



**FINANCIAL STATEMENTS**

**(UNAUDITED)**

**For the six months ended February 28, 2021**

**(Expressed in Canadian Dollars)**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The following condensed interim financial statements of Lotus Ventures Inc. are unaudited. They have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these condensed interim financial statements.

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

	<b>February 28, 2021</b>	<b>August 31, 2020</b>
<b><u>ASSETS</u></b>		
Current		
Cash and cash equivalents	\$ 350,180	\$ 282,708
Accounts receivable	467,476	526,529
Biological assets (Note 4)	691,000	686,000
Inventory (Note 5)	1,562,000	1,362,000
Prepaid expenses and deposits	130,642	111,136
	<u>3,201,298</u>	<u>2,968,373</u>
Non-current		
Restricted cash	343	382
Property, plant and equipment (Note 6)	13,640,234	13,939,682
	<u>13,640,577</u>	<u>13,940,064</u>
Total assets	<u>\$ 16,841,875</u>	<u>\$ 16,908,437</u>
<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 328,059	\$ 813,057
GST payable	536,258	301,170
Deferred revenue (Note 7)	-	149,899
Loans payable (Note 10)	446,656	729,042
Total liabilities	<u>1,310,973</u>	<u>1,993,168</u>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital (Note 8)	\$ 17,399,165	\$ 16,956,365
Reserves	4,324,864	4,141,610
Deficit	(6,193,127)	(6,182,706)
	<u>15,530,902</u>	<u>14,915,269</u>
	<u>\$ 16,841,875</u>	<u>\$ 16,908,437</u>

**Note 1**      **Nature and Continuance of Operations**  
**Note 7**      **Commitment**

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

Approved and authorized by the Board on April 29, 2021.

<u>"Dale McClanaghan"</u>	Director	<u>"Carl Correia"</u>	Director
Dale McClanaghan		Carl Correia	

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

	Three months ended February 28, 2021	Three months ended February 29, 2020	Six months ended February 28, 2021	Six months ended February 29, 2020
<b>Revenue (Note 7)</b>	\$ 1,431,509	\$ 1,071,252	\$ 2,807,779	\$ 1,071,252
Cost of sales*	(741,533)	(329,348)	(1,358,413)	(329,348)
<b>Gross margin before fair value changes</b>	689,976	741,904	1,449,366	741,904
Changes in fair value of biological assets less realized portion relating to inventory sold**	8,943	(675,061)	98,119	634,939
<b>Gross margin</b>	698,919	66,843	1,547,485	1,376,843
<b>General and administrative expenses</b>				
Advertising and promotion	18,072	23,374	39,099	47,921
Amortization	174,295	184,778	348,591	369,556
Bank fees and interest	10,413	24,977	26,525	25,601
Consulting (Note 9)	65,300	71,882	664,505	122,161
Insurance	25,018	19,123	53,966	38,246
Listing, filing and transfer fees	8,865	7,216	14,447	10,907
Office and miscellaneous	33,499	29,303	135,248	45,754
Professional fees	20,020	36,000	24,470	44,500
Rent (Note 9)	4,350	-	8,700	-
Repairs and maintenance	1,132	-	7,412	-
Sales commissions	8,478	-	49,925	-
Share-based compensation (Notes 8, 9)	-	-	183,254	162,240
Travel	63	6,078	1,764	6,291
	(369,505)	(402,731)	(1,557,905)	(873,177)
<b>Net income (loss) and comprehensive income (loss)</b>	\$ 329,414	\$ (335,888)	\$ (10,421)	\$ 503,666
<b>Basic and diluted income (loss) per share</b>	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ \$0.01
<b>Weighted average number of shares outstanding</b>	89,969,799	85,049,799	89,510,239	84,867,656

\*Comprised only of costs incurred exclusive of the effects of any fair value adjustments.

\*\*A composite figure comprising unrealized income related to recording biological assets at fair value net of these same amounts, related to the cost of those assets, subsequently included in inventory and recognized as an expense upon sale. The comparative figure above reflects initial pre-commercial activity and therefore does not include a cost of sales component.

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

**LOTUS VENTURES INC.****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Unaudited – prepared by management

(Expressed in Canadian Dollars)

	<b>Common shares</b>		<b>Reserves</b>	<b>Deficit</b>	<b>Total</b>
	<b>Number of Shares</b>	<b>Amount</b>			
<b>Balance, August 31, 2020</b>	<b>85,049,799</b>	<b>\$ 16,956,365</b>	<b>4,141,610</b>	<b>\$ (6,182,706)</b>	<b>\$ 14,915,269</b>
Shares issued	4,920,000	442,800	-	-	442,800
Share-based compensation	-	-	183,254	-	183,254
Net loss	-	-	-	(10,421)	(10,421)
<b>Balance, February 28, 2021</b>	<b>89,969,799</b>	<b>\$ 17,399,165</b>	<b>4,324,864</b>	<b>\$ (6,193,127)</b>	<b>\$ 15,530,902</b>
<b>Balance, August 31, 2019</b>	<b>84,074,799</b>	<b>\$ 16,600,490</b>	<b>4,140,245</b>	<b>\$ (7,676,708)</b>	<b>\$ 13,064,027</b>
Options exercised	975,000	355,875	(160,875)	-	195,000
Share-based compensation	-	-	162,240	-	162,240
Net income	-	-	-	503,666	503,666
<b>Balance, February 29, 2020</b>	<b>85,049,799</b>	<b>\$ 16,956,365</b>	<b>4,141,610</b>	<b>\$ (7,173,042)</b>	<b>\$ 13,924,933</b>

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

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

	Three months ended February 28, 2021	Three months ended February 29, 2020	Six months ended February 28, 2021	Six months ended February 29, 2020
<b>Operating activities</b>				
Net income (loss) for the period	\$ 329,414	\$ (335,888)	\$ (10,421)	\$ 503,666
Items not affected by cash:				
Amortization	174,356	184,778	348,591	369,556
Accrued interest	10,064	12,136	20,277	24,272
Share-based compensation	-	675,061	183,254	162,240
Unrealized gain on biological assets	(8,943)	-	(98,119)	(634,939)
Changes in non-cash working capital items:				
Accounts receivable	(281,967)	(318,552)	59,053	(318,552)
GST payable	185,171	60,341	235,088	130,507
Biological assets	4,804	(292,390)	(41,038)	(566,538)
Inventory	-	(19,245)	-	(84,245)
Prepaid expenses	(28,867)	10,362	(19,506)	15,200
Deferred revenue	-	-	(149,899)	-
Accounts payable and accrued liabilities	(80,320)	5,499	(261,200)	(18,849)
Due to related party	4,031	16,261	(25,007)	(7,525)
	<u>307,743</u>	<u>(13,733)</u>	<u>241,073</u>	<u>(425,207)</u>
<b>Financing activities</b>				
Cash received for shares issued	-	-	442,800	-
Options exercised	-	-	-	195,000
Proceeds from loans	-	303,045	-	595,034
Repayment of loans	-	-	(302,663)	-
	<u>-</u>	<u>303,045</u>	<u>140,137</u>	<u>516,071</u>
<b>Investing activities</b>				
Expenditures on property, plant and equipment	<u>(153,421)</u>	<u>(81,520)</u>	<u>(313,738)</u>	<u>(197,587)</u>
Decrease in cash and cash equivalents	154,322	(66,211)	67,472	(106,723)
Cash, beginning of the period	<u>195,858</u>	<u>70,236</u>	<u>282,708</u>	<u>110,748</u>
<b>Cash and cash equivalents, end of the period</b>	<u>\$ 350,180</u>	<u>\$ 4,025</u>	<u>\$ 350,180</u>	<u>\$ 4,025</u>

**Note 12 Supplemental Non-cash Disclosures**

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

**LOTUS VENTURES INC.****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**

(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 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 2019 fiscal year the Company commenced cultivation activity at its production facility which is located near Armstrong, BC.

These financial statements have been prepared on a 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. There are certain adverse conditions and events that may cast doubt on the validity of this assumption. The Company’s major business activities have only recently been legalized in Canada and it is therefore subject to significant regulatory oversight and requirements. The sustainability of this business, and in fact the nature and scope of the entire legalized cannabis sector, has yet to be fully established on a commercial basis and is difficult to predict. The Company had also incurred losses since inception and only during the first quarter of the previous year has the Company begun 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 also to Note 7.

The COVID-19 pandemic creates uncertainty in respect to global economic and market conditions however its specific, identifiable impact on the Company has not, to date, been material. Future developments in the course of the pandemic could negatively impact the Company’s operations, however such future outcomes cannot currently be predicted beyond those expected to affect society as a whole.

**Statement of Compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), applicable to the presentation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed interim financial statements should be read in conjunction with the Company’s audited financial statements as at and for the year ended August 31, 2020, which have been prepared in accordance with IFRS as issued by the IASB.

**LOTUS VENTURES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**  
(Expressed in Canadian Dollars)

**Note 2      Basis of Preparation**

**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**

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 principal and interest.

Most of the requirements in 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 at banks and on hand. Cash equivalents is comprised of highly liquid investments held at major financial institutions, having maturity dates of three months or less from the date of purchase, which are readily convertible into known amounts of cash. There were no cash equivalents at February 28, 2021.

**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.

**LOTUS VENTURES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**  
(Expressed in Canadian Dollars)

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

**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.

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.

During the six months ended February 28, 2021 the wholesale selling price was between \$1.50 and \$3.75 per gram, and harvest yield was between 60 and 140 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.

**LOTUS VENTURES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**  
(Expressed in Canadian Dollars)

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

**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.

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.

**LOTUS VENTURES INC.****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**

(Expressed in Canadian Dollars)

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

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

**Share capital**

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

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

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

**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.

**LOTUS VENTURES INC.****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**

(Expressed in Canadian Dollars)

**Note 3      Significant Accounting Policies – (cont'd)****Share-based compensation – (cont'd)**

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

**Income (loss) per share**

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

**Related party transactions**

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

**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.

**LOTUS VENTURES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**  
(Expressed in Canadian Dollars)

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

**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.

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.

**LOTUS VENTURES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**  
(Expressed in Canadian Dollars)

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

**Significant accounting judgments and estimates – (cont'd)**

*Going concern*

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

**Leases**

*Recognition and measurement*

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a lease liability and a right-of-use asset at the lease commencement date. The lease liability is initially measured as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the Company expects to exercise an option to terminate the lease.

The lease liability is subsequently measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

**LOTUS VENTURES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2021**  
(Expressed in Canadian Dollars)

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

**Leases – (cont’d)**

The right-of-use asset is initially measured at cost, which comprises the following:

- the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Company; and
- an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The right-of-use asset is subsequently measured at cost, less any accumulated depreciation in accordance with the Company’s accounting policy and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Each lease payment is allocated between the lease liability and finance cost. The finance cost is charged to net earnings over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

**New accounting standards issued but not yet effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after September 1, 2020, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company does not anticipate any material changes to the financial statements upon adoption of these new revised accounting pronouncements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 and applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period.

Adoption of this standard has had no impact on the Company’s financial statements.

**Note 4      Biological assets**

	February 28, 2021	August 31, 2020
Opening balances (February 28, 2021/August 31, 2020)	\$ 686,000	\$ 490,000
Production costs capitalized	1,399,590	2,472,843
Changes in fair value less costs to sell due to biological transformation	571,410	2,018,415
Transferred to inventory upon harvest	(1,966,000)	(4,295,258)
	<u>\$ 691,000</u>	<u>\$ 686,000</u>

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**Note 4      Biological assets – (cont'd)**

During the period ended February 28, 2021, \$65,844 (2019 - \$18,981) of amortization related to growing equipment was included in production costs capitalized.

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 February 28, 2021, it is estimated that the Company's biological assets will yield approximately 360,000 grams of cannabis when harvested (2020 – 340,000). As at February 28, 2021, the Company had approximately 4,500 plants that were biological assets (2020 – 4,500).

**Note 5      Inventory**

As at February 28, 2021, the Company's inventory consisted of approximately 546,000 grams of dried cannabis awaiting release for sale (2020 – 319,000). The cost of inventory is recognized as a separate asset upon harvest and subsequently included in cost of sales when sold. For the period ended February 28, 2021, cost of sales was representative of approximately 503,000 grams (2020 – 283,000).

**Note 6      Property, plant and equipment**

	<b>Land</b>	<b>Buildings</b>	<b>Software</b>	<b>Equipment</b>	<b>Construction in Progress</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>						
As at August 31, 2020	1,026,557	12,353,890	73,752	799,765	922,328	15,176,292
Additions during the period	-	-	2,460	-	112,468	114,928
As at February 28, 2021	1,026,557	12,353,890	76,212	799,765	1,157,792	15,291,220
<b>Accumulated Amortization</b>						
As at August 31, 2020	-	1,102,007	56,683	77,920	-	1,236,610
Additions during the period	-	337,497	4,694	72,185	-	414,434
As at February, 2021	-	1,439,504	61,377	150,105	-	1,650,986
<b>Net Book Value</b>						
As at August 31, 2020	1,026,557	11,251,883	17,069	721,845	922,328	13,939,682
As at February 28, 2021	1,026,557	10,914,386	14,835	649,660	1,034,796	13,640,234

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**Note 6      Property, plant and equipment – (cont'd)**

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.

**Note 7      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 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 50% of the actual cultivation yield generated for a period of 10 years at a price, during the initial three year period subsequent to the commencement of commercial operations, of \$2.25 per gram. In addition, XLY has a right of first offer on all other production at a calculated price per gram. XLY is also entitled to designate one nominee to the board of directors as long as it 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 8).

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. The remaining \$1,333,333 of proceeds was recorded as deferred revenue, the future recognition of which by the Company is subject to the completion, by XLY, purchase obligations in respect to the Company's cannabis production. The amount is recognized as income as XLY acquires 50% of the Company's production yield based on the discount, if any, of the agreed price (currently \$2.25 per gram) to current equivalent market values.

During the current interim period the residual balance of deferred revenue (\$149,899 at August 31, 2020) was recognized in income.

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.

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**Note 8**      **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 six months ended February 28, 2021, the Company completed the following share issuance:

- On September 17, 2020, the Company completed a private placement of 4,920,000 units ("Units") at a price of \$0.09 per Unit for gross proceeds of \$442,800. 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 \$0.13 per share for a period of five years from closing. Related parties of the Company subscribed to 2,400,000 Units for gross proceeds of \$216,000. Refer also to Note 9.

During the six months ended February 28, 2020, the Company completed the following share issuances:

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

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 six months ended February 28, 2021, the Company granted the following options:

- On September 15, 2020, the Company granted 1,900,000 share purchase options exercisable for ten years at a price of \$0.13 per share.

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

Risk-free interest rate (%)	0.57
Expected life (years)	10
Expected volatility (%)	135.57
Expected dividend yield (%)	-

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**Note 8      Share Capital – (cont'd)**

During the period ended February 28, 2021, share-based compensation expense was \$183,254 (2019 - \$162,240).

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

	Six Months Ended February 28, 2021		Year Ended August 31, 2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		\$		\$
Balance at the beginning of the period	7,960,000	0.29	8,460,000	0.29
Granted	1,900,000	0.13	975,000	0.20
Cancelled/forfeited/expired	(510,000)	0.20	(500,000)	0.25
Exercised	-	-	(975,000)	0.20
Outstanding, end of the period	9,350,000	0.26	7,960,000	0.29

As at February 28, 2021, the weighted-average contractual remaining life of the options was 7.97 years (August 31, 2020 – 7.56).

Details of outstanding share purchase warrants are as follows:

	Six Months Ended February 28, 2021		Year Ended August 31, 2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		\$		\$
Balance at the beginning of the period	37,152,348	0.41	40,900,764	0.40
Issued	4,920,000	0.13	-	-
Expired/cancelled	(492,158)	0.28	(3,748,416)	0.35
Outstanding, end of the period	41,580,190	0.38	37,152,348	0.41

As at February 28, 2021, the weighted-average contractual remaining life of the share purchase warrants was 1.91 years (August 31, 2020 – 2.66 years).

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**Note 9      Related Party Transactions**

	February 28, 2021	February 29, 2020
Compensation:		
Consulting fees and bonuses	\$ 314,300	\$ 50,000
Production costs	50,028	-
Rent	8,700	-
Share-based payments	81,982	81,120
	<u>\$ 455,010</u>	<u>\$ 131,120</u>

During the six months ended February 28, 2021, the Company accrued management consulting fees of \$44,300 (2020 – \$nil) and a bonus of \$135,000 (included in consulting fees for the period) to a private company controlled by the Company’s President and CEO. As at February 28, 2021, \$nil (August 31, 2020 - \$35,000) was payable to this private company for the unpaid portion of these fees.

During the six months ended February 28, 2021, the Company accrued management consulting fees of \$nil (2020 - \$50,000), production costs of \$50,028 (2020 - \$nil) and a bonus of \$135,000 (included in consulting fees for the period) to the Company’s COO.

During the period ended February 28, 2021, the Company accrued rent of \$8,7000 (2019 \$nil) to a company with a common director. As at February 28, 2021, \$13,050 (August 31, 2020 - \$8,172) was payable for the unpaid portion of this amount.

The Company’s CEO and COO also participated in the private placement disclosed at Note 8 in the aggregate amount of \$216,000.

During the period ended February 28, 2021, the Company recorded share-based compensation of \$81,982 (2020 - \$81,120) pursuant to the issue of 850,000 stock options issued to directors and officers of the Company. See Note 8.

Refer also to Note 10.

**Note 10      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. An additional \$260,000 was advanced by this party during the year ended August 31, 2020. During the period ended February 28, 2021, the Company made payments in aggregate of \$200,000 towards the outstanding balance. During the year ended August 31, 2020 the Company made payments in aggregate of \$132,296 towards the outstanding balance.

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. An additional \$80,000 was advanced by this party during the year ended August 31, 2020 under the same terms as the original promissory note.

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**Note 10     Loans Payable – (cont'd)**

During the year ended August 31, 2020, an aggregate of \$210,000 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. During the period ended November 30, 2020 the Company made payments in aggregate of \$102,663 towards the outstanding balances. During the year ended August 31, 2020 the Company made payments in aggregate of \$17,053 towards the outstanding balances.

During the year ended August 31, 2020, \$25,000 was advanced to the Company from an unrelated party. This promissory note is repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 8.95% compounded annually.

	February 28, 2021	August 31, 2020
Opening balances (February 28, 2021 /August 31, 2020)	\$ 729,042	\$ 242,436
Loans advanced	-	575,000
Interest on loans	20,277	60,955
Loans repaid	(302,663)	(149,349)
	<u>\$ 446,656</u>	<u>\$ 729,042</u>

**Note 11     Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash and cash equivalents. There are no external restrictions on the use of the Company's capital other than as provided in Policy 2.4 Capital Pool Companies of the TSX Venture Exchange.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents

The Company's financial instruments are exposed to the following risks:

*Credit Risk*

The Company's primary exposure to credit risk is the risk of illiquidity of cash amounting to \$350,180 at February 28, 2021. 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.

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**Note 11     Capital Management – (cont'd)**

*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 February 28, 2021 is as follows:

	Fair value level	As at February 28, 2021	
		Fair value through profit or loss	Loans and receivables at amortized cost
<i>Financial assets</i>			
Cash and cash equivalents	1	\$ 350,180	\$ -
Accounts receivable	1	\$ -	\$ 467,476
		<u>\$ 350,180</u>	<u>\$ 467,476</u>

The fair value classification of the Company's financial instruments as at August 31, 2020 is as follows:

	Fair value level	As at August 31, 2020	
		Fair value through profit or loss	Loans and receivables at amortized cost
<i>Financial assets</i>			
Cash	1	\$ 282,708	\$ -
Accounts receivable	1	\$ -	\$ 526,529
		<u>\$ 282,708</u>	<u>\$ 526,529</u>

During the six months ended February 28, 2021 and the year ended August 31, 2020, there were no transfers between level 1, level 2 and level 3 classified assets.

**Note 12     Supplemental Non-cash Disclosures**

As at February 28, 2021, \$22,324 (August 31, 2020 - \$221,115) in property, plant and equipment acquisition costs were included in accounts payable and accrued liabilities.