

## **LOTUS VENTURES INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **For the Six Months Ended February 28, 2017**

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the “Company”) for the six months ended February 28, 2017. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the six months ended February 28, 2017; together with the audited financial statements of the Company and the notes thereto for the twelve months ended August 31, 2016. The audited financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). Unless expressly stated otherwise, all financial information is presented in Canadian dollars.

### **FORWARD-LOOKING STATEMENTS**

This MD&A contains forward-looking statements with respect to the Company. These forward-looking statements by their nature involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared, but caution the reader that these assumptions regarding future events, many of which are beyond the control of management, may ultimately prove to be incorrect.

### **DATE**

April 28, 2017

### **HISTORY**

On November 27, 2014 the Company was formed by the amalgamation of Strachan, a capital pool company and Private Lotus, a private company, under the provisions of the Business Corporations Act (British Columbia).

The Company obtained a receipt for its non-offering prospectus from the British Columbia Securities Commission on December 1, 2014 and was listed on the Canadian Securities Exchange on December 8, 2014 under the symbol “J”. The Company is a reporting issuer in British Columbia, Alberta and Ontario.

The Company has filed its application with Health Canada to obtain a licence pursuant to the requirements of the Marijuana for Medical Purposes Regulations (the “MMPR Application”) for its planned facility located in Spallumcheen Township, British Columbia. The Company has received its number from Health Canada which signifies its filing and that the review by Health Canada has begun.

In December 2014 Health Canada requested additional information about security clearance forms for the principals of the Company which were provided. As part of an initial screening, on February 4, 2015 Health Canada requested additional information about the major sections of the application, being the proposed site and physical security, the quality assurance pre-licensing report and record keeping plans. The company provided a response on February 24, 2015. On March 11, 2015 Health Canada requested additional information about the Company’s quality assurance person and record keeping. The Company provided a response on March 31, 2015. On August 13, 2015 Health Canada requested additional information on the proposed site and physical security. The Company provided a response on September 2, 2015 and September 9, 2015. As detailed below in Discussion of Operations the company is currently in the Security Clearance phase of the application process.

### **Trends**

On October 19, 2015, the Liberal Party of Canada was elected as a majority government of Canada. It included in its election platform a commitment to legalize marijuana production and sale including

for recreational purposes. This commitment stated as “legalize, regulate and restrict” access to marijuana was repeated in the throne speech and in interviews by Prime Minister Trudeau and the Health Minister. The system of licensing producers is likely to remain essentially as it is under the MMPR. The distribution system to be adopted is completely undetermined at this time.

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). 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. The Court 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.

On August 24, 2016, the new Access to Cannabis for Medical Purposes Regulations (“ACMPR”) came into force. The ACMPR replaced the MMPR stemming from a decision by the Supreme Court of Canada. According to the Health Canada website, “Under the ACMPR, Canadians who have been authorized by their health care practitioner to access cannabis for medical purposes will continue to have the option of purchasing safe, quality-controlled cannabis from one of the producers licensed by Health Canada. Canadians will also be able to produce a limited amount of cannabis for their own medical purposes, or designate someone to produce it for them.”

On April 13, 2017 the Federal Government tabled legislation in favor of LP’s being the permitted producers in the adult recreation legal market to commence July 1, 2018. At the same time the government announced Health Canada has increased its budget and staffing, which will increase the speed at which it issues affirmation confirmations and processes LP applications.

Management of Lotus does not know of any other trends, commitments, events or uncertainties that are expected to materially affect Lotus’s business other than as disclosed in this Listing Statement and in particular under “Risk Factors” and “Narrative Description of the Business”.

The Company is confident in the quality of its application. However to review the Health Canada MMPR licensing regime and the risks associated with the process please review our prospectus dated and filed November 28, 2014 at [www.sedar.com](http://www.sedar.com).

## **OVERALL PERFORMANCE**

The Company is at an early stage in its development and has limited financial resources and no source of operating cash flow. The Company will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable.

## **SELECTED ANNUAL INFORMATION**

The Company was formed by amalgamation on November 27, 2014. The following selected financial information is derived from Private Lotus’ audited financial statements for the year ended August 31, 2014, and the Company’s audited financial statements for the years ended August 31, 2016 and 2015. Private Lotus had no operations of any kind during the two years ended August 31, 2014.

<b>Description</b>	<b>Year ended August 31, 2016</b>	<b>Year ended August 31, 2015</b>	<b>Year ended August 31, 2014 (Private Lotus)</b>
<i>Revenues</i>	Nil	Nil	Nil
<i>Net loss</i>	(\$809,243)	(\$496,527)	\$(187,728)
<i>Net loss per share, basic and fully diluted</i>	\$0.03	\$0.02	\$0.05
<i>Total Assets</i>	\$458,477	\$391,087	\$202,313
<i>Total Long Term Financial Liabilities</i>	Nil	Nil	Nil
<i>Cash dividends declared</i>	Nil	Nil	Nil

## **DISCUSSION OF OPERATIONS**

On October 27, 2014 Private Lotus completed a non-brokered private placement of 1,374,000 Private Lotus shares at \$0.25 per share for gross proceeds of \$343,500. Private Lotus paid \$10,000 in finder's fees.

On November 27, 2014, Private Lotus and Strachan were amalgamated pursuant to an amalgamation 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 amalgamation.

The company has applied to Health Canada for a license to produce medical marijuana under the Marijuana for Medical Purposes Regulations. Health Canada is reviewing the application and we have been in correspondence with the Licenses and Permit Division to provide additional information for our application.

On November 7, 2015 the Company entered into a three-year lease agreement on the property near Armstrong, British Columbia on which it intends to build the facility which is planned and contained in its MMPR application to Health Canada. The property is approximately 23 acres. The Company will pay \$4,000 per month rent beginning December 1, 2015. The Company also acquired the right to purchase the property at any time during the lease for \$1.1 million by payment of \$50,000. The Company also paid a further \$50,000 in March 2016. The Company has the right to extend the lease and option to purchase for one additional year under certain conditions.

Health Canada notified the Company in early December 2015 that it is in the personnel Security Clearance phase of the MMPR application process. This is an important step in the licensing process and permits the Company to make concrete plans for the construction of the planned facility, providing it passes the final Review stage and receives a Confirmation of Readiness for Pre License Inspection from Health Canada. The policy of the new federal government to legalize marijuana will require extensive expansion of properly licensed production capacity to replace illicit market production. On March 16 2016, Health Canada advises Lotus' MMPR application completed the Security Clearance portion of the process had entered the final review stage. During this stage the application is thoroughly reviewed to validate the information provided. Physical security plans are also reviewed and assessed in detail.

On January 19, 2017 Lotus Ventures Inc. announced that it has entered into a binding agreement to access up to \$12 million of financing. Monies will be advanced in two stages, as required to build out its first production facility, in Armstrong BC, and its planned initial expansion. Provision of this financing is subject to satisfaction of a number of pre-conditions including receipt of the Affirmation Confirmation from Health Canada. This financing will

be completed as a future equity issue or series of issues done according to a very accretive pricing and production royalty formula in the agreement. This agreement has been modeled on similar agreements more commonly found in the mining sector.

Lotus announced on April 19, 2017 that it has received approval for the necessary building permit for its proto-type facility from Spallumcheen Township near Armstrong BC. We have received further information that Lotus Ventures Inc. has well advanced along in the approval process and expects to receive an affirmation confirmation from Health Canada to commence building this year. We have also created a community contribution profile which highlights our creation of 60 – 70 permanent jobs from the initial \$18 million investment plan in the North Okanagan region.

With regard to timing of Lotus' licensing status, Health Canada has increased its budget and staffing, which will increase the speed at which it issues affirmation confirmations and processes LP applications. The Federal Government has issued legislation in favor of LP's being the permitted producers in the adult recreation legal market to commence July 1, 2018.

The Company's cash was \$432,745 on February 28, 2017. The Company has no other liquid assets other than GST receivable of \$23,523. The Company does not have any operating activities. General and administrative expenses for the six month period totalled \$298,576. The comparable cash items recorded as general and administrative expenses in the six months ended February 28, 2016 was \$505,905 of which \$316,785 was a non-cash item of share-based compensation for a cash expenses of \$189,120.

As at February 28, 2017, the Company had net working capital of \$475,657. In order to maintain operations and cover administrative costs, the Company will need to raise additional financing. There can be no assurance that additional funding will be available in the future.

There were no other material events subsequent to February 28, 2017.

## SUMMARY OF QUARTERLY RESULTS

The Company was formed on November 27, 2014 and does not have comparative quarterly results for the first, second and third quarters of 2014-15. The financial results for Lotus Ventures Inc. for the quarters ended November 30, 2014, February 28, 2015, May 31, 2015 and August 31, 2015 are summarized below. For continuity we also provide financial information for Strachan and Lotus predating the amalgamation.

The following provides quarterly financial information for Strachan and Private Lotus for each six month period since Nov 30, 2012.

### For Strachan:

Description	Three months ended Aug 31, 2014	Three months ended May 31, 2014	Three months ended Feb 28, 2014	Three months ended Nov 30, 2013	Three months ended Aug 31, 2013	Three months ended May 31, 2013	Three months ended Feb 28, 2013	Three months ended Nov 30, 2012
Revenues	0	0	0	0	0	0	0	0
Net Income (loss)	(11,813)	(6,185)	(7,001)	103	(84,556)	(36,425)	(19,577)	(15,380)
Net loss per share, basic	(0.00)	(0.00)	(0.00)	0.00	(0.02)	(0.01)	(0.00)	(0.00)

<i>and diluted</i>								
<i>Total Assets</i>	1,946	5,006	8,385	21,472	17,740	21,715	101,597	144,949
<i>Total Long Term Liabilities</i>	29,917	26,445	Nil	Nil	Nil	Nil	Nil	Nil
<i>Cash Div./ Share</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**For Private Lotus:**

<b>Description</b>	<b>Three months ended Nov 31, 2014</b>	<b>Three months ended Aug 31, 2014</b>	<b>Three months ended May 31, 2014</b>	<b>Three months ended Feb 28, 2014</b>	<b>Three months ended Nov 30, 2013</b>	<b>Three months ended Aug 31, 2013</b>	<b>Three months ended May 31, 2013</b>	<b>Three months ended Feb 28, 2013</b>	<b>Three months ended Nov 30, 2012</b>
<i>Revenues</i>	0	0	0	0	0	0	0	0	0
<i>Net Income (loss)</i>	(\$95,846)	(\$60,996)	(\$67,526)	Nil	Nil	Nil	Nil	Nil	Nil
<i>Net loss per share, basic and diluted</i>	0.004	0.004	0.004	Nil	Nil	Nil	Nil	Nil	Nil
<i>Total Assets</i>	\$470,477	\$202,313	\$62,239	Nil	Nil	Nil	Nil	Nil	Nil
<i>Total Long Term Liabilities</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Cash Div. / Share</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**For Lotus Ventures Inc.**

<b>Description</b>	<b>Three months ended Nov. 30, 2016</b>	<b>Three months ended Nov. 30, 2016</b>	<b>Three months ended Aug. 31, 2016</b>	<b>Three months ended May 31, 2016</b>	<b>Three months ended Feb. 29, 2016</b>	<b>Three months ended Nov 30, 2015</b>	<b>Three months ended Aug 31, 2015</b>	<b>Three months ended May 31, 2015</b>	<b>Three months ended Feb 28, 2015</b>
<i>Revenues</i>	0	0	0	0	0	0	0	0	0
<i>Net Income (loss)</i>	(154,749)	(143,827)	(151,345)	(151,993)	(192,410)	(\$313,495)	(\$152,362)	(\$36,612)	(\$257,324)
<i>Net loss per share, basic and diluted</i>	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.01
<i>Total Assets</i>	772,511	\$845,204	\$458,477	\$559,987	\$425,623	\$299,355	\$391,087	\$325,898	\$402,805
<i>Total Long Term Liabilities</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<i>Cash Dividends / Share</i>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash was \$432,745 on February 28, 2017. The Company's other liquid assets are a GST receivable of \$23,523. The Company does not have any operating activities.

As at February 28, 2017, the Company had net working capital of \$475,657. In order to maintain operations and cover administrative costs, the Company will need to raise additional financing. There can be no assurance that additional funding will be available in the future.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **TRANSACTIONS BETWEEN RELATED PARTIES**

### **Related Party Transactions**

During the three months ended February 28, 2017, the Company incurred management consulting fees of \$10,500 (2015 - \$10,500) to a company controlled by the Company's President and CEO.

During the three months ended February 28, 2017, the Company incurred consulting fees of \$10,500 (2016 - \$nil) to the Company's Chief Operating Officer.

## **PROPOSED TRANSACTIONS**

Other than the private placements detailed in subsequent events above, the Company does not currently have any proposed transactions approved by the Board of Directors.

### **Changes in Accounting Policies including Initial Adoption**

Significant accounting policies can be found in Note 3 of the financial statements for the period ended August 31, 2016.

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

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.

The preparation of financial statements in accordance with International Financial Standards (IFRS) requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management evaluates the estimates periodically. Actual results may differ from these estimates by material amounts.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company has no financial or other instruments.

## **ADDITIONAL DISCLOSURE FOR ISSUERS WITHOUT SIGNIFICANT REVENUES**

A breakdown of the material components of the Company's general and administrative expenses is disclosed in the Company's audited financial statements for the year ended August 31, 2016.

## **OUTSTANDING SHARE CAPITAL**

The authorized share capital of the Company consists of unlimited common shares without par value. As of the date of this MD&A, 35,689,000 common shares are issued and outstanding.

During the year 2016 calendar year, the Company completed the following share issuances:

- On December 21, 2015, 300,000 common shares were issued pursuant to the exercise of share purchase options at \$0.10 per option for gross proceeds of \$30,000.
- On January 27, 2016, the Company completed a non-brokered private placement of 1,400,000 units at \$0.15 per unit for gross proceeds of \$210,000. Each unit consists of one common share and one share purchase warrant exercisable at \$0.20 per share until December 29, 2017.

- On May 27, 2016, the Company completed a non-brokered private placement of 1,658,750 units at \$0.20 per unit for gross proceeds of \$331,750. Each unit consists of one common share and one share purchase warrant exercisable at \$0.25 until May 31, 2021.

As at the date of this MD&A, there are 2,785,000 options outstanding of which:

- 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; and
- On November 3, 2015, the Company granted 1,485,000 share purchase options exercisable for a five year period at a price of \$0.20 per share, including 450,000 options to the Company's President and CEO and 450,000 options to a Director of the Company.
- On January 4, 2016, the Company granted 300,000 share purchase options exercisable for a five year period at a price of \$0.25, including 150,000 to a Director and 150,000 to a member of the Executive.

## **RISKS AND UNCERTAINTIES**

An investment in the Company involves a substantial degree of risk and should be regarded as highly speculative due to the nature of the business of the Company. The risks, uncertainties and other factors, many of which are beyond the control of the Company, that could influence actual results include, but are not limited to: regulatory risk relating to the Company; change in laws, regulations and guidelines; limited operating history; reliance on a single facility; reliance on management; requirements for additional financing; competition; risks inherent in an agricultural business; vulnerability to rising energy costs; unfavourable publicity or consumer perception; product liability; product recalls; reliance on key inputs; dependence on suppliers and skilled labour; difficulty in forecasting sales; conflicts of interest; litigation; price fluctuation of the Company's shares; no earnings or dividend record; limited market for Lotus's securities; and other factors beyond the control of the Company. Additional risks that the Company currently believes are immaterial may indeed become important factors that affect the Company's business.

## **SUBSEQUENT EVENTS**

On April 19, 2017 Lotus Ventures announced receipt of the building permit from Spallumcheen Township near Armstrong BC for its proto-type facility.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).