



MANAGEMENT DISCUSSION & ANALYSIS

For the twelve months ended August 31, 2023

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS

For the Twelve Months Ended August 31, 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 twelve months ended August 31, 2023. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the twelve months ended August 31, 2023; together with the audited financial statements of the Company and the notes thereto for the year ended August 31, 2022 and the Annual MD&A for the year ended August 31, 2022. 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

October 31, 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.

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.

BUSINESS OVERVIEW

Lotus Ventures Inc. is a B.C.-based Canadian licensed producer of cannabis. The Company owns and operates a 22,500 square foot indoor cannabis production facility situated on 23 acres of farmland in the North Okanagan region of B.C. Lotus cultivates exclusive and premium cannabis flower, which is then sold on the wholesale, recreational, and medical markets across Canada. The Company owns and operates the premium consumer brand Lotus Cannabis Co.™ which has reached over 300 retail stores across B.C. and Ontario with its flagship Keylime Kush cultivar launch.

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 owns and operates a 22,500 square foot indoor cannabis production facility in Armstrong, B.C. and holds the licenses for cultivation and sale of cannabis in Canada. The facility was meticulously constructed with controlled environment agriculture practices to enable consistent commercial cannabis production. The facility was designed to conform to GAP standards and provides ample space for each stage of the growing and production process. The Company's current production capacity stands at an expected 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 introduced its own branded cannabis products in the provinces of British Columbia and Ontario, including the Lotus Keylime Kush 3.5 gram and 14 gram flower and 3 x 0.5 gram pre-roll offerings.
- **International Medical Cannabis Market:** Lotus continues to explore potential international export opportunities for its premium indoor-grown flower. 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 to international medical markets.

SALES BY PROVINCE

As at the date of this MD&A, Lotus wholesale flower has sold in all Canadian provinces, on medical platforms, provincial websites and in over 300 recreational retail stores across the country. The following is an overview of sales in each participating province during the period:

British Columbia

In January 2023, Lotus launched its Keylime Kush cultivar which is now sold in 3.5 gram and 14 gram dried flower formats as well as in a 3 x 0.5 gram pre-roll format.

Ontario

In April 2023, Lotus launched its Keylime Kush cultivar which is sold in a 3.5 gram dried flower format in Ontario. The Lotus Keylime Kush is currently listed on the OCS Flow Through system and is available for Ontario retailers to purchase.

BRAND AND PRODUCT PORTFOLIO



Lotus Cannabis Co.™

Lotus has established its consumer brand, Lotus Cannabis Co.™, as a trusted grower and as an award-winning producer of premium cannabis flower. The Company continues to be committed to crafting premium and exclusive cannabis cultivars that are grown in-house. Lotus has brought four such strains to market: The 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 Keylime Kush Recreational Portfolio



Keylime Kush Pre-Rolls: 3 x 0.5G



Keylime Kush Flower: 3.5G



Keylime Kush Flower: 14G

As at the date of this MD&A, all three of the Lotus Keylime Kush SKUs are listed in British Columbia. Additionally, the 3.5 gram Keylime Kush SKU is listed in the province of Ontario.

FY 2023 SALES AND MARKETING MILESTONES

- On January 23, 2023, the Company announced the launch of its first official Lotus branded Keylime Kush flower, which is now available in British Columbia and Ontario. As at the date of this MD&A, the Lotus Keylime Kush is carried in over 300 retail stores across the two provinces.
- On February 10, 2023, Lotus launched the Keylime Kush in a 3 x 0.5 gram pre-roll format in British Columbia. As at the date of this MD&A, the pre-rolls have sold out several times in B.C. and continue to have strong sell through.
- On March 10, 2023, Lotus announced the approval of the 14 gram Keylime Kush flower SKU in British Columbia. The 14 gram offering was launched on April 20, 2023 and has continued

to experience strong sell through.

- On March 15, 2023, Lotus announced a private company in Canada sold a portion of the Lotus Tranquil Elephantizer flower in an export shipment made to a company in Jamaica.
- On April 11, 2023, the Company announced the launch of its 3.5 gram Lotus Cannabis Co. branded flower offering in the province of Ontario. The Keylime Kush has received a strong response from retailers and consumers in the province.
- On April 20, 2023, Lotus placed in third in the ARCannabis Cup out of 128 participating licensed producers and brands in Canada.

Q4 OPERATING OVERVIEW

- Production continued steady with the Company producing approximately 500,000 grams during the quarter. Production has consisted of primarily the Keylime Kush as the Company continued selling in B.C. and Ontario.
- During Q4, the cost of sales recognized was representative of approximately 455,000 grams of cannabis. Over the twelve-month period ended August 31, 2023, cost of sales recognized was representative of approximately 1,808,000 grams.
- The Company completed the initial harvests of its subsequent strain which is expected to have a pre-arranged wholesale purchaser.
- During Q4, the Company completed the application process and was subsequently certified for the IQC certification which would enable the Company to sell its flower into select international markets via wholesale partners.

MARKET TRENDS

Over the last 12 months, the Company has diversified its sales channels by launching its Lotus branded Keylime Kush in the recreational market. The Company received a positive response from retailers and consumers in B.C. and Ontario being carried in over 300 retail stores during that time. The Canadian wholesale market has shown progressive price compression over the past years, which is part of Lotus' reasoning behind establishing its consumer-focused brand. The Company has experienced rapid sell-through for its flower and pre-rolls as well as continued demand from select wholesale partners.

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 twelve months ended August 31, 2023, the Company had net loss of \$1,872,566 (2022 - \$137,848 net income). The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended Aug 31, 2023	Three months ended May 31, 2023	Three months ended Feb 28, 2023	Three months ended Nov 30, 2022
<i>Revenues</i>	\$751,743	\$512,726	\$589,172	\$144,603
<i>Net income (loss)</i>	(\$635,594)	(\$340,735)	(\$131,135)	(\$765,102)
<i>Income (loss) per share, basic and diluted</i>	(\$0.01)	\$0.00	\$0.00	\$0.00
<i>EBITDA</i>	(\$567,135)	(\$82,635)	\$129,041	(\$505,832)
<i>Total assets</i>	\$13,894,615	\$13,828,742	\$13,959,942	\$13,564,565
<i>Total long-term liabilities</i>	\$Nil	\$Nil	\$Nil	\$Nil
<i>Cash dividends / share</i>	\$Nil	\$Nil	\$Nil	\$Nil

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
<i>Revenues</i>	\$449,574	\$459,090	\$370,551	\$410,568
<i>Net income (loss)</i>	(\$4,930,606)	(\$103,573)	\$176,127	\$65,293
<i>Income (loss) per share, basic and diluted</i>	(\$0.05)	\$0.00	\$0.00	\$0.00
<i>EBITDA</i>	(\$4,633,554)	\$122,671	\$399,757	\$279,830
<i>Total assets</i>	\$13,471,193	\$17,640,121	\$17,678,148	\$17,172,703
<i>Total long-term liabilities</i>	\$Nil	\$Nil	\$Nil	\$Nil
<i>Cash dividends / share</i>	\$Nil	\$Nil	\$Nil	\$Nil

During the twelve months ended August 31, 2023 the Company recognized a net loss of \$1,872,566, compared net loss of \$4,950,683 for the twelve months ended August 31, 2022.

Net loss for the twelve months ended August 31, 2023 decreased by \$2,920,193 as a result of increase in sales, gross margin, and no impairment of inventory in the current period as compared to the prior comparative period.

Significant items making up the change for the twelve months ended August 31, 2023 as compared to the year ended August 31, 2022 were as follows:

- Loss for impairment of inventory decreased by \$1,437,000 due to no impairment in the current period.

- Gross margin increased by \$466,564 due to increased sales price for retail sales during the current period.
- Bank fees and interest increased by \$82,748 due to the higher financial leverage and increased financing from loans.
- Property tax increased by \$50,193 due to a general increase in property taxes and interest and penalties on late payment of property tax in the current period.

FINANCIAL POSITION AND LIQUIDITY

Cash Flows

A summary and discussion of the Company's cash inflows and outflows for the twelve months ended August 31, 2023 and 2022 are as follows:

Operating Activities

During the twelve months ended August 31, 2023, the Company spent \$1,081,084 for operating activities compared to \$1,113,156 spent during 2022. The decrease in cash flow is primarily due to the increase in inventory and accounts receivable.

Financing Activities

The Company received \$1,186,365 from financing activities during the twelve months ended August 31, 2023, compared to \$638,914 received during the year months ended August 31, 2022.

Investing Activities

The Company used \$107,335 in investing activities for facility construction costs during the twelve months ended August 31, 2023, compared to \$59,139 during the year ended August 31, 2022.

Cash Resources and Going Concern

The Company's cash was \$44,742 on August 31, 2023. The Company has no other liquid assets other than accounts receivables of \$403,221.

As at August 31, 2023, the Company had a working capital deficiency of \$3,040,695 (2022 – \$1,779,924). 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

	August 31, 2023	August 31, 2022

Compensation:			
Consulting fees	\$	170,000	\$ 146,000
Production costs		220,000	264,636
Rent and Accounting		36,428	34,936
	\$	426,428	\$ 445,572

During the twelve months ended August 31, 2023, the Company incurred management consulting fees of \$170,000 (2022 – \$146,000), included in consulting fees for the period, to a private company controlled by the Company’s President and CEO. As at August 31, 2023, \$292,700 (August 31, 2022 - \$143,468) was payable to this private company for the unpaid portion of these fees and miscellaneous expense reimbursements.

During the twelve months ended Aug 31, 2023, the Company incurred salaries allocated to production costs of \$220,000 (2022 - \$264,636), to the Company’s COO. As at August 31, 2023, \$138,444 (August 31, 2022 - \$101,000) was payable for the unpaid portion.

During the twelve months ended August 31, 2023, the Company paid rent and accounting fees of \$36,428 (2022 - \$34,936) to a private company related to a member of the board. As at August 31, 2023, \$96,556 (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 twelve months ended August 31, 2023.

OUTSTANDING SHARE CAPITAL

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

During the twelve months ended August 31, 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 twelve months ended August 31, 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 twelve months ended August 31, 2023, and year ended August 31, 2022, share-based compensation expense was \$nil.

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

	Twelve Months Ended August 31, 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 twelve months ended August 31, 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.