

LOTUS VENTURES INC.
(formerly Strachan Resources Ltd.)

FINANCIAL STATEMENTS

For the years ended August 31, 2015 and August 31, 2014

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lotus Ventures Inc.,

We have audited the accompanying financial statements of Lotus Ventures Inc. (formerly Strachan Resources Ltd.), which comprise the statements of financial position as at August 31, 2015 and 2014, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lotus Ventures Inc. as at August 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 of the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Lotus Ventures Inc.'s ability to continue as a going concern.



CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
December 23, 2015

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)**STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

As at

	August 31, 2015	August 31, 2014
<u>ASSETS</u>		
Current		
Cash	\$ 234,674	\$ 132,476
GST receivable	13,824	7,337
Prepaid expenses and deposits	12,089	-
	<u>260,587</u>	<u>139,813</u>
Non-current		
Option agreement (Note 5)	130,500	62,500
Total assets	<u>\$ 391,087</u>	<u>\$ 202,313</u>
<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities	\$ 134,459	\$ 25,041
Total liabilities	<u>134,459</u>	<u>25,041</u>
<u>SHAREHOLDERS' EQUITY</u>		
Share capital	\$ 800,000	\$ 287,500
Shares subscribed	-	77,500
Reserve	186,500	-
Deficit	(729,872)	(187,728)
	<u>256,628</u>	<u>177,272</u>
	<u>\$ 391,087</u>	<u>\$ 202,313</u>

Note 4 Reverse asset acquisition*The accompanying notes form an integral part of these financial statements.*

Approved and authorized by the Board on December 23, 2015

<u>"Dale McClanaghan"</u> Dale McClanaghan	Director	<u>"Carl Busby"</u> Carl Busby	Director
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LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Year ended August 31, 2015	Year ended August 31, 2014
General and administrative expenses		
Bank fees	\$ 1,089	\$ 454
Consulting	127,086	56,160
Professional fees	89,458	110,024
Listing, filing and transfer fees	35,667	5,961
Office and miscellaneous	29,241	1,805
Research and development	11,237	10,170
Advertising and promotion	3,447	-
Travel	16,802	3,154
Share-based compensation	186,500	-
Listing expense (Note 4)	41,617	-
Net loss and comprehensive loss	\$ (542,144)	\$ (187,728)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)
Weighted average number of shares outstanding	21,387,118	4,104,795

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

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

	<u>Common shares</u>		Shares Subscribed	Deficit	Reserves	Total
	Number of Shares	Amount				
Balance, August 31, 2013	4,000,000	\$ 318,507	\$ 41,200	\$ (376,634)	\$ -	\$ (16,927)
Cancellation of Strachan's escrow shares	(1,500,000)	-	-	-	-	-
Share exchange ¹	17,000,000	(318,507)	(41,200)	376,634	-	16,927
Private Lotus equity, August 31, 2014 ¹	-	287,500	77,500	(187,728)	-	177,272
Shares issued pursuant to option exercise agreement	3,400,000	68,000	-	-	-	68,000
Shares issued for cash	5,844,000	454,500	(77,500)	-	-	377,000
Share issue costs	-	(10,000)	-	-	-	(10,000)
Share-based compensation	-	-	-	-	186,500	186,500
Net loss for the year	-	-	-	(542,144)	-	(542,144)
Balance, August 31, 2015	28,744,000	\$ 800,000	\$ -	\$ (729,872)	\$ 186,500	\$ 256,628

¹ Changes in the equity of Private Lotus during the year ended August 31, 2014 were as follows:

	<u>Common shares</u>		Shares Subscribed	Deficit	Total
	Number of Shares	Amount			
Balance, August 31, 2012 and August 31, 2013	1	\$ -	\$ -	\$ -	\$ -
Balance, August 31, 2013	1	\$ -	\$ -	\$ -	\$ -
Shares issued for assignment of option	5,750,000	62,500	-	-	62,500
Shares issued for cash	11,249,999	225,000	-	-	225,000
Shares subscribed	-	-	77,500	-	77,500
Net loss for the year	-	-	-	(187,728)	(187,728)
Balance, August 31, 2014	17,000,000	\$ 287,500	\$ 77,500	\$ (187,728)	\$ 177,272

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

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year ended August 31, 2015	Year ended August 31, 2014
Operating activities		
Net loss for the year	\$ (542,144)	\$ (187,728)
Items not affected by cash:		
Share-based compensation	186,500	-
Listing expense	41,617	-
Changes in non-cash working capital items:		
GST receivable	(6,181)	(7,337)
Prepaid expenses and deposits	(12,089)	-
Accounts payable	65,855	25,041
	<u>(266,442)</u>	<u>(170,024)</u>
Financing activities		
Cash received for shares issued	377,000	225,000
Share issue costs	(10,000)	-
Shares subscribed	-	77,500
	<u>367,000</u>	<u>302,500</u>
Investing activity		
Cash obtained on acquisition of Strachan (Note 4)	<u>1,640</u>	<u>-</u>
Increase in cash	102,198	132,476
Cash, beginning of the year	132,476	-
Cash, end of the year	<u>\$ 234,674</u>	<u>\$ 132,476</u>

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

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

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. Refer also to Note 4.

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

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

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

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

Management plans to continue to pursue equity or debt financing to support operations. Management believes this plan will be sufficient to meet the Company’s liabilities and commitments as they become payable over the next twelve months. There can be no assurance that management’s plan will be successful. Failure to maintain the support of creditors and obtain additional external equity financing will cause the Company to curtail operations and the Company’s ability to continue as a going concern will be impaired. The outcome of these matters cannot be predicted at this time. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 2 **Basis of Preparation**

Statement of Compliance

These financial statements are prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

Basis of Measurement

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

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

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

Note 3 **Significant Accounting Policies**

Financial instruments

Financial assets

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

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

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

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,

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of comprehensive loss or income. The Company has no held-to-maturity investments.

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

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

Financial liabilities

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

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

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

Intangible assets

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

The Company's interest in the option agreement disclosed in Note 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.

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

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

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

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

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

Share capital

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

Income (loss) per share

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

Related party transactions

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

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 3 Significant Accounting Policies – (cont'd)

Adoption of new and revised accounting standards and interpretations

The following revised standards are effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. The Company has assessed the impact of these standards and has determined that they would not have a material impact on the Company.

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

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

Note 4 Reverse asset acquisition

On November 28, 2014, Private Lotus and Strachan were amalgamated pursuant to an agreement dated July 30, 2014 and as amended September 1, 2014. The shareholders of each of Private Lotus and Strachan exchanged their respective shareholdings on a one-for-one basis for the share capital of the Company. The effect of these exchanges and other issuances of Company shares is that the shareholders of Private Lotus obtained control of the Company immediately subsequent to completion of the Transaction. Accordingly, for accounting purposes, the Transaction constituted an acquisition of Strachan by Private Lotus, with the latter corporation considered the continuing entity for accounting and financial reporting purposes and Strachan, the continuing public company, being the corporation acquired. As Strachan was a public 'shell' company, there was, in the opinion of management, no basis to reliably measure the consideration paid for it by Private Lotus, other than to use the current carrying values of its assets acquired and liabilities assumed.

Accordingly, the purchase price allocation of the acquisition is based on the fair value of the net liabilities assumed, which was charged to operations as a listing expense.

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

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

For comparative purposes, the financial statement continuity presented herein is that of Private Lotus. However, the continuity of issued share capital, prior and subsequent to the date of the Transaction, is that of Strachan.

Note 5 Option Agreement and Option Exercise Agreement

On April 30, 2014, Private Lotus entered into an Assignment Agreement with Carl Busby. In consideration of the assignment of an underlying option agreement (the "Option Agreement") described below, the Company paid to Carl Busby \$62,500 by the issuance of 3,500,000 common shares at a price of \$0.005 per share and 2,250,000 common shares at a price of \$0.02 per share.

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

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

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

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

Private Lotus 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.

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 6 **Share Capital**

a) Authorized

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

During the year ended August 31, 2015, the Company completed the following share issuances:

- Pursuant to the Option Exercise Agreement between the Company, Carl Correia (“Correia”) and 0998918 B.C. Ltd. of Vernon, British Columbia (see Note 5), the Company issued 1,700,000 shares each to Correia and 0998918 B.C. Ltd. on September 1, 2014 (3,400,000 shares total) at a value of \$0.02 per share for total consideration of \$68,000.
- On October 27, 2014, the Company completed a non-brokered private placement of 1,374,000 common shares at \$0.25 per share for gross proceeds of \$343,500, also paying \$10,000 in finder’s fees to complete the private placement.
- On November 28, 2014, the Company issued 2,500,000 shares to founders of Strachan for \$0.005 per share, for total consideration of \$12,500.
- On August 21, 2015, the Company completed a private placement of 1,970,000 shares at \$0.05 per share for gross proceeds of \$98,500.

b) Share purchase options

The Company operates an employee stock option plan. Share-based payments to directors, officers, employees and consultants are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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

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

200,000 of these options held by former directors of Strachan were cancelled 90 days after the Transaction was completed.

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 6 **Share Capital – (cont'd)**

During the year ended August 31, 2015, the Company granted the following options:

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

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

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

Details of granted and outstanding stock options are as follows:

	Number of Options	Weighted Average Exercise Price
Balance – August 31, 2013 and 2014	-	\$-
Transferred from Strachan at amalgamation	500,000	\$0.10
Cancelled	(200,000)	\$0.10
Granted	1,000,000	\$0.25
Balance – August 31, 2015	1,300,000	\$0.22

Note 7 **Related Party Transactions**

During the year ended August 31, 2015, Private Lotus incurred \$17,395 (2014 - \$106,249) in legal fees and reimbursable expenses paid or accrued to a company controlled by a former Private Lotus director. Private Lotus also owed, or had accrued as payable, \$13,667 to this company at August 31, 2014. The former Private Lotus director controlling this company is not a director or officer of the Company and, as a result, this company has not been a related party of the Company since completion of the Transaction and formation of Amalco on November 27, 2014.

The Company accrued monthly management fees of \$3,333 per month to a company controlled by the Company's President and CEO starting in November 2014. As at August 31, 2015, \$35,000 was payable to this company.

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.

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 8 Capital Management – (cont'd)

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 \$234,674 at August 31, 2015. As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

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, 2015 is as follows:

	Fair value level	As at August 31, 2015	
		Fair value through profit or loss	Loans and receivables at amortized cost
<i>Financial assets</i>			
Cash	1	\$ 234,674	\$ -
		\$ 234,674	\$ -

During the year ended August 31, 2015, there were no transfers between level 1, level 2 and level 3 classified assets.

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 9 **Income Taxes**

A reconciliation of income taxes at statutory rates is as follows:

	2015	2014
Net loss for the year before tax	\$ (542,144)	\$ (187,728)
Expected income tax recovery	(140,957)	(48,809)
Net adjustment for deductible and non-deductible amounts	60,187	77
Unrecognized benefit of tax pool assets	80,770	48,732
	\$ -	\$ -

The significant components of the Company's deferred income tax assets (liabilities) are as follows:

	2015	2014
Deferred income tax assets:		
Non-capital loss carryforwards	\$ 230,385	\$ 48,732
Share issuance costs	2,080	-
	232,465	48,732
Valuation allowance	(232,465)	(48,732)
Deferred income tax assets	-	-

Subject to certain restrictions, the Company has non-capital losses available for possible deduction against future years' taxable income of approximately \$886,000 (2014 - \$187,000). 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	\$ 15,000
2031	97,000
2032	99,000
2033	143,000
2034	221,000
2035	311,000
	<u>\$ 886,000</u>

Note 10 **Subsequent Events**

Subsequent to the year ended August 31, 2015, the following events occurred:

- The Company granted 1,485,000 share purchase options exercisable until October 29, 2020 at a price of \$0.20 per option share to various directors, employees, and consultants of the Company.
- 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 Company has also

LOTUS VENTURES INC. (formerly Strachan Resources Ltd.)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014
(Expressed in Canadian Dollars)

Note 10 **Subsequent Events** – (cont'd)

obtained the option to acquire the property at any time during the lease for \$1,100,000 by making up to two \$50,000 payments (\$50,000 paid) to the lessor that would be deductible from the purchase price upon exercise of the option.