



**MANAGEMENT DISCUSSION
& ANALYSIS**

For the six months ended February 28, 2023

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS

For the Six Months Ended February 28, 2023

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the “Company” or “Lotus”) for the six months ended February 28, 2023. 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

May 1, 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. is a Canadian licensed producer of premium-craft cannabis. The Company's 22,500 square foot indoor hydroponic production facility is situated on 23 acres of farmland in the North Okanagan region of British Columbia. Utilizing controlled environment agriculture practices, Lotus cultivates high-quality cannabis flower, which is sold in the wholesale, recreational, and medical markets throughout Canada. The Company owns and operates the premium-craft consumer brand Lotus Cannabis Co.™, which has successfully established a national presence through its partnerships with wholesale distributors. In addition, Lotus recently launched its own branded cultivar in the British Columbia recreational market.

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

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

The Company's facility near Armstrong B.C. has undergone Phase 1 development, encompassing 22,500 square feet, and holds licenses for cultivation, production, and sale of cannabis. The facility was meticulously constructed with controlled environment agriculture techniques to facilitate consistent commercial cannabis production. It is designed to conform to the GACP standard and provides ample space for every stage of the growing process, from propagation to packaging. The facility includes six separate "small-batch" flowering production rooms, with each room perpetually harvested every two weeks year-round, yielding approximately 70,000 grams of premium cannabis per harvest. The Company's current production capacity stands at around 2,000 kg 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 engages in business-to-business wholesale transactions in the Canadian cannabis market. The Company has successfully sold its premium flower through wholesale partners across all 10 provinces and remains committed to utilizing this sales channel when appropriate.
- **Canadian Recreational Cannabis Market:** The Company has recently introduced its own branded cannabis products in the province of British Columbia, including the Lotus Keylime Kush flower and pre-rolls, and has also launched its flower offerings in Ontario. The Company is strategically utilizing recreational markets that align with its sales objectives and will continue to do so.
- **International Medical Cannabis Market:** Lotus is actively exploring potential international export opportunities for its premium indoor-grown flower, which has garnered considerable interest from interested parties. The Company remains committed to adhering to all requisite certification procedures and is optimistic that, once certified, it will be able to sell its flower in international medical 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 during the quarter ended February 28, 2023:

British Columbia

Lotus' Black Blossom and Lemon Tini cultivars were sold in 3.5 gram formats in British Columbia by a private wholesale partner.

Alberta

Lotus' Black Blossom and Lemon Tini cultivars were sold in 3.5 gram and 7 gram formats in Alberta by a private wholesale partner.

Saskatchewan

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

Manitoba

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

Ontario

The Lotus Kalifornia flower is sold in Ontario through Kolab Project, and the Lotus Keylime Kush was approved for the OCS Flow Through program and is available for Ontario retailers to purchase.

Quebec

The Company does not currently have any active flower sales in Quebec. During the quarter the Company made a bulk wholesale to a producer based in Quebec.

Atlantic Canada

The Company does not currently have any active flower sales in the Atlantic Canada region.

BRAND AND PRODUCT PORTFOLIO



Lotus Cannabis Co.™

Lotus has established its consumer brand, Lotus Cannabis Co.™, as a grower of premium cannabis flower. During the quarter ending February 28, 2023, Lotus successfully launched its own branded Keylime Kush 3.5 gram and 14 gram flower in British Columbia, and 3.5 gram flower in Ontario. Additionally, Lotus launched the 3 x 0.5 gram Keylime Kush pre-rolls in BC.

Since its inception, the Company has been dedicated to crafting premium cannabis cultivars that are exclusively grown in-house. Lotus has achieved success in producing four such strains: Keylime Kush, Black Blossom, Tranquil Elephantizer, and Kalifornia. These cultivars consistently boast high THC and terpene content, two of the primary attributes that drive consumer demand in the Canadian market.

Lotus prides itself on cultivating premium, proprietary genetics that are new to the legal Canadian market, and the Company has garnered significant interest from consumers who seek out these highly desirable offerings.

Lotus Keylime Kush Recreational Portfolio



Keylime Kush Pre-Rolls: 3 x 0.5G



Keylime Kush Flower: 3.5G



Keylime Kush Flower: 14G

As of the date of this MD&A, the Keylime Kush SKUs listed above are currently available for purchase in British Columbia. Additionally, the Lotus Keylime Kush 3.5 gram SKU is also listed in the province of Ontario through the Ontario Cannabis Store's "Flow Through" Program.

Q2 SALES AND MARKETING OVERVIEW

- On January 23rd, 2023, the Company announced the launch of the first official Lotus Cannabis Co. branded Keylime Kush flower, now available in British Columbia. This latest addition to the product portfolio embodies the Company's commitment to bringing novel cannabis genetics to the legalized Canadian market. Building on the achievements of previous product launches, including the Black Blossom, Tranquil Elephantizer, and Kalifornia, Lotus Keylime Kush is now obtainable in over 115 retail outlets in British Columbia. Its distribution covers a broad area spanning the Okanagan, Kootenays, Metro Vancouver, Vancouver Island, and Northern B.C., marking a significant milestone in the Company's sales evolution.
- On February 10th, 2023, Lotus unveiled the Keylime Kush 3 x 0.5 gram pre-rolls in British Columbia, which have since experienced a strong sell-through and remain highly sought after. The British Columbia Liquor Distribution Branch (BCLDB) placed an initial order for the pre-rolls that was three times the anticipated size, indicating a significant level of demand from consumers. The first three rounds of pre-rolls sold rapidly in retailers across British Columbia, prompting the BCLDB to place a fourth order to meet consumer demand. As of the current MD&A, the BCLDB has sold through six rounds of Keylime pre-rolls, demonstrating the product's popularity.
- On March 10th, 2023, Lotus made the announcement of approval for the 14 gram Keylime Kush flower SKU in British Columbia, which is now available as of the current MD&A. The introduction of the 14 gram SKU will complement the existing range of products in British Columbia, which includes the 3.5 gram flower and 3 x 0.5 gram pre-roll SKUs. This expansion in the product line will provide consumers with greater flexibility in their purchasing choices while allowing Lotus to capture a larger market share in British Columbia.
- The Keylime Kush recently secured approval by the Ontario Cannabis Store for the 2023 Spring Product Call. The initial Keylime Kush LOT has been made available to retailers in Ontario as of the current MD&A. Lotus has also made significant strides in expanding its presence in Ontario, having introduced its proprietary Lotus Cannabis branded flower to the region. The first shipments of the Lotus Cannabis Co. branded flower were made in April, marking a noteworthy milestone in the Company's ongoing sales diversification and growth.

strategy.

- The Company added the Black Blossom and Lemon Tini to its production which were made available for purchase in British Columbia and Alberta through a private wholesale partner based in BC. These highly sought-after cultivars are cultivated exclusively by Lotus and are offered in 3.5 gram and 7 gram formats, providing consumers with a range of options to suit their needs. This strategic partnership has enabled the Company to expand its reach and deliver its premium cannabis products to a broader audience in a highly efficient and cost-effective manner.
- The Company expanded its sales channels by utilizing the GreenTec medical cannabis platform. In doing so, the Company opened new opportunities to reach a wider range of consumers. Additionally, Lotus leveraged the use of wholesale partners to accelerate the delivery of its flower products to the recreational market in British Columbia, using the direct delivery program in BC. By implementing a multi-faceted approach to distribution, Lotus has effectively maximized its market presence and positioned itself for sustained growth in the highly competitive cannabis industry.

Q2 OPERATING OVERVIEW

- Lotus recently completed its 115th production harvest since commencing operations, underscoring the Company's commitment to excellence and quality in its cultivation practices. As part of its ongoing efforts to innovate and introduce new, high-quality cultivars, Lotus has been actively engaged in the cultivation and propagation of new strains. The Company is now in the process of searching for its next cultivars, building upon its rich legacy of introducing innovative and highly sought-after cannabis genetics to the Canadian market. In addition to this, Lotus has completed seven successful harvests of its signature Keylime Kush, a testament to the Company's expertise in cultivating premium cannabis products.
- Lotus has maintained its focus on the production and development of its highly coveted Keylime Kush and Black Blossom cannabis cultivars, both of which are now available for sale in British Columbia. As pioneers of first-to-market cultivars in the legal Canadian market, Lotus has garnered trust for its ability to consistently produce strains that are both potent and rich in THC and terpene content. The Keylime Kush, for example, has tested as high as 37% in THC content and 3.1% in terpene content, while the Black Blossom has tested up to 30% in THC content and 3.4% in terpene content.

Q2 CORPORATE OVERVIEW

- The Company organized and conducted multiple site tours and actively participated in various industry events, including the Lift Expo held in Vancouver, all in preparation for the much-anticipated launch of the Keylime Kush in late January of 2023. It is worth noting that the pandemic-induced restrictions and precautions have had an observable impact on these events, contributing to the decline in sales over last year.
- The Company applied to sell its cannabis products in the recreational markets of British Columbia, Ontario, Newfoundland, and Nova Scotia. It has been granted approval to sell in British Columbia and Ontario, with the Keylime Kush 3.5 gram, 14 gram flower, and 3 x 0.5 gram pre-rolls currently being offered for sale in British Columbia. Additionally, the 3.5 gram Keylime Kush flower has been listed in Ontario for purchase by retailers through the OCS “Flow Through” system.

- Lotus' Keylime Kush launch in British Columbia was showcased on various media platforms, including local news such as The Oz, Vernon Morning Star and Castanet, as well as national media outlets like ADCANN.

MARKET TRENDS

The Company has effectively expanded its sales channels by venturing into the recreational market, thereby diversifying its portfolio. Despite the wholesale market becoming increasingly saturated, the Company remains optimistic and is committed to delivering premium and reliable flower offerings that boast high THC and terpene content. While flower sales have shown slowing growth, the pre-roll category has seen rapid sales. As per market research, Canadian consumers are now shifting their focus towards larger flower formats such as the 14 gram and 28 gram offerings. Additionally, the Company has noted a surge in interest from international operators looking for premium indoor Canadian-grown flower. Moving forward, the Company will closely monitor the global market for medical and recreational opportunities and explore export deals as an additional sales channel, once certified and permitted.

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
<i>Revenues</i>	\$1,689,783	\$5,481,479	\$4,629,743
<i>Net income (loss)</i>	(\$4,792,759)	\$241,097	\$1,494,002
<i>Income (loss) per share, basic and fully diluted</i>	(\$0.05)	\$0.00	\$0.02
<i>Total assets</i>	\$13,471,193	\$16,907,742	\$16,908,437
<i>Total long-term liabilities</i>	\$Nil	\$Nil	\$Nil
<i>Cash dividends declared</i>	\$Nil	\$Nil	\$Nil

SUMMARY OF QUARTERLY RESULTS

During the six months ended February 28, 2023, the Company had net loss of \$896,237 (2022 - \$241,420 net income). The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended Feb 28, 2023	Three months ended Nov 30, 2022	Three months ended Aug 31, 2022	Three months ended May 31, 2022
Revenues	\$589,172	\$144,603	\$449,574	\$459,090
Net income (loss)	(\$131,035)	(\$765,102)	(\$4,930,606)	(\$103,573)
Income (loss) per share, basic and diluted	\$0.00	\$0.00	(\$0.05)	\$0.00
EBITDA	86,672	(\$570,107)	(\$4,633,554)	\$122,671
Total assets	\$13,959,942	\$13,564,565	\$13,471,193	\$17,640,121
Total long-term liabilities	\$Nil	\$Nil	\$Nil	\$Nil
Cash dividends / share	\$Nil	\$Nil	\$Nil	\$Nil

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

During the six months ended February 28, 2023 the Company recognized a net loss of \$896,237, compared net income of \$241,420 for the six months ended February 28, 2022.

Net income for the six months ended February 28, 2023 decreased by \$1,137,657 as a result of the decline in sales and gross margin, fair market value, and impairment of inventory in the current period as compared to the prior comparative period.

Significant items making up the change for the six months ended February 28, 2023 as compared to the six months ended February 28, 2022 were as follows:

- Loss for changes in fair market value of biological assets increased by \$980,998 due to a decline in the market prices.

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, 2023 and 2022 are as follows:

Operating Activities

During the six months ended February 28, 2023, the Company spent \$1,121,782 for operating activities compared to \$830,720 spent during 2022. The decrease in cash flow is primarily due to the increase in accounts receivable.

Financing Activities

The Company received \$1,205,150 from financing activities during the six months ended February 28,

2023, compared to \$485,063 received during the six months ended February 28, 2022.

Investing Activities

The Company used \$102,651 in investing activities for facility construction costs during the six months ended February 28, 2023, compared to \$nil during the six months ended February 28, 2022.

Cash Resources and Going Concern

The Company's cash was \$27,153 on February 28, 2023. The Company has no other liquid assets other than accounts receivables of \$413,120.

As at February 28, 2023, the Company had a working capital deficiency of \$2,618,707 (2022 – 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

	February 28, 2023	February 28, 2022
Compensation:		
Consulting fees	\$ 85,000	\$ 24,000
Production costs	110,000	50,716
Rent and Accounting	5,400	8,199
Share-based payments	-	-
	<u>\$ 200,400</u>	<u>\$ 82,915</u>

During the six months ended February 28, 2023, the Company incurred management consulting fees of \$85,000 (2022 – \$24,000), included in consulting fees for the period, to a private company controlled by the Company's President and CEO. As at February 28, 2023, \$228,468 (August 31, 2022 - \$143,468) was payable to this private company for the unpaid portion of these fees and miscellaneous expense reimbursements.

During the six months ended February 28, 2023, the Company incurred salaries allocated to production costs of \$110,000 (2022 - \$93,992), to the Company's COO. As at February 28, 2023, \$141,000 (August 31, 2022 - \$101,000) was payable for the unpaid portion.

During the six months ended February 28, 2023, the Company paid rent and accounting fees of \$19,612 (2022 - \$8,199) to a private company related to a member of the board. As at February 28, 2023, \$78,900 (August 31, 2022 - \$58,308) was payable for the unpaid portion.

Refer also to Notes 9 of the interim 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 interim consolidated financial statements for the six months ended February 28, 2023.

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, 2023, and 2022, the Company had no share issuances.

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 six months ended February 28, 2023.

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 six months ended February 28, 2023, and year ended August 31, 2022, share-based compensation expense was \$nil.

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

	Six Months Ended February 28, 2023		Year Ended August 31, 2022	
	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	8,245,000	0.25

Granted	-	-	-	-
Cancelled/forfeited	-	-	-	-
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:

	<u>Number of Shares</u>	<u>Exercise Price \$</u>	<u>Expiry Date</u>
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 interim consolidated financial statements for the six months ended February 28, 2023.

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.

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.

ADDITIONAL INFORMATION

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