LOTUS
VENTURES INC.

FINANCIAL STATEMENTS

UNAUDITED

For the three months ended November 30, 2017

(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.
STATEMENTS OF FINANCIAL POSITION
Unaudited – prepared by management
(Expressed in Canadian Dollars)

	November 30, 2017	August 31, 2017
ASSETS		
Current		
Cash	$ 1,845,272	$ 2,149,325
GST receivable	38,577	7,916
Prepaid expenses	66,262	68,457
	1,950,111	2,225,698
Non-current		
Option agreements (Note 4)	230,500	230,500
Property, plant and equipment (Note 5)	515,039	148,720
	745,539	379,220
Total assets	$ 2,695,650	$ 2,604,918
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 213,885	$ 143,265
Due to related parties (Note 8)	14,713	14,713
Total liabilities	228,598	157,978
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	$ 4,448,718	$ 4,200,973
Subscription receipts	-	6,000
Subscription receivable	(20,000)	-
Reserves	985,270	503,285
Deficit	(2,946,936)	(2,263,318)
	2,467,052	2,446,940
	$ 2,695,650	$ 2,604,918

Note 11 Subsequent Events

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

Approved and authorized by the Board on January 29, 2018.

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

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

	Three months ended November 30, 2017	Three months ended November 30, 2016
General and administrative expenses		
Advertising and promotion	$ 9,682	$ 7,231
Amortization	1,058	2,351
Bank fees	141	193
Consulting (Note 8)	125,435	70,849
Design expense	-	19,062
Foreign exchange loss (gain)	-	466
Insurance	1,103	-
Listing, filing and transfer fees	7,808	12,370
Office and miscellaneous	5,354	3,921
Professional fees	21,411	1,500
Rent	12,000	12,000
Share-based compensation (Note 7)	481,985	-
Training	-	4,240
Travel	17,641	9,644
Net loss and comprehensive loss	$ (683,618)	$ (143,827)
Basic and diluted loss per share	$ (0.02)	$ (0.00)
Weighted average number of shares outstanding	43,983,767	33,454,714

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

LOTUS VENTURES INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Unaudited – prepared by management
(Expressed in Canadian Dollars)

	Common shares		Subscription receivables	Subscription receipts	Reserves	Deficit	Total
	Number of Shares	Amount					
Balance, August 31, 2017	**43,235,500**	**$ 4,200,973**	**$ -**	**$ 6,000**	**$ 503,285**	**$ (2,263,318)**	**$ 2,446,940**
Shares issued for cash – private placement	880,991	264,297	(20,000)	(6,000)	-	-	238,297
Shares issued – finders fees	3,325	998	-	-	-	-	998
Share issue costs	-	(17,550)	-	-	-	-	(17,550)
Share-based compensation	-	-	-	-	481,985	-	481,985
Net loss	-	-	-	-	-	(683,618)	(683,618)
Balance, November 30, 2017	**44,119,816**	**$ 4,448,718**	**$ (20,000)**	**$ -**	**$ 985,270**	**$ (2,946,936)**	**$ 2,467,052**
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**

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

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

	Three months ended November 30, 2017	Three months ended November 30, 2016
Operating activities		
Net loss for the year	$ (683,618)	$ (143,827)
Items not affected by cash:		
Amortization	1,058	2,351
Share-based compensation	481,985	-
Changes in non-cash working capital items:		
GST receivable	(30,661)	(499)
Prepaid expenses	2,195	(21,200)
Accounts payable and accrued liabilities	(77,729)	(33,781)
	(306,770)	(196,956)
Financing activities		
Cash received for shares issued	238,297	587,250
Share issue costs	(16,552)	(32,915)
	221,745	554,335
Investing activities		
Purchase of property, plant and equipment	(219,028)	-
	(219,028)	-
Change in cash	(304,053)	357,379
Cash, beginning of the period	2,149,325	142,595
Cash, end of the period	**$ 1,845,272**	**$ 499,974**

Note 10 Supplemental Non-cash Disclosures

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 the 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 incurred losses since inception, has no source of operating cash flow, and there can be no assurance that adequate financing will be available to conduct further development of its projects.

Management plans to continue to pursue equity or debt financing to support operations, and believes this plan will be sufficient to meet the Company's known liabilities and commitments as they become payable over the twelve months subsequent to the balance sheet date.

Note 2 Basis of Preparation

Statement of Compliance

These financial statements are prepared in accordance 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.

Note 2 Basis of Preparation – (cont'd)

Basis of Measurement – (cont'd)

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 due from related party 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. The Company has no available-for-sale assets.

Note 3 Significant Accounting Policies – (cont'd)

Financial instruments – (cont'd)

Financial assets – (cont'd)

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 which are recognized at amortized cost.

Cash and cash equivalents

Cash in the statement of financial position comprises cash at banks and on hand. There were no cash equivalents at November 30, 2017 and August 31, 2017.

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 4 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.

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.

Note 3 Significant Accounting Policies – (cont'd)

Property, plant and equipment – (cont'd)

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.

Building and equipment will begin amortization when put into use.

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 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.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements is considered to be the more easily measurable component and the common share are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Note 3 Significant Accounting Policies – (cont'd)

Share-based compensation

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued for goods or services, the share-based compensation is measured at the fair value of the goods and services received. Where the consideration cannot be specifically identified, they are measured at the fair value of the share-based compensation.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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 parties 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.

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, 2018 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 Option Agreements

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 shares subject to a four month hold period. 100,000 shares were to be delivered to the Option or 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 Option or 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.

Note 4 <u>Option Agreements</u> – (cont'd)

<u>Carl Busby Option Agreement</u> – (cont'd)

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.

<u>Option to Purchase Leased Armstrong Property</u>

On November 7, 2015, the Company entered into an Option to Purchase Agreement ("Option to Purchase" or the "Option") as part of a three-year lease agreement for a property near Armstrong, BC ("Lease Agreement" or the "Lease"). 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 (paid) 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 $	Equipment $	Construction in Progress $	Total $
Cost				
As at August 31, 2017	23,585	11,000	130,025	164,610
Additions during the period	-	-	367,377	367,377
As at November 30, 2017	23,585	11,000	497,402	531,987
Accumulated Amortization				
As at August 31, 2017	15,890	-	-	15,890
Additions during the period	1,058	-	-	1,058
As at November 30, 2017	16,948	-	-	16,948
Net Book Value				
As at August 31, 2017	7,695	11,000	130,025	148,720
As at November 30, 2017	**6,637**	**11,000**	**497,402**	**515,039**

The Company has capitalized certain pre-construction related costs incurred in anticipation of its current project advancing. However, consistent with previous periods the annual lease payments continue to be expensed on the basis that they are not directly related to the actual construction process.

Note 6 Commitments

Cannabis Wheaton Streaming Agreement

On January 5, 2017, the Company entered into a binding interim agreement with Cannabis Wheaton Income Corp. (”CBW”), pursuant to which CBW agreed to subscribe for $5 million in common shares of the Company (the “Initial Subscription”). The Initial Subscription is conditional upon, (i) completion of CBW's satisfactory due diligence review of the Company; (ii) the parties mutually agreeing to the Company’s construction budget, design and timeline to build the facility; and (iii) the Company receiving confirmation from Health Canada requesting a pre-licensing inspection of the facility.

Upon completion of the Initial Subscription, CBW shall receive the greater of (i) access to and control of 10,000 square feet of the initial production area, or (ii) 50% of the actual cultivation yield generated, together with certain ancillary rights, including access to and use of the Company’s related infrastructure at the facility, for a period of 10 years.

Additionally, CBW has a right of first refusal to finance any proposed expansion of the facility, subject to certain pre-determined parameters, in the amount up to $7 million by way of a subscription for additional common shares of the Company (the "Expansion Subscription"). Should CBW exercise its right of first refusal and complete the Expansion Subscription, CBW shall receive 50% of the actual cultivation yield produced in the expansion area of the facility for a period of 10 years.

Note 6 Commitments – (cont'd)

Kilbride Partners Agreement "Kilbride"

On April 25, 2016, the Company entered into an engagement agreement with Kilbride Partners 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.

Triple Net Lease Agreement "Lease"

The Company entered into a three-year lease agreement 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.

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, 2017, the Company completed the following share issuances:

- On September 14, 2017, the Company completed a non-brokered private placement of 880,991 units at $0.30 per unit for gross proceeds of $264,297. Each unit consists of one common share, and one-half of one transferable share purchase warrant. Each whole warrant is exercisable for one common share at $0.35 per share, and expires three years from the closing date. As of November 30, 2017, subscriptions of $20,000 for this private placement were outstanding.

  In relation to this private placement, the Company paid cash finders fees of $16,552 and issued 3,325 finders units consisting of one common share, and one half share purchase warrant, exercisable at $0.35 per share and expiring three years from the grant date.

(Expressed in Canadian Dollars)

Note 7 <u>Share Capital</u> – (cont'd)

a) Authorized – (cont'd)

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

- 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 three months ended November 30, 2017, the Company granted the following options:

- On November 9, 2017, the Company granted 1,465,000 share purchase options exercisable for ten years at a price of $0.35 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 (%)	1.91
Expected life (years)	10
Expected volatility (%)	133.1761
Expected dividend yield (%)	-

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

During the period ended November 30, 2017, share-based compensation expense was $481,985 (2016 - $nil).

(Expressed in Canadian Dollars)

Note 7 Share Capital – (cont'd)

b) Share purchase options – (cont'd)

Details of granted, exercised, and outstanding stock options are as follows:

	Three Months Ended November 30, 2017		Year Ended August 31, 2017	
	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	2,785,000	0.22
Granted	1,465,000	0.35	-	-
Outstanding, end of the period	4,250,000	0.27	2,785,000	0.22

As at November 30, 2017, the weighted-average contractual remaining life of the options was 4.67 years (August 31, 2017 – 2.88 years).

c) Share purchase warrants

Details of outstanding share purchase warrants are as follows:

	Three Months Ended November 30, 2017		Year Ended August 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		$		$
Balance at the beginning of the period	10,418,250	0.28	3,058,750	0.23
Issued	442,159	0.35	7,359,500	0.30
Outstanding, end of the period (1)	10,860,409	0.28	10,418,250	0.28

(1) Subsequent to the period, 1,000,000 warrants were exercised. See Note 11.

As at November 30, 2017, the weighted-average contractual remaining life of the share purchase warrants was 3.27 years (August 31, 2017 – 3.40 years).

During the three month period ended November 30, 2017, the Company extended the exercise period of 1,000,000 warrants exercisable for one share at $0.20 per share from December 29, 2017 to December 29, 2020.

Note 8 Related Party Transactions

During the three months ended November 30, 2017, the Company incurred management consulting fees of $20,500 (2016 – $10,000) to a private company controlled by the Company's President and CEO. As at November 30, 2017, $14,713 (August 31, 2017 - $14,713) was payable to this private company for the unpaid portion of these fees.

During the three months ended November 30, 2017, the Company incurred management consulting fees of $20,500 (2016 - $10,000) to the Company's COO.

During the three months ended November 30, 2017, the Company recorded share-based compensation expense of $141,470 pursuant to 430,000 stock options issued to directors and officers of the Company. No options were issued during the three months ended November 30, 2016. See Note 7.

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 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 $1,845,272 at November 30, 2017. 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.

(Expressed in Canadian Dollars)

Note 9 Capital Management – (cont'd)

The fair value classification of the Company's financial instruments as at November 30, 2017 is as follows:

		As at November 30, 2017	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 1,845,272	$ -
		$ 1,845,272	$ -

The fair value classification of the Company's financial instruments as at August 31, 2017 is as follows:

		As at August 31, 2017	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 2,149,325	$ -
		$ 2,149,325	$ -

During the three months ended November 30, 2017 and the year ended August 31, 2017, there were no transfers between level 1, level 2 and level 3 classified assets.

Note 10 Supplemental Non-cash Disclosures

The Company incurred $148,349 in property, plant and equipment acquisition costs which were included in accounts payable and accrued liabilities as at November 30, 2017 (August 31, 2017 - $20,802).

Note 11 Subsequent Events

- On December 14, 2017, the Company announced that it has entered into a Licensing Agreement (the "Agreement") with 4th Gen Duwyn Farms Inc. ("DFI") to license the Company's intellectual property ("IP"), including its proprietary facility design, to a newly formed company owned by the Company and DFI ("DMFI"). Under the agreement, Lotus will provide DFI access to its IP including building design, standard operating procedures, training and license application support in return for DFI selling 100% of the production from the facility to Lotus for a period of 15 years at a discount to wholesale pricing.

- On January 4, 2018, 1,000,000 warrants expiring December 29, 2020 were exercised at $0.20 per share for gross proceeds of $200,000.

- On January 10, 2018 there was an exercise of 150,000 options expiring January 4, 2021 at $0.25 per share for gross proceeds of $37,500 and 125,000 warrants expiring October 14, 2021 at a price per share of $0.20 for gross proceeds of $25,000.

Note 11 Subsequent Events – (cont'd)

- On January 22, 2018, the Company completed a non-brokered private placement of 10,036,100 units at $0.50 per unit for gross proceeds of $5,018,050. Each unit consists of one common share, and one five-year share purchase warrant exercisable at $0.70 per share. Finder's fees of $115,750 were paid in relation to this financing.