

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended November 30, 2018

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the “Company”) for the three months ended November 30, 2018. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the three months ended November 30, 2018; together with the audited financial statements of the Company and the notes thereto for the year ended August 31, 2018 and the Annual MD&A for the year ended August 31, 2018. 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.

Caution on Forward-Looking Information

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.

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.

As detailed below in Discussion of Operations the company is currently in the Confirmation of Readiness phase of the application process. Completion of the first phase facility is nearing completion and submission of an Evidence package to Health Canada is the next major milestone. Receipt of a cultivation licence would be the next major milestone after that.

MARKET 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.”

Legalization of adult recreational cannabis use came into effect October 17, 2018. The capital markets have strongly supported the emerging sector. Media reports are now giving the sector extensive coverage and the scale of market is coming into focus. Statistics Canada reported on January 24, 2018 that cannabis consumption by 5 million Canadian consumers in 2017 totaled \$5.7 billion. Provinces and territories are now rolling out various distribution and sales regimes and opportunities around marketing, enterprise software, education and branding are starting to emerge. Lotus has been focused on becoming the low cost, high quality producer with a scalable production model suitable for licensing, joint venture and internal expansion. Our financing partnership with Auxly Cannabis Group Inc. (“XLY”), formerly Cannabis Wheaton, affords the company with access to capital for our second planned facility, as well as, the advantages of non-dilutive financing, solid marketing and industry expertise.

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.

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.

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. Accordingly the Company will file a second MMPR application for an identical second facility without delay and add to its present building design prototype to double the production space for a third application. The company is presently preparing detailed architecture and design work to enable detailed capital budgeting and municipal permitting.

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. The company exercised the purchase option on the land June 8, 2018.

As at January 29, 2019, construction of Lotus' initial production facility, at our recently purchased 23-acre location in Armstrong, BC is scheduled to complete February 2019. The building is 22,500 square feet with an annual production capacity 2,000KG per year of top-shelf cannabis. The Lotus team will prepare its "evidence package" for Health Canada that will enable issuance of a cultivation license. After successfully testing two crop cycles, Lotus will be granted its "Sales License".

Preparations for the commissioning of the building and the commencement for operations is almost complete. Senior staff has been recruited and initiated work on translating our standard operating procedures into operating reality. The positions of quality assurance manager, master grower, first grower, production manager, quality assurance assistant have been filled and will begin training in August. During September staff will be installing and initiating the IT systems including product tracking, record keeping and building control systems.

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.

RESULTS OF OPERATIONS

Selected Quarterly Financial Data (unaudited)

The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended Nov 30, 2018	Three months ended Aug 31, 2018	Three months ended May 31, 2018	Three months ended Feb 28, 2018	Three months ended Nov 30, 2017	Three months ended Aug 31, 2016	Three months ended May 31, 2017	Three months ended Feb 28, 2017
<i>Revenues</i>	-	-	-	-	-	-	-	-
<i>Net Income (loss)</i>	(\$839,264)	(\$281,440)	(\$1,053,885)	(\$481,957)	(\$683,618)	(\$200,466)	(\$225,161)	(\$154,749)
<i>Net loss per share, basic and diluted</i>	\$0.01	\$0.01	\$0.02	\$0.01	\$0.02	\$0.01	\$0.01	\$0.01
<i>Total Assets</i>	\$15,588,263	\$9,289,994	\$8,274,726	\$8,605,891	\$2,695,650	\$2,604,918	\$556,584	\$772,511
<i>Total Long Term Liabilities</i>	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
<i>Cash Dividends / Share</i>	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil

During the three months ended November 30, 2018, the Company recognized a loss of \$443,154, compared a loss of \$683,618 for the three months ended November 30, 2017.

Significant items making up the change for the three months ended November 30, 2018 as compared to the three months ended November 30, 2017 were as follows:

- Consulting fees increased by \$205,457 as a result of the Company requiring more consultants during the current period to assist with financing and corporate development as the Company continues construction of the facility.
- Advertising and promotion increased by \$16,410 due to the Company increasing investor relation activities in order to close its private placement during the period.
- Legal fees of \$28,838 were incurred relating to the financing during the period.
- Share-based compensation decreased by \$85,875 as less share purchase options were issued during the period.

FINANCIAL POSITION AND LIQUIDITY

Cash Flows

A summary and discussion of the Company's cash inflows and outflows for the three months ended November 30, 2018 and 2017 are as follows:

Operating Activities

During the three months ended November 30, 2018, the Company spent \$1,608,151 on operating activities compared to \$306,770 during the comparative quarter. The increase is primarily due to consulting and legal fees associated with the Company's recent agreements with Duwyn Farms Inc. and Cannabis Wheaton.

Financing Activities

The Company received \$6,624,750 from financing during the three months ended November 30, 2018, compared to \$221,745 during the three months ended November 30, 2017.

Investing Activities

The Company used \$3,476,701 in investing activities during the three months ended November 30, 2018, compared to \$219,028 during the three months ended November 30, 2017.

Cash Resources and Going Concern

The Company's cash was \$3,281,751 at November 30, 2018. The Company has no other liquid assets other than GST receivable of \$497,647.

As at November 30, 2018, the Company had net working capital of \$786,169 (August 31, 2018 - \$478,443). In order to maintain operations and cover administrative costs, the Company may need to raise additional financing. There can be no assurance that additional funding will be available in the future.

ADDITIONAL DISCLOSURE

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

Compensation	Three months ended November 30,	
	2018	2017
	\$	\$
Consulting fees	42,000	41,000
Share-based payments	252,070	141,470
	294,070	182,470

Refer to Note 7 of the accompanying Interim Financial Statements for further details on the Company's related party transactions and amounts owing to related parties as at and for the three months ended November 30, 2018.

Proposed Transactions

The Company does not currently have any proposed transactions approved by the Board of Directors.

SUBSEQUENT EVENTS

In January 2019, 50,000 warrants exercisable at \$0.25 were exercised for total proceeds of \$12,500.

OUTSTANDING SHARE CAPITAL

The authorized share capital of the Company consists of unlimited common shares without par value.

During the three months ended November 30, 2018, the Company completed the following share issuances:

- On September 12, 2018, the Company issued 3,755,868 common shares at \$0.71 per share in connection with the XLY agreement.
- On September 13, 2018, 100,000 share purchase warrants exercisable at \$0.25 were exercised for proceeds of \$20,000.
- In October 2018, the Company completed a private placement of 11,260,000 units (“Units”) at a price of \$0.25 per Unit for gross proceeds of \$2,815,000. Each Unit consists of one common share and one share purchase warrant (“Warrant”). Each Warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.30 per share for a period of five years from closing.

In relation to this private placement, the Company paid cash finders fees of \$210,250.

During the period ended November 30, 2018, no share purchase options were granted by the Company.

As at the date of this MD&A, the following common shares and stock options were issued and outstanding:

	<u>Number of Shares</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
Common shares	72,539,799	-	-
Stock Options	1,000,000	0.25	December 14, 2019
	1,485,000	0.20	November 3, 2020
	150,000	0.25	January 4, 2021
	1,465,000	0.35	November 9, 2027
	1,490,000	0.50	March 20, 2028
	1,100,000	0.30	October 4, 2028
Warrants	200,000	0.20	December 29, 2020
	1,658,750	0.25	May 31, 2021
	3,411,750	0.25	October 14, 2021
	3,748,416	0.35	August 14, 2020
	392,158	0.35	September 14, 2020
	10,036,100	0.70	January 22, 2023
	909,090	1.00	February 8, 2021
	7,680,000	0.30	October 1, 2023
	780,000	0.30	October 15, 2023
	2,800,000	0.30	October 26, 2023
Fully diluted	110,845,563		

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 period ended November 30, 2018.

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.

ADDITIONAL INFORMATION

Additional information relating to the Company is available on the SEDAR website at www.sedar.com.