MANAGEMENT DISCUSSSION & ANALYSIS

For the year ended August 31, 2022

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS
For the Twelve Months Ended August 31, 2022

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the “Company” or “Lotus”) for the twelve months ended August 31, 2022. The discussion should be read in conjunction with the Annual Consolidated Financial Statements (audited) for the twelve months ended August 31, 2022; the audited consolidated 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

February 15, 2023

COMPANY OVERVIEW

Lotus Ventures Inc. was formed by the amalgamation of Strachan Resources Ltd. (“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.

Lotus Ventures Inc. (“Lotus” or the “Company”) is a Canadian licensed producer of high-quality, premium-craft cannabis. Lotus built and cultivates cannabis at its 22,500 square foot indoor hydroponic production facility which is located on 23 acres of farmland in the North Okanagan, British Columbia. Lotus grows premium cannabis flower which is sold on the wholesale, recreational and medical markets in Canada. Lotus owns and operates the premium-craft consumer brand Lotus Cannabis Co.™ which has had its flower sold in all provinces to date by wholesale partners.

Lotus Ventures Inc. is a publicly traded company with its shares listed on the Canadian Securities Exchange (CSE:J), OTC Markets (OTC:LTTSF) and Frankfurt Stock Exchange (FRA:LV9). The Company’s registered office is Suite 1010 – 1030 West Georgia Street, Vancouver, B.C. and the Company’s production facility is located in the North Okanagan near Armstrong, B.C.

FISCAL YEAR 2022 HIGHLIGHTS

CORPORATE HIGHLIGHTS

The primary feature of Fiscal 2022 was the diversification of sales channels from an almost exclusive business-to-business ("B2B") model to a number of retail and other channels. Difficulties in our B2B market generated a steep decline in sales volumes and pricing which culminated in a large year-end loss of $4,792,759 after significant inventory and fair value accounting write-downs. Overheads and operating expenses are lean and the Company has obtained short-term debt from related parties during this transition period. At the date of this MD&A, sales are recovering as we implement the marketing and sales strategy initiated last year. The highlights of our efforts are as follows:

- Lotus received approval for the Direct Delivery sales program in British Columbia for cultivators producing under 3,000kg per year. The Company utilized the program via wholesale relationships in BC.

- Building on the evolving Sales Diversification Strategy detailed in the news release dated July 27, 2022, Lotus has made progress in BC by adding and diversifying wholesale partners locally.

- Lotus continued the development of its product portfolio of exclusive strains in the legal Canadian market. Lotus added three premium strains to its production which are brand new to the Canadian recreational market. The Company applied for multiple provincial product calls across Canada and as of the date of this MD&A, Lotus has its Keylime Kush strain sold in British Columbia.

SALES AND MARKETING HIGHLIGHTS

- In April 2022, Lotus launched the Tranquil Elephantizer in collaboration with Kolab Project. During the year, the Tranquil Elephantizer was sold in a 3.5 gram format in British Columbia and Ontario. Lotus continued sales efforts for the Kalifornia and Tranquil Elephantizer with products listed in British Columbia and Ontario during the year.

- The Company sold a total of 1,013kg of cannabis in the 12-month period, generating revenue of $1.6 million. Bulk wholesale of cannabis accounted for 100% of revenue during the 12-month period. The Lotus flower was sold primarily in British Columbia and Ontario during the year compared to in several provinces in previous years.

- During the year, the wholesale selling price of flower was between $1.25 and $3.50 per gram. The overall market has become oversaturated which has resulted in price compression.

OPERATIONAL HIGHLIGHTS

- During the year, Lotus completed its 100th consecutive production harvest since commencing operations in 2018. The Company has found operational success with its Controlled Environment Agriculture (CEA) method of indoor hydroponic cannabis cultivation.

- Lotus harvested its largest single LOT of the Tranquil Elephantizer with over a 50% greater yield than original expectations. Tranquil Elephantizer has been grown with THC ranging between 21% to 28% and terpene content between 2.0% and 3.3%.

- The Company produced 2,008kg during the 12-month period ending August 31, 2022 compared to 2,200kg in the prior year period. As at August 31, 2022, the Company had approximately 1,439kg of cannabis available for sale consisting of the Kalifornia and Tranquil Elephantizer strains.

- Lotus finished developing its subsequent premium cannabis strains, following strong launches of the Kalifornia and Tranquil Elephantizer. Building on tradition, the recently grown Lotus strains are again expected to be first-to-market in Canada and will range from 24% to 30% in THC content and between 2.5% and 3.5% in terpene content.

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.

FLAGSHIP ARMSTRONG FACILITY

Phase 1 of the Company's facility near Armstrong B.C. is 22,500 square feet and is licensed to cultivate, produce, 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 the highest standards. The facility also includes six separate "small-batch" flowering production rooms. Each room is harvested perpetually every two weeks year-round and yields approximately 70,000 grams of premium cannabis per harvest. The Company's current production capacity is approximately 2,000kg per year.

INTELLECTUAL PROPERTY ("IP")

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

SALES CHANNEL STRATEGY

Lotus continues to be focused on producing premium flower products with high THC and high terpene content with the following market opportunities:

- **Canadian Wholesale Cannabis Market**: Lotus sells cannabis on the business-to-business wholesale market in Canada. Lotus has had its premium flower sold by wholesale partners in all 10 provinces to date. Most notably from the collaborative strain launches of the Kalifornia and Tranquil Elephantizer.

- **Canadian Recreational Cannabis Market**: Lotus is continuing to evolve its domestic sales channels approach and has added the Canadian adult-use market. Lotus has completed the application process into multiple provinces and as of the date of this MD&A, Lotus is selling its new Keylime Kush strain in British Columbia.

- **International Medical Cannabis Market**: Lotus continues to gain interest in its premium indoor grown flower from potential international export opportunities. Following the required certification process, Lotus believes its flower can be sold in international markets.

SALES BY PROVINCE

Lotus flower has been sold in all Canadian provinces to date, on medical platforms, provincial websites and in over 150 retail stores across the country. The following is an overview of sales by province:

British Columbia
During the 2022 fiscal year, Lotus' Kalifornia and Tranquil Elephantizer flower was sold in British Columbia and Ontario. Lotus has developed further production and launched two exclusively grown strains in British Columbia with a private company. The strains are called Lemon Tini and Black Blossom and are sold in 3.5 gram premium glass jars.

Alberta
Lotus also launched the Black Blossom with a private company in Alberta. The Black Blossom is an exclusively grown strain and is available in a 7 gram SKU in Alberta.

Saskatchewan
The Company does not currently have any active flower sales in Saskatchewan.

Manitoba
Towards the end of the 2022 fiscal year, Lotus sold flower product via wholesale, which in turn sent Lotus flower to a private Manitoba based licensed producer. Lotus flower is expected to be sold through white label product launches in Manitoba.

Ontario
Lotus has its Kalifornia flower and Tranquil Elephantizer strains sold on the Ontario Cannabis Store in collaboration with Kolab Project. Ontario is the largest provincial market and Lotus has been approved for the Spring 2023 OCS product call.

Quebec
Lotus flower is sold in collaboration with Kolab Project on the Mendo Medical cannabis platform which is based in Quebec.

Atlantic Canada
The Company has applied for a provincial product call in the Atlantic Canada region with notification expected over the coming months.

BRAND AND PRODUCT PORTFOLIO

LOTUS CANNABIS CO. ™

Lotus has established the consumer brand, Lotus Cannabis Co.™ as a brand that delivers premium flower to consumers. The brand has been introduced to consumers nationwide through wholesale collaborations, building a strong foundation for the Company's sales evolution.

lotus™
CANNABIS CO.

The Company has focused on the production of premium-craft flower which is exclusive to the legal Canadian market. Lotus has found its success in producing the following four premium-craft strains:

- Kalifornia
- Tranquil Elephantizer
- Lemon Tini
- Black Blossom

The strains noted above test consistently high for THC and terpene content, two of the main consumer purchasing drivers. Lotus has continued its tradition of growing premium and rare genetics which consumers find desirable.

MARKET TRENDS

Over the year, Lotus found the wholesale market to become less desirable and continued the development of its long-term sales diversification dried cannabis flower strategy. Lotus continues to see demand in the market for premium and trustworthy flower offerings. High THC and terpene cannabis flower continues to be in the highest demand for the dried flower and pre-rolls segments. The THC benchmark has continued to elevate closer to 25%, further exemplifying the need for reliable controlled environment indoor cannabis production.

Companies from Israel, Germany and Australia show interest in premium indoor Canadian grown flower. Lotus will continue to watch countries develop their medical and recreational legislation and seek opportunities to supply medical grade cannabis internationally when and where permitted. Currently in Canada there are similar premium, indoor focused producers that have completed the necessary licensing and permitting process to be able to ship product to other countries. For the time being, Lotus is still focused on delighting its consumers in Canada.

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 consolidated financial statements for the years ended August 31, 2022, 2021 and 2020.

Description	**Year ended August 31, 2022**	**Year ended August 31, 2021**	**Year ended August 31, 2020**
Revenues	$1,689,783	$5,481,479	$4,629,743
Net income (loss)	($4,792,759)	$241,097	$1,494,002
Income (loss) per share, basic and fully diluted	($0.05)	$0.00	$0.02
Total assets	$13,471,193	$16,907,742	$16,908,437
Total long-term liabilities	$Nil	$Nil	$Nil
Cash dividends declared	$Nil	$Nil	$Nil

SUMMARY OF QUARTERLY RESULTS

During the year ended August 31, 2022, the Company had net loss of $4,792,759 (2021 - $301,797 net income). The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended Aug 31, 2022	Three months ended May 31, 2022	Three months ended Feb 28, 2022	Three months ended Nov 30, 2021
Revenues	$449,574	$459,090	$370,551	$410,568
Net income (loss)	($4,930,606)	($103,573)	$176,127	$65,293
Income (loss) per share, basic and diluted	($0.05)	$0.00	$0.00	$0.00
EBITDA	($4,633,554)	$122,671	$399,757	$279,830
Total assets	$13,471,193	$17,640,121	$17,678,148	$17,172,703
Total long-term liabilities	$Nil	$Nil	$Nil	$Nil
Cash dividends / share	$Nil	$Nil	$Nil	$Nil

Description	Three months ended Aug 31, 2021	Three months ended May 31, 2021	Three months ended Feb 28, 2021	Three months ended Nov 30, 2020
Revenues	$1,235,937	$1,437,763	$1,431,509	$1,376,270
Net income (loss)	$42,625	$208,893	$329,414	$(339,835)
Income (loss) per share, basic and diluted	$0.00	$0.00	$0.00	$0.00
EBITDA	$264,876	$433,488	$547,044	$(116,506)
Total assets	$16,907,742	$16,845,615	$16,841,875	$16,413,969
Total long-term liabilities	$Nil	$Nil	$Nil	$Nil
Cash dividends / share	$Nil	$Nil	$Nil	$Nil

During the three months ended August 31, 2022 the Company recognized a net loss of $4,930,606, compared net income of $42,625 for the three months ended August 31, 2021.

Net income for the three months ended August 31, 2022 decreased by $4,962,812 as a result of the decline in sales and gross margin, and impairment of inventory in the current period as compared to the prior comparative period.

Significant items making up the change for the three months ended August 31, 2022 as compared to the three months ended August 31, 2021 were as follows:

- Gross margin before fair value adjustments decreased by $838,566 as a result of the decrease in sales and impairment of inventory.

- Impairment of $1,437,000 in harvested cannabis inventory recognized due to the capitalized costs exceeding the estimated net realizable value of that inventory in the three months ended August 31, 2022.

- Loss for changes in fair market value of biological assets increased by $2,455,985 due to decline in the market prices.

- Bank fees and interest increased by $122,597 as a result of increase in interest on outstanding loans received.

FINANCIAL POSITION AND LIQUIDITY

Cash Flows

A summary and discussion of the Company's cash inflows and outflows for the year ended August 31, 2022 and 2021 are as follows:

Operating Activities

During the year ended August 31, 2022, the Company spent $1,113,156 for operating activities compared to $909,417 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 $638,914 from financing activities during the year ended August 31, 2022, compared to $5,016 paid during the year ended August 31, 2021.

Investing Activities

The Company used $59,139 in investing activities for facility construction costs during the year ended August 31, 2022, compared to $606,932 during the year ended August 31, 2021.

Cash Resources and Going Concern

The Company's cash was $46,796 on August 31, 2022. The Company has no other liquid assets other than accounts receivables of $9,364.

As at August 31, 2022, the Company had a working capital deficiency of $1,779,924 (2021 – working capital of $2,246,414). 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

	2022	2021
Compensation:		
Consulting fees	$ 146,000	$ 349,033
Production costs	264,636	151,855
Rent and Accounting	34,936	40,513
Share-based payments	-	81,982
	$ 445,572	$ 623,383

During the year ended August 31, 2022, the Company incurred management consulting fees of $146,000 (2021 – $79,033) and a bonus of $nil (2021 - $135,000), included in consulting fees for the year, to a private company controlled by the Company's President and CEO. As at August 31, 2022, $143,468 (August 31, 2021 - $300) was payable to this private company for the unpaid portion of these fees and miscellaneous expense reimbursements.

During the year ended August 31, 2022, the Company incurred salaries allocated to production costs of $264,636 (2021 - $151,855) and a bonus of $nil (2021 - $135,000), included in consulting fees for the year, to the Company's COO. As at August 31, 2022, $101,000 (2021 - $nil) was payable for the unpaid portion of these amounts.

During the year ended August 31, 2022, the Company paid rent and accounting fees of $34,936 (2021 $40,513) to a private company controlled by a director of the Company. As at August 31, 2022, $58,308 (2021 - $21,625) was payable for the unpaid portion of these amounts.

During the year ended August 31, 2021, the Company recorded share-based compensation expense of $81,982 pursuant to 850,000 stock options issued to directors and officers of the Company.

Refer also to Notes 9 and 13 of the audited consolidated financial statements.

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 audited consolidated financial statements for the year ended August 31, 2022.

SUBESEQUENT EVENT

Subsequent to August 31, 2022, $1,000,000 was advanced to the Company by a director. The loan bears interest at 15%, is secured by certain inventory of the Company and is due in full on or before November 15, 2023.

OUTSTANDING SHARE CAPITAL

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

During the year ended August 31, 2022, the Company had no share issuances.

During the year ended August 31, 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. Refer also to Note 8.

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.

The Company did not have any share option transactions during the year ended August 31, 2022.

During the year ended August 31, 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 year ended August 31, 2022, share-based compensation expense was $nil (2021 - $183,254).

Details of granted, exercised, and outstanding stock options are as follows:

	Year Ended August 31, 2022		Year Ended August 31, 2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
		$		$
Balance at the beginning of the year	8,245,000	0.25	7,960,000	0.29
Granted	-	-	1,900,000	0.13
Cancelled/forfeited	-	-	(1,615,000)	0.29
Outstanding, end of the year	8,245,000	0.25	8,245,000	0.25

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
	880,000	0.30	October 4, 2028
	2,350,000	0.20	July 4, 2029
	1,275,000	0.20	October 31, 2029
	1,870,000	0.13	September 15, 2030
Warrants			
	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	123,879,799		

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 consolidated financial statements for the year ended August 31, 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.