



MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ended August 31, 2020

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS

For the Twelve Months Ended August 31, 2020

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the “Company”) for the twelve months ended August 31, 2020. The discussion should be read in conjunction with the Annual Financial Statements (audited) for the twelve months ended August 31, 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.

DATE

December 29, 2020

COMPANY OVERVIEW

Lotus Ventures Inc. (“**Lotus**” or 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) 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 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. The Company is a reporting issuer in British Columbia, Alberta and Ontario.

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’s common shares are listed on the Canadian Securities Exchange (“CSE”) under the symbol “J”, listed on the OTC Markets (“OTC”) under the symbol “LTTSF”, and in Frankfurt (“FRA”) under the symbol “LV9”.

On March 8, 2019 Lotus received a Standard Cultivation and a Sale for Medical Purposes license pursuant to Health Canada’s Cannabis Act (the “Act”). Under the Act, a Standard Cultivation license permits the sale of bulk cannabis to federal license holders. Under the Act, a Sale for Medical Purposes license permits the sale of dried cannabis to medical patients who have registered directly with a federal license holder. Lotus currently utilizes its Standard Cultivation license to sell bulk wholesale in Canada.

STRATEGY AND OUTLOOK

The Company has developed a sustainable business model in Canada focused on its core competency of cannabis cultivation. The Company leverages its combined expertise of business, real estate development, and horticulture and created a purpose-built production facility to become a trusted provider of medical-grade cannabis. The initial operation is a pharmaceutical-grade building that was designed for complete control of the growing environment resulting in a reliable product for consumers.

Lotus is currently selling production rapidly to wholesale partners across Canada which provides the Company with a consistent source of income and brand awareness at minimal cost. There are a limited number of public cannabis producers that we believe can consistently produce quality-assured cannabis at scale, and with robust cannabinoid and terpene content. Lotus believes this to be an opportunity in Canada and internationally long-term because of the expertise required to grow a premium cannabis product. With the announced plans to scale current operations, the Company is in a unique position having the capability to reliably produce highly demanded cannabis offerings.

The Company now has a proof of concept with its initial prototype facility and is ready to scale its operation in the North Okanagan once expansion financing is obtained. Revenue is expected to significantly increase with scale while maintaining a similar low cost of production. The facility design has been improved allowing for more customization of production rooms, environmental control and growing procedures. As previously announced, additional HVAC infrastructure was installed during the initial build phase. This, among other factors will improve the overall construction timeline of the Expansion.

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.

INTELLECTIAL PROPERTY

The Company believes it can protect and license certain parts of its facility design and growing processes which contribute to the low-cost of production of consistently high-quality cannabis. Lotus imported a highly diverse and sought-after genetic portfolio comprised of medical-grade cannabis strains that can be used for cultivation, research purposes or for various types of joint ventures. The genetics have been chosen for industry exclusivity, uniqueness and reliability. Lotus holds more than 200 cannabis varieties in its vault that contain rich cannabinoid (high THC) and terpene content.

ARMSTRONG FACILITY

The initial facility is a 22,500 square foot state-of-the-art production facility situated on 23-acres of owned property in the North Okanagan region. The facility was designed for the purpose of producing the highest-quality cannabis at low production costs and the Company is focused on producing in the cleanest environment possible. Lotus integrated state-of-the-art automation for the environmental control, irrigation and lighting schedules helping reduce production costs and boost efficiencies.

The facility accommodates room for each stage of the growing process from seed to sale and conforms to Good Production Practices (G.P.P). This includes custom production room layouts, each with a dedicated hospital-grade HVAC system, and self-contained airlock pass-through rooms ensuring there's no spread of contaminants. The facility operates on a staggered harvest cycle harvesting one of six flower production rooms every 12 days or so. In terms of production, this yields approximately 60,000 grams of premium cannabis per harvest.

FACILITY EXPANSION

With the initial planned expansion in the North Okanagan, Lotus is expected to increase its production capacity significantly from 2,000 kg per year up to an additional 5,000 kg per year of premium cannabis. Building permits have been approved by local officials for up to an additional 30,000 square foot

extension and the Company has continued to accumulate capital and build on its strong sales and profit record which in turn will support financing of the expansion.

GROWING EXPERTISE

The Company conforms to more than 200 proprietary standard operating procedures from seed to sale. The growing methodologies and processes are well-documented from historical experience. Each strain, plant and process has been completely developed to ensure the highest-quality product at a commercial scale. Lotus doesn't require any pesticides to be used on its plants and the product consistently passes third-party laboratory tests for moisture content, microbial levels, mycotoxins, heavy metals and residual solvents.

CORE BRAND



Lotus Ventures Inc. created the brand "Lotus Cannabis Co." for experienced consumers. The Lotus team shares the values of authenticity, knowledge, precision, and integrity and each member of Lotus is fully committed to producing cannabis that resonates with their target consumers.

COMMITMENTS

Lotus has been engaged in business-to-business bulk wholesale since December 2019. Pursuant to Lotus and Auxly Cannabis Group's (TSXV: XLY) long-term purchase and sale agreement dated September 4, 2018, Auxly is entitled to purchase the first 50% of Lotus' production. The second half of Lotus' production is to be sold to a third-party licensed producer at market prices, if Auxly does not purchase the remaining production.

DISTRIBUTION IN CANADA

Lotus currently sells its production through wholesale relationships in Canada. As part of the long-term purchase and sale agreement discussed above, the Company has an offtake agreement with Auxly Cannabis Group Inc. Auxly provides marketing expertise and has distributed the Lotus flower nationally through a collaborative strain launch with Kolab Project. The Lotus Kalifornia strain is sold in Kolab Project packaging in BC, Alberta, Ontario, and New Brunswick with additional provinces to follow. Kolab Project, who is dedicated to providing Canadians with a carefully curated selection of cannabis products, recognized the talent of the Lotus production team and included the Lotus Cannabis name on the packaging for its launch.

RECENT EVENTS

Lotus has not had any material change in operations due to the novel COVID-19 global pandemic. The Company routinely operates in a hospital-grade environment and under strict standard operating protocols with a focus on sanitation. Protection of our team is a top priority and we have implemented additional measures to protect the safety of everyone while on site.

SALES LICENSE AMENDMENT

The Company plans to submit its application for a sales license amendment in 2021 to permit the sale of its own branded product. As the Company is planning to scale operations, selling through bulk wholesale reduces short-term sales risk and provides the Company with consistent cash flow when securing expansion financing. The Company has strong margins as a wholesaler and doesn't believe a sales license amendment to be a critical component of its near-term growth strategy.

MARKET TRENDS

As reported by Health Canada, as of September 2020, dried cannabis sales represented 70% of total sales. Cannabis extracts represented 14% of total sales and edible cannabis sales represented 15%. Lotus continues to be confident in its long-term dried cannabis flower strategy and continues to see an opportunity in the marketplace for an increased supply of high-quality flower offerings. Through the first year of production, the Company found High THC cannabis flower, or cannabis testing greater than 20% THC to be in the highest demand for flower offerings. We believe this to be an incredible opportunity similar across Canada because of our capability to consistently produce a premium product that tests with robust results.

OVERALL PERFORMANCE

The Company is at an early stage in its development and has limited financial resources and commenced operating cash flow in fiscal 2020. The Company will also 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 following selected financial information is derived from the Company's audited financial statements for the years ended August 31, 2020, 2019 and 2018.

Description	Year ended August 31, 2020	Year ended August 31, 2019	Year ended August 31, 2018
<i>Revenues</i>	\$4,629,743	\$Nil	\$Nil
<i>Net income (loss)</i>	\$1,494,002	(\$2,912,490)	(\$2,500,900)
<i>Income (loss) per share, basic and fully diluted</i>	\$0.02	(\$0.04)	(\$0.05)
<i>Total assets</i>	\$16,908,437	\$15,593,896	\$9,289,994
<i>Total long-term liabilities</i>	\$Nil	\$Nil	\$Nil
<i>Cash dividends declared</i>	\$Nil	\$Nil	\$Nil

SUMMARY OF QUARTERLY RESULTS

During the year ended August 31, 2020, the Company had net income of \$1,556,588 (2018 - \$2,912,490). The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended Aug 31, 2020	Three months ended May 31, 2020	Three months ended Feb 28, 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
<i>Revenues</i>	\$1,782,613	\$1,775,878	\$1,071,252	-	-	-	-	-
<i>Net income (loss)</i>	(231,443)	\$1,231,779	(\$335,888)	\$839,554	(973,537)	(\$488,258)	(\$611,431)	(\$839,264)
<i>Income (loss) per share, basic and diluted</i>	\$0.00	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
<i>Total assets</i>	\$16,908,437	\$17,245,515	\$16,541,664	\$16,853,975	\$15,593,896	\$15,430,037	\$14,621,681	\$15,588,263
<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 August 31, 2020 the Company recognized a loss of \$231,443, compared a loss of \$973,537 for the three months ended August 31, 2019. However, this was the second consecutive quarter of revenues exceeding \$1.75 million dollars with an average net income of approximately \$495,000 for the two most recently completed quarters.

Significant items making up the change for the three months ended August 31, 2020 as compared to the three months ended August 31, 2019 were as follows:

- Net loss for the three months ended August 31, 2020 decreased by \$732,094 as a result of the Company recognizing sales of cannabis flower during the period, whereas there were no sales in the comparative period.
- Revenues increased by \$1,782,613 as a result of the Company recognizing sales of cannabis flower during the period, whereas there were no sales in the comparative period.
- Share-based compensation expense decreased by \$415,296 as a result of fewer stock options issued during the period to officers, directors, and consultants of the Company.
- Consulting fees decreased by \$146,074 as a result of the Company as a result of certain management and other consultants fees being included in the costs of production.
- Professional fees increased by \$153,071 due to increased monthly accounting requirements for the facility, and legal fees incurred relating to regulatory filings.
- Property taxes increased by \$65,061 due to the increased taxes as a result of the change in use as a result of the facility being operational.
- Sales commissions increased by \$105,713 as a result of the Company paying commissions on sales made during the 3 months ended August 31, 2020.

FINANCIAL POSITION AND LIQUIDITY

Cash Flows

A summary and discussion of the Company's cash inflows and outflows for the year ended August 31, 2020 and 2019 are as follows:

Operating Activities

During the year ended August 31, 2020, the Company received \$205,040 from operating activities compared to \$3,305,801 spent during 2019. The increase is primarily due to the Company realizing sales during the year.

Financing Activities

The Company received \$620,651 from financing during the year ended August 31, 2020, compared to \$8,946,297 during the year ended August 31, 2019.

Investing Activities

The Company used \$653,731 in investing activities for facility construction costs during the year ended August 31, 2020, compared to \$7,271,601 during the year ended August 31, 2019.

Cash Resources and Going Concern

The Company's cash was \$282,708 on August 31, 2020. The Company has no other liquid assets other than accounts receivables of \$526,529.

As at August 31, 2020, the Company had net working capital of \$975,205. 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.

ADDITIONAL DISCLOSURE

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

	2020	2019
Compensation:		
Consulting fees	\$ 166,500	\$ 313,500
Production costs	67,500	
Rent	43,150	-
Share-based payments	81,120	466,984
	<u>\$ 358,270</u>	<u>\$ 780,484</u>

During the year ended August 31, 2020, the Company accrued management consulting fees of \$84,000 (2019 - \$84,000) to a private company controlled by the Company's President and CEO. As at August 31, 2020, \$35,000 (2019 - \$7,525) was payable to this private company for the unpaid portion of these amounts.

During the year ended August 31, 2020, the Company accrued management consulting fees of \$82,500 (2019 - \$133,500), production costs of \$67,500 (2019 - \$nil) and a bonus of \$nil (2019 - \$96,000) to the Company's COO. As at August 31, 2020, \$67,500 (2019 - \$nil) was payable for the unpaid portion of these amounts.

During the year ended August 31, 2020, the Company paid rent of \$43,150 (2019 - \$nil) to a company with a common director of the Company. As at August 31, 2020, \$8,172 (2019 - \$nil) was payable for the unpaid portion of this amount.

During the year ended August 31, 2020, the Company recorded share-based compensation expense of \$81,120 pursuant to 487,500 stock options issued to directors and officers of the Company.

During the year ended August 31, 2019, the Company recorded share-based compensation expense of \$466,984 pursuant to 2,170,000 stock options issued to directors and officers of the Company.

Proposed Transactions

Other than the private placements detailed in subsequent events below, 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 year ended August 31, 2020.

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 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.

SUBSEQUENT EVENTS

- On September 17, 2020, the Company completed a non-brokered private placement financing of 4,920,000 units (“Units”) at a price of \$0.09 per Unit for gross proceeds of \$442,800. 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 \$0.13 per share for a period of five years from closing. Related parties of the Company subscribed to 2,400,000 Units for gross proceeds of \$216,000.
- On September 15, 2020, The Company granted 1,900,000 share purchase options exercisable for 10 years at a price of \$0.13 per share.

OUTSTANDING SHARE CAPITAL

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

During the year ended August 31, 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 year ended August 31, 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.

Share purchase options:

The Company operates an employee stock option plan. Share-based payments to directors, officers, employees and consultants are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

During the year ended August 31, 2020, the Company granted the following options:

- On October 31, 2019, the Company granted 975,000 share purchase options exercisable for ten years at a price of \$0.20 per share.

The fair value of these share purchase options was estimated using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

Risk-free interest rate (%)	2.54
Expected life (years)	10
Expected volatility (%)	124.18
Expected dividend yield (%)	-

On October 4, 2019, 975,000 options expiring November 3, 2020 were exercised at \$0.20 per share. The fair value of the options was \$160,875 and was reallocated from reserves to share capital.

During the year ended August 31, 2019, the Company granted the following options:

- 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.
- On July 4, 2019, the Company granted 2,520,000 share purchase options exercisable for ten years at a price of \$0.20 per share.

The fair value of these share purchase options was estimated using the Black-Scholes Option Pricing Model based on the following weighted average assumptions:

Risk-free interest rate (%)	1.58 - 2.55
Expected life (years)	10
Expected volatility (%)	134.17 – 136.68
Expected dividend yield (%)	-

On February 26, 2019, 500,000 options expiring December 14, 2019 were exercised at \$0.25 per share. The fair value of the options was \$93,250 and was reallocated from reserves to share capital.

During the year ended August 31, 2020, share-based compensation expense was \$162,240 (2019 - \$811,406).

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	89,969,799	-	-
Stock Options	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
	1,900,000	0.13	September 15, 2030
Warrants	1,608,750	0.25	May 31, 2021
	3,361,750	0.25	October 14, 2021
	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	135,980,489		

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, 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.

Regulatory Risks

Lotus's activities would be subject to regulation by governmental authorities, particularly Health Canada. Achievement of Lotus's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals necessary. Lotus cannot predict the time required to secure all appropriate regulatory approvals. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of Lotus's plans and could have a material adverse effect on the business, results of operations and financial condition of Lotus.

Change in Laws, Regulations and Guidelines

Lotus's improvement of the facility and *Cannabis Act* license are subject to a variety laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of Lotus may cause adverse effects to Lotus. The Government of Canada has enacted the Cannabis Act in 2018. Many aspects of the regulatory environment, notably, sales, marketing and distribution remain uncertain. This could materially and adversely affect the business, financial condition and results of operations of Lotus.

Limited Operating History

Lotus commenced operations in April 2019 with the first harvest completed October 2019. Lotus has been generating revenue from the sale of cannabis products since November 2019 and is cash flow positive in the first year of operations. Lotus is subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that Lotus will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Reliance on a Single Facility

Lotus's presently has one facility located in Spallumcheen, British Columbia. Adverse changes or developments affecting this location could have a material and adverse effect on Lotus's business, financial condition and prospects.

Reliance on Management

The success of Lotus is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on Lotus's business, operating results or financial condition.

Additional Financing

To complete the cannabis sales license amendment application and to expand the facility and equipment will be capital intensive. Lotus is cash flow positive from operations and can fund operations self-sufficiently. Lotus will require equity and/or debt financing to support expansion plans, 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 Lotus when needed or on terms which are

acceptable. Lotus's inability to raise financing, to fund capital expenditures or acquisitions could limit Lotus's growth and may have a material adverse effect upon future profitability. If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for Lotus to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Competition

There is potential that Lotus will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than Lotus. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of Lotus. Because of the early stage of the industry in which Lotus will operate, Lotus expects to face additional competition from new entrants. If the number of users of cannabis in Canada increases, the demand for products will increase and Lotus expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To become and remain competitive, Lotus will require research and development, marketing, sales and client support. Lotus may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of Lotus.

Risks Inherent in an Agricultural Business

Cannabis is an agricultural product. There are risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the products are grown indoors under climate-controlled conditions, with conditions monitored, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

Cannabis growing operations consume considerable energy, making Lotus potentially vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of Lotus and its ability to operate profitably. BC Hydro electricity rates are expected to remain stable over the long-term, giving Lotus a competitive energy advantage over producers in other provinces.

Unfavourable Publicity or Consumer Perception

Lotus believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of Lotus. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical marijuana in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise.

Product Liability

As a producer and distributor of products designed to be inhaled by humans, Lotus would face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the production and sale of cannabis involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. Lotus, pursuant to the Cannabis Act can sell medical cannabis subject to various product liability claims, including, among others, that the cannabis product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against Lotus could result in increased costs, could adversely affect Lotus's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of Lotus. There can be no assurances that Lotus will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of Lotus's potential products.

Product Recalls

Producers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant number of sales. In addition, a product recall may require significant management attention. Additionally, product recall can lead to increased scrutiny of operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses. Lotus operates under strict operating procedures and receives independent third-party laboratory testing for each harvest. Testing includes for moisture content, microbials, mycotoxins, heavy metals, residual solvents and pesticides. Lotus has had zero product recalls and has passed all lab tests to date.

Reliance on Key Inputs

The cannabis business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, Lotus might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to Lotus in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results.

Dependence on Suppliers and Skilled Labour

The ability of Lotus to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that Lotus will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by Lotus's capital expenditure program may be significantly greater than anticipated by Lotus's management, and may be greater than funds available to Lotus, in which circumstance Lotus may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of Lotus.

Difficulty to Forecast Sales

Lotus has maintained a solid financial track record through the first year of production. Lotus can rely largely on its previous results as well as its own market research to forecast sales. Lotus is currently selling all of its production confirming the minimum demand needed to be supplied. A failure in the future demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of Lotus.

Conflicts of Interest

Certain of the directors and officers of Lotus are, or may become directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of Lotus and as officers and directors of such other companies. Lotus' management and insiders own approximately 16% of the outstanding common shares of the company.

Litigation

Lotus may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which Lotus becomes involved be determined against Lotus, such a decision could adversely affect Lotus's ability to continue operating, the market price for Lotus's common shares, and could use significant resources. Even if Lotus is involved in litigation and wins, litigation can redirect significant company resources.

Common Shares Market Price fluctuations

The market price of Lotus's common shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of Lotus and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for Lotus and its subsidiaries, general economic conditions, legislative changes, and other events and factors outside of Lotus's control. In addition, stock markets have from time-to-time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Lotus's common shares.

Earnings and Dividends

Lotus does not anticipate paying any dividends on the common shares in the foreseeable future. Dividends paid by Lotus would be subject to tax and, potentially, withholdings.

Limited Market for Securities

Lotus's common shares are listed on the CSE, however, there can be no assurance that an active and liquid market for the common shares will develop or be maintained and an investor may find it difficult to resell any securities of Lotus. Lotus has raised approximately \$17M in the market through equity private placements to date.

ADDITIONAL INFORMATION

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