LOTUS VENTURES INC.

MANAGEMENT'S DISCUSSSION & ANALYSIS

For the six months ended February 28, 2022

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS
For the Six Months Ended February 28, 2022

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, 2022. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the six months ended February 28, 2022; together with the audited financial statements of the Company and the notes thereto for the year ended August 31, 2021 and the Annual MD&A for the year ended August 31, 2021. The interim 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, 2022

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 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 registered office address is Suite 1010 – 1030 West Georgia Street, Vancouver, B.C. V6E 2Y3 and the Company's production facility is located near Armstrong, B.C.

BUSINESS OVERVIEW

Lotus Ventures Inc. is a licensed cannabis producer which cultivates and sells cannabis in Canada. The Company purpose-built a proprietary 22,500 square foot indoor production facility located on 23 acres of owned farmland in the North Okanagan, B.C. The facility was designed to produce cannabis at a low-cost, while maintaining the consistent premium quality from harvest to harvest.

The Company was issued its Standard Cultivation, Standard Processing, and Medical Sales licenses by Health Canada pursuant to the *Cannabis Act*. The licenses authorize Lotus to cultivate, process and sell cannabis to wholesalers and distributors supplying the provincial and territorial cannabis retailers, to individuals who have registered to obtain cannabis products for medical purposes ("registered patients") or by selling bulk cannabis to other federal license holders. Lotus has focused its efforts on the wholesale bulk cannabis market to date.

Lotus leverages its growing expertise, exclusive strain collection and custom growing facility to consistently yield cannabis strains with high THC, terpene, and other cannabinoid content. Many strains grown and sold by Lotus are not expected to be grown by competing licensed producers.

The Company introduced its premium consumer brand Lotus Cannabis Co.™ and launched its initial strain offering, the 'Kalifornia' which was sold across Canada in several provinces through a collaboration with Kolab Project Inc.

STRATEGY AND OUTLOOK

The Company is focused on the production and sale of cannabis products in Canada. The Company's market opportunities are:

• **Canadian Wholesale Cannabis Market**: The Company continues to obtain favourable market prices for its premium dried cannabis flower on the wholesale market with gross margins consistently over 30%. The Company has experienced some price compression along with the industry and is actively working on introducing additional products over the next fiscal year.

• **Canadian Adult-Use Cannabis Market**: Growth in the domestic adult-use cannabis market will provide the Company more opportunity to reach consumers and increase product offerings and brand presence. The Company continues to be focused on the premium flower and pre-roll segments of the market as they continue to exceed 60% of total sales in Canada and the Company expects to target higher margin recreational opportunities[1].

• **International Medical Cannabis Market**: As more countries continue to provide access to medical cannabis, the Company sees a long-term opportunity for premium, indoor cannabis growers with the required certifications, to supply international medical cannabis companies. Over the past year the Company has yielded interest from European medical providers.

• Premium Flower Products with High THC Continues to be Lotus' Focus: Consumers in the Canadian market continue to demand consistent and high-quality cannabis flower which is proxied by THC and terpene content. Indoor production provides Canadian producers with the most reliability to provide consumers with a consistent product continuously year-round.

ARMSTRONG PROPERTY

On November 7, 2015, the Company entered into a three-year lease agreement on the property near Armstrong, B.C. 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.

[1] Government of Canada, Cannabis Market Data: Overview for the March 2021 Reporting Period

ARMSTRONG FACILITY – PHASE 1

Phase 1 of our facility near Armstrong B.C. is 22,500 square feet and is licensed to cultivate, process, and sell cannabis. The facility is purpose-built using controlled environment agriculture practices to ensure consistent commercial cannabis production. The facility accommodates room for each stage of the growing process from propagation to packaging and was designed to conform to pharmaceutical-grade standards. The facility also includes six separate "small-batch" flowering production rooms. Each room is harvested perpetually every two weeks and yields approximately 65,000 grams of premium cannabis per harvest.

ARMSTRONG FACILITY – PHASE 2

Phase 2 of the Armstrong Facility will utilize the same indoor purpose-built design as Phase 1. With the announced expansion plans in the North Okanagan, the Company is expected to increase its production capacity from 2,000 KG per annum up to 7,000 KG per annum. Building permits have been approved by local officials for the 30,000 square foot extension and the Company has continued to work with lenders to secure favourable long-term financing.

INTELLECTUAL PROPERTY

The Company believes its intellectual property includes its proprietary facility design, standard operating procedures, growing know-how, brand value, and unique cannabis genetics, which contribute to the low-cost of production of high THC premium cannabis. The Company believes its IP is attractive on a global scale as more countries and producers look for reliable commercial indoor cannabis production alternatives.

GROWING KNOW-HOW

The Company shares decades of controlled environment agriculture experience which has prepared the team to profitably produce craft cannabis at scale. The Company conforms to proprietary standard operating procedures from seed to sale and the growing methodologies have been well-documented from historical experience. The Company does not require any pesticides or sprays to be used on its plants and the product has consistently passed third-party laboratory tests for high THC and terpene content, moisture content, microbial levels, mycotoxins, heavy metals, and residual solvents.

PLANT GENETICS

The Company holds a unique cannabis genetic portfolio comprised of more than 200 craft cannabis strains. Lotus' strain portfolio has old school classics as well as brand new offerings for the Canadian adult-use market. The strains can be used for cultivation, processing and sale, research purposes or for various types of joint ventures. The strains have also been individually selected for their unique names, consistent results and consumer appeal.

CANADIAN CONSUMER BRAND

lotus™ CANNABIS CO.

Lotus Ventures Inc. created the consumer brand "Lotus Cannabis Co.™" for premium 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 our target consumers.

Since launching the initial Kalifornia strain in collaboration with Kolab Project, the sales results across Canada have been encouraging for future strains in development. The high THC Kalifornia was sold by Kolab Project in at least eight provinces to date and reached the top 10 selling 3.5-gram SKU by dollar amount in Alberta, Ontario, and New Brunswick.

COMMITMENTS

Lotus has been engaged in business-to-business bulk cannabis wholesale since December 2019. Pursuant to Lotus and Auxly Cannabis Group's (TSX: 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 exercise its right to purchase the remaining production.

DISTRIBUTION IN CANADA

As the Company sells its bulk cannabis through wholesale relationships in Canada, the Company utilizes its offtake agreement with Auxly Cannabis Group Inc. where Auxly provides marketing expertise and distribution for the Lotus flower nationally. The Lotus Kalifornia strain has been sold in Kolab Project x Lotus Cannabis Co. packaging in British Columbia, Alberta, Saskatchewan, Ontario, New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland. Kolab Project, which provides Canadians with a carefully curated selection of cannabis products, recognized the talent of the Lotus production team, and included the Company name on the packaging. The collaboration has provided Lotus with an efficient way to distribute its cannabis flower across Canada to both provincial and private retailers.

MARKET TRENDS

Continued reporting from Health Canada and the Ontario Cannabis Store indicates dried flower and pre-roll offerings command greater than 60% of total market sales in Canada.[2] Similar market trends have also been seen in mature American markets like Colorado. Lotus continues to be confident in its long-term premium dried cannabis flower strategy and continues to see demand in the marketplace for high-quality flower offerings. High THC cannabis flower, or cannabis testing greater than 22% THC continues to be in the highest demand for flower potency levels. Consumers have matured with the market and have a better understanding of the THC and terpene profiles they're looking for.

OVERALL PERFORMANCE

The Company is at an early stage in its development and has limited financial resources. The Company will also require cash flow from operations, equity and/or debt financing to support or 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, 2021, 2020 and 2019.

Description	Year ended August 31, 2021	Year ended August 31, 2020	Year ended August 31, 2019
Revenues	$5,481,479	$4,629,743	$Nil
Net income (loss) *Income (loss) per share, basic and fully diluted*	$241,097 $0.00	1,494,002 $0.02	($2,912,490) ($0.04)
Total assets	$16,907,742	$16,908,437	$15,593,896
Total long-term liabilities	$Nil	$Nil	$Nil
Cash dividends declared	$Nil	$Nil	$Nil

SUMMARY OF QUARTERLY RESULTS

During the six months ended February 28, 2022, the Company had net income of $241,420 (2021 - $10,421 net loss). The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended Feb 28, 2022	Three months ended Nov 30, 2021	Three months ended Aug 31, 2021	Three months ended May 31, 2021
Revenues	$370,551	$410,568	$1,235,937	$1,437,763
Net income (loss)	$176,127	$65,293	$42,625	$208,893
Income (loss) per share, basic and diluted	$0.00	$0.00	$0.00	$0.00
EBITDA	$399,757	$279,830	$264,876	$433,488
Total assets	$17,678,148	$17,172,703	$16,907,742	$16,845,615
Total long-term liabilities	$Nil	$Nil	$Nil	$Nil
Cash dividends / share	$Nil	$Nil	$Nil	$Nil

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
Revenues	$1,431,509	$1,376,270	$1,782,613	$1,775,878
Net income (loss)	$329,414	$(339,835)	$(241,443)	$1,231,779
Income (loss) per share, basic and diluted	$0.00	$0.00	$0.00	$0.01
EBITDA	$547,044	$(116,506)	$(26,639)	$1,458,827
Total assets	$16,841,875	$16,413,969	$16,908,437	$17,245,515
Total long-term liabilities	$Nil	$Nil	$Nil	$Nil
Cash dividends / share	$Nil	$Nil	$Nil	$Nil

During the six months ended February 28, 2022 the Company recognized a net income of $241,420, compared a loss of $10,421 for the six months ended February 28, 2021.

Net income for the six months ended February 28, 2022 increased by $251,841 as a result of the Company reducing costs in the current period as compared to the prior comparative period.

Significant items making up the change for the six months ended February 28, 2022 as compared to the six months ended February 28, 2021 were as follows:

- Gross margin decreased by $841,430 as a result of the decrease in sales.

- Consulting fees decreased by $588,501 as a result of lower expenditures on overhead and some management and other consultants' fees being included in the costs of production.

- Office expenses decreased by $86,265 as a result of lower expenditures on overhead and rent.
- Share-based compensation decreased by $183,254 as a result of not issuing share-based compensation to management during the period.
- A government grant of $140,245 for Canada Emergency Wage Subsidy ("CEWS") was received in the six months ended February 28, 2022.

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, 2022 and 2021 are as follows:

Operating Activities

During the six months ended February 28, 2022, the Company spent $830,720 for operating activities compared to $241,073 received during 2021. The decreased in cash flow is primarily due to the decrease in sales during the period and increased inventory.

Financing Activities

The Company received $485,063 from financing activities during the period ended February 28, 2022, compared to $140,137 received during the six months ended February 28, 2021.

Investing Activities

The Company used $56,610 in investing activities for facility construction costs during the six months ended February 28, 2022, compared to $313,738 during the six months ended February 28, 2021.

Cash Resources and Going Concern

The Company's cash was $177,911 on February 28, 2022. The Company has no other liquid assets other than accounts receivables of $233,281.

As at February 28, 2022, the Company had net working capital of $2,843,965. 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

Related Party Transactions

	February 28, 2022	February 28, 2021
Compensation:		
Consulting fees	$ 24,000	$ 314,300
Production costs	93,992	50,028
Rent and Accounting	20,122	8,700
Share-based payments	-	81,982
	$ 138,114	$ 455,010

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, 2022.

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 unaudited financial statements for the six months ended February 28, 2022.

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, 2022, the Company had no share issuances.

During the six months ended February 28, 2021, the Company completed the following share issuances:

- 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.

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 six months 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 six months ended February 28, 2022, share-based compensation expense was $nil (2021 - $183,254).

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	1,145,000	0.35	November 9, 2027
	1,025,000	0.50	March 20, 2028
	580,000	0.30	October 4, 2028
	2,350,000	0.20	July 4, 2029
	975,000	0.20	October 31, 2029
	1,870,000	0.13	September 15, 2030
Warrants			
	10,036,100	0.70	January 22, 2023
	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	133,615,899		

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 unaudited interim financial statements for the six months ended February 28, 2022.

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’ 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’ activities would be subject to regulation by governmental authorities, particularly Health Canada. Achievement of Lotus' 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’ 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’ 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 two years 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 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’ 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' 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' inability to raise financing, to fund capital expenditures or acquisitions could limit Lotus' 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' 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' 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' capital expenditure program may be significantly greater than anticipated by Lotus' 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' ability to continue operating, the market price for Lotus' 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' 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' 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' 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' 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.