LOTUS
VENTURES INC.

FINANCIAL STATEMENTS

For the year ended August 31, 2019

(Expressed in Canadian Dollars)

DeVISSERGRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Lotus Ventures Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Lotus Ventures Inc., which comprise the statements of financial position as at August 31, 2019 and 2018 and the statements of operations, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Lotus Ventures Inc. as at August 31, 2019 and 2018 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Lotus Ventures Inc. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company had a working capital deficiency as at August 31, 2019 and is dependent upon the future receipt of short-term debt financing from related parties and/or equity financing, on terms which are acceptable to the Company, to maintain its operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis" but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Lotus Ventures Inc.'s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Lotus Ventures Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Lotus Ventures Inc.'s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lotus Ventures Inc.'s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Lotus Ventures Inc.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Lotus Ventures Inc. to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is James D. Gray.

De Visser Gray LLP

Chartered Professional Accountants

Vancouver, BC, Canada
December 30, 2019

LOTUS VENTURES INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	As at August 31, 2019	As at August 31, 2018
ASSETS		
Current		
Cash	$ 110,748	$ 1,741,853
GST receivable	87,472	279,272
Biological assets (Note 4)	490,000	-
Other receivables	22,032	-
Prepaid expenses and deposits	246,543	124,165
	956,705	2,145,290
Non-current		
Restricted cash (Note 5)	98,458	215,074
Property, plant and equipment (Note 5)	14,538,643	6,929,630
	14,637,101	7,144,704
Total assets	$ 15,593,896	$ 9,289,994
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 954,100	$ 1,666,847
Deferred revenue (Note 5)	1,333,333	-
Loans payable (Note 9)	242,436	-
Total liabilities	2,529,869	1,666,847
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	$ 16,600,490	$ 10,702,975
Subscription receivable	-	(10,000)
Reserves	4,140,245	1,694,390
Deficit	(7,676,708)	(4,764,218)
Total shareholders' equity	13,064,027	7,623,147
Total liabilities and shareholders' equity	$ 15,593,896	$ 9,289,994

Note 6 Commitments
Note 13 Subsequent Events

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

Approved and authorized by the Board on December 30, 2019.

"Dale McClanaghan" Director *"Carl Correia"* Director
Dale McClanaghan Carl Correia

LOTUS VENTURES INC.
STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year ended August 31, 2019	Year ended August 31, 2018
General and administrative expenses		
Advertising and promotion	$ 242,972	$ 83,160
Amortization	392,705	10,982
Bank fees and interest	3,924	1,398
Consulting (Note 8)	1,349,766	855,507
Insurance	29,405	4,410
Listing, filing and transfer fees	28,805	25,345
Office and miscellaneous	98,680	7,058
Professional fees	124,208	208,156
Rent	-	36,000
Share-based compensation (Note 7)	811,406	1,226,985
Travel	81,147	41,899
	(3,163,018)	(2,500,900)
Unrealized gain on changes in fair value of biological assets (Note 4)	250,528	-
Net loss and comprehensive loss	$ (2,912,490)	$ (2,500,900)
Basic and diluted loss per share	$ (0.04)	$ (0.05)
Weighted average number of shares outstanding	75,293,688	52,106,850

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

LOTUS VENTURES INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Common shares						
	Number of Shares	Amount	Subscription Receivable	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	25,800,868	5,819,967	10,000	-	1,727,699	-	7,557,666
Share issue costs	-	(218,202)	-	-	-	-	(218,202)
Warrants exercised	350,000	77,500	-	-	-	-	77,500
Options exercised	500,000	218,250	-	-	(93,250)	-	125,000
Share-based compensation	-	-	-	-	811,406	-	811,406
Net loss	-	-	-	-	-	(2,912,490)	(2,912,490)
Balance, August 31, 2019	**84,074,799**	**$ 16,600,490**	**$ -**	**$ -**	**$ 4,140,245**	**$ (7,676,708)**	**$ 13,064,027**
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	12,735,272	6,282,347	(10,000)	(6,000)	-	-	6,266,347
Shares issued – finders fees	3,325	998	-	-	-	-	998
Share issue costs	-	(132,165)	-	-	-	-	(132,165)
Warrants exercised	1,299,834	277,442	-	-	-	-	277,442
Options exercised	150,000	73,380	-	-	(35,880)	-	37,500
Share-based compensation	-	-	-	-	1,226,985	-	1,226,985
Net loss	-	-	-	-	-	(2,500,900)	(2,500,900)
Balance, August 31, 2018	**57,423,931**	**$ 10,702,975**	**$ (10,000)**	**$ -**	**$ 1,694,390**	**$ (4,764,218)**	**$ 7,623,147**

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

LOTUS VENTURES INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year ended August 31, 2019	Year ended August 31, 2018
Operating activities		
Net loss for the year	$ (2,912,490)	$ (2,500,900)
Items not affected by cash:		
Amortization	392,705	10,982
Interest expense	2,436	-
Shares issued for services	169,000	-
Share-based compensation	811,406	1,226,985
Unrealized gain on biological assets	(250,528)	-
Changes in non-cash working capital items:		
GST receivable	191,800	(271,356)
Biological assets	(199,513)	-
Other receivables	(22,032)	-
Prepaid expenses	(122,378)	(55,708)
Accounts payable and accrued liabilities	(1,373,732)	(63,063)
Due to related parties	7,525	(14,713)
	(3,305,801)	(1,667,773)
Financing activities		
Cash received for shares issued	7,388,666	6,266,347
Share issue costs	(218,202)	(131,167)
Options exercised	125,000	37,500
Warrants exercised	77,500	277,442
Proceeds from loans	240,000	-
Deferred revenue	1,333,333	-
	8,946,297	6,450,122
Investing activities		
Expenditures on property, plant and equipment	(7,271,601)	(5,189,821)
Net decrease in cash	(1,631,105)	(407,472)
Cash, beginning of the year	1,741,853	2,149,325
Cash, end of the year	**$ 110,748**	**$ 1,741,853**

Note 12 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 a 2014 amalgamation agreement with a BC private company also known as Lotus Ventures Inc. For accounting purposes, this amalgamation was considered to constitute a reverse acquisition, with the private company the continuing reporting entity and Strachan the entity having been acquired. Effective December 8, 2014, the Company's common shares were listed for trading on the Canadian Securities Exchange.

In March 2019 the Company received Health Canada certification as a Licensed Producer of cannabis products. During the fourth quarter of the current fiscal year the Company commenced cultivation activity at its production facility, which since 2018 it has been constructing near Armstrong, BC.

These financial statements have been prepared on the going concern basis, which assumes that 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. There are certain adverse conditions and events that may cast doubt on the validity of this assumption. The Company has incurred losses since inception, at August 31, 2019 had a net working capital deficiency of over $1.5 million, and only subsequent to year end expects to realize its first revenues from active business operations. These factors are indicative of the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon developing profitable operations on a commercial basis, and/or obtaining financing and continued support from its shareholders and creditors on terms which are acceptable to it. These financial statements do not give effect to any adjustments which would be necessary 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 different from those reflected in the accompanying financial statements.

Refer to Note 13.

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

Effective September 1, 2018, the Company adopted IFRS 9 using the modified retrospective approach. IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities. The standard did not have an impact on the carrying amounts of the Company's financial instruments at the transition date. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments for principle and interest.

Most of the requirements in International Accounting Standard ('IAS') 39 for classification and measurement of financial liabilities were carried forward in IFRS 9.

Cash and cash equivalents

Cash in the statement of financial position comprises cash in treasury accounts. There were no cash equivalents at August 31, 2019 and 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.

Biological assets

Biological assets are valued in accordance with IAS 41 and are presented at their fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest. The Company's biological assets consist of cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data. These inputs are Level 3 on the fair value hierarchy, and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

Note 3 Significant Accounting Policies – (cont'd)

Biological assets – (cont'd)

The Company initially records cannabis plants at cost, which includes elements of seedling purchases, direct labour, power and all other direct costs. The number of weeks in the production cycle is between 14 and 16 weeks from propagation to harvest. The fair value of biological assets under cultivation is then determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The delta between this valuation and the actual costs incurred in respect to it is recognized in income as an unrealized gain on changes in fair value of biological assets.

The wholesale selling price is between $3.00 and $5.50 per gram.

The harvest yield is between 90 and 115 grams per plant.

The selling price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on strain. Expected yield is also subject to a variety of factors including psychoactive strength and length of the growth cycle.

Inventory

The Company values inventories at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that aggregate cost remains less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

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)

The Company uses the following amortization rates for its property, plant and equipment:

Computer software and equipment	55%	Declining balance
Buildings	6%	Declining balance
Equipment	5 years	Straight line

Certain of the Company's property, plant and equipment have not yet been put into use and as a result useful lives have not yet been determined and no amortization has been recorded to date on this property, plant and equipment.

Costs of assets in the course of construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of property and equipment and amortization commences when the asset is available for its intended use.

An asset's residual value, useful life and amortization method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gain and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in profit or loss.

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.

Note 3 Significant Accounting Policies – (cont'd)

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.

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.

Note 3 Significant Accounting Policies – (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 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.

Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as those criteria are met.

Significant accounting judgments and estimates

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 reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Note 3 Significant Accounting Policies – (cont'd)

Significant accounting judgments and estimates – (cont'd)

Significant assumptions about the future and other sources of uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Biological assets

In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant.

The requirements under IFRS relating to biological assets are general purpose standards premised on the existence of readily-available fair value information in respect to the products under cultivation, along with the implicit assumption that formal reporting and accounting experience involving such assets does exist. The production and distribution of cannabis products has been decriminalized in Canada only in the recent past, the industry is therefore heavily regulated under a regime that is recently-established and which continues to evolve, and in addition such business activities remain illegal in many jurisdictions outside of Canada. These factors, together with Company's status as having only recently commenced its own cultivation activities, create significant uncertainties in respect to its initial fair value estimations in this area.

Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment are dependent upon useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

(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 as follows:

(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 has had no impact on the Company's financial statements.

Note 4 **Biological assets**

	2019	2018
Opening balance	$ -	$ -
Production costs capitalized	239,472	-
Changes in fair value less costs to sell due to biological transformation	250,528	-
	$ 493,745	$ -

Included in production costs capitalized is $39,960 of amortization related to growing equipment.

The Company's biological assets consist of medical cannabis plants. The significant assumptions used to determine the fair value of the medical plants include:

- Expected yield by strain of plant;
- Wastage of plants;
- Duration of the production cycle;
- Percentage of costs incurred to date compared to the total costs expected to be incurred;
- Percentage of costs incurred for each stage of plant growth; and
- Market value less selling costs.

The Company's estimates are, by their nature, subject to change and differences from anticipated yield will be reflected in the gain or loss on biological assets in future periods.

On average, the production cycle is 117 days. As at August 31, 2019, it is estimated that the Company's biological assets will yield approximately 360,000 grams of cannabis when harvested (2018 – nil). As at August 31, 2019, the Company had approximately 4,500 plants that were biological assets (2018 – nil).

As of August 31, 2019, a change of 10% or less in the estimated yield per plant, growth cycle and selling price of dry cannabis would not result in a significant variance in the fair value of biological assets.

(Expressed in Canadian Dollars)

Note 5 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 year	-	-	50,167	41,309	7,950,202	8,041,678
Re-classifications	-	12,128,890	-	729,506	(12,858,396)	-
As at August 31, 2019	1,026,557	12,353,890	73,752	799,765	744,216	14,998,180
Accumulated amortization						
As at August 31, 2018	-	6,750	20,122	-	-	26,872
Additions during the year	-	377,006	15,700	39,959	-	432,665
As at August 31, 2019	-	383,756	35,822	39,959	-	459,537
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 August 31, 2019	**1,026,557**	**11,970,134**	**37,930**	**759,806**	**744,216**	**14,538,643**

On June 4, 2018, the Company exercised an option that it held to purchase a 23-acre property located near Armstrong, BC by completing payment of an aggregate of $1,100,000 plus transaction costs of $21,057. Included within the acquisition costs was an aggregate of $225,000 allocated to certain pre-existing buildings based on estimates of their current fair values.

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 continued to be expensed on the basis that they are not directly related to the actual construction process. Upon exercise of this option, the historical costs applicable to it and certain other options related to the development of the cannabis production assets were also reclassified within property, plant and equipment.

Effective September 1, 2017 the Company entered into a construction management services contract whereby the Company committed to pay 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.

The Company is entitled to, and has, withheld 10% of all costs incurred, subject to certain completion requirements, and at August 31, 2019 owes $82,961 (2018 - $185,068) 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 6 Commitments

Cannabis Wheaton Streaming Agreement

On September 4, 2018, the Company completed a final 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

Note 6 Commitments – (cont'd)

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. Following receipt of of the Company's cultivation license, XLY will be entitled to designate one nominee to the board of directors as long as XLY holds at least 25% of the common shares purchased in the Initial Subscription.

On February 9, 2018, XLY completed the first tranche of the Initial Subscription for gross proceeds of $1,000,000. The first tranche consisted of 1,818,181 units in the Company at a price per unit of $0.55 (See Note 7).

On September 12, 2018, XLY completed the second tranche of 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 7). 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.

The equity component of the proceeds received in excess of the fair value of the common shares issued was recorded as an equity reserve of $1,727,699. This amount is representative of XLY's intangible rights obtained pursuant to its agreement with the Company.

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 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.

Note 7 Share Capital – (cont'd)

a) Authorized – (cont'd)

During the year ended August 31, 2019, 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. A premium of $1,727,699, representing the proceeds received over and above the closing share price on the date of issuance, has been recorded in reserves. 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 finder's fees of $210,250.

- On January 3, 2019, 50,000 share purchase warrants exercisable at $0.25 and 100,000 share purchase warrants exercisable at $0.20 were exercised for proceeds of $32,500.

- On January 31, 2019, 500,000 options exercisable at $0.25 and 100,000 share purchase warrants exercisable at $0.20 were exercised for proceeds of $125,000 and $20,000 respectively.

- On April 18, 2019, the Company completed a private placement of 9,485,000 units ("Units) at a price of $0.20 per Unit for gross proceeds of $1,897,000. 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 $0.26 per share for a period of five years from closing. The Company incurred cash share issue costs of $5,234 in connection with this issuance.

- On July 11, 2019, the Company issued 1,300,000 common shares at $0.13 per share to a consultant as a bonus.

During the year ended August 31, 2018, 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.

Note 7 Share Capital – (cont'd)

a) Authorized – (cont'd)

- In relation to this private placement, the Company paid cash finder's fees of $16,415 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.

- On January 10, 2018, 150,000 options expiring January 4, 2021 were exercised at $0.25 per share for gross proceeds of $37,500. See Note 7(b).

- 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.

- On February 9, 2018, the Company completed a private placement with Auxly Cannabis Group Inc. ("XLY") who subscribed to 1,818,181 units in the Company at a price per unit of $0.55. Each unit consists of one common share, and one-half share purchase warrant exercisable at $1.00 for a period of 36 months from the date of issue. See Note 5.

- During the year, 1,299,834 shares were issued pursuant to the exercise of the following warrants (see Note 7(c)):
  - 1,000,000 warrants granted December 16, 2015 and exercisable at $0.20;
  - 100,000 warrants granted January 25, 2016 and exercisable at $0.20;
  - 125,000 warrants granted December 6, 2016 and exercisable at $0.25;
  - 24,834 warrants granted August 15, 2017 and exercisable at $0.35; and
  - 50,000 warrants granted September 14, 2017 and exercisable at $0.35.

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 year ended August 31, 2019, 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.

(Expressed in Canadian Dollars)

Note 7 Share Capital – (cont'd)

b) Share purchase options (cont'd)

- On July 4, 2019, the Company granted 2,520,000 share purchase options exercisable for ten 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 (%)	1.58 - 2.55
Expected life (years)	10
Expected volatility (%)	134.17 – 136.68
Expected dividend yield (%)	-

On February 26, 2019, 500,000 options expiring December 14, 2019 were exercised at $0.25 per share. The fair value of the options was $93,250 and was reallocated from reserves to share capital.

During the year ended August 31, 2018, 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.
- On March 20, 2018, the Company granted 1,490,000 share purchase options exercisable for ten years at a price of $0.50 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 - 2.26
Expected life (years)	10
Expected volatility (%)	133.1761 – 144.68
Expected dividend yield (%)	-

On January 10, 2018, 150,000 options expiring January 4, 2021 were exercised at $0.25 per share. The fair value of the options was $35,880 and was reallocated from reserves to share capital.

During the year ended August 31, 2019, share-based compensation expense was $811,406 (2018 - $1,226,985).

(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:

	Year Ended August 31, 2019		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 year	5,590,000	0.33	2,785,000	0.22
Granted	3,620,000	0.23	2,955,000	0.43
Cancelled/forfeited	(250,000)	0.50	-	-
Exercised	(500,000)	0.25	(150,000)	0.25
Outstanding, end of the year	8,460,000	0.29	5,590,000	0.33

As at August 31, 2019, the weighted-average contractual remaining life of the options was 7.04 years (August 31, 2018 – 5.83 years).

c) Share purchase warrants

Details of outstanding share purchase warrants are as follows:

	Year Ended August 31, 2019		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 year	20,505,764	0.52	10,418,250	0.28
Issued	20,745,000	0.28	11,387,348	0.71
Exercised	(350,000)	0.22	(1,299,834)	0.21
Outstanding, end of the year	40,900,764	0.40	20,505,764	0.52

As at August 31, 2019, the weighted-average contractual remaining life of the share purchase warrants was 3.42 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.

(Expressed in Canadian Dollars)

Note 8 **Related Party Transactions**

	2019	2018
Compensation:		
Consulting fees	$ 313,500	$ 183,500
Share-based payments	466,984	336,470
	$ 780,484	$ 519,970

During the year ended August 31, 2019, the Company accrued management consulting fees of $84,000 (2018 - $94,500 to a private company controlled by the Company's President and CEO. As at August 31, 2019, $7,525 (2018 - $nil) was payable to this private company for the unpaid portion of these fees.

During the year ended August 31, 2019, the Company accrued management consulting fees of $133,500 (2018 - $89,000) and paid a bonus of $96,000 (2018 – $nil) to the Company's COO.

During the year ended August 31, 2019, the Company recorded share-based compensation expense of $466,984 pursuant to 2,170,000 stock options issued to directors and officers of the Company. During the year ended August 31, 2018, the Company recorded share-based compensation expense of $336,470 pursuant to 820,000 stock options issued to directors and officers of the Company. See Note 7.

Refer also to Notes 9 and 13.

Note 9 **Loans payable**

On July 12, 2019, $190,000 was advanced from a party related to the Company's CEO. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually.

On August 15, 2019, $50,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually.

Refer also to Note 13.

Note 10 **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.

(Expressed in Canadian Dollars)

Note 10 Capital Management – (cont'd)

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 $110,748 at August 31, 2019. 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 August 31, 2019 is as follows:

		As at August 31, 2019	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 110,748	$ -
		$ 110,748	$ -

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 years ended August 31, 2019 and 2018, there were no transfers between level 1, level 2 and level 3 classified assets.

(Expressed in Canadian Dollars)

Note 11 **Income Taxes**

The reconciliation of the income tax provision compute at statutory rates is as follows:

	2019	2018
Net loss for the year before tax	$ (2,912,490)	$ (2,500,900)
Expected income tax recovery	(786,372)	(666,907)
Net adjustment for deductible and non-deductible amounts	199,395	295,621
Unrecognized benefit of tax pool assets	586,977	371,286
	$ -	$ -

There are no deferred tax assets or liabilities presented in the statement of financial position.

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2019	2018
Deferred income tax assets:		
Non-capital loss carryforwards	$ 5,484,450	$ 3,424,392
Share issuance costs	320,053	206,120
Property, plant and equipment	459,537	26,872
Deferred income tax assets	$ 6,264,040	$ 3,657,384

Subject to certain restrictions, the Company has non-capital losses available for possible deduction against future years' taxable income of approximately $5,480,705 (2018 - $3,422,392). The Company has not recognized any future benefit for these tax losses, as the likelihood of their utilization is unknown. If unused, these non-capital losses will expire as follows:

2030	$ 15,020
2031	96,701
2032	99,425
2033	330,994
2034	122,384
2035	232,182
2036	479,087
2037	736,815
2038	1,311,784
2039	2,060,058
	$ 5,484,450

Note 12 **Supplemental Non-cash Disclosures**

The Company incurred $755,667 (2018 - $1,401,577) in property, plant and equipment acquisition costs which were included in accounts payable and accrued liabilities as at August 31, 2019.

Note 13 Subsequent Events

- On October 4, 2019, 975,000 options expiring November 3, 2020 were exercised at $0.20 per share for gross proceeds of $195,000.

- On October 31, 2019, the Company granted 975,000 share purchase options exercisable for ten years at a price of $0.30 per share.

- An additional $200,000 was advanced from a party related to the Company's CEO under a promissory note repayable, in whole or in part, upon written notice provided by the lender and bearing interest at a rate of 8.95% compounded annually. See Note 9.

- An aggregate of $150,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.00% compounded annually.