

LOTUS VENTURES INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

UNAUDITED

For the nine months ended May 31, 2015

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The following condensed interim financial statements of Lotus Ventures Inc. are unaudited. They have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these condensed interim financial statements.

LOTUS VENTURES INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
 Unaudited – prepared by management
 (Expressed in Canadian Dollars)
 As at

	May 31, 2015	August 31, 2014
<u>ASSETS</u>		
Current		
Cash	\$ 170,831	\$ 132,476
GST receivable	12,478	7,337
Prepaid expenses and deposits	12,089	-
	<u>195,398</u>	<u>139,813</u>
Non-current		
Option agreement (Note 5)	130,500	62,500
Total assets	<u>\$ 325,898</u>	<u>\$ 202,313</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 56,775	\$ 25,041
Loan payable	250	-
Total liabilities	<u>57,025</u>	<u>25,041</u>
<u>SHAREHOLDERS' EQUITY</u>		
Share capital	\$ 659,883	\$ 287,500
Shares subscribed	-	77,500
Reserves	186,500	-
Deficit	(577,510)	(187,728)
	<u>268,873</u>	<u>177,272</u>
	<u>\$ 325,898</u>	<u>\$ 202,313</u>

Note 4 Business Combination

The accompanying notes form an integral part of these financial statements.

Approved and authorized by the Board on July 29, 2015.

<u>"Dale McClanaghan"</u>	Director	<u>"Stephen Mathiesen"</u>	Director
Dale McClanaghan		Stephen Mathiesen	

LOTUS VENTURES INC.
CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
Unaudited – prepared by management
(Expressed in Canadian Dollars)

	Three months ended May 31,		Nine months ended May 31,	
	2015	2014	2015	2014
General and administrative expenses				
Bank fees	\$ 141	\$ -	\$ 680	\$ -
Consulting	25,737	-	76,657	-
Professional fees	1,500	67,526	45,817	67,526
Listing, filing and transfer fees	2,848	-	32,692	-
Office and miscellaneous	3,597	-	20,804	-
Research and development	-	-	11,237	-
Advertising and promotion	-	-	1,790	-
Travel	2,789	-	13,605	-
Share-based compensation	-	-	186,500	-
Net loss and comprehensive loss	<u>\$ 36,612</u>	<u>\$ 67,526</u>	<u>\$ 389,782</u>	<u>\$ 67,526</u>
Basic and diluted loss per share	\$ (0.00)	\$ (0.08)	\$ (0.02)	\$ (0.06)
Weighted average number of shares outstanding	26,774,000	814,521	20,750,396	1,089,012

The accompanying notes form an integral part of these financial statements.

LOTUS VENTURES INC.**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Unaudited – prepared by management

(Expressed in Canadian Dollars)

	Common shares		Shares Subscribed	Deficit	Reserves	Total
	Number of Shares	Amount				
Balance, August 31, 2014	4,000,000	\$ 318,507	\$ 41,200	\$ (376,634)	\$ -	\$ (16,927)
Cancellation of Strachan escrow shares	(1,500,000)	-	-	-	-	-
Share exchange	17,000,000	(318,507)	(41,200)	376,634	-	16,927
Net equity deficiency of Strachan at transaction date	-	(41,617)	-	-	-	(41,617)
Private Lotus equity, August 31, 2014	-	287,500	77,500	(187,728)	-	177,272
Shares issued for assignment of option	3,400,000	68,000	-	-	-	68,000
Shares issued for cash	3,874,000	356,000	(77,500)	-	-	278,500
Share issue costs	-	(10,000)	-	-	-	(10,000)
Share-based compensation	-	-	-	-	186,500	186,500
Net loss	-	-	-	(389,782)	-	(389,782)
Balance, May 31, 2015	26,774,000	\$ 659,883	\$ -	\$ (577,510)	\$ 186,500	\$ 268,873

The accompanying notes form an integral part of these financial statements.

LOTUS VENTURES INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
Unaudited – prepared by management
(Expressed in Canadian Dollars)

	Three months ended May 31,		Nine months ended May 31,	
	2015	2014	2015	2014
Operating activities				
Net loss for the period	\$ (36,612)	\$ (67,526)	(389,782)	\$ (67,526)
Items not affected by cash:				
Share-based compensation	-	-	186,500	-
Changes in non-cash working capital items:				
GST receivable	(1,960)	(2,181)	(4,836)	(2,181)
Prepaid expenses and deposits	(12,089)	-	(12,089)	-
Accounts payable	(40,295)	26,000	(11,828)	26,000
Loan payable	-	-	250	-
	<u>(90,956)</u>	<u>(43,707)</u>	<u>(231,785)</u>	<u>(43,707)</u>
Financing activities				
Shares issued for cash	-	120,000	278,500	120,000
Share issue costs	-	-	(10,000)	-
Shares subscribed	-	-	-	-
Cash acquired in share exchange	-	-	1,640	-
	<u>-</u>	<u>120,000</u>	<u>270,140</u>	<u>120,000</u>
Increase in cash	(90,956)	76,293	38,355	76,293
Cash, beginning of the period	261,787	-	132,476	-
Cash, end of the period	<u>\$ 170,831</u>	<u>\$ 76,293</u>	<u>170,831</u>	<u>\$ 76,293</u>

The accompanying notes form an integral part of these financial statements.

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 1 Nature and Continuance of Operations

Lotus Ventures Inc. (the “Company”) was formed on November 28, 2014 when private company Lotus Ventures Inc. (“private Lotus”) amalgamated with Strachan Resources Ltd. (“Strachan”), a public company the common shares of which have been listed for trading on the TSX Venture Exchange (‘the Exchange’) since December 2010.

Private Lotus was incorporated on January 29, 2007 under the Business Corporations Act (B.C.) as Jupiter Resources Corporation. The Company was inactive until April 2014, when it obtained an option to acquire certain assets used in the production of medical marijuana, as more fully described in Note 5.

Under the terms of the amalgamation agreement (the ‘Transaction’) with Strachan dated July 30, 2014 as amended September 1, 2014, the shareholders of each of private Lotus and Strachan exchanged their respective shareholdings on a one-for-one basis for the share capital of the Company. The effect of these exchanges and other issuances of Company shares is that the shareholders of private Lotus obtained control of the Company immediately subsequent to completion of the Transaction. Accordingly, for accounting purposes, the Transaction constitutes an acquisition of Strachan by private Lotus.

Private Lotus’s Option Exercise Agreement, described in Note 5, formed the basis for the Transaction with Strachan, as its terms contemplated and required the completion of a transaction whereby the shareholders of private Lotus effectively obtained the right to trade their equity publically, or to otherwise obtain publically-traded securities by an exchange of equity interests.

The Company obtained a listing on the Canadian Securities Exchange (‘CSE’) by way of, amongst other requirements, the completion of a statutory amalgamation with Strachan.

These financial statements have been prepared on the going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has limited financial resources, no source of operating cash flow, and no assurances that sufficient funding, including adequate financing, will be available to conduct further development of its projects.

The application of the going concern concept is dependent upon the Company’s ability to generate future profitable operations and receive continued financial support from its creditors and shareholders. These financial statements do not give effect to any adjustments that might be required should the Company be unable to continue as a going concern and therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts differing from those reflected in the financial statements.

Management plans to continue to pursue equity or debt financing to support operations. Management believes this plan will be sufficient to meet the Company’s liabilities and commitments as they become payable over the next twelve months. There can be no assurance that management’s plan will be successful. Failure to maintain the support of creditors and obtain additional external equity financing will cause the Company to curtail operations and the Company’s ability to continue as a going concern will be impaired. The outcome of these matters

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 1 Nature and Continuance of Operations – (cont'd)

cannot be predicted at this time. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Note 2 Basis of Preparation

Statement of Compliance

These financial statements are prepared in accordance with International Accounting Standards 34, Interim Financial Reporting ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of Measurement

These financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Note 3 Significant Accounting Policies

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired, as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing such financial assets in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive loss or income. The Company has classified its cash as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company has classified its subscriptions receivable as loans and receivables.

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of comprehensive loss or income. The Company has no held-to-maturity investments.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of comprehensive loss or income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired, as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing such financial liabilities in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive loss or income.

Other financial liabilities: This category includes accounts payable and accrued liabilities and loans payable, all of which are recognized at amortized cost.

Intangible assets

Intangible assets are recognized when they become identifiable, which is to say when they arise from contractual or other rights, or when they are separable, or capable of being sold, transferred, licensed, rented or exchanged. They are initially recorded at cost, subject to the reliability of measurement, and are carried as assets to the extent that it is probable that the future economic benefits applicable to such costs will flow to the Company.

The Company's interest in the option agreement disclosed in Note 5 currently meets the definition of an intangible asset with an indefinite useful life. The Company assesses the carrying amount at year period end to determine whether events and circumstances require the impairment or reclassification of these costs.

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it is probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share does not adjust the income (loss) attributed to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

Adoption of new and revised accounting standards and interpretations

The following revised standards are effective for annual periods beginning on or after January 1, 2014 with earlier application permitted. The Company has assessed the impact of these standards and has determined that they would not have a material impact on the Company.

- IAS 32, Financial Instruments: Presentation (January 1, 2014)
- IFRS 9, Financial Instruments (January 1, 2015)

There are no other IFRS's or IFRIC interpretations that are not yet effective that are expected to have a material impact on the Company.

Note 4 Business Combination

On November 28, 2014, private Lotus and Strachan were amalgamated pursuant to an amalgamation agreement dated July 30, 2014 and as amended September 1, 2014. The shareholders of each of private Lotus and Strachan exchanged their respective shareholdings on a one-for-one basis for the share capital of the Company. The effect of these exchanges and other issuances of Company shares is that the shareholders of private Lotus obtained control of the Company immediately subsequent to completion of the Transaction. Accordingly, for accounting purposes, the Transaction constitutes an acquisition of Strachan by private Lotus.

The amalgamation is a business combination and therefore has been accounted for under the acquisition method with private Lotus as the accounting acquirer and continuing entity for accounting and financial reporting purposes and Strachan, as the legal parent, being the acquiree. As Strachan was a public 'shell' company, there was no active market to reliably determine the fair value of the transaction other than to use the carrying values of the net identifiable assets acquired or assumed.

Accordingly, the purchase price allocation of the acquisition is based on the fair value of the net liabilities assumed, which is charged to share capital.

The fair values of assets acquired and liabilities assumed are as follows:

Cash	\$	1,640
GST receivable		306
Accounts payable		(43,563)
Net liabilities acquired	\$	(41,617)

Note 5 Option Agreement and Option Exercise Agreement

On April 30, 2014, private Lotus entered into an Assignment Agreement with Carl Busby. In consideration of the assignment of an underlying option agreement (the "Option Agreement") described below, the Company paid to Carl Busby \$62,500 by the issuance of 3,500,000 common shares at a price of \$0.005 per share and 2,250,000 common shares at a price of \$0.02 per share. Mr. Busby became a director and President of the Company on May 6, 2014. Upon completion of the Transaction described in Note 1, Carl Busby obtained 6,000,000 common shares of the Company, or 22.4% of the issued and outstanding common shares of the Company at the completion of the Transaction.

LOTUS VENTURES INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED MAY 31, 2015**

(Expressed in Canadian Dollars)

Note 5 Option Agreement and Option Exercise Agreement – (cont'd)

Upon completion of the Transaction, the Company obtained the right under an underlying Option Exercise Agreement to acquire a production facility and operating assets, to be operated under the Marijuana for Medical Purposes Regulation ('MMPR') upon obtaining a new production license. These assets currently produce medical marijuana pursuant to four licenses issued under the Medical Marijuana Access Regulations ('MMAR').

Under the terms of the original Option Agreement, to complete its terms the Company was to (a) invest \$250,000 in the production facility and the process of applying for a license under the MMPR to produce and sell medical marijuana, in stages as follows: (i) \$110,000 to be provided for this purpose within 6 months of the transfer of the Option to the Company; (ii) a further \$45,000 in 3 months thereafter; (iii) a further \$75,000 in 3 months thereafter; and (iv) a further \$20,000 in 3 months thereafter; (b) issue to the Optionor 2,000,000 common shares of the Company as follows: (i) forthwith after the Option was transferred to the Company, 1,000,000 shares subject to a four month hold period. 100,000 shares were to be delivered to the Optionor and 900,000 held by the Company until it obtained a new license or the legal and regulatory regime changed so that it would be legally able to produce and sell marijuana; and (ii) at such time as either the Company obtained a new license or the legal and regulatory regime changed so that it would legally be able to produce and sell marijuana, a further 1,000,000 shares would be held by the Company subject to a share restriction agreement by which one share would be released to the Optionor for every \$1 of net cash flow from operations as calculated by the Company's accountant annually and (c) beginning on the 9th month from closing of the Transaction, the Company would pay \$5,000 per month for the rent of the facility.

Private Lotus entered into an Option Exercise Agreement dated September 1, 2014 with Carl Correia ("Correia") and 0998918 B.C. Ltd. of Vernon, British Columbia which replaced in its entirety the Option Agreement. Under this agreement, private Lotus agreed to issue 1,700,000 common shares to each of Correia and 0998918 B.C. Ltd. for a total of 3,400,000 common shares at a deemed price of \$0.02 per share and Correia agreed to (a) be the Chief Operating Officer of the Company and the Person in Charge in the MMPR Application (b) prepare the MMPR application on behalf of the Company; (c) assist the Company to obtain approval of the application from Health Canada (d) assist the Company to obtain the MMPR License; and (e) assist the Company to negotiate a lease on the property on which the facility is located. The Company will also acquire Correia's know-how and experience regarding (a) the requirements with respect to the MMPE License process and requirements; (b) facility design for application for the MMPR License; (c) quality control pursuant to the MMPR License; (d) Security requirements pursuant to the MMPR License; (e) Recruitment of appropriate Alternate Person in Charge and Person in Charge of Quality Control; (f) knowledge regarding the growing of medical marijuana; and (g) all information, documents and records prepared with respect to the MMPR License application and all lease rights to the facility.

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 6 **Share Capital**

a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without any special rights or restrictions.

During the nine months ended May 31, 2015, the Company completed the following share issuances:

- Pursuant to the Option Exercise Agreement between the Company, Carl Correia (“Correia”) and 0998918 B.C. Ltd. of Vernon, British Columbia (see Note 5), the Company issued 1,700,000 shares each to Correia and 0998918 B.C. Ltd. on September 1, 2014 (3,400,000 shares total) at a value of \$0.02 per share for a total value of \$68,000.
- On October 27, 2014, the Company completed a non-brokered private placement of 1,374,000 common shares at \$0.25 per share for gross proceeds of \$343,500, also paying \$10,000 in finder’s fees to complete the private placement.
- On November 28, 2014, the Company issued 2,500,000 shares to Strachan founders for \$0.005 per share, a total value of \$12,500.

b) Share purchase options

The Company operates an employee stock option plan. Share-based payments to directors, officers, employees and consultants 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 stock option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. 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.

The Company had the following share purchase options outstanding, transferred to the Company from Strachan upon the amalgamation of private Lotus and Strachan:

<u>Number</u>	<u>Exercise Price (\$)</u>	<u>Expiry Date</u>
500,000	0.10	December 24, 2015

During the nine months ended May 31, 2015, the Company granted the following options:

- On December 8, 2014, pursuant to the Company’s listing on the Canadian Securities Exchange (CSE), the Company granted 1,000,000 share purchase options exercisable for five years at a price of \$0.25 per share, including 500,000 options to the Company’s President and CEO. These options vested immediately at the date of grant.

LOTUS VENTURES INC.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED MAY 31, 2015
(Expressed in Canadian Dollars)

Note 6 Share Capital – (cont'd)

The fair value of these share purchase options was estimated using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

Risk-free interest rate (%)	1.44
Expected life (years)	5
Expected volatility (%)	100.00
Expected dividend yield (%)	0

Details of granted and outstanding stock options are as follows:

	Number of Options	Weighted Average Exercise Price
Balance – August 31, 2013 and 2014	-	\$-
Transferred from Strachan at amalgamation	500,000	\$0.10
Granted	1,000,000	\$0.25
Balance – May 31, 2015	1,500,000	\$0.20

Note 7 Related Party Transactions

During the nine months ended May 31, 2015, the Company incurred \$19,535 (2014 - \$nil) in legal fees and reimbursable expenses paid or accrued to a company controlled by a Company director. The Company owed or had accrued as payable to this related party company \$7,000 at May 31, 2015 (August 31, 2014 - \$13,667).

Note 8 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash and cash equivalents. There are no external restrictions on the use of the Company's capital other than as provided in Policy 2.4 Capital Pool Companies of the TSX Venture Exchange.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents

The Company's financial instruments are exposed to the following risks:

Credit Risk

The Company's primary exposure to credit risk is the risk of illiquidity of cash amounting to \$170,831 at May 31, 2015. As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

LOTUS VENTURES INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****FOR THE NINE MONTHS ENDED MAY 31, 2015**

(Expressed in Canadian Dollars)

Note 8 Capital Management (cont'd)*Fair Value of Financial Instruments*

The fair value of the Company's financial assets approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value classification of the Company's financial instruments as at May 31, 2015 is as follows:

	Fair value level	As at May 31, 2015	
		Fair value through profit or loss	Loans and receivables at amortized cost
<i>Financial assets</i>			
Cash	1	\$ 170,831	\$ -
		\$ 170,831	\$ -

During the nine months ended May 31, 2015, there were no transfers between level 1, level 2 and level 3 classified assets.