LOTUS VENTURES INC.

FINANCIAL STATEMENTS

UNAUDITED

For the three months ended November 30, 2018

(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, 2018	August 31, 2018
ASSETS		
Current		
Cash and cash equivalents	$ 3,281,751	$ 1,741,853
GST receivable	497,647	279,272
Prepaid expenses	113,624	124,165
	3,893,022	2,145,290
Non-current		
Restricted cash (Note 4)	441,600	215,074
Property, plant and equipment (Note 4)	11,253,641	6,929,630
	11,695,241	7,144,704
Total assets	$ 15,588,263	$ 9,289,994
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 1,773,520	$ 1,666,847
Deferred revenue (Note 5)	1,333,333	-
Total liabilities	3,106,853	1,666,847
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	$ 15,994,392	$ 10,702,975
Subscription receivable	-	(10,000)
Reserves	2,090,500	1,694,390
Deficit	(5,603,482)	(4,764,218)
	12,481,410	7,623,147
	$ 15,588,263	$ 9,289,994

Note 10 Subsequent Event

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

Approved and authorized by the Board on January 29, 2019.

"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, 2018	Three months ended November 30, 2017
General and administrative expenses		
Advertising and promotion	$ 26,092	$ 9,682
Amortization	3,832	1,058
Bank fees	1,108	141
Consulting (Note 7)	330,892	125,435
Insurance	-	1,103
Listing, filing and transfer fees	3,722	7,808
Office and miscellaneous	15,969	5,354
Professional fees	28,838	21,411
Rent	5,413	12,000
Share-based compensation (Note 6)	396,110	481,985
Travel	27,288	17,641
Net loss and comprehensive loss	$ (839,264)	$ (683,618)
Basic and diluted loss per share	$ (0.01)	$ (0.02)
Weighted average number of shares outstanding	67,305,179	43,983,767

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						
	Number of Shares	**Amount**	**Subscription receivables**	**Subscription receipts**	**Reserves**	**Deficit**	**Total**
Balance, August 31, 2018	**57,423,931**	**$ 10,702,975**	**$ (10,000)**	**$ -**	**$ 1,694,390**	**$ (4,764,218)**	**$ 7,623,147**
Shares issued for cash – private placement	15,015,868	5,481,667	-	-	-	-	5,481,667
Share issue costs	-	(210,250)	-	-	-	-	(210,250)
Share subscription received	-	-	10,000	-	-	-	10,000
Warrants exercised	100,000	20,000	-	-	-	-	20,000
Share-based compensation	-	-	-	-	396,110	-	396,110
Net loss	-	-	-	-	-	(839,264)	(839,264)
Balance, November 30, 2018	**72,539,799**	**$ 15,994,392**	**$ -**	**$ -**	**$ 2,090,500**	**$ (5,603,482)**	**$ 12,481,410**
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**

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, 2018	Three months ended November 30, 2017
Operating activities		
Net loss for the year	$ (443,154)	$ (683,618)
Items not affected by cash:		
Amortization	3,832	1,058
Share-based compensation	396,110	481,985
Changes in non-cash working capital items:		
GST receivable	(218,375)	(30,661)
Subscription receivable	10,000	-
Prepaid expenses	10,541	2,195
Accounts payable and accrued liabilities	(970,995)	(77,729)
	(1,608,151)	(306,770)
Financing activities		
Cash received for shares issued	5,481,667	238,297
Deferred revenue	1,333,333	-
Share issue costs	(210,250)	(16,552)
Warrants exercised	20,000	-
	6,624,750	221,745
Investing activities		
Expenditures on property, plant and equipment	(3,476,701)	(219,028)
	(3,476,701)	(219,028)
Change in cash and cash equivalents	1,539,898	(304,053)
Cash, beginning of the period	1,741,853	2,149,325
Cash and cash equivalents, end of the period	**$ 3,281,751**	**$ 1,845,272**

Note 9 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"), applicable to the presentation of interim financial statements, including IAS 34, Interim Financial Reporting.

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.

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. Cash equivalents is comprised of highly liquid investments held at major financial institutions, having maturity dates of three months or less from the date of purchase, which are readily convertible into known amounts of cash. There were no cash equivalents at August 31, 2018.

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.

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.

Note 3 **Significant Accounting Policies – (cont'd)**

Property, plant and equipment – (cont'd)

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.

(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

Adoption of new and revised accounting standards and interpretations

The Company has adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after September 1, 2018 or later periods.

(i) Effective for annual periods beginning on or after January 1, 2018

- New standard IFRS 9, *Financial Instruments, Classification and Measurement,* addresses classification and measurement of financial assets and will replace IAS 39, *"Financial Instruments: Recognition and Measurement."* IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is at fair value through profit and loss.

Adoption of this standard is expected to have minimal impact on the Company's financial statements.

Note 4 Property, plant and equipment

	Land $	Buildings $	Software $	Equipment $	Construction in Progress $	Total $
Cost						
As at August 31, 2018	1,026,557	225,000	23,585	28,950	5,652,410	6,956,502
Additions during the period	-	-	1,200	-	4,326,643	4,327,843
As at November 30, 2018	1,026,557	225,000	24,785	28,950	9,979,053	11,284,345
Accumulated Amortization						
As at August 31, 2018	-	6,750	20,122	-	-	26,872
Additions during the period	-	3,273	559	-	-	3,832
As at November, 2018	-	10,023	20,681	-	-	30,704
Net Book Value						
As at August 31, 2018	1,026,557	218,250	3,463	28,950	5,652,410	6,929,630
As at November 30, 2018	**1,026,557**	**214,977**	**4,104**	**28,950**	**9,979,053**	**11,253,641**

To August 31, 2017 the Company had capitalized certain pre-construction related costs incurred in anticipation of its current project advancing, including $35,000 paid to the project manager. 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.

Effective September 1, 2017 the Company entered into a construction management services contract whereby the Company committed to pay an aggregate additional fees of $876,875, exclusive of the $35,000 noted above, in equal installments over a 12 month period (paid). Additional reimbursable costs incurred by the project manager are subject to a 10% surcharge.

Note 4 Property, plant and equipment – (cont'd)

The Company is entitled to, and has, withheld 10% of all costs incurred, subject to certain completion requirements, and at November 30, 2018 owes $436,706 in connection with these holdbacks (included within accounts payable and accrued liabilities). The amount is also represented by an offsetting balance of restricted cash.

Note 5 Commitments

Cannabis Wheaton Streaming Agreement

In September 2018, the Company entered into an agreement with Cannabis Wheaton Income Corp. now Auxly Cannabis Group Inc. ("XLY"), pursuant to which XLY agreed to subscribe for $5 million in common shares of the Company (the "Initial Subscription"). The Initial Subscription is conditional upon, (i) completion of XLY'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, XLY 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.

On September 12, 2018, XLY completed the Initial Subscription for gross proceeds of $4,000,000. The financing was comprised of an equity component of 3,755,868 common shares issued at $0.71 per share, for proceeds of $2,666,667 (see note 6). The remaining $1,333,333 of proceeds was recorded as deferred revenue, the future recognition of which by the Company is subject to the exercise, by XLY, of certain call options in respect to the Company's future cannabis production. The amount is expected to be recognized as income if and as XLY exercises its call options to acquire up to 50% of the Company's production yield at various prices, based on the discount, if any, of the call prices to current equivalent market values.

4th Gen Duwyn Farms Inc. Licensing Agreement

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.

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.

Note 6 Share Capital – (cont'd)

a) Authorized – (cont'd)

During the three months ended November 30, 2018, the Company completed the following share issuances:

- On September 12, 2018, the Company issued 3,755,868 common shares at $0.71 per share in connection with the XLY agreement. See note 5.

- On September 13, 2018, 100,000 share purchase warrants exercisable at $0.25 were exercised for proceeds of $20,000.

- In October 2018, the Company completed a private placement of 11,260,000 units ("Units") at a price of $0.25 per Unit for gross proceeds of $2,815,000. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.30 per share for a period of five years from closing.

  In relation to this private placement, the Company paid cash finders fees of $210,250.

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 ("Units") at a price of $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 ("Warrant"). Each whole Warrant entitles the holder to purchase one additional common share of the Company at price of $0.35 per share for a period of three years from closing. As of November 30, 2018, subscriptions of $10,000 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.

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.

(Expressed in Canadian Dollars)

Note 6 Share Capital – (cont'd)

b) Share purchase options – (cont'd)

During the three months ended November 30, 2018, the Company granted the following options:

- On October 4, 2018, the Company granted 1,100,000 share purchase options exercisable for ten years at a price of $0.30 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 (%)	2.55
Expected life (years)	10
Expected volatility (%)	134.1699
Expected dividend yield (%)	-

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, 2018, share-based compensation expense was $396,110 (2017 - $481,985).

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

	Three Months Ended November 30, 2018		Year Ended August 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		$		$
Balance at the beginning of the period	5,590,000	0.33	2,785,000	0.22
Granted	1,100,000	0.30	2,955,000	0.43
Exercised	-	-	(150,000)	0.25
Outstanding, end of the period	6,690,000	0.33	5,590,000	0.33

As at November 30, 2018, the weighted-average contractual remaining life of the options was 6.28 years (August 31, 2018 – 5.83 years).

(Expressed in Canadian Dollars)

Note 6 Share Capital – (cont'd)

c) Share purchase warrants

Details of outstanding share purchase warrants are as follows:

	Three Months Ended November 30, 2018		Year Ended August 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		$		$
Balance at the beginning of the period	20,505,764	0.52	10,418,250	0.28
Issued	11,260,000	0.30	11,387,348	0.71
Exercised	(100,000)	0.20	(1,299,834)	0.21
Outstanding, end of the period (1)	31,665,764	0.34	20,505,764	0.52

As at November 30, 2018, the weighted-average contractual remaining life of the share purchase warrants was 3.79 years (August 31, 2018 – 3.44 years).

During the year ended August 31, 2018, 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 7 Related Party Transactions

	November 30, 2018	November 30, 2017
Compensation:		
Consulting fees	$ 42,000	$ 41,000
Share-based payments	252,070	141,470
	$ 294,070	$ 182,470

During the three months ended November 30, 2018, the Company incurred management consulting fees of $21,000 (2017 – $20,500) to a private company controlled by the Company's President and CEO. As at November 30, 2018, $nil (August 31, 2018 - $nil) was payable to this private company for the unpaid portion of these fees.

During the three months ended November 30, 2018, the Company incurred management consulting fees of $21,000 (2017 - $20,500) to the Company's COO.

No options were issued during the three months ended November 30, 2018. 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. See Note 6.

(Expressed in Canadian Dollars)

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 $3,281,751 at November 30, 2018. 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, 2018 is as follows:

		As at November 30, 2018	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash and cash equivalents	1	$ 3,281,751	$ -
		$ 3,281,751	$ -

(Expressed in Canadian Dollars)

Note 8 Capital Management – (cont'd)

The fair value classification of the Company's financial instruments as at August 31, 2018 is as follows:

		As at August 31, 2018	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 1,741,853	$ -
		$ 1,741,853	$ -

During the three months ended November 30, 2018 and the year ended August 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets.

Note 9 Supplemental Non-cash Disclosures

The Company incurred $1,077,668 in property, plant and equipment acquisition costs which were included in accounts payable and accrued liabilities as at November 30, 2018 (August 31, 2018 - $1,401,577).

Note 10 Subsequent Event

- In January 2019, 50,000 warrants exercisable at $0.25 were exercised for proceeds of $12,500.