FORM 5 – Q3 2022

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: **Lotus Ventures Inc.** (the "Issuer").

Trading Symbol: **J**

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

General Instructions

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

Please see attached financial statements for the interim period ended May 31, 2022.
If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

SCHEDULE B: SUPPLEMENTARY INFORMATION - NIL

The supplementary information set out below must be provided when not included in Schedule A.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.

Per the Q3 2022 Financial Statements, principally note 9, of the Company, Related Person transactions are as follows:

Note 9 **Related Party Transactions**

	May 31, 2022	May 31, 2021
Compensation:		
Consulting fees and bonuses	$ 32,000	$ 338,300
Production costs	128,607	69,231
Rent, Accounting and Admin	29,119	21,750
Share-based payments	-	81,982
	$ 189,726	$ 511,263

During the nine months ended May 31, 2022, the Company incurred management consulting fees of $32,000 (2021 – $44,300) and a bonus of $nil (2021 - $135,000; included in consulting fees for the period) to a private company controlled by the Company's President and CEO. As at May 31, 2022, $8,300 (August 31, 2021 - $300) was payable to this private company for the unpaid portion of these fees.

Note 9 **Related Party Transactions – (cont'd)**

During the nine months ended May 31, 2022, the Company incurred production costs of $128,607 (2021 - $69,231) and a bonus of $nil (2021 - $135,000; included in consulting fees for the period) to the Company's COO.

During the nine months ended May 31, 2022, the Company accrued rent, accounting and admin fees of $29,119 (2021 - $21,750) to a private company controlled by a director of the Company. As at May 31, 2022, $55,035 (August 31, 2021 - $27,712) was payable for the unpaid portion of these amounts.

During the nine months ended May 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 Note 10.

Note 10 **Loans payable**

On May 31, 2022, $25,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.95% compounded annually.

On January 21, 2022, $90,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

During the nine months ended May 31, 2022, an aggregate of $133,500 was advanced to the Company from directors, and a party related to a director. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.95% compounded annually.

On November 30, 2021, $100,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.95% compounded annually.

On November 04 and November 15, 2021, an aggregate of $36,000 was advanced from a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On November 04, 2021, $25,564 was advanced from a party related to a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On November 16, 2021, $100,000 was advanced from a party related to a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95%.

Note 10 **Loans payable – (cont'd)**

On July 12, 2019, $190,000 was advanced from a party related to a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually. An additional $260,000 was advanced by the party during the year ended August 31, 2020. During the year ended August 31, 2021, the Company made payments in aggregate of $212,613 towards the outstanding balance.

On August 15, 2019, $50,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually. An additional $80,000 was advanced by this party during the year ended August 31, 2020 under the same terms as the original promissory note. During the year ended August 31, 2021, the Company made payments in aggregate of $19,438 towards the outstanding balance.

During the year ended August 31, 2020, an aggregate of $210,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.00% compounded annually. During the year ended August 31, 2021, the Company made payments in aggregate of $215,765 towards the outstanding balances.

During the year ended August 31, 2020, $25,000 was advanced to the Company from an unrelated party. This promissory note is repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 8.95% compounded annually.

	May 31, 2022	August 31, 2021
Balance, beginning of the year	$ 319,704	$ 792,042
Loans advanced	530,063	-
Interest on loans	43,776	38,478
Loans repaid	(35,000)	(447,816)
Outstanding, end of the year	$ 858,543	$ 319,704

(b) A description of the transaction(s), including those for which no amount has been recorded.
See 1 (a)

(c) The recorded amount of the transactions classified by financial statement category.
See 1 (a)

(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
See 1 (a)

(e) Contractual obligations with Related Persons, separate from other contractual obligations.
None

(f) Contingencies involving Related Persons, separate from other contingencies.
None

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

(a) Summary of securities issued during the period: Private Placement:
NIL

(b) summary of options granted during the period,
NIL

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

(b) recorded value, and number and value for shares issued and outstanding, as at Nov. 30, 2021

Issued & Outstanding: 89,969,799
Reserved for Issuance: 43,946,100
Fully Diluted: 133,915,899

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

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, as at May 31, 2022

	Number of Shares	Exercise Price $	Expiry Date
Common shares	89,969,799	-	-
Stock Options	1,145,000	0.35	November 9, 2027
	1,025,000	0.50	March 20, 2028
	580,000	0.30	October 4, 2028
	2,350,000	0.20	July 4, 2029
	1,275,000	0.20	October 31, 2029
	1,870,000	0.13	September 15, 2030
Warrants			
	10,036,100	0.70	January 22, 2023
	7,680,000	0.30	October 1, 2023
	780,000	0.30	October 15, 2023
	2,800,000	0.30	October 26, 2023
	9,485,000	0.26	April 18, 2024
	4,920,000	0.13	September 17, 2025
Fully diluted	133,915,899		

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

No. of shares held in escrow as at May 31, 2022 – NIL

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Dale McClanaghan – President, Chief Executive Officer, Director
Simon Davie – Director
Maurice Creagh – Director
Carl Correia – Director & Chief Operating Officer
Gavin Dew – Chief Financial Officer
Albert Duwyn - Director

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

Please see attached interim MD&A for the period ended May 31, 2022.

Certificate of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated: May 31, 2022

Dale McClanaghan
Name of Director or Senior Officer

Signature

President and CEO
Official Capacity

Issuer Details Name of Issuer Lotus Ventures Inc.	For Quarter Ended May 2022	Date of Report – as at YY/MM/D 2022/08/08
Issuer Address 2750 Rupert St,		
City/Province/Postal Code Vancouver, BC V5M 3T7	Issuer Fax No. N/A	Issuer Telephone No. (604) 644-9844
Contact Name Dale McClanaghan	Contact Position President and CEO	Contact Telephone No. (604) 644-9844
Contact Email Address dalemcclanaghan@gmail.com	Web Site Address Lotuscannabis.ca	

SCHEDULE A

INTERIM FINANCIAL STATEMENTS

LOTUS VENTURES INC.

FINANCIAL STATEMENTS

(UNAUDITED)

For the nine months ended May 31, 2022

(Expressed in Canadian Dollars)

LOTUS VENTURES INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The following condensed interim financial statements of Lotus Ventures Inc. are unaudited. They have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these condensed interim financial statements.

LOTUS VENTURES INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	As at May 31, 2022	As at August 31, 2021
ASSETS		
Current		
Cash	$ 14,700	$ 580,177
Accounts receivable	149,046	210,917
Biological assets (Note 4)	507,000	1,288,000
Inventory (Note 5)	3,750,000	1,149,000
Prepaid expenses and deposits	245,870	143,642
	4,666,616	3,371,736
Non-current		
Restricted cash	304	304
Property, plant and equipment (Note 6)	12,973,201	13,535,702
	12,973,505	13,536,006
Total assets	$ 17,640,121	$ 16,907,742
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	$ 350,525	$ 363,438
GST payable	510,785	442,180
Loans payable (Note 10)	858,543	319,704
Total liabilities	1,719,853	1,125,322
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	$ 17,399,165	$ 17,399,165
Reserves	4,324,864	4,324,864
Deficit	(5,803,761)	(5,941,609)
Total shareholders' equity	15,920,268	15,782,420
Total liabilities and shareholders' equity	$ 17,640,121	$ 16,907,742

Note 7 Commitment

The accompanying notes form an integral part of these financial statements.

Approved and authorized by the Board on May 31, 2022.

"Dale McClanaghan"	Director	*"Carl Correia"*	Director
Dale McClanaghan		Carl Correia	

LOTUS VENTURES INC.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Expressed in Canadian Dollars)

		Nine months ended May 31, 2022		Nine months ended May 31, 2021
Revenue (Note 7)	$	**1,240,210**	$	4,245,542
Cost of sales*		**(825,152)**		(2,317,908)
Gross margin before fair value changes		**415,058**		1,927,634
Changes in fair value of biological assets less realized portion relating to inventory sold**		**465,660**		235,934
Gross margin		**880,718**		2,163,568
General and administrative expenses				
Advertising and promotion	$	**61,407**	$	94,738
Amortization		**499,147**		522,887
Bank fees and interest		**44,431**		37,923
Consulting (Note 9)		**84,104**		709,655
Insurance		**-**		78,984
Listing, filing and transfer fees		**16,194**		15,869
Office and miscellaneous		**76,007**		147,000
Professional fees		**53,646**		67,465
Rent (Note 9)		**8,100**		21,750
Repairs and maintenance		**-**		7,413
Sales commissions		**56,648**		75,986
Share-based compensation (Note 9)		**-**		183,254
Travel		**1,110**		2,173
		(900,794)		(1,965,097)
Other Income				
Government Grant (Note 12)		**157,924**		-
Net income (loss) and comprehensive income (loss)	$	**137,848**	$	198,471
Basic and diluted income per share	$	**0.00**	$	0.00
Weighted average number of shares outstanding		**89,969,799**		89,663,425

*Comprised only of costs incurred exclusive of the effects of any fair value adjustments.
**A composite figure comprising unrealized income related to recording biological assets at fair value net of these same amounts, related to the cost of those assets, subsequently included in inventory and recognized as an expense upon sale.

The accompanying notes form an integral part of these financial statements.

LOTUS VENTURES INC.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Common shares				
	Number of Shares	Amount	Reserves	Deficit	Total
Balance, August 31, 2021	**89,969,799**	**$ 17,399,165**	**$ 4,324,864**	**$ (5,941,609)**	**$ 15,782,420**
Net Income	-	-	-	137,848	137,848
Balance, May 31, 2022	**89,969,799**	**$ 17,399,165**	**$ 4,324,864**	**$ (5,803,761)**	**$ 15,920,268**
Balance, August 31, 2020	**85,049,799**	**$ 16,956,365**	**$ 4,141,610**	**$ (6,182,706)**	**$ 14,915,269**
Shares issued for cash – private placements	4,920,000	442,800	-	-	442,800
Share-based compensation	-	-	183,254	-	183,254
Net income	-	-	-	198,471	198,471
Balance, May 31, 2021	**89,969,799**	**$ 17,399,165**	**$ 4,324,864**	**$ (5,984,235)**	**$ 15,739,794**

The accompanying notes form an integral part of these financial statements.

LOTUS VENTURES INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Nine months ended May 31, 2022	Nine months ended May 31, 2021
Cash flows from(to) operating activities		
Net income for the period	$ 137,848	$ 198,471
Items not affecting operating cash flows:		
Amortization	499,147	522,887
Accrued interest	43,776	30,568
Share-based compensation	-	183,254
Net unrealized gain on biological assets	(465,660)	(235,934)
Changes in non-cash working capital items:		
Accounts receivable	61,871	(100,618)
GST receivable/payable	108,005	133,507
Biological assets	880,722	7,802
Inventory	(2,115,100)	115,934
Prepaid expenses	(102,228)	(28,006)
Deferred revenue	-	(149,899)
Accounts payable and accrued liabilities	(79,636)	(384,299)
Due to related parties	27,723	(57,007)
	(1,003,932)	268,768
Cash flows from(to) financing activities		
Cash received for shares issued	-	442,800
Proceeds from loans	530,064	-
Repayment of loans	(35,000)	(415,765)
	495,064	27,035
Cash flows from(to) investing activities		
Expenditures on property, plant and equipment	(56,610)	(364,692)
Net increase in cash	(565,478)	(68,889)
Cash, beginning of the period	580,178	282,708
Cash, end of the period	**$ 14,700**	**$ 213,819**

Note 13 Supplemental Non-cash Disclosures

The accompanying notes form an integral part of these financial statements.

Note 1 **Nature and Continuance of Operations**

The public company predecessor to Lotus Ventures Inc. (the 'Company') was incorporated under the Business Corporations Act (B.C.) on May 12, 2010 as Strachan Resources Ltd. ('Strachan'). Strachan's common shares were previously listed for trading on the TSX Venture Exchange ('Venture'), and it was classified as a Capital Pool Company pursuant to Venture Policy 2.4 until the completion of a 2014 amalgamation agreement with a BC private company also known as Lotus Ventures Inc. For accounting purposes, this amalgamation was considered to constitute a reverse acquisition, with the private company the continuing reporting entity and Strachan the entity having been acquired. Effective December 8, 2014, the Company's common shares were listed for trading on the Canadian Securities Exchange.

In March 2019 the company received Health Canada certification as a Licensed Producer of cannabis products with the issuance of a Standard Cultivation license and a Sale for Medical Purposes license. During the fourth quarter of the August 31, 2019 fiscal year the Company commenced cultivation activity at its production facility, which since 2018 it has constructed near Armstrong, BC. In September 2021, Lotus received a Standard Processing license from Health Canada which authorizes the company to produce and sell cannabis directly to provincial distributors, in addition to business-to-business bulk wholesale or to registered medical patients through the previously obtained licenses.

These financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There are certain adverse conditions and events that may cast doubt on the validity of this assumption. The Company's major business activities have only recently been legalized in Canada and it is therefore subject to significant regulatory oversight and requirements. The sustainability of this business, and in fact the nature and scope of the entire legalized cannabis sector, has yet to be fully established on a commercial basis and remains difficult to predict. Prior to the comparative fiscal year, the Company had also incurred losses since inception and only during the first quarter of that year has the Company begun to realize its first revenues from active business operations at August 31, 2021 the Company has net operating deficit, from inception, of $5.9 million. These factors are indicative of the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon developing profitable operations on a commercial basis, and/or obtaining financing and continued support from its shareholders and creditors on terms which are acceptable to it. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements. Refer also to Note 7.

The COVID-19 pandemic creates uncertainty in respect to global economic and market conditions however its specific, identifiable impact on the Company has not, to date, been material. Future developments in the course of the pandemic could negatively impact the Company's operations, however such future outcomes cannot currently be predicted beyond those expected to affect society as a whole.

Note 2 **Basis of Preparation**

Statement of Compliance

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of Measurement

These financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Note 3 Significant Accounting Policies

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument.

At initial recognition, financial assets are measured at fair value and classified as subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). At initial recognition, financial liabilities are measured at fair value and classified as, subject to certain exceptions, subsequently measured at amortized cost. For financial assets and financial liabilities not at FVTPL, fair value is adjusted for transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in the statement of comprehensive loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL: (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Note 3 Significant Accounting Policies – (cont'd)

Financial instruments – (cont'd)

A financial asset is measured at FVTPL unless it is measured at amortized cost or FVTOCI. However, an irrevocable election can be made at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value through other comprehensive income.

The Company's financial instruments are classified and subsequently measured as follows:

Account	Classification
Cash	Amortized cost
Receivables (excluding GST/sales tax receivable)	Amortized cost
Deposits	Amortized cost
Due from related parties	Amortized cost
Accounts payable and accrued liabilities (excluding GST/sales tax payable)	Amortized cost
Loans payable	Amortized cost

Cash and cash equivalents

Cash in the statement of financial position comprises cash at banks and on hand. Cash equivalents is comprised of highly liquid investments held at major financial institutions, having maturity dates of three months or less from the date of purchase, which are readily convertible into known amounts of cash. There were no cash equivalents at May 31, 2022 and 2021.

Intangible assets

Intangible assets are recognized when they become identifiable, which is to say when they arise from contractual or other rights, or when they are separable, or capable of being sold, transferred, licensed, rented or exchanged. They are initially recorded at cost, subject to the reliability of measurement, and are carried as assets to the extent that it is probable that the future economic benefits applicable to such costs will flow to the Company.

Biological assets

Biological assets are valued in accordance with IAS 41 and are presented at their fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest. The Company's biological assets consist of cannabis plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data. These inputs are Level 3 on the fair value hierarchy, and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods

The Company initially records cannabis plants at cost, which includes elements of seedling purchases, direct labour, power and all other direct costs. The number of weeks in the production cycle is between 14 and 16 weeks from propagation to harvest. The fair value of biological assets under cultivation is then determined using a valuation model to estimate expected harvest yield per plant applied to the estimated price per gram less processing and selling costs. The delta between

Biological assets – (cont'd)

this valuation and the actual costs incurred in respect to it is recognized in income as an unrealized gain on changes in fair value of biological assets.

During the period ended May 31, 2022 the wholesale selling price was between $1.25 and $4.50 per gram, and harvest yield was between 60 and 140 grams per plant.

The selling price used in the valuation of biological assets is based on the average selling price of all cannabis products and can vary based on strain. Expected yield is also subject to a variety of factors including psychoactive strength and length of the growth cycle.

Inventory

The Company values inventories at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that aggregate cost remains less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price then the amount of the write down previously recorded is reversed. Storage costs, indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct expenditures associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset.

When parts of an item of fixed assets have different useful lives, they are accounted for as separate items (major components) of fixed assets.

The Company uses the following amortization rates for its property, plant and equipment:

Computer software and equipment	55%	Declining balance
Buildings	6%	Declining balance
Equipment	5 years	Straight line

Certain of the Company's property, plant and equipment have not yet been put into use and as a result useful lives have not yet been determined and no amortization has been recorded to date on this property, plant and equipment.

Note 3 **<u>Significant Accounting Policies</u> – (cont'd)**

Property, plant and equipment – (cont'd)

Costs of assets in the course of construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of property and equipment and amortization commences when the asset is available for its intended use.

An asset's residual value, useful life and amortization method are reviewed at each financial year-end and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gain and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment and are recognized in profit or loss.

Right-of-use assets and lease liability

Where the Company has entered a lease, the Company recognizes a right-of-use asset representing its rights to use the underlying assets and a lease liability representing its obligation to make lease payments. The right-of-use asset, where it relates to an operating lease, is presented net of accumulated amortization and is disclosed under right-of-use assets on the statement of financial position. The right of use assets are depreciated over the shorter of the lease term and their estimated useful lives unless it is reasonably certain that the Company will obtain ownership at the end of the lease term, in which case, the estimated useful life of the asset is used.

The lease liability is disclosed as a separate line item, allocated between current and non-current liabilities. The lease liability associated with all leases is measured at the present value of the expected lease payments at inception and discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, the Company's incremental borrowing rate is used to discount the lease liability. Judgement is required to determine the incremental borrowing rate.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it is probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Note 3 Significant Accounting Policies – (cont'd)

Income taxes – (cont'd)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements is considered to be the more easily measurable component and the common share are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

Share-based compensation

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued for goods or services, the share-based compensation is measured at the fair value of the goods and services received. Where the consideration cannot be specifically identified, they are measured at the fair value of the share-based compensation.

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share does not adjust the income (loss) attributed to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Payments received from customers in advance of meeting all of the recognition criteria are recorded as deferred revenue and subsequently recognized as those criteria are met.

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

Biological assets

In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plant.

The requirements under IFRS relating to biological assets are general purpose standards premised on the existence of readily-available fair value information in respect to the products under cultivation, along with the implicit assumption that formal reporting and accounting experience involving such assets does exist. The production and distribution of cannabis products has been decriminalized in Canada only in the recent past, the industry is therefore heavily regulated under a regime that is recently-established and which continues to evolve, and in addition such business activities remain illegal in many jurisdictions outside of Canada. These factors, together with Company's status as having only recently commenced its own cultivation activities, create significant uncertainties in respect to its initial fair value estimations in this area.

Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment are dependent upon useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Share-based compensation

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used.

Going concern

Management applies judgment in its evaluation of the Company's ability to continue as a going concern.

Note 3 **Significant Accounting Policies – (cont'd)**

Adoption of new and revised accounting standards and interpretations

New accounting standards effective September 1, 2020

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in January 2020 and applies to annual reporting periods beginning on or after January 1, 2023. The amendment clarifies the criterion for classifying a liability as non-current relating to the right to defer settlement of a liability for at least 12 months after the reporting period.

Adoption of this standard has had no impact on the Company's financial statements.

New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after September 1, 2021, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company does not anticipate any material changes to the financial statements upon adoption of these new revised accounting pronouncements.

Note 4 Biological assets

	May 31, 2022	August 31, 2021
Opening balance	$ 1,288,000	$ 686,000
Production costs capitalized	2,150,970	3,050,518
Changes in fair value	1,225,030	1,288,260
Transferred to inventory upon harvest	(4,157,000)	(3,736,778)
	$ 507,000	$ 1,288,000

During the period ended May 31, 2022, $49,070 (2021 - $40,820) of amortization related to growing equipment was included in production costs capitalized.

The Company's biological assets consist of medical cannabis plants. The significant assumptions used to determine the fair value of the medical plants include:

- Expected yield by strain of plant;
- Wastage of plants;
- Duration of the production cycle;
- Percentage of costs incurred to date compared to the total costs expected to be incurred;
- Percentage of costs incurred for each stage of plant growth; and
- Market value less selling costs.

The Company's estimates are, by their nature, subject to change and differences from anticipated yield will be reflected in the gain or loss on biological assets in future periods.

Note 4 Biological assets – (cont'd)

On average, the production cycle is 117 days. As at May 31, 2022, it is estimated that the Company's biological assets will yield approximately 207,000 grams of cannabis when harvested (2021 – 241,500). As at May 31, 2022, the Company had approximately 4,150 plants that were biological assets (2021 – 4,500).

Note 5 Inventory

As at May 31, 2022, the Company's inventory consisted of approximately 1,530,000 grams of dried cannabis awaiting release for sale (2021 – 528,000). The cost of inventory is recognized as a separate asset upon harvest and subsequently included in cost of sales when sold. For the period ended May 31, 2022, cost of sales recognized was representative of approximately 211,000 grams (2021 – 1,567,000).

Note 6 Property, plant and equipment

	Land $	Buildings $	Software $	Equipment $	Construction in Progress $	Total $
Cost						
As at August 31, 2021	1,026,557	12,789,260	76,212	799,765	922,328	15,614,122
Additions during the year	-	-	-	-	56,610	56,610
As at May 31, 2022	1,026,557	12,789,260	76,212	799,765	978,938	15,670,732
Accumulated amortization						
As at August 31, 2021	-	1,790,060	66,071	222,289	-	2,078,420
Additions during the year	-	494,965	4,182	119,964	-	619,111
As at May 31, 2022	-	2,285,025	70,253	342,253	-	2,697,531
Net Book Value						
As at August 31, 2021	1,026,557	10,999,200	10,141	577,476	922,328	13,535,702
As at May 31, 2022	**1,026,557**	**10,504,235**	**5,959**	**457,512**	**978,938**	**12,973,201**

On June 4, 2018, the Company exercised an option that it held to purchase a 23-acre property located near Armstrong, BC by completing payment of an aggregate of $1,100,000 plus transaction costs of $21,057. Included within the acquisition costs was an aggregate of $225,000 allocated to certain pre-existing buildings based on estimates of their current fair values.

Note 7 Commitment

Cannabis Wheaton Streaming Agreement

On September 4, 2018, the Company completed a final agreement with Cannabis Wheaton Income Corp. now Auxly Cannabis Group Inc. ("XLY"), pursuant to which XLY agreed to subscribe for $5 million in common shares of the Company (the "Initial Subscription"). The Initial Subscription is conditional upon, (i) completion of XLY's satisfactory due diligence review of the Company; (ii) the parties mutually agreeing to the Company's construction budget, design and timeline to build the facility; and (iii) the Company receiving confirmation from Health Canada requesting a pre-licensing inspection of the facility.

Note 7 Commitment – (cont'd)

Cannabis Wheaton Streaming Agreement – (cont'd)

Upon completion of the Initial Subscription, XLY shall receive 50% of the actual cultivation yield generated for a period of 10 years at a price, during the initial three year period subsequent to the commencement of commercial operations, of $2.25 per gram. In addition, XLY has a right of first offer on all other production at a calculated price per gram. XLY is also entitled to designate one nominee to the board of directors as long as it holds at least 25% of the common shares purchased in the Initial Subscription.

On February 9, 2018, XLY completed the first tranche of the Initial Subscription for gross proceeds of $1,000,000. The first tranche consisted of 1,818,181 units in the Company at a price per unit of $0.55.

On September 12, 2018, XLY completed the second tranche of the Initial Subscription for gross proceeds of $4,000,000. The financing was comprised of an equity component of 3,755,868 common shares issued at $0.71 per share, for proceeds of $2,666,667. The remaining $1,333,333 of proceeds was recorded as deferred revenue, the future recognition of which by the Company is subject to the completion, by XLY, of purchase obligations in respect to the Company's cannabis production. The amount is recognized as income as XLY acquires 50% of the Company's production yield based on the discount, if any, of the agreed price (currently $2.25 per gram) to current equivalent market values.

The equity component of the proceeds received in excess of the fair value of the common shares issued was recorded as an equity reserve of $1,727,699. This amount is representative of XLY's intangible rights obtained pursuant to its agreement with the Company.

During the year ended August 31, 2021, the residual balance of deferred revenue was recognized in income.

Note 8 Share Capital

a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares without any special rights or restrictions.

During the nine months ended May 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 9.

Note 8 Share Capital – (cont'd)

b) Share purchase options

The Company operates an employee stock option plan. Share-based payments to directors, officers, employees and consultants are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

During the nine months ended May 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 period ended May 31, 2022, share-based compensation expense was $nil (2021 - $183,254).

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

	Nine Months Ended May 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 period	8,245,000	0.25	7,960,000	0.29
Granted	-	-	1,900,000	0.13
Cancelled/forfeited	-	-	(1,615,000)	0.29
Exercised	-	-	-	0.20
Outstanding, end of the period	8,245,000	0.25	8,245,000	0.25

Note 8 **Share Capital – (cont'd)**

Share purchase options – (Cont'd)

As at May 31, 2022, the weighted-average contractual remaining life of the options was 7.10 years (August 31, 2021 – 7.69 years).

c) Share purchase warrants

Details of outstanding share purchase warrants are as follows:

	Nine Months Ended May 31, 2022		Year Ended August 31, 2021	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
		$		$
Balance, beginning of the period	39,062,350	0.37	37,152,348	0.40
Issued	-	-	4,920,000	0.13
Exercised	-	-	-	-
Expired/cancelled	(3,361.250)	-	(3,009,998)	0.49
Outstanding, end of the period	35,701,100	0.37	39,062,350	0.37

As at May 31, 2022, the weighted-average contractual remaining life of the share purchase warrants was 1.21 years (August 31, 2021 – 2.12 years).

Note 9 **Related Party Transactions**

		May 31, 2022		May 31, 2021
Compensation:				
Consulting fees and bonuses	$	32,000	$	338,300
Production costs		128,607		69,231
Rent, Accounting and Admin		29,119		21,750
Share-based payments		-		81,982
	$	189,726	$	511,263

During the nine months ended May 31, 2022, the Company incurred management consulting fees of $32,000 (2021 – $44,300) and a bonus of $nil (2021 - $135,000; included in consulting fees for the period) to a private company controlled by the Company's President and CEO. As at May 31, 2022, $8,300 (August 31, 2021 - $300) was payable to this private company for the unpaid portion of these fees.

Note 9 **Related Party Transactions – (cont'd)**

During the nine months ended May 31, 2022, the Company incurred production costs of $128,607 (2021 - $69,231) and a bonus of $nil (2021 - $135,000; included in consulting fees for the period) to the Company's COO.

During the nine months ended May 31, 2022, the Company accrued rent, accounting and admin fees of $29,119 (2021 - $21,750) to a private company controlled by a director of the Company. As at May 31, 2022, $55,035 (August 31, 2021 - $27,712) was payable for the unpaid portion of these amounts.

During the nine months ended May 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 Note 10.

Note 10 **Loans payable**

On May 31, 2022, $25,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.95% compounded annually.

On January 21, 2022, $90,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

During the nine months ended May 31, 2022, an aggregate of $133,500 was advanced to the Company from directors, and a party related to a director. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.95% compounded annually.

On November 30, 2021, $100,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.95% compounded annually.

On November 04 and November 15, 2021, an aggregate of $36,000 was advanced from a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On November 04, 2021, $25,564 was advanced from a party related to a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95% compounded annually.

On November 16, 2021, $100,000 was advanced from a party related to a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 9.95%.

Note 10 Loans payable – (cont'd)

On July 12, 2019, $190,000 was advanced from a party related to a director. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually. An additional $260,000 was advanced by the party during the year ended August 31, 2020. During the year ended August 31, 2021, the Company made payments in aggregate of $212,613 towards the outstanding balance.

On August 15, 2019, $50,000 was advanced to the Company from an unrelated party. The promissory note is repayable, in whole or in part, upon written notice provided by the lender and bears interest at a rate of 8.95% compounded annually. An additional $80,000 was advanced by this party during the year ended August 31, 2020 under the same terms as the original promissory note. During the year ended August 31, 2021, the Company made payments in aggregate of $19,438 towards the outstanding balance.

During the year ended August 31, 2020, an aggregate of $210,000 was advanced to the Company from other directors. These promissory notes are repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 9.00% compounded annually. During the year ended August 31, 2021, the Company made payments in aggregate of $215,765 towards the outstanding balances.

During the year ended August 31, 2020, $25,000 was advanced to the Company from an unrelated party. This promissory note is repayable, in whole or in part, upon written notice provided by the lenders and bear interest at a rate of 8.95% compounded annually.

	May 31, 2022	August 31, 2021
Balance, beginning of the year	$ 319,704	$ 792,042
Loans advanced	530,063	-
Interest on loans	43,776	38,478
Loans repaid	(35,000)	(447,816)
Outstanding, end of the year	$ 858,543	$ 319,704

Note 11 **Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity, as well as cash and cash equivalents. There are no external restrictions on the use of the Company's capital other than as provided in Policy 2.4 Capital Pool Companies of the TSX Venture Exchange.

Note 11 **Capital Management – (cont'd)**

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

The Company's financial instruments are exposed to the following risks:

Credit Risk

The Company's primary exposure to credit risk is the risk of illiquidity of cash amounting to $14,700 at May 31, 2022. As the Company's policy is to limit cash holdings to instruments issued by major Canadian banks, or investments of equivalent or better quality, the credit risk is considered by management to be negligible.

Fair Value of Financial Instruments

The fair value of the Company's financial assets approximates the carrying amount. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value classification of the Company's financial instruments as at May 31, 2022 is as follows:

	As at May 31, 2022

	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 14,700	$ -
Accounts receivable	1	-	149,046
		$ 14,700	$ 149,046

Note 11 **Capital Management – (cont'd)**

The fair value classification of the Company's financial instruments as at August 31, 2021 is as follows:

		As at August 31, 2021	
	Fair value level	Fair value through profit or loss	Loans and receivables at amortized cost
Financial assets			
Cash	1	$ 580,177	$ -
Accounts receivable	1		210,917
		$ 580,177	$ 210,917

During the nine months ended May 31, 2022 and 2021, there were no transfers between level 1, level 2 and level 3 classified assets.

Note 12 **Government Grant**

The Canada Emergency Wage Subsidy ("CEWS") government program provides a wage subsidy of 75% for qualifying businesses. The purpose of the wage subsidy is to allow employers to re-hire previously laid off workers and continue to employ those who are already on the payroll. During the nine months ended May 31, 2022, the Company received $140,245 (2021-$nil) as a wage subsidy under this program.

The Hardest-hit Business Recovery Plan ('HHBRP") program provides a grant to a business, charity, or non-profit in Canada who has faced deep losses due to the COVID-19 pandemic. The company received $17,679 (2021-$nil) as a Hardest-hit Business Recovery Grant

Note 13 **Supplemental Non-cash Disclosures**

The Company incurred $29,735 (2021 - $22,324) in property, plant and equipment costs which were included in accounts payable and accrued liabilities as at May 31, 2022.

SCHEDULE B

SUPPLEMENTARY INFORMATION - NIL REPORT

SCHEDULE C

MANAGEMENT DISCUSSION AND ANALYSIS

LOTUS
VENTURES INC.

MANAGEMENT'S DISCUSSSION & ANALYSIS

For the nine months ended May 31, 2022 and

(Expressed in Canadian Dollars)

MANAGEMENT DISCUSSION AND ANALYSIS
For the Nine Months Ended May 31, 2022

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the "Company") for the nine months ended May 31, 2022. The discussion should be read in conjunction with the Interim Financial Statements (unaudited) for the nine months ended May 31, 2022; together with the audited financial statements of the Company and the notes thereto for the year ended August 31, 2021 and the Annual MD&A for the year ended August 31, 2021. The interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Unless expressly stated otherwise, all financial information is presented in Canadian dollars.

Caution on Forward-Looking Information
This MD&A contains forward-looking statements with respect to the Company. These forward-looking statements by their nature involve risks and uncertainties that could cause actual results to differ materially from those contemplated by such statements. The Company considers the assumptions on which these forward-looking statements are based to be reasonable at the time they were prepared but caution the reader that these assumptions regarding future events, many of which are beyond the control of management, may ultimately prove to be incorrect.

DATE
August 02, 2022

COMPANY OVERVIEW

Lotus Ventures Inc. ("Lotus" or the "Company") was formed by the amalgamation of Strachan Resources Ltd., a capital pool company and Private Lotus, a private company, under the provisions of the Business Corporations Act (British Columbia) on November 27, 2014. Private Lotus and Strachan were amalgamated pursuant to an amalgamation agreement dated July 30, 2014 and as amended September 1, 2014. The Company obtained a receipt for its non-offering prospectus from the British Columbia Securities Commission on December 1, 2014 and was listed on the Canadian Securities Exchange on December 8, 2014. The Company is a reporting issuer in British Columbia, Alberta, and Ontario.

The shareholders of each Private Lotus and Strachan exchanged their respective shareholdings on a one-for-one basis for the share capital of the Company. The effect of these exchanges and other issuances of Company shares is that the shareholders of Private Lotus obtained control of the Company immediately subsequent to completion of the amalgamation.

The Company's shares are listed on the Canadian Securities Exchange under the symbol "J", on the OTC Markets under the symbol "LTTSF", and on the Frankfurt Stock Exchange under the symbol "LV9". The Company's registered office address is Suite 1010 – 1030 West Georgia Street, Vancouver, B.C. V6E 2Y3 and the Company's production facility is located near Armstrong, B.C.

BUSINESS OVERVIEW

Lotus Ventures Inc. is a licensed producer and wholesaler of premium cannabis in Canada. The Company owns and operates a proprietary 22,500 square foot indoor cannabis production facility located on 23 acres of farmland in the North Okanagan, B.C. The facility was designed to produce high quality cannabis at a low-cost.

The Company was issued a Standard Cultivation, Standard Processing, and Medical Sales license by Health Canada pursuant to the *Cannabis Act*. The licenses authorize Lotus to cultivate, process and sell cannabis to wholesalers and distributors supplying the provincial and territorial cannabis retailers, to individuals who have registered to obtain cannabis products for medical purposes ("registered patients") or by selling bulk cannabis to other federal license holders. Lotus has focused its efforts on the wholesale B2B cannabis market to date.

The Company also owns and operates the premium consumer brand Lotus Cannabis Co.™ and has launched multiple cultivars including the 'Kalifornia' and the "Tranquil Elephantizer" which has been sold across Canada in several provinces through a collaboration with Kolab Project Inc. Currently the Tranquil Elephantizer cultivar is sold in British Columbia and Ontario.

STRATEGY AND OUTLOOK

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

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

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

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

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

ARMSTRONG PROPERTY

On November 7, 2015, the Company entered into a three-year lease agreement on the property near Armstrong, B.C. The Company acquired the right to purchase the 23-acre parcel of farmland at any time during the lease for $1.1 million by payment of $50,000. The Company also paid a further $50,000 in March 2016 and subsequently exercised the purchase option on the land June 8, 2018.

ARMSTRONG FACILITY – PHASE 1

Phase 1 of the facility near Armstrong B.C. is 22,500 square feet and is licensed to cultivate, process, and sell cannabis. The facility is purpose-built using controlled environment agriculture practices to ensure consistent commercial cannabis production. The facility was built with room for each stage of the growing process from propagation to packaging and was designed to conform to pharmaceutical-grade standards. The facility also includes six separate "small-batch" flowering production rooms. Each room is

[1] Headset Cannabis Data 2022 YTD

harvested perpetually every two weeks and yields approximately 65,000 grams of premium cannabis per harvest.

CANADIAN CONSUMER BRAND

lotus
CANNABIS CO.

Lotus created the consumer brand Lotus Cannabis Co.™ for premium and frequent cannabis consumers. The Lotus team shares the values of authenticity, knowledge, precision, and integrity and each member of Lotus is fully committed to producing cannabis that resonates with the target consumers.

COMMITMENTS

Lotus has been engaged in business-to-business bulk cannabis wholesale since December 2019. Pursuant to Lotus and Auxly Cannabis Group's (TSX: XLY) long-term Purchase and Sale Agreement dated September 4, 2018, Auxly is entitled to purchase the first 50% of Lotus' production. The second half of Lotus' production is to be sold to a third-party licensed producer at market prices, if Auxly does not exercise its right to purchase the remaining production.

DISTRIBUTION IN CANADA

As the Company sells its bulk cannabis through wholesale relationships in Canada, the Company utilizes its offtake agreement with Auxly Cannabis Group Inc. where Auxly provides marketing expertise and distribution for the Lotus flower. The Lotus Tranquil Elephantizer strain is currently sold in Kolab Project x Lotus Cannabis Co. packaging in British Columbia and Ontario. Thus far Lotus has made great strides in producing top-shelf cannabis along with sourcing and developing first-to-market and exclusive strains (The Kalifornia and Tranquil Elephantizer), both of which have been sold at the BC Cannabis Store and the Ontario Cannabis Store, as well as at participating retailers.

As Lotus obtained its Standard Processing/Sales license on September 8, 2021, the Company is working to obtain provincial sales SKUs. Lotus is currently looking at parallel direct-to-consumer packaging paths which include both in-house and outsourced options for these first steps. Outsourcing the mid-stream packaging and distribution responsibilities provides an expedited, and initially cheaper start-up capex. Direct-to-market creates additional sales channels and increases the margin potential without the need for a large capital influx. This in turn also reduces the volatility the industry has experienced in the B2B market.

Lotus has started two new very promising cultivars with expected average THC levels of 25% and expects the first harvests to reflect this. The Company is looking for consistent THC levels and to push the THC% ceiling of these new cultivars even higher. Upcoming harvests can be expected in late August with the potential to be ready to ship bulk product in mid to late October if packaged given no unforeseen delays.

The Company is currently working to meet all supply chain requirements to achieve direct-to-consumer sales in the shortest time frame possible. (Registrations, Applications, vendor relations, compliance).

With a long-term focus on the BC, Alberta, and Ontario markets, Lotus has continued to evolve its sales strategy into a multi-pronged approach which should effectively increase sales in all channels while improving the internal control for Lotus. The Company initially expects SKUs to be applied for in BC with Alberta and Ontario to promptly follow.

MARKET TRENDS

Continued reporting from Health Canada and leading cannabis analytical firms such as Headset indicate dried flower and pre-roll offerings are greater than 60% of total market sales in Canada.[2] Similar market trends continue to be seen in mature American markets. In Canada, pre-roll offerings have started to command a higher market share as consumers continue to look for convenience. Lotus continues to be confident in its long-term premium dried cannabis and high THC flower strategy and continues to see demand in the marketplace for high-quality flower offerings. The benchmark for high THC cannabis flower continues to increase with flower testing over 25% commanding the highest selling prices.

OVERALL PERFORMANCE

The Company is at an early stage in its development and has limited financial resources. The Company will also require cash flow from operations, equity and/or debt financing to support or to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable.

SELECTED ANNUAL INFORMATION

The following selected financial information is derived from the Company's audited financial statements for the years ended August 31, 2021, 2020 and 2019.

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

SUMMARY OF QUARTERLY RESULTS

During the nine months ended May 31, 2022, the Company had net income of $137,848 (2021 - $198,472). The financial results of the Company for the eight most recent quarters are summarized below:

Description	Three months ended May 31, 2022	Three months ended Feb 28, 2022	Three months ended Nov 30, 2021	Three months ended Aug 31, 2021
Revenues	$459,090	$370,551	$410,568	$1,235,937
Net income (loss)	($103,573)	$176,127	$65,293	$42,625
Income (loss) per share, basic and diluted	$0.00	$0.00	$0.00	$0.00
EBITDA	$122,671	$399,757	$279,830	$264,876
Total assets	$17,640,121	$17,678,148	$17,172,703	$16,907,742
Total long-term liabilities	$Nil	$Nil	$Nil	$Nil

Cash dividends / share	$Nil	$Nil	$Nil	$Nil

Description	Three months ended May 31, 2021	Three months ended Feb 28, 2021	Three months ended Nov 30, 2020	Three months ended Aug 31, 2020
Revenues	$1,437,763	$1,431,509	$1,376,270	$1,782,613
Net income (loss)	$208,893	$329,414	$(339,835)	$(241,443)
Income (loss) per share, basic and diluted	$0.00	$0.00	$0.00	$0.00
EBITDA	$433,488	$547,044	$(116,506)	$(26,639)
Total assets	$16,845,615	$16,841,875	$16,413,969	$16,908,437
Total long-term liabilities	$Nil	$Nil	$Nil	$Nil
Cash dividends / share	$Nil	$Nil	$Nil	$Nil

During the nine months ended May 31, 2022 the Company recognized a net income of $137,848, compared a net income of $198,471 for the nine months ended May 31, 2021.

Net income for the nine months ended May 31, 2022 decreased by $60,623 as a result of the decline in sales and gross margin in the current period as compared to the prior comparative period.

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

- Gross margin decreased by $1,512,575 as a result of the decrease in sales.
- Consulting fees decreased by $625,550 as a result of lower expenditures on overhead and some management and other consultants' fees being included in the costs of production.
- Office expenses decreased by $72,493 as a result of lower expenditures on overhead and rent.
- Share-based compensation decreased by $183,254 as a result of not issuing share-based compensation to management during the period.
- A government grant of $157,924 for Canada Emergency Wage Subsidy ("CEWS") and Hardest-hit Business Recovery Plan ("HHBRP") was received in the nine months ended May 31, 2022.

FINANCIAL POSITION AND LIQUIDITY

Cash Flows

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

Operating Activities

During the nine months ended May 31, 2022, the Company spent $1,003,932 for operating activities compared to $268,768 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 $495,064 from financing activities during the period ended May 31, 2022, compared to $27,035 received during the nine months ended May 31, 2021.

Investing Activities

The Company used $56,610 in investing activities for facility construction costs during the nine months ended May 31, 2022, compared to $364,692 during the nine months ended May 31, 2021.

Cash Resources and Going Concern

The Company's cash was $14,700 on May 31, 2022. The Company has no other liquid assets other than accounts receivables of $149,046.

As at May 31, 2022, the Company had net working capital of $2,946,763. 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

	May 31, 2022	May 31, 2021
Compensation:		
Consulting fees and bonuses	$ 32,000	$ 338,300
Production costs	128,607	69,231
Rent and Accounting	29,119	21,750
Share-based payments	-	81,982
	$ 189,726	$ 511,263

Refer to Note 9 of the accompanying Interim Financial Statements for further details on the Company's related party transactions and amounts owing to related parties as at and for the nine months ended May 31, 2022.

Proposed Transactions

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

Changes in Accounting Policies including Initial Adoption

Significant accounting policies can be found in Note 3 of the unaudited financial statements for the nine months ended May 31, 2022.

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting.

The preparation of financial statements in accordance with IFRS requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management evaluates the estimates periodically. Actual results may differ from these estimates by material amounts.

OUTSTANDING SHARE CAPITAL

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

During the nine months ended May 31, 2022, the Company had no share issuances.

During the nine months ended May 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.

Share purchase options:

The Company operates an employee stock option plan. Share-based payments to directors, officers, employees and consultants are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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

As at the date of this MD&A, the following common shares and stock options were issued and outstanding:

	Number of Shares	Exercise Price $	Expiry Date
Common shares	89,969,799	-	-
Stock Options	1,145,000	0.35	November 9, 2027
	1,025,000	0.50	March 20, 2028
	580,000	0.30	October 4, 2028
	2,350,000	0.20	July 4, 2029
	1,275,000	0.20	October 31, 2029
	1,870,000	0.13	September 15, 2030
Warrants			
	10,036,100	0.70	January 22, 2023
	7,680,000	0.30	October 1, 2023
	780,000	0.30	October 15, 2023
	2,800,000	0.30	October 26, 2023
	9,485,000	0.26	April 18, 2024
	4,920,000	0.13	September 17, 2025
Fully diluted	133,915,899		

ADDITIONAL DISCLOSURE FOR ISSUERS WITHOUT SIGNIFICANT REVENUES

A breakdown of the material components of the Company's general and administrative expenses is disclosed in the Company's unaudited interim financial statements for the nine months ended May 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.

ADDITIONAL INFORMATION

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

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