LOTUS VENTURES INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

UNAUDITED

For the three months ended November 30, 2016

(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

	November 30, 2016	August 31, 2016
ASSETS		
Current		
Cash	$ 499,974	$ 142,595
GST receivable	15,356	14,857
Subscription receivable (Note 7)	10,000	-
Prepaid expenses (Note 6)	71,200	50,000
Due from related party	3,426	3,426
	599,956	210,878
Non-current		
Option agreements (Note 4)	230,500	230,500
Property, plant and equipment (Note 5)	14,748	17,099
	245,248	247,599
Total assets	$ 845,204	$ 458,477
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 88,776	$ 122,557
Total liabilities	88,776	122,557
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	$ 1,936,085	$ 1,371,750
Reserve	503,285	503,285
Deficit	(1,682,942)	(1,539,115)
	756,428	335,920
	$ 845,204	$ 458,477

Note 10 Subsequent Events

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

Approved and authorized by the Board on January 30, 2016.

"Dale McClanaghan" Director — *"Steve Mathiesen"* Director
Dale McClanaghan — Steve Mathiesen

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

		Three months ended November 30, 2016		Three months ended November 30, 2015
General and administrative expenses				
Advertising and promotion	$	7,231	$	5,128
Amortization		2,351		-
Bank fees		193		201
Consulting		70,849		43,500
Design expense		19,062		-
Foreign exchange loss		466		-
Listing, filing and transfer fees		12,370		3,513
Office and miscellaneous		3,921		1,226
Professional fees		1,500		4,500
Rent		12,000		1,088
Research and development		-		647
Share based compensation (Note 7)		-		245,025
Training		4,240		-
Travel		9,644		8,667
Net loss and comprehensive loss	$	(143,827)	$	(313,495)
Basic and diluted loss per share	$	(0.00)	$	(0.01)
Weighted average number of shares outstanding		33,454,714		28,744,000

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								
	Number of Shares		**Amount**		**Reserves**		**Deficit**		**Total**
Balance, August 31, 2016	**32,102,750**	**$**	**1,371,750**	**$**	**503,285**	**$**	**(1,539,115)**	**$**	**335,920**
Shares issued for cash	2,986,250		597,250		-		-		597,250
Share issue costs	-		(32,915)		-		-		(32,915)
Net loss	-		-		-		(143,827)		(143,827)
Balance, November 30, 2016	**35,089,000**	**$**	**1,936,085**	**$**	**503,285**	**$**	**(1,682,942)**	**$**	**756,428**
Balance, August 31, 2015	**28,744,000**	**$**	**800,000**	**$**	**186,500**	**$**	**(729,872)**	**$**	**256,628**
Share-based compensation	-		-		245,025		-		245,025
Net loss	-		-		-		(313,495)		(313,495)
Balance, November 30, 2015	**28,774,000**	**$**	**800,000**	**$**	**431,525**	**$**	**(1,043,367)**	**$**	**188,158**

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 November 30, 2016	Three months ended November 30, 2015
Operating activities		
Net loss for the period	**$ (143,827)**	$ (313,495)
Items not affected by cash:		
Amortization	**2,351**	-
Share-based compensation	**-**	245,025
Changes in non-cash working capital items:		
GST receivable	**(499)**	(1,992)
Prepaid expenses and deposits	**(21,200)**	-
Accounts payable	**(33,781)**	(23,262)
Due to/from related party	**-**	(3,426)
	(196,956)	(97,150)
Financing activities		
Cash received for shares issued	**587,250**	-
Share issue costs	**(32,915)**	-
	554,335	-
Investing activity		
Cash issued for option to purchase agreement (Note 5)	**-**	(50,000)
	-	(50,000)
Increase (decrease) in cash	**357,379**	(147,150)
Cash, beginning of the period	**142,595**	234,674
Cash, end of the period	**$ 499,974**	$ 330,851

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

Note 1 **Nature and Continuance of Operations**

The public company predecessor to Lotus Ventures Inc. (the 'Company') was incorporated under the Business Corporations Act (B.C.) on May 12, 2010 as Strachan Resources Ltd. ('Strachan'). Strachan's common shares were previously listed for trading on the TSX Venture Exchange ('Venture'), and it was classified as a Capital Pool Company pursuant to Venture Policy 2.4 until the completion of the 2014 amalgamation agreement (the 'Transaction") described below. Effective December 8, 2014, the Company's common shares were listed for trading on the Canadian Securities Exchange ('CSE').

Under the terms of an amalgamation agreement with a BC private company also known as Lotus Ventures Inc. (Private Lotus) dated July 30, 2014, as amended September 1, 2014, the shareholders of each of that company and Strachan exchanged their respective shareholdings on a one-for-one basis for the share capital of a new corporation ('Amalco'). On November 27, 2014 the Transaction was completed and, legally, a new company, Amalco or the Company, was created.

Private Lotus' Option Exercise Agreement, described in Note 4, 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 were to effectively obtain the right to trade their equity publically, or to otherwise obtain publically-traded securities by an exchange of equity interests.

In connection with the Transaction and to obtain regulatory consent to the delisting of its securities from trading on Venture, on December 1, 2014 Amalco obtained a receipt for a non-offering prospectus in British Columbia.

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 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 condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statement, including IAS 34, Interim Financial Reporting. Accordingly, these condensed consolidated interim financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting purposes. These condensed consolidated interim financial statements should be read in conjunction with the Company's financial statements for the year ended August 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

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

Note 3 Significant Accounting Policies – (cont'd)

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.

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, 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

Note 3 Significant Accounting Policies – (cont'd)

year period end to determine whether events and circumstances require the impairment or reclassification of these costs.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct expenditures associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset.

When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Computer software is amortized on a 55% declining balance basis.

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.

Note 3 **<u>Significant Accounting Policies</u> – (cont'd)**

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.

Adoption of new and revised accounting standards and interpretations

The following revised standards are effective for annual periods beginning on or after January 1, 2016 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.

- IFRS 9, Financial Instruments (January 1, 2018)

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 **<u>Option Agreements</u>**

Carl Busby Option 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.

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

Note 4 **Option Agreements – (cont'd)**

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 then 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 the above-described Option Agreement in its entirety. Under this agreement, Private Lotus agreed to issue 1,700,000 common shares to each of Correia and 0998918 B.C. Ltd (issued). and Correia agreed to (a) serve as 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.

Option to Purchase Leased Armstrong Property

On November 7, 2015, the Company entered into an Option to Purchase Agreement ("Option to Purchase") as part of a three-year lease agreement for a property near Armstrong, BC ("Lease Agreement" or the "Lease") (see Note 6). Under the Option to Purchase, the Company may purchase the leased property, on which the Company intends to build the facility proposed in its MMPR application to Health Canada. To exercise the Option to Purchase, the Company must (a) consistently perform all obligations agreed to under the Lease Agreement; (b) provide written notice to the landlord at any time up to the exercise date, which is the later of 90 days prior to the

Expiry Date of the initial lease term or 30 days prior to the expiry of the renewal term if the Lease is renewed; and (c) pay the landlord $1,100,000 if the Company does not renew the initial three-year Lease, or $1,200,000 if the Company renews the Lease for a Renewal Term.

As consideration for being granted the Option to Purchase, the Company must pay the landlord the following fees ("Option Fees") on the following dates: (i) $50,000 upon signing the lease (paid); (ii) $50,000 on the earlier of (1) the commencement of any pre-approved work on or to the premise in accordance with the Lease Agreement and (2) March 15, 2016 and (iii) $100,000 concurrently with the renewal notice if the Company renews the lease pursuant to the Lease Agreement. Upon exercise of the Option, the Option Fees (not including rent paid towards the lease) will be applied to the purchase price. The Option cannot be revoked within the time frame provided unless the Lease is terminated prior to the Exercise Date or the Company fails to comply with the above noted terms. If the Option is not exercised within the time frame and manner thus laid out, the Company loses entitlement to the Option to Purchase and forfeits all Option Fees paid.

(Expressed in Canadian Dollars)

Note 5 Property, plant and equipment – software

		Software
Cost		
As at August 31, 2016 and November 30, 2016	$	23,585
Accumulated amortization		
As at August 31, 2016	$	6,486
Amortization during the period		2,351
As at November 30, 2016	$	8,837
Net Book Value		
As at August 31, 2016	$	17,099
As at November 30, 2016	**$**	**14,748**

Note 6 Commitment

The Company entered into a three-year lease agreement ("Lease Agreement" or "Lease") commencing December 1, 2015 for a property near Armstrong, BC on which the Company intends to build the facility proposed in its MMPR application to Health Canada. The Company will pay rent of $4,000 per month for the initial three-year lease term, with an option to renew the lease for a further year for rent of $8,000 per month (the "Renewal Term"). The Company has also obtained an option to acquire the property at any time during the initial lease term for $1,100,000 if it does not renew the lease or for $1,200,000 if the Company renews the Lease for the Renewal Term.

On April 25, 2016, the Company entered into an engagement agreement with Kilbride Partners ("Kilbride") to serve as the Company's exclusive strategic and financial advisor (the "Engagement"). Pursuant to the agreement, the Company paid a retainer and engagement fee of $50,000 to Kilbride. Upon the Company completing transactions to raise financing for its production facility, the Company must pay Kilbride a success fee of the larger of $250,000 or 5% of the achieved financing. All related expenses incurred by Kilbride are reimbursable by the Company and to be invoiced on a monthly basis.

Under the Engagement, Kilbride will serve as the Company's exclusive strategic and financial advisor until completion of the Transaction, in a series of transactions, or until either party wishes to terminate the Engagement. Should either party wish to terminate the Engagement, one month's notice must be provided, at which point the Company will be responsible only for payment of outstanding pro-rata Engagement fees and any unpaid expenses incurred. In the event a financing is completed within 12 months of termination of the Engagement as a result of Kilbride's introduction of investors to the Company, then the success fee will be due and payable in full.

Note 7 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 three months ended November 30, 2016, the Company completed the following share issuances:

(Expressed in Canadian Dollars)

Note 7 **Share Capital - (cont'd)**

- On September 28, 2016, the Company announced that it would be conducting a non-brokered private placement at $0.20 per unit, with each unit consisting of one common share and one share purchase warrant exercisable to purchase one common share at $0.25 until October 14, 2021.
  - On October 14, 2016, the Company closed the first tranche of this financing and issued 2,023,750 units for gross proceeds of $404,750.
  - On November 16, 2016, the Company closed the second tranche of this financing and issued 962,500 units for gross proceeds of $192,500. At November 30, 2016, subscriptions of $10,000 for this private placement were outstanding (subsequently received).

  Finders fees of $23,000 were paid in relation to this financing.

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.

During the period ended November 30, 2016, no options were granted by the Company.

During the period ended November 30, 2015, the Company granted the following options:

- On November 3, 2015 the Company granted 1,485,000 share purchase options exercisable for five years at a price of $0.20 per share.

  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 (%)	0.96
Expected life (years)	5
Expected volatility (%)	156.00
Expected dividend yield (%)	0

Details of granted and outstanding stock options are as follows:

(Expressed in Canadian Dollars)

Note 7 Share Capital - (cont'd)

	Three Months Ended November 30, 2016		Year Ended August 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		$		$
Balance at the beginning of the period	2,785,000	0.22	1,300,000	0.22
Granted	-	-	1,785,000	0.21
Exercised	-	-	(300,000)	0.10
Outstanding, end of the period (1)	2,785,000	0.22	2,785,000	0.22

(1) As at November 30, 2016, the weighted-average contractual remaining life of the options is 2.71 years (August 31, 2016 – 2.96 years).

c) Share purchase warrants

Details of outstanding share purchase warrants are as follows:

	Three Months Ended November 30, 2016		Year Ended August 31, 2016	
	Number of W	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		$		$
Balance at the beginning of the period	3,058,750	1.46	3,058,750	0.23
Issued	2,986,250	0.25	-	-
Outstanding, end of the period	6,045,000	0.24	3,058,750	0.23

Note 8 Related Party Transactions

During the three months ended November 30, 2016, the Company incurred management consulting fees of $10,000 (2015 - $10,500) to a company controlled by the Company's President and CEO. As at November 30, 2016, $18,000 (August 31, 2016 - $18,000) was payable to this company.

During the three months ended November 30, 2016, the Company incurred consulting fees of $10,000 (2016 - $nil) to the Company's Chief Operating Officer. As at November 30, 2016, $nil (August 31, 2016 - $nil) was payable to him.

Note 9 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

(Expressed in Canadian Dollars)

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 $87,524 at November 30, 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.
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 November 30, 2016 is as follows:

Note 9 Capital Management - (cont'd)

		As at November 30, 2016	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 499,974	$ -
		$ 499,974	$ -

The fair value classification of the Company's financial instruments as at August 31, 2016 is as follows:

		As at August 31, 2016	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 142,595	$ -
		$ 142,595	$ -

During the three months ended November 30, 2016 there were no transfers between level 1, level 2 and level 3 classified assets.

Note 10 Subsequent Event

- On December 6, 2016, the Company closed the final tranche of the private placement announced September 28, 2016, and issued 600,000 units at $0.20 for gross proceeds of $120,000. Finders fees of $3,500 were paid in connection with this issuance.