

**MANAGEMENT DISCUSSION AND ANALYSIS****For the Six Months Ended February 28, 2019**

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, 2019. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the six months ended February 28, 2019; 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.

In November 2014 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.

On March 8, 2019 Lotus Ventures obtained a “Standard Cultivation” licence and a “Sale for Medical Purposes” licence pursuant to the Cannabis Act and Cannabis Regulations. The licenses give Lotus the ability to begin cultivation at its fully constructed 22,500 square-foot, indoor, purpose-built facility in Armstrong, British Columbia.

**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.

On February 11, 2019 Lotus Ventures Inc. submitting its Cannabis License Evidence Package to Health Canada.

On March 8, 2019 Lotus Ventures obtained a “Standard Cultivation” licence and a “Sale for Medical Purposes” licence pursuant to the Cannabis Act and Cannabis Regulations. The licences give Lotus the ability to begin cultivation at its fully constructed 22,500 square-foot, indoor, purpose-built facility in Armstrong, British Columbia. The company will soon apply for a processing license which will enable sales to the public in accordance with Provincial sale and distribution procedures. The Company reached this significant milestone with dedication from its management team, consultants, and strategic partner, Auxly Cannabis Group Inc. The Company is excited to commence cultivation of high-quality cannabis from the state-of-the-art facility and add value to shareholders.

The Health Canada MMPR licensing regime and the risks associated with the process remain the preeminent regulatory regime shaping the activities and prospects of the Company. Please review our prospectus dated and filed November 28, 2014 at [www.sedar.com](http://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.

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 noted above the Company received its cultivation and medical sales license for cannabis March 8, 2019 and initiating all systems and controls attendant with the first crops.

## **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 Feb 28, 2019	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, 2017	Three months ended May 31, 2017
Revenues	-	-	-	-	-	-	-	-
Net Income (loss)	(\$611,431)	(\$839,264)	(\$281,440)	(\$1,053,885)	(\$481,957)	(\$683,618)	(\$200,466)	(\$225,161)
Net loss per share, basic and diluted	\$0.01	\$0.01	\$0.01	\$0.02	\$0.01	\$0.02	\$0.01	\$0.01
Total Assets	\$14,621,681	\$15,588,263	\$9,289,994	\$8,274,726	\$8,605,891	\$2,695,650	\$2,604,918	\$556,584
Total Long Term Liabilities	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Cash Dividends / Share	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil

During the three months ended February 28, 2019 the Company recognized a loss of \$611,431, compared a loss of \$481,957 for the three months ended February 28, 2018.

Significant items making up the change for the three months ended February 28, 2019 as compared to the three months ended February 28, 2018 were as follows:

- Advertising and promotion increased by \$58,000 due to the Company increasing promotional activities and employing new marketing avenues to increase investor awareness.
- Consulting fees increased by \$58,036 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.
- Professional fees increased by \$10,821 due to increased monthly accounting requirements for the facility, and legal fees incurred relating to the CBW agreement and regulatory filings.

## **FINANCIAL POSITION AND LIQUIDITY**

### **Cash Flows**

A summary and discussion of the Company's cash inflows and outflows for the six months ended February 28, 2019 and 2018 are as follows:

#### *Operating Activities*

During the six months ended February 28, 2019, the Company spent \$1,054,585 on operating activities compared to \$683,590 during the comparative quarter (net income less non-cash share-based compensation). The increase is primarily due to consulting and legal fees associated with the Company's recent agreement with Cannabis Wheaton, as well as increasing promotional activities, ramping up for production, and preparing for additional facility expansions.

#### *Financing Activities*

The Company received \$6,762,250 from financing during the six months ended February 28, 2019, compared to \$6,440,122 during the six months ended February 28, 2018.

#### *Investing Activities*

The Company used \$5,384,414 in investing activities for facility construction costs during the six months ended February 28, 2019, compared to \$1,217,381 during the six months ended February 28, 2018.

### **Cash Resources and Going Concern**

The Company's cash was \$616,385 at February 28, 2019. The Company has no other liquid assets other than accounts receivable of \$15,500 and GST receivable of \$106,359 for total of \$898,982. As at February 28, 2019, the Company had net working capital of \$234,100 (August 31, 2018 – working capital of \$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**

	Six months ended February 28,	
	2019	2018
Compensation	\$	\$
Consulting fees	196,500	69,000
Share-based payments	252,070	141,470
	448,570	210,470

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 six months ended February 28, 2019.

**Directors & Officers:** In April 2019 Steve Mathiesen (Director) and Gary Mathiesen (CFO) resigned from their respective positions. They were long serving and stalwart contributors to the company's progress and the Lotus group extend their thanks. They were replaced by Simon Davie and Maurice Creagh, respectively.

### **Proposed Transactions**

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

### **OUTSTANDING SHARE CAPITAL**

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

During the six months ended February 28, 2019, 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.

- In January 2019, 50,000 warrants exercisable at \$0.25 were exercised for total proceeds of \$12,500.
- On February 26, 2019, 500,000 options exercisable at \$0.25 were exercised for proceeds of \$125,000.

On October 4, 2018, the Company granted 1,100,000 share purchase options exercisable for ten years at a price of \$0.30 per share.

### **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 interim financial statements for the period ended February 28, 2019.

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	82,574,799	-	-
Stock Options	500,000	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
	1,608,750	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
	9,485,000	0.26	April 18, 2024
Fully diluted	129,816,063		

### **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; 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 18, 2019, the Company completed a private placement of 9,485,000 units ("Units") at a price of \$0.20 per Unit for gross proceeds of \$1,897,000. 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 \$0.26 per share for a period of five years from closing.

### **ADDITIONAL INFORMATION**

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