LOTUS VENTURES INC.

MANAGEMENT DISCUSSSION
& ANALYSIS

For the six months ended February 28, 2021

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS
For the Six Months Ended February 28, 2021

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, 2021. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the six months ended February 28, 2021; together with the audited financial statements of the Company and the notes thereto for the year ended August 31, 2020 and the Annual MD&A for the year 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

April 29, 2021

COMPANY OVERVIEW

Lotus Ventures Inc. ("**Lotus**" or the "**Company**") was formed by the amalgamation of Strachan Resources Ltd., 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 under the symbol "J", on the OTC Markets under the symbol "LTTSF", and on the Frankfurt Stock Exchange under the symbol "LV9". The Company's corporate office is located in Vancouver, B.C. and the Company's flagship production facility is located near Armstrong, B.C.

KEY FINANCIAL HIGHLIGHTS OF THE SECOND QUARTER OF 2021

- Net revenue of $1.4 million for the three-month period in Q2 2021 compared to $1.1 million in Q2 2020.

- Gross margin before fair value adjustments of $690,000, or 48% of net revenue for the three-month period in Q2 2021 compared to $742,000, or 69% of net revenue in Q2 2020.

- Average wholesale selling price per gram of $2.84 for large flower in Q2 2021. The selling price is a result of blended sales between Auxly Cannabis and to other licensed producers.

- All-in cost of production was $1.47 per gram in Q2 2021 compared to $1.20 per gram in Q2 2020. The increase in production cost is a result of the Company producing at full capacity.

- Operating expenses of $370,000 for the three-month period in Q2 2021 compared to $403,000 in Q2 2020.

- Net income of $329,000 for the three-month period in Q2 2021 or 23% of net revenue compared to a net loss of $335,888 in Q2 2020.

KEY OPERATING HIGHLIGHTS OF THE SECOND QUARTER OF 2021

- Cost of sales was a result of selling approximately 503,000 grams in Q2 2021 compared to 283,000 grams in Q2 2020.

- The Kalifornia strain grown by Lotus was the 7th best-selling 3.5-gram flower SKU by dollar amount in Ontario during the 12-week period ending March 31, 2021.

- The Kalifornia was the 6th best-selling 3.5-gram flower SKU by dollar amount in New Brunswick during the 12-week period ending March 31, 2021.

- The Kalifornia was the 2nd best-selling 3.5-gram flower SKU in the Canna Cabana national retail network in December 2020.

- The Kalifornia continues to consistently test with greater than 22% THC reaching up to 28% and with up to 4.5% in terpene content.

KEY SUBSEQUENT EVENTS OF THE SECOND QUARTER OF 2021

- The Kalifornia is currently listed in the following provinces: British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland through a combination of private and provincial retail stores.

- The Kolab Project Kalifornia grown by Lotus Cannabis was selected by the Ontario Cannabis Store as a "Top 100 Listing" that is expected to consistently be in stock. The Kalifornia is also considered a "customer favourite" and was included on two new OCS pages – "Always Available" and "Peak THC".

- In the second week of April 2021, the Kalifornia strain had its highest weekly sales volume by units in Ontario by approximately 2.75x the average weekly unit sales.

BUSINESS OVERVIEW

Lotus Ventures Inc. is a licensed cannabis producer and distributes premium cannabis in Canada through wholesale relationships.

Lotus obtained a Standard Cultivation license and a Sale for Medical Purposes license from Health Canada pursuant to the Cannabis Act (the "Act") on March 8, 2019.

The Company constructed a 22,500 square foot indoor production facility on 23 acres of owned farmland in the North Okanagan region. The facility was purpose-built to produce premium cannabis that consistently passes the product quality standards set out by Health Canada.

Lotus produces unique and exclusive cannabis genetics with high THC and terpene content, which are not expected to be grown by competing Licenced Producers. The Company introduced its premium-craft brand Lotus Cannabis Co. and launched its initial strain called the Kalifornia across Canada in collaboration with Kolab Project.

STRATEGY AND OUTLOOK

The Company leverages its combined expertise of business, real estate development, horticulture and marketing, and created a scalable purpose-built production facility to become a trusted provider of craft cannabis. The initial operation integrates highly calibrated and automated systems and a pharmaceutical-grade design which contributes to the low cost of production and strong margins. The optimal growing environment results in a product that tests higher for cannabinoid content, such as THC and terpenes which has proven to be what the consumer is looking forward.

Lotus currently sells production to wholesale partners across Canada which provides the Company with a consistent source of income and consumer brand awareness at a minimal cost. There are a limited number of public and independent cannabis producers that we believe can consistently produce quality-assured cannabis at scale, and with high THC 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 consistently.

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

WHOLLY OWNED 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 parts of its facility design and growing processes which contribute to the low-cost of production of premium cannabis. Lotus believes the Intellectual Property can be utilized on a global scale as more countries and producers look for reliable indoor cannabis production alternatives.

FLAGSHIP ARMSTRONG FACILITY

The facility is licensed to cultivate cannabis and accommodates room for each stage of the growing process. The design 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 or pests. The facility conforms to Good Production Practice (G.P.P) standards and operates a staggered harvest schedule harvesting one of six flower production rooms on a biweekly basis. In terms of production, this yields approximately 60,000-70,000 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 100 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.

GENETIC PORTFOLIO

Lotus imported a highly diverse and exclusive strain portfolio comprised of more than 200 varieties of craft cannabis strains. The strains can be used for cultivation and sale, research purposes or for various types of joint ventures. The strains have been chosen for their results, uniqueness, and reliability.

CORE BRAND

lotus™ CANNABIS CO.

Lotus Ventures Inc. created the brand "Lotus Cannabis Co." for premium-craft cannabis 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 British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland. Kolab Project, who provides Canadians with a carefully curated selection of cannabis products, recognized the talent of the Lotus production team and included the Lotus Cannabis Co. name on the packaging for its launch.

The collaboration provides Lotus with an efficient way to distribute its cannabis flower across Canada utilizing two of the largest retail networks by number of locations and by revenue in Canada. Inner Spirit Holding’s (CSE:ISH) and High Tide’s (TSXV:HITI) retail network includes the Spiritleaf and Canna Cabana franchises which are expected to have over a combined 100 cannabis stores operational across Canada by the end of 2021.

COVID UPDATE

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.

MARKET TRENDS

As reported by Health Canada, as of April 2021, dried cannabis flower and pre-roll sales represented approximately 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 demand in the marketplace for high THC 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 has transitioned from the start-up phase and has commenced operating cash flow. 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 28, 2021	Three months ended Nov 30, 2020	Three months ended Aug 31, 2020	Three months ended May 31, 2020	Three months ended Feb 29, 2020	Three months ended Nov 30, 2019	Three months ended Aug 31, 2019	Three months ended May 31, 2019
Revenues	$1,431,509	$1,376,270	$1,782,613	$1,775,878	$1,071,252	-	-	-
Cost of Goods Sold	$(741,533)	$(616,880)	$(683,159)	$(807,079)	$(329,348)	-	-	-
Gross Margin	$698,919	$848,566	$663,831	$1,671,649	$66,843	-	-	-
Net Income (Loss)	$329,414	$(339,835)	$(231,443)	$1,231,779	($335,888)	$839,554	($973,537)	($488,258)
Net Income (Loss) per Share, Basic and Diluted	$0.00	$0.00	$0.00	$0.01	$0.00	$0.01	$0.01	$0.01
Total Assets	$16,841,875	$16,413,969	$16,908,437	$17,245,515	$16,541,664	$16,853,975	$15,593,896	$15,430,037
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 six months ended February 28, 2021, the Company recognized a loss of $10,421 compared a net income of $503,666 for the six months ended February 29, 2020. However, revenues continued to exceed $1.376 million for the fourth consecutive quarter.

Significant items making up the change for the six months ended February 28, 2021 as compared to the six months ended February 29, 2020 were as follows:

- Revenues increased by $1,736,527 as a result of the Company recognizing sales of cannabis flower during the period, whereas there were no sales in part of the comparative period.

- Gross margin increased by $170,642 as a result of the increase in sales of cannabis flower during the period, whereas there were no sales in part of the comparative period.

- Professional fees decreased by $20,030 due to the Company decreasing legal activities as there were no legal fees incurred for the private placement that closed during the period.

- Consulting fees increased by $542,344 as a result of the Company issuing bonuses to key management and consultants during the current period.

- Sales commissions increased by $49,925 during the period as there were no sales in the comparative period.

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, 2021 and 2020 are as follows:

Operating Activities

During the six months ended February 28, 2021, the Company received $241,073 from operating activities compared to $425,207 spent during the comparative period. The increase is primarily due to the Company recognizing sales in the most recent period, whereas there were no sales in the comparative period.

Financing Activities

The Company paid $302,663 of loans payable during the six months ended February 28, 2021, compared to $nil during the six ended February 29, 2020.

The Company received $442,800 cash for shares issued during the six months ended February 28, 2021, compared to $nil during the six ended February 29, 2020.

Investing Activities

The Company used $313,738 in investing activities during the six months ended February 28, 2021, compared to $197,587 during the six months ended February 29, 2020.

Cash Resources and Going Concern

The Company's cash was $350,180 at February 28, 2021. The Company has no other liquid assets other than accounts receivable of $467,476.

As at February 28, 2020, the Company had net working capital of $1,890,325 (August 31, 2020 – $975,205). The company is in a good cash position and it is not likely that it needs to raise additional financing in order to maintain operations and cover administrative costs.

ADDITIONAL DISCLOSURE

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

	February 28, 2021	February 29, 2020
Compensation:		
Consulting fees and bonuses	$ 314,300	$ 50,000
Production costs	50,028	-
Rent	8,700	-
Share-based payments	81,982	81,120
	$ 455,010	$ 131,120

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 28, 2021.

Proposed Transactions

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

Changes in Accounting Policies including Initial Adoption

Significant accounting policies can be found in Note 3 of the financial statements for the period ended February 28, 2021.

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.

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, 2021, the Company completed the following share issuance:

- On September 17, 2020, the Company completed a private placement 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.

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.

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 period ended February 28, 2021, the Company granted the following options:

- On September 15, 2020, the Company granted 1,900,000 share purchase options exercisable for ten years at a price of $0.13 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 (%)	0.57
Expected life (years)	10
Expected volatility (%)	135.57
Expected dividend yield (%)	-

During the period ended February 29, 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.

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	89,969,799	-	-
Stock Options	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
	3,361,250	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
	4,920,000	0.13	September 17, 2025
Fully diluted	140,749,489		

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 interim financial statements for the period ended November 30, 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.