	60,957
Total prepaids and other current assets	\$ 686,070	\$ 546,478

5. AMOUNTS RECEIVABLE

Amounts receivable as at June 30, 2020 and December 31, 2019, consisted of the following:

	June 30, 2020	December 31, 2019
Trade accounts receivable	\$ 798,902	\$ 542,788
GST receivable	24,648	12,364
Allowance for doubtful accounts	(106,060)	(154,937)
Foreign exchange	-	3,281
Total amounts receivable	\$ 717,490	\$ 403,496

During the six-month period ended June 30, 2020, the Company set up an allowance for trade accounts receivable which were deemed uncollectible totaling \$106,060 (December 31, 2019 - \$154,937). No additional provision for expected credit losses has been set up.

6. ADVANCES RECEIVABLE

During the year ended December 31, 2019, the Company advanced a net amount of \$71,252 to affiliated companies with senior management in common. The advances are due on demand and do not accumulate interest. The Company did not advance any funds during the period ended June 30, 2020. At June 30, 2020, the Company had a total of \$36,248 in advances receivable from affiliated entities (December 31, 2019 - \$33,860).

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.

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6. ADVANCES RECEIVABLE (CONTINUED)

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. As at June 30, 2020, \$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.

7. INVENTORY

At June 30, 2020, the Company’s inventory was valued at \$2,654,437 (December 31, 2019 - \$2,191,088) and consisted of \$217,623 in raw materials held for manufacturing (December 31, 2019 – \$88,785) and \$2,436,814 in finished products ready for sale (December 31, 2019 - \$2,102,303).

During the six-month period ended June 30, 2020, the Company expensed \$448,830 of inventory to cost of goods sold (2019 - \$4,790,974); in addition the Company recognized \$72,490 non-cash expense relating to the changes in fair value of inventory sold (2019 - \$1,043,811).

As at June 30, 2020, the Company wrote down its inventory of cannabis-related products to the net realizable value, which resulted in an impairment of \$1,596,558 (2019 - \$Nil).

8. BIOLOGICAL ASSETS

The continuity of biological assets for the six months ended June 30, 2020 and for the year ended December 31, 2019:

	June 30, 2020	December 31, 2019
Biological assets, beginning of the period	\$ 167,881	\$ -
Production of biological assets	1,531,061	2,430,575
Unrealized changes in fair value less costs to sell of biological assets	-	679,267
Transfers to inventory upon harvest	(1,596,557)	(2,927,576)
Foreign exchange	8,381	(14,385)
Biological assets, end of the period	\$ 110,766	\$ 167,881

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.

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8. BIOLOGICAL ASSETS (CONTINUED)

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:

	Indoor Cultivation	Impact of 20% change – June 30, 2020
Estimated yield per plant	3.42 oz	\$130,382
Average selling price, mature plant	\$134/lb (USD\$100/lb)	\$132,726
Growth stage	46%	\$132,726

9. UNEARNED REVENUE

At June 30, 2020, the Company recorded \$33,525 (December 31, 2019 - \$671,495) in deferred revenue on future services which were comprised of the following:

	June 30, 2020	December 31, 2019
Prepayments received from customers	\$ 33,525	\$ 57,033
Payment for Track and Trace software	-	614,462
Total unearned revenue	\$ 33,525	\$ 671,495

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 June 30, 2020, 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. During the six months ended June 30, 2020, the Company was released from its obligation to deliver the Track and Trace software pursuant to the Settlement Agreement between the Company and TransCanna and wrote off unearned revenue of \$614,947 in the statement of profit and loss.

10. MARKETABLE SECURITIES

On March 16, 2020, the Company acquired 3,149,606 common shares of Cannabis Growth Opportunity Corporation ("CGOC") in exchange for issuing CGOC 2,666,667 common shares of the Company. At the time of the transaction, the fair market value of CGOC shares was \$0.23 per share and the fair market value of the Company's shares was \$0.42 per share. On acquisition, the Company recognized marketable securities of \$724,409 for the CGOC shares. At June 30, 2020, the revaluation of the equity investment in CGOC shares resulted in an unrealized gain on investment of \$519,685, due to the increase in CGOC's share price from \$0.23 at acquisition to \$0.395 per share at June 30, 2020. The CGOC shares cannot be sold without prior written consent of CGOC, until September 16, 2021, according to share exchange agreements between the Company and CGOC.

On May 4, 2020, the Company entered into a Settlement Agreement with TransCanna, 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 (the "TCAN Shares") to TransCanna in exchange for release of the Company from its obligations under TCAN Agreement to deliver Track and Trace software (Note 9), as well as to repay US\$150,000 the Company owed to TransCanna under the loan agreement the Company signed on July 4, 2019 (Note 14).

As at the date of the Settlement Agreement, the Company wrote off marketable securities of \$200,000 based on the market price of TCAN Shares of \$0.80 per share at the Settlement date. During the six months ended June 30, 2020, the revaluation of the equity investment in TCAN Shares resulted in a \$95,000 loss (2019 - \$3,968,114 gain). The loss resulted from a decrease of the market price of TCAN shares from \$1.18 per share at December 31, 2019, to \$0.80 per share at the Settlement date.

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11. 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.

At June 30, 2020, and December 31, 2019, the Company's lease liability related to leases is as follows:

		June 30, 2020		December 31, 2019
Balance – beginning	\$	4,161,584	\$	2,364,559
Additions		-		2,447,457
Interest expense		251,862		472,103
Lease payments		(573,342)		(955,368)
Foreign exchange		205,609		(167,167)
Balance – ending	\$	4,045,713	\$	4,161,584
Current portion	\$	704,179	\$	665,853
Long-term portion	\$	3,341,534	\$	3,495,731

At June 30, 2020, the Company is committed to minimum lease payments as follows:

Maturity analysis		June 30, 2020
Less than one year	\$	1,148,432
One to five years		4,199,196
Total undiscounted lease liabilities	\$	5,347,628

12. 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:

		June 30 ,	
		2020	2019
Management consulting services	a)	\$ 281,362	\$ 278,379
Consulting services for research and development	b)	\$ 40,500	\$ 46,763
Management salaries	c)	\$ 221,146	\$ 653,803
Share-based compensation	d)	\$ 111,933	\$ 336,683

a) Management consulting services consist of the following:

\$170,973 (2019 – \$199,283) 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 until his termination on July 3, 2020.

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12. RELATED PARTY TRANSACTIONS (CONTINUED)

- \$40,349 (2019 - \$60,153) 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.
 - \$Nil (2019 - \$12,500) 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.
 - \$49,541 (2019 - \$6,443) 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.
 - \$10,500 (2019 - \$Nil) in consulting fees paid or accrued to Mr. Morris, director of the Company. The Company agreed to pay Mr. Morris \$1,500 per month for his services pursuant to a consulting agreement.
 - \$10,500 (2019 - \$Nil) in consulting fees paid or accrued to Mr. Shacker, current CEO of the Company. The Company agreed to pay Mr. Shacker \$10,000 per month for his services pursuant to a consulting agreement starting June 2020.
- b) Consulting services for research and development consist of the following:
- \$40,500 (2019 - \$39,775) 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.
 - \$Nil (2019 - \$6,988) in consulting fees paid or accrued to Nanostrips Inc. a company controlled by Dr. Sanderson ("Nanostrips"). In addition to the research and development fees, the Company incurred \$12,231 with Nanostrips during the six months ended June 30, 2019, which were associated with the manufacturing of CannaStripsTM and therefore included in cost of sales.
- c) Management salaries consist of the following:
- \$122,859 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
 - \$94,192 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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12. RELATED PARTY TRANSACTIONS (CONTINUED)

- \$4,095 in management salaries paid to Ms. Christopherson, CEO of CSPA Group, Inc. and the partner of Mr. Eckenweiler.

d) Share-based compensation consists of the following:

	June 30, 2020	June 30, 2019
Brad Eckenweiler	\$ -	\$ -
Casey Fenwick	41,239	437,182
Dr. John Sanderson	11,782	-
Patrick Morris	5,891	-
Frank McEnulty	11,782	216,621
Matt Ferguson	41,239	-
Total share-based compensation to related parties	\$ 111,933	\$ 653,803

Related party payables at June 30, 2020 and December 31, 2019 consisted of the following:

	June 30, 2020	December 31, 2019
Brad Eckenweiler	\$ 226,548	\$ 337,532
Casey Fenwick	397,998	294,884
Dr. John Sanderson	81,768	38,964
Yanika Silina	140,051	88,476
Arni Johansson	49,875	49,875
Patrick Morris	12,607	-
Frank McEnulty	173,424	125,077
Jonathan Hunt	29,277	27,903
Nanostrips Inc.	8,861	8,445
Matt Ferguson	125,048	44,808
Joel Shacker	14,667	-
Total payable to related parties	\$ 1,260,124	\$1,015,964

13. 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.

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13. CAPITAL AND RESERVES (CONTINUED)

B. Issued Share Capital

As at June 30, 2020, the Company had 18,488,239 shares issued and outstanding.

On March 16 2020, the Company issued 2,666,667 common shares to CGOC in exchange for 3,149,606 common shares of CGOC (the "Share-Swap"). At the time of transaction, the fair market value of the Company's shares was \$0.42 per share, and therefore the Company recorded \$1,120,000 as share capital. The shares were issued as restricted, and therefore, until September 16, 2021, CGOC will not be able to trade the shares without prior written consent of the Company (Notes 10 and 15).

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.

C. Stock Purchase Options

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

On May 28, 2020, the Company granted 1,500,000 options to certain directors, officers and consultants of the Company. The options are exercisable at \$0.33 per share until May 1, 2022. The options vested quarterly in equal installments beginning on August 28, 2020 until May 28, 2021. The grant date fair value of these options was \$176,737. The value of the options at grant date was determined using the Black-Scholes Option pricing model using the following assumptions:

	May 28, 2020
Expected Life of the Options	1.93 years
Risk-Free Interest Rate	0.28%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	75%

During the six months ended June 30, 2020, the Company recognized \$26,267 of share-based compensation for the vesting of these options.

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13. CAPITAL AND RESERVES (CONTINUED)

D. Stock Purchase Warrants

The following table summarizes the continuity of share purchase warrants for the six-month period ended June 30, 2020 and the year ended December 31, 2019:

	June 30, 2020		December 31, 2019	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning	1,674,175	\$9.00	441,667	\$9.00
Issued	750,000	\$1.20	1,674,175	\$6.00
Exercised	-	n/a	-	n/a
Expired	(1,674,175)	\$9.00	(441,667)	\$9.00
Warrants outstanding, ending	750,000	\$1.20	1,674,175	\$6.00

During the six months ended June 30, 2020, 1,674,175 share purchase warrants expiring on May 9, 2020 expired unexercised.

On March 16, 2020, as part of the Transaction with CGOC for a \$1,500,000 convertible debt facility (the "Debt Facility"), the Company issued to CGOC 750,000 common share purchase warrants (the "CGOC Warrants") (Note 15). The CGOC Warrants are exercisable at a price of \$1.20 per share, expiring on December 31, 2022, and vest in three equal tranches of 250,000 warrants each upon CGOC making each \$500,000 advance under the Debt Facility. The Company may accelerate the expiration date of the CGOC 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 Canadian Securities Exchange.

The CGOC Warrants were valued at \$113,216 using the Black-Scholes Option pricing model using the assumptions provided in the table below. As at June 30, 2020, CGOC advanced \$450,000, which was not sufficient for the first tranche to vest, therefore the Company recognized \$26,675 in financing costs, being a fractional allocation of full cost to funds advanced by CGOC.

	Assumptions used
Expected Life of the CGOC Warrants	2.79 years
Risk-Free Interest Rate	0.51%
Expected Dividend Yield	Nil
Expected Stock Price Volatility	103.12%

14. NOTES AND ADVANCES PAYABLE

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 Company did not repay the TCAN Loan at maturity, therefore the Company was in default of the TCAN Loan. During the six-month period ended June 30, 2020, the Company recorded \$7,468 in interest expense associated with the TCAN Loan.

In May 2020, the Company was released from its obligation to repay the TCAN Loan and interest as part of the Settlement Agreement that was effected on May 5, 2020, between the Company and TransCanna. During the six months ended June 30, 2020, the Company recorded \$225,066 as a gain on settlement of debt in the statement of profit and loss.

During the six-month period ended June 30, 2020, the Company repaid \$5,000 in advances it received in fiscal 2019 for working capital (2018 -\$Nil).

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15. CONVERTIBLE DEBENTURE

On March 16, 2020, the Company entered into an agreement with CGOC for convertible debt facility (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 "CGOC Debenture") and 750,000 share purchase warrants (the "CGOC Warrants") (Note 13). The aggregate principal amount available under the Debenture may be advanced by CGOC to the Company in three equal installments of \$500,000 each. At June 30, 2020, the Company has received total advances of \$450,000. The balance remaining receivable under the first tranche, being \$50,000, was recorded as debenture receivable.

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.

Since the CGOC Debenture is conditional upon the Company meeting certain requirements, only the first \$500,000 tranche was recorded on the Company's statement of financial position. At the time of recognition, the CGOC Debenture was separated into its liability and equity components by first valuing the liability component. The fair value of the liability component of the first tranche of the CGOC Debenture at the time of issue was determined to be \$231,644, and calculated based on the discounted cash flows for the CGOC Debentures assuming an 36% discount rate, historical rate of interest the Company was able to secure prior debt facilities from non-related parties. The fair value of the equity component (conversion feature) was calculated to be \$268,356 and was determined at the time of issue as the difference between the face value of the CGOC Debenture and the fair value of the liability component.

During the six months ended June 30, 2020, the Company recorded accretion expense of \$22,030 (2019 - \$Nil).

16. NON-CONTROLLING INTERESTS

At June 30, 2020, the Company owns 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. In addition, the Company holds 50% equity of Agrotech, LLC ("Agrotech"), of which 50% of equity was transferred to an arms-length US Person.

At June 30, 2020, and December 31, 2019, the non-controlling interests consisted of the following:

	June 30, 2020	December 31, 2019
LDS Scientific (25%)	\$ (2,085,138)	\$ (1,838,406)
LDS Agrotech (25%)	(121,677)	(115,847)
Agrotech, LLC (50%)	559,009	342,695
	\$ (1,647,806)	\$ (1,611,558)

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16. NON-CONTROLLING INTERESTS (CONTINUED)

The following are the summarized statements of financial position of LDS Scientific, LDS Agrotech, and Agrotech as at June 30, 2020 and December 31, 2019:

As at June 30, 2020

	LDS Scientific		LDS Agrotech		Agrotech		Total
Assets	\$	16,824	\$	-	\$	1,882,453	\$ 1,899,797
Liabilities		(8,357,373)		(486,706)		(764,438)	(9,608,517)
Total net assets	\$	(8,340,549)	\$	(486,706)	\$	1,118,015	\$ (7,708,720)
Total net assets allocated to NCI	\$	(2,085,137)	\$	(121,677)	\$	559,009	\$ (1,647,806)

As at December 31, 2019

	LDS Scientific		LDS Agrotech		Agrotech		Total
Assets	\$	15,099	\$	-	\$	1,745,731	\$ 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	\$ (7,131,097)
Total net assets allocated to NCI	\$	(1,838,406)	\$	(115,847)	\$	342,695	\$ (1,611,558)

The following table summarizes comprehensive income (loss) incurred by the Company's subsidiaries with non-controlling interests for the six months ended June 30, 2020 and 2019:

For the six months ended June 30, 2020

	LDS Scientific		LDS Agrotech		Agrotech		Total
Gross profit	\$	-	\$	-	\$	399,588	\$ 399,588
Operating expenses		(588,291)		-		(63)	(588,354)
Net income (loss)		(588,291)		-		399,525	(188,766)
Other comprehensive income (loss)		(398,634)		(23,321)		33,102	(388,853)
Comprehensive income (loss)	\$	(986,925)	\$	(23,321)	\$	431,627	\$ (577,619)
Comprehensive income (loss) allocated to NCI	\$	(246,731)	\$	(5,830)	\$	216,314	\$ (36,248)

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16. NON-CONTROLLING INTERESTS (CONTINUED)

For the six months ended June 30, 2019

	LDS		LDS		Agrotech	Total
	Scientific		Agrotech			
Gross profit	\$	(1,017,856)	\$	-	\$ 1,043,811	\$ 25,955
Operating expenses		(1,640,852)		(2,547)	(2,035)	(1,645,434)
Net income (loss)		(2,658,708)		(2,547)	1,041,776	(1,619,479)
Other comprehensive income (loss)		262,840		19,980	(19,450)	(263,370)
Comprehensive income (loss)	\$	(2,395,868)	\$	17,433	\$ 1,022,326	\$ (1,356,109)
Comprehensive income (loss) allocated to NCI	\$	(598,967)	\$	4,358	\$ 511,163	\$ (\$83,446)

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17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Accounts payable	\$ 5,649,047	\$ 4,060,344
Wages payable	160,531	32,122
Accrued liabilities	576,273	531,110
Liability under crop-share arrangement	1,049,299	1,000,021
Total accounts payable and accrued liabilities	\$ 7,435,150	\$ 5,623,597

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 June 30, 2020, the Company recorded \$1,049,299 due to the farm owners under the crop-share agreement for their share of expected net income (December 31, 2019: \$1,000,021) The Company determined the liability based on an expected selling price of USD\$500/lb of biomass. At June 30, 2020, a 10% change in expected selling price would result in a \$168,819 change to the liability.

18. GENERAL AND ADMINISTRATIVE EXPENSES

At June 30, 2020 and 2019 general and administrative expenses consisted of the following:

	Six months ended June 30 ,	
	2020	2019
Accounting fees	\$ 140,000	\$ 83,265
Accretion and finance fees for debenture	48,706	-
IT infrastructure	136,946	159,426
Legal fees	267,624	242,072
Meals and travel expenses	55,767	266,294
Office and general	79,867	561,734
Regulatory fees	48,890	227,839
Salaries and wages expense	389,357	1,056,066
Total general and administrative expenses	\$ 1,167,157	\$ 2,596,696

19. COMMITMENTS

Aside from lease liabilities, as describe in Note 11, 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).

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20. GEOGRAPHICAL INFORMATION

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

	Revenue	
	Six months ended June 30 , 2020	2019
United States	\$ 1,253,282	\$ 3,773,118
	\$ 1,253,282	\$ 3,773,118

	Long-Term Assets⁽¹⁾	
	Six months ended June 30, 2020	Year ended December 31, 2019
United States	\$ 13,519,226	\$ 14,048,482
Canada	-	-
	\$ 13,519,226	\$ 14,048,482

⁽¹⁾ Includes: Property, plant, and equipment

21. REVENUE

For the six-month periods ended June 30, 2020 and 2019 the following revenue was recorded from customers that comprise 10% or more of revenue:

	June 30, 2020	December 31, 2019
Customer A	\$ -	\$ 372,903
Customer B	\$ 431,645	\$ -
Customer C	\$ -	\$ 1,300,558
Customer D	\$ 143,069	\$ -

22. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts it based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company only recently started generating revenue and cash flows used in its operations are still negative; as such, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There was no change to the Company's management of capital during the six months ended June 30, 2020. The Company is not subject to any externally imposed capital requirements.

23. 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.

23. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

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 June 30, 2020 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 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 June 30, 2020, the Company's 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.

CORE ONE LABS INC.
(FORMERLY LIFESTYLE DELIVERY SYSTEMS INC.)
Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian Dollars) (Unaudited)
For the Three and Six Months Ended June 30, 2020 and 2019

23. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

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.

	June 30 , 2020	December 31, 2019
Cash denominated in USD	\$ 107,972	\$ 116,470
Accounts receivable denominated in USD	330,405	391,132
Prepays and other current assets denominated in USD	545,602	478,737
Accounts and wages payable and accrued liabilities denominated in USD	(6,567,755)	(4,569,278)
Notes and advances denominated in USD	(24,789)	(476,191)
Total	\$ (5,608,565)	\$ (4,059,130)
Effect of a 10% change in exchange rates	\$ (560,856)	\$ (405,913)

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 June 30, 2020, the Company held 3,149,606 restricted common shares of CGOC valued at \$1,244,094 (2019 – \$Nil). As at June 30, 2020, the Company's equity investment represented 50% of its current assets; however, market fluctuations in share price of CGOC would not have an impact on the Company's liquidity until such time that the CGOC shares become free-trading. For these reasons the Company's management determined that equity price risk was not material to the Company's operations.

iv. 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 June 30, 2020, the Company had cash of \$1,003,059 to settle current financial liabilities of \$9,824,997. 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 following shows the Company's financial liabilities and is an analysis of the contractual maturities of the Company's financial liabilities as at June 30, 2020:

	Within 12 months	After 12 months
Accounts payables and accrued liabilities	\$ 7,435,150	\$ -
Amounts due to related parties	1,260,124	-
Advances payable	193,603	-
Note payable	-	-
Lease liability	704,179	3,341,534
Convertible debenture	-	253,675
Total	\$ 9,593,056	\$ 3,595,209

24. IMPACT OF COVID-19

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 USA, 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.

25. SUBSEQUENT EVENTS

The following material events have occurred subsequent to June 30, 2020:

- 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.

As at June 30, 2020, the Company received \$880,601 of proceeds from this financing.

- 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.

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.

25. SUBSEQUENT EVENTS (CONTINUED)

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

- On October 7, 2020, the Company entered into a Letter of Intent (the “LOI”) dated effective October 1, 2020 to acquire all of the outstanding share capital of Vocan Biotechnologies Inc. (“Vocan”). Vocan is a genetic engineering and biosynthesis research firm developing a proprietary fermentation system for the production of psilocybin API. Vocan’s mission is to use science and technology to advance the knowledge of natural-based medicines for the treatment of mental health illnesses, including addictions.

Under the terms of the LOI, in consideration for all of the outstanding share capital of Vocan, the Company is expected to issue 23,500,000 common shares (the “Consideration Shares”), and 4,000,000 common share purchase warrants (the “Consideration Warrants”), to the existing shareholders of Vocan. Each Consideration Warrant will be exercisable to acquire an additional common share of the Company at a price of \$0.30 for a period of twenty-four months. In addition to the Consideration Shares, and the Consideration Warrants, the existing shareholders of Vocan will also be eligible to receive bonus payments of up to 5,000,000 common shares (the “Bonus Shares”). The Bonus Shares will be issuable in two tranches, of which 2,500,000 will be issuable upon the successful synthesis of psilocybin, and a further 2,500,000 will be issuable upon the filing of a patent application for such synthesis method in at least one jurisdiction. It is anticipated that a portion of the Consideration Shares will be subject to the terms of a pooling arrangement, during which time they not be transferred or traded without the prior consent of the Company. The Consideration Shares will be released from the arrangement in tranches over a period of nine months following completion of the acquisition.

Completion of the acquisition of Vocan remains subject to a number of conditions, including the satisfactory completion of due diligence, receipt of any required regulatory approvals and the negotiation of definitive documentation. No finders fees or commissions are payable in connection with the acquisition of Vocan. An administrative fee of 470,000 common shares is owing to a third-party consultant who will be assisting with completion of the acquisition.