

## FORM 7

### **MONTHLY PROGRESS REPORT**

Name of CNSX Issuer: **Lifestyle Delivery Systems Inc.** (the "Issuer").

Trading Symbol: **LDS**

Number of Outstanding Listed Securities: **98,930,884**

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the CNSX Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the CNSX.ca website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the CNSX Policies. The discussion in this report must be factual, balanced and non-promotional.

#### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

#### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

**During December, the Issuer continued modifying its production line at the permitted facility in Adelanto, California (the "Facility") to meet the most recent California State regulatory guidelines released in December, which decreased a maximum allowable limit for any cannabis-derived cannabinoid ingredient from 20-25mg to 10mg. In addition, the Issuer continued working on the cultivation division of the facility, which is intended to house the nursery for cannabis seedlings.**

On December 21, 2017, the Manufactured Cannabis Safety Branch of the California Department of Public Health has issued CSPA Group, Inc. ("CSPA") a Temporary Category M Type 7 *Manufacturing with Volatile Solvents License* which will be effective January 1, 2018 through April 30, 2018. During this time, the California Department of Public Health will review CSPA's application and corresponding municipal permits and documentation for a permanent license.

2. Provide a general overview and discussion of the activities of management.

During December the Issuer's management was closely involved with the Adelanto operations. Following the November 30, 2017, investigation by the San Bernardino County Sheriff's Department of the CSPA's manufacturing facility to determine methods used for extraction of cannabinoid products, the management was actively involved in discussions with various regulatory agencies to ensure that CSPA, the holder of the Medical Marijuana Permit for volatile extraction and a business license along with a Certification of Occupancy, as well as the Issuer comply with all applicable regulations.

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

**Not applicable for the month of December.**

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

**Not applicable for the month of December.**

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

In December 2017 the Issuer entered into agreements with R2T Manufacturing Inc. ("R2T"), a California corporation that holds a Permit and CUP for volatile extraction and manufacturing in Adelanto, California.

Under the terms of the agreements, R2T, will license both proprietary and patent pending technologies from LDS and contract for consulting services from LDS Scientific Inc. The Issuer intends to build a new 20,000 square foot facility for the R2T's operations.

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

**Not applicable for the month of December.**

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

**Not applicable for the month of December.**

8. Describe the acquisition of new customers or loss of customers.

**Not applicable for the month of December.**

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

**On December 18, 2017, Dr. Sanderson, the Issuer's Chief Science Officer, and the licensor of Cannastrips™ technology, filed an enhanced provisional patent for the CannaStrips™ technology. The new provisional patent filing added additional enhanced capabilities to the current formula, which the Issuer will incorporate into the 2018 CannaStrips™ product line.**

10. Report on any employee hirings, terminations or lay-offs with details of anticipated length of lay-offs.

**Not applicable for the month of December.**

11. Report on any labour disputes and resolutions of those disputes if applicable.

**Not applicable for the month of December.**

12. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

**Not applicable for the month of December.**

13. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

**Not applicable for the month of December.**

14. Provide details of any securities issued and options or warrants granted.

<b>Security</b>	<b>Number Issued</b>	<b>Details of Issuance</b>	<b>Use of Proceeds<sup>(1)</sup></b>
Broker warrant	67,800	Broker warrant exercise at \$0.15 per common share for a total proceeds of \$10,170	Working Capital
Warrant	2,000,000	Warrant exercise at \$0.15 per common share for a total proceeds of \$300,000. Of this amount 1,900,000 shares were issued to Brad Eckenweiler, the Issuer's CEO and Director, on exercise of warrants.	Working Capital
Warrant	1,295,000	Warrant exercise at \$0.75 per common share for a total proceeds of \$971,250..	Working Capital

15. Provide details of any loans to or by Related Persons.

**Not applicable for the month of December.**

16. Provide details of any changes in directors, officers or committee members.

**Not applicable for the month of December.**

17. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.

#### **United States Regulatory Environment Applicable to the Cannabis Industry**

Cannabis is a Schedule I controlled substance under the Federal Controlled Substance Act (the "CSA"). Even in those states, and the District of Columbia, in which the cultivation, manufacture and use of medical or adult-use cannabis has been legalized, the possession, use, cultivation and transfer of cannabis remains a violation of federal law. Federal law criminalizing the use of cannabis preempts state laws legalizing the use of cannabis for medicinal or adult-use purposes and, therefore, strict enforcement of federal law regarding cannabis would severely restrict the ability of Lifestyle to implement its business plan.

The U.S. Department of Justice (the "DOJ") under the Obama administration issued memoranda, including the so-



called “Cole Memorandum” issued on August 29, 2013, describing DOJ’s priorities for enforcement of federal cannabis prohibitions under the CSA. Generally, the DOJ described the prosecution of individuals and companies engaged in the use, manufacture and distribution of medical cannabis when such individuals or companies were in compliance with state regulatory systems as an inefficient use of federal investigative and prosecutorial resources. The DOJ’s position is predicated on state regulatory and enforcement efforts that are effective with respect to certain enumerated federal enforcement priorities under the CSA. In the “Cole Memo,” the DOJ advised all federal prosecutors that federal enforcement of the CSA against cannabis-related conduct should be focused on eight priorities, which are the prevention of: (1) distribution of cannabis to minors; (2) diversion of revenue from sale of cannabis to criminal enterprises, gangs and cartels; (3) transfer of cannabis from states where it is legal to states where it is illegal; (4) the use of cannabis activity as a pretext for trafficking in other illegal drugs or engaging in illegal activity; (5) violence or use of firearms in cannabis cultivation and distribution; (6) drugged driving and adverse public health consequences from cannabis use; (7) growth of cannabis on federal lands; and (8) cannabis possession or use on federal property.

In addition, Congress enacted an omnibus spending bill for fiscal year 2016 including a provision prohibiting the DOJ (which includes the Drug Enforcement Administration) from using funds appropriated by that bill to prevent states from implementing their medical-use cannabis laws. This provision was renewed on December 22, 2017; however, it is effective only until January 19, 2018 and must be renewed by Congress in subsequent years. This prohibition must be included in the Senate version of the fiscal year 2018 Commerce, Justice, and Science (CJS) Appropriations bill to remain effective. Currently, only the Senate version of the CJS Appropriations bill includes the prohibition and the House version does not. A final decision is dependent on the outcome of the House-Senate conference committee’s final version of the bill. In *USA v. McIntosh*, the United States Circuit Court of Appeals for the Ninth Circuit held that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. The Ninth Circuit’s opinion, which only applies in the states of Alaska, Arizona, California, Hawaii and Idaho, also held that persons who do not strictly comply with all state laws and regulations regarding the distribution, possession and cultivation of medical-use cannabis have engaged in conduct that is unauthorized, and in such instances the U.S. Department of Justice may prosecute those individuals.

Lifestyle does not intend to engage in any of the activities enumerated in the Cole Memo, but federal prosecutors have significant discretion in their interpretation of these priorities. Therefore, no assurance can be given that the federal prosecutor in the judicial district where the Issuer is engaged in its cannabis activity will agree that those activities do

not involve the activities enumerated in the Cole Memo. There is also no guarantee that the current administration or future administrations will not revise the federal enforcement priorities enumerated in the Cole Memo or otherwise choose to strictly enforce the federal laws governing cannabis cultivation, manufacturing, distribution or retail sales. Penalties for violation of federal laws related to cannabis-related business could result in prosecution and in the event of conviction, fines or asset forfeiture. In addition, the federal government has in the past seized the assets of cannabis businesses under civil forfeiture statutes.

Political and regulatory risks also exist due to the recent election of Donald Trump to the U.S. presidency, and the appointment of former Senator Jeff Sessions to the post of Attorney General. Mr. Trump's positions regarding marijuana are difficult to discern; however, Attorney General Sessions has been a consistent opponent of marijuana legalization efforts throughout his political career. It remains unclear what stance the Department of Justice under the new administration might take toward legalization efforts in U.S. states, but federal enforcement of the Controlled Substances Act and other applicable laws is possible.

Despite the legal, regulatory, and political obstacles the marijuana industry currently faces, the industry has continued to grow.

#### **U.S. Federal Laws in Respect of Banking**

Under U.S. federal law it may be a violation of federal money laundering statutes for financial institutions to accept the deposit of proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy. Despite these laws, the U.S. Treasury Department issued a memorandum in February of 2014 outlining the pathways for financial institutions to bank marijuana businesses in compliance with federal law.

Under these guidelines, financial institutions must submit a "suspicious activity report" ("SAR") as required by federal money laundering laws. These marijuana-related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated. The memorandum also outlines the due diligence required of banks dealing with marijuana-related businesses. The due diligence requirements may act to limit participation by many banks. On April 27, 2017, Rep. Perlmutter introduced H.R.



2215 – the Secure and Fair Enforcement Banking Act of 2017 to grant banks and other financial institutions immunity from federal criminal prosecution for servicing marijuana-related businesses if the underlying marijuana business complies with state law. The bill was referred to the Subcommittee on Crime, Terrorism, Homeland Security, and Investigations on September 21, 2017. There can be no assurance that H.R. 2215 will be passed in its current form or at all. In both Canada and the United States, transactions involving banks and other financial institutions are both difficult and unpredictable under the current legal and regulatory landscape. Legislative changes to help reduce these challenges would eliminate these challenges for companies in the cannabis space, and would improve the efficiency of both significant and minor financial transactions.

### **California State Laws Applicable to the Medical-Use Cannabis Industry**

On June 27, 2017, Governor Jerry Brown signed the Medicinal and Adult-Use Cannabis Regulation and Safety Act (“MAUCRSA”) to reconcile the Control, Regulate and Tax Adult Use of Marijuana Act with California’s previous medical marijuana laws. California was the first state to pass medical marijuana in 1996, allowing for a not-for-profit patient/caregiver system, but there was no state licensing authority to oversee businesses that emerged. “Patient/caregiver” system refers to the type of non-commercial medical marijuana laws that were passed from 1996 to 2008. These laws permitted qualified patients to cultivate their own medical marijuana or designate a caregiver to cultivate on behalf of a patient or patients.

MAUCRSA establishes a licensing and regulatory framework for medical marijuana businesses and adult-use marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, nurseries, cultivation facilities, testing laboratories, transportation companies, and distributors. Licenses will be designated as either “M” for medical marijuana or “A” for adult-use. All transactions involving cannabis, other than dispensary sales, must be conducted between holders of a California license. In addition, “M” licensees may only sell to other “M” licensees or, in the case of an “M” dispensary, to holders of a physician recommendation. Likewise, “A” licensees may only sell to other “A” licensees or, in the case of an “A” Dispensary, to individuals over the age of 21. Edible infused product manufacturers will require either volatile solvent or nonvolatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a state license and local approval to operate. California will begin licensing both medical marijuana businesses and adult-use marijuana business at the state level under MAUCRSA after January 1, 2018.

An applicant under the MAUCRSA must obtain local approval and a state license. The state license approval process is not competitive, and localities are accepting licenses based on timelines

within their individual ordinances. Localities may prohibit medical marijuana business or limit the number of licenses offered in their jurisdiction. The Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health released emergency regulations for MAUCRSA on November 16, 2017. Cities and counties across the state are either adopting local licensing and regulations around both medical and adult-use cannabis or modifying their current regulations for consistency with MAUCRSA.

The application process for a state license requires submission of policies and procedures designed to ensure compliance with the emergency regulations. The policies and procedures relate to personnel, safety, security, building design and related matters. The Issuer and its majority-owned subsidiaries, LDS Agrotech and LDS Scientific, are currently analyzing the emergency regulations to identify necessary revisions to its policies and procedures or modifications to facilities managed by LDS Agrotech or LDS Scientific.

#### **Risks Related to Conflicting Federal and State Laws**

The cannabis industry is currently conducted in twenty-nine states and the District of Columbia. These jurisdictions have passed laws either decriminalizing or legalizing the medicinal or recreational use of cannabis. However, under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis remains illegal. The Federal, and, in some cases, State law enforcement authorities have frequently closed down retail dispensaries, growers, and producers of cannabis products and have investigated or closed physician offices that provide medicinal cannabis recommendations. To the extent that an affected retail dispensary, grower, producer, or physician office is a customer of the Issuer or Issuer's licensee, it will affect the Issuer's revenue. Enforcement actions that impact new retail dispensaries, growers, producers and physician offices entering the cannabis industry may materially affect the Issuer's business and operations.

#### **Risks Related to the Current Operating Model**

Under U.S. Federal law, the possession, use, cultivation, and transfer of cannabis is illegal. The Issuer provides its technology and equipment to its licensees who in turn supply goods and/or services to their customers. Both the licensees and their customers are engaged in the possession, use, cultivation and transfer of cannabis. As a result, law enforcement authorities may seek to bring an action or actions against the Issuer, on the basis of, but not limited to, a claim of aiding and abetting another criminal's activities. The Issuer will vigorously defend all such actions but such actions would have a material effect on the Issuer's business and operations.

#### **Regulatory Risks**



The activities of the Issuer will be subject to intense regulation by governmental authorities. Achievement of the Issuer's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Issuer cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Issuer.

**Risks Associated with Clearing Shares of Cannabis Companies with U.S. assets.**

The Canadian Depository for Securities (CDS) is currently reviewing a possibility to change its policy which would allow CDS to refuse to settle trades in a small group of cannabis firms with American investments. If implemented, this policy change would make it difficult for the Issuers' current investors to trade the Issuer's stock. The statement from the CSE made on Friday, August 4, 2017, noted that it continues to accept new stock listings of companies in the cannabis industries as long as these companies meet disclosure rules and other listing standards. The Issuer believes that it is in compliance with all required standards and has provided its shareholders with all regulatory and risk disclosures that may apply to it.

## Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there were is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to CNSX that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all CNSX Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated January 8, 2018

Yanika Silina  
Name of Director or Senior  
Officer

"Yanika Silina"  
Signature

CFO  
Official Capacity

<b>Issuer Details</b>	For Month End	Date of Report
Name of Issuer		YY/MM/DD
Lifestyle Delivery Systems Inc.	December 31, 2017	18/01/08
Issuer Address		
820 – 1130 West Pender Street		
City/Province/Postal Code	Issuer Fax No.	Issuer Telephone No.
Vancouver, BC V6E 4A4	(604) 648-0517	(866) 347-5058
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