

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three Months Ended February 29, 2020

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 29, 2020. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the six months ended February 29, 2020; 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.

COMPANY OVERVIEW

Lotus Ventures Inc. (“**Lotus**” or the “**Company**”) is a Canadian licensed producer and a craft cannabis grower at scale with its flagship operation located near Armstrong, British Columbia.

The Company operates a purpose-built facility designed to produce the highest grade of cannabis at efficiently low production costs relative to competition.

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). 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 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 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 commenced construction of its Armstrong facility in September 2017, and received its “Standard Cultivation”, “Sale for Medical Purposes” and “Plants & Seeds” sales licenses pursuant to the *Cannabis Act* and *Cannabis Regulations* on March 8, 2019.

In April 2019 the Company imported starting production material into the facility and on June 24, 2019 the first clones were taken. The first harvest of cannabis at the facility was on October 1, 2019 and the production cycle has continued since uninterrupted.

THE LOTUS FACILITY

The Lotus facility is a brand-new purpose-built operation. The facility accommodates room for each stage of the growing process and conforms to the highest growing standards. The facility includes state-of-the-art automation for its environmental control, irrigation and lighting schedules, helping reduce production costs. The Company is focused on producing in the cleanest environment possible. This includes custom production room layouts, each with a dedicated hospital-grade HVAC system, and self-contained airlock rooms ensuring no direct air flow between rooms to prevent the spread of contaminants. The facility operates on an efficient perpetual production cycle harvesting one of six flower rooms every two weeks. Each harvest is expected to yield between 60,000 to 70,000 grams of premium cannabis.

PROPERTY

On November 7, 2015 the Company entered into a three-year lease agreement on the property near Armstrong, British Columbia. The Company acquired the right to purchase the 23-acre parcel of farmland 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 and subsequently exercised the purchase option on the land June 8, 2018.

PRODUCTION

As noted above, the Company received the required licenses to begin cultivation and initiated all systems and controls attendant with the first crops. Subsequent to receiving the licenses, Lotus imported its production portfolio comprised of 3,500 seeds and 229 varieties of high-quality strains.

The Company has been pleased with its flower production results, yielding more cannabis on average than originally expected, while passing all quality control measures. The Company grew multiple strains in its initial batch and identified specific strains which are expected to generate higher selling prices moving forward. Lotus' cannabis flower is well received in the marketplace for both recreational and medical use in Canada. During this initial selling quarter, the Lotus product is being used for pre-rolls, premium dried flower, and for medical purposes. The Company believes it has established itself as a high-quality producer, and as a reliable wholesale partner.

DISCUSSION OF OPERATIONS

Health Canada made an initial routine inspection at the facility in August 2019 and confirmed that the Company's operation is compliant.

Lotus has been engaged in business to business bulk wholesale since December 2019. Pursuant to Lotus and Auxly Cannabis Group's definitive agreement dated September 11, 2018, Auxly is entitled to purchase the first 50% of Lotus' cultivation at a fixed price, with a right of first offer ("ROFO") to purchase the remaining 50% at market prices. The second half of Lotus' production is to be sold to a third-party licensed producer at market prices, if Auxly does not exercise its ROFO.

Lotus has been able to continue full operations throughout the COVID-19 crisis. The focus has been to maximize the safety of our employees, while providing a product that meets or exceeds government standards. The Company has maintained production, shipment, marketing at or close to normal levels and the operations are within the general policy guidelines provided by public health officials.

MARKET TRENDS

The Canadian market for recreational cannabis was projected to generate up to \$4.34 billion in annual sales in 2019 (Deloitte, 2018). As reported by the Financial Post, Canadians spent just \$1.2 billion on non-medical cannabis in 2019, somewhat short of projections. Lotus' conservative approach to gauge the true initial demand of Canadian consumers gives the Company flexibility with its plans to scale up as supply and demand stabilizes.

In October 2019 only a limited number of producers were ready to launch next generation products, including edibles, concentrates and beverages. The Company believes it has taken the right approach to master its core competency of flower cultivation before expanding into other segments. Lotus continues to see an opportunity in the marketplace for high THC flower production and anticipates growing select strains to meet market demand for the foreseeable future.

ADULT USE CONSUMER BRAND



The Company launched its consumer-focused brand Lotus Cannabis Co. A brand built on authenticity, knowledge, precision and integrity that is shown through the end product. The team shares over two decades of growing experience and each member of Lotus is fully committed to producing a high-quality product that will resonate with consumers. The Company intends to sell its own branded product in retail once a Processing license is obtained.

As at February 29, 2020 the Company recorded revenue for the first time, along with the following highlights.

First Half Financial Results

Income Statement

- Revenue increased to \$1,071,252 (from nil in the same period the previous year)
- Cost to produce per gram: \$1.16
- Gross margin (before fair value changes): \$741,904
- Six-month net income: \$503,666 (see comments below)

Balance Sheet

- Accounts receivable: \$318,552
- Biological assets: \$458,601
- Inventory: \$1,309,245
- Total assets: \$16,541,664

First Half Operating Results

- Harvests are averaging 60,000 to 70,000 grams of cannabis every two weeks
- Average THC% remains above 20% with recent batches testing up to 26%
- Established wholesale relationships with three licensed producers

The ramp-up of the Company's selling cycle is progressing well and receivable payments for its product and the pace of sales is solid. Sales to date in Q3 are strong and will be detailed in the subsequent quarterly financial statements. "The Company incurred net income of \$503,666 for the 6 months ending February 29, 2020 as we have ramped up to full production, sales and accounts receivable. The fair value accounting treatment required under the complex IFRS protocol doesn't put a spotlight on our core result: Lotus is reliably producing high yields of a premium product at a low cost of goods sold of \$1.16 per gram.

OVERALL PERFORMANCE

The Company has been generating operational cash flow for a full quarter. The Company may 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 29, 2020	Three months ended Nov 30, 2019	Three months ended Aug 31, 2019	Three months ended May 31, 2019	Three months ended Feb 28, 2019	Three months ended Nov 30, 2018	Three months ended Aug 31, 2018	Three months ended May 31, 2018
<i>Revenues</i>	1,071,252	-	-	-	-	-	-	-
<i>Net Income (loss)</i>	(\$335,888)	\$839,554	(973,537)	(\$488,258)	(\$611,431)	(\$839,264)	(\$281,440)	(\$1,053,885)
<i>Net loss per share, basic and diluted</i>	\$0.00	\$0.01	\$(0.01)	\$(0.01)	\$0.01	\$0.01	\$0.01	\$0.02
<i>Total Assets</i>	\$16,541,664	\$16,853,975	\$15,593,896	\$15,430,037	\$14,621,681	\$15,588,263	\$9,289,994	\$8,274,726
<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 February 29, 2020, the Company recognized a loss of \$335,888, compared a loss of \$611,431 for the three months ended February 28, 2019.

Significant items making up the change for the three months ended February 29, 2020 as compared to the three months ended February 28, 2019 were as follows:

- Revenues increased by \$1,071,252 as a result of the Company recognizing its first sales of cannabis during the period.
- Consulting fees decreased by \$360,154 as a result of the Company capitalizing certain consulting fees to biological assets during the current period to assist with the growing activities at the Company's Armstrong facility.
- Advertising and promotion decreased by \$60,360 due to the Company decreasing investor relation activities in order to close its private placement during the period.
- Insurance increased by \$17,433 due to the Company increasing its insurance due to the use of its production facility in Armstrong, British Columbia.

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, 2020 and 2019 are as follows:

Operating Activities

During the six months ended February 29, 2020, the Company spent \$425,207 on operating activities compared to \$2,503,304 during the comparative quarter. The decrease is primarily due to consulting and legal fees associated with the Company's agreements with Duwyn Farms Inc. and Cannabis Wheaton during the comparative period. There were no such fees during the most recent quarter.

Financing Activities

The Company received \$516,071 from financing during the six months ended February 29, 2020, compared to \$6,762,250 during the six months ended February 28, 2019.

Investing Activities

The Company used \$197,587 in investing activities for facility construction costs associated with the planned expansion of the facility during the six months ended February 29, 2020, compared to \$5,384,414 during the six months ended February 28, 2019.

Cash Resources and Going Concern

The Company's cash was \$4,025 at February 29, 2020. The Company has no other liquid assets other than accounts receivable of \$318,552.

As at February 29, 2020, the Company had net working capital deficiency of \$272,933 (August 31, 2019 – Deficit \$1,573,074). 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

	February 29, 2020	February 28, 2019
Compensation:		
Consulting fees	\$ 50,000	\$ 196,500
Share-based payments	81,120	252,070
	<u>\$ 131,120</u>	<u>\$ 448,570</u>

Refer to Note 9 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 29, 2020.

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 29, 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.

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.

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

	Number of Shares	Exercise Price \$	Expiry Date
Common shares	85,074,799	-	-
Stock Options	500,000	0.25	December 14, 2019
	510,000	0.20	November 3, 2020
	150,000	0.25	January 4, 2021
	1,465,000	0.35	November 9, 2027
	1,240,000	0.50	March 20, 2028
	1,100,000	0.30	October 4, 2028
	2,520,000	0.20	July 4, 2029
	975,000	0.20	October 31, 2029
Warrants	100,000	0.20	December 29, 2020
	1,608,750	0.25	May 31, 2021
	3,361,750	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

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 29, 2020.

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.