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**Canadian Securities Exchange: Symbol J**

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## **LOTUS COMMENTS ON THE ALLARD DECISION**

### **Summary of The Allard Decision**

On February 24, 2016 the Federal Court of Canada made a decision about marijuana in Canada in the Allard case. Allard and others had licenses to grow for personal use under the old Medical Marijuana Access Regulations (MMAR). In early 2014 the Federal Government implemented the Marijuana for Medical Purposes Regulations (MMPR) to set up the present commercial producers, and also to shut down the MMAR so that only MMPR licensed producers (LPs) could legally grow. At that time Allard obtained a temporary court order that allowed the MMAR growers to continue until this final decision was made.

The decision confirmed the constitutional right of Canadians to use marijuana for medical purposes, and to reasonable access, first granted by the Supreme Court of Canada in 2001 in the Parker case. Access to “cheap” marijuana was specifically stated not to be part of constitutional access. It also declined to order that the MMAR continue and found that the MMPR system is not producing and selling in a manner which satisfies the Parker decision and therefore is unconstitutional. MMPR has not provided sufficiently convenient access. The court however suspended the operation of its decision that the MMPR is unconstitutional for six months to give the Federal Government time to change the regulations so that there is reasonably convenient access to meet the requirements of the Parker decision.

### **Comment**

We believe this is a fair and appropriate decision. It confirms the Federal Government’s right to regulate marijuana. It is consistent with the Federal Government’s policy that marijuana production be strictly regulated so that it is secure, will not be sold to young people and will eliminate the black market run by organized crime.

We are left to consider what “reasonable access” means and how that could be implemented. Lotus Ventures agrees with the Court on the inadequacy of the MMPR. In our view the most problematic elements were the cumbersome, mandated distribution system and the lack of sufficient licensed capacity to meet demand and push down the price through normal competitive forces.

On the distribution side, it is clear that Canadians do not like the MMPR process of obtaining medical prescription, and buying online and taking shipment by mail. The MMAR was more convenient at an apparently lower cost. Within Vancouver, the prevalence of storefronts provides product variety, product knowledge and convenience; albeit as an unregulated and unlawful retail option. This option distributes an estimated 3,300 to 10,050 kilograms per quarter or approximately 1.7 to 5.3 times the 1,873 kg. through the entire legitimate MMPR sales channel. Clearly the MMPR distribution approach is not in keeping with retailing and dispensary norms. Lotus management agrees that a revised system can be accomplished through liquor stores (as Prime Minister Trudeau and Minister Blair prefer), pharmacies or other potential accredited dispensaries.

On the supply side, the volume of MMPR sales was showing significant increases in 2015 with the most recent data reporting 30,537 versus the 29,000 users licensed under the MMAR cultivation rules. CIBC and others have recently estimated that there are \$5 to \$10 billion worth of marijuana sold each year in Canada. The medical market is estimated at \$150 million. Present sales under the MMPR are \$50 to \$75 million, or less than

half of the medical segment and only 1 to 2% of actual total marijuana market. Obviously, Health Canada will need to greatly increase licensed capacity to meet the medical market that is Charter mandated and the demand from broader legalization.

Lotus Ventures urges the government to use this opportunity to modify the MMPR approach and repair the distribution method and redress the licensed capacity barrier that impedes medical marijuana users from reasonably convenient and affordable access. The legalization initiative lead by Minister Blair should provide a comprehensive single system for the production, distribution and restriction of marijuana. A well-crafted regulatory regime would protect the rights and address reasonable concerns of all those affected by the marijuana system. These rights are complementary and not in tension or a trade-off between the rights of members of these various groups. A well designed marijuana system should ensure:

- Patients have reasonably convenient access to affordable marijuana in a variety of strains and forms, as is their Charter right;
- When legalized, all users benefit from enforceable product quality standards to guarantee a consistent, contaminate-free, tested product that is reliably labelled as to origin and concentration of active ingredients. Product recall protocols should be in place as with any agricultural, pharmaceutical or nutraceutical product.
- Parents and concerned medical professionals should expect that the distribution system is secure and prohibits access to the marijuana by those under the age of 18.
- The public is confident that all commercial scale participants in the system (grower, distributor and retailers) are identified and abide by all appropriate laws including taxation, provincial distribution rules and local zoning and licensing ordinances. This includes preventing criminal control of legitimate enterprise.
- The medical and the research community have access to sales data and can recruit non-medical users for a variety of clinical and public health research to better understand the benefits and risks of marijuana use. Increasing the scientific knowledge base is valuable from a social and therapeutic perspective.
- Producers should expect that all commercial scale competitors fall under the same regulatory regime and that consumer concerns and potential illegality is met with normal enforcement and appropriate lawful sanctions.

From a commercial perspective, Lotus Ventures looks forward to increased normalization of the regulation and restriction of the marijuana sector. Whichever regulatory protocol the governments decide, our role as a reliable low-cost licensed producer of high quality products will be central to our business success and our promotion of the public policy objectives lead by Mr. Blair and others.

Lotus Ventures filed its MMPR application in October 2014 and is one of a small number recently moved to the final stage (November 2015) and awaits Health Canada's final review and approval to build. Lotus is also preparing to file 2 additional applications, each of which is double the production of its first facility.

## **ON BEHALF OF THE BOARD**

**Lotus Ventures Inc.**

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