

## **LOTUS VENTURES INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

#### **For the Twelve Months Ended August 31, 2015**

The following is a discussion and analysis of the financial condition and operating results of Lotus Ventures Inc. (the “Company”) for the twelve months ended August 31, 2015. The discussion should be read in conjunction with the audited financial statements of the Company and the notes thereto for the twelve months ended August 31, 2015 and the audited financial statements of Strachan Resources Ltd. (“Strachan”) and the private company, Lotus Ventures Inc. (“Private Lotus”) for the year ended August 31, 2014. The audited financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). Unless expressly stated otherwise, all financial information is presented in Canadian dollars.

### **FORWARD-LOOKING STATEMENTS**

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**

December 23, 2015

### **HISTORY**

On November 27, 2014 the Company was formed by the amalgamation of Strachan, a capital pool company and Private Lotus, a private company, under the provisions of the Business Corporations Act (British Columbia).

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 under the symbol “J”. The Company is a reporting issuer in British Columbia, Alberta and Ontario.

The Company has filed its application with Health Canada to obtain a licence pursuant to the requirements of the Marijuana for Medical Purposes Regulations (the “MMPR Application”) for its planned facility located in Spallumcheen Township, British Columbia. The Company has received its number from Health Canada which signifies its filing and that the review by Health Canada has begun.

In December 2014 Health Canada requested additional information about security clearance forms for the principals of the Company which were provided. As part of an initial screening, on February 4, 2015 Health Canada requested additional information about the major sections of the application, being the proposed site and physical security, the quality assurance pre-licensing report and record keeping plans. The company provided a response on February 24, 2015. On March 11, 2015 Health Canada requested additional information about the Company’s quality assurance person and record keeping. The Company provided a response on March 31, 2015. On August 13, 2015 Health Canada requested additional information on the proposed site and physical security. The Company provided a response on September 2, 2015 and September 9, 2015. As detailed below in Discussion of Operations the company is currently in the Security Clearance phase of the application process.

The Company is confident in the quality of its application. However to review the Health Canada MMPR licensing regime and the risks associated with the process please review our prospectus dated and filed November 28, 2014 at [www.sedar.com](http://www.sedar.com).

### OVERALL PERFORMANCE

The Company is at an early stage in its development and has limited financial resources and no source of operating cash flow. The Company will require equity and/or debt financing to support on-going operations, 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 Company was formed by amalgamation on November 27, 2014. The following selected financial information is derived from Strachan's audited financial statements for the years ended August 31, 2012, 2013 and 2014, Private Lotus' audited financial statements for the years ended August 31, 2013 and 2014 and the Company's audited financial statements for the year ended August 31, 2015. Private Lotus had no operations of any kind during the two years ended August 31, 2014.

#### For Strachan:

Description	Year ended August 31, 2014	Year ended August 31, 2013	Year ended August 31, 2012
<i>Revenues</i>	Nil	Nil	Nil
<i>Net loss</i>	(\$24,690)	(\$155,938)	(\$90,325)
<i>Net loss per share, basic and diluted</i>	\$0.01	\$0.03	\$0.02
<i>Total Assets</i>	\$1,946	\$17,740	\$167,352
<i>Total Long Term Financial Liabilities</i>	\$29,917	Nil	Nil
<i>Cash dividends declared</i>	Nil	Nil	Nil

#### For Lotus:

Description	Year ended August 31, 2015	Year ended August 31, 2014 (Private Lotus)	Year ended August 31, 2013 (Private Lotus)
<i>Revenues</i>	Nil	Nil	Nil
<i>Net income or loss, in total</i>	(\$542,144)	(\$187,728)	Nil
<i>Net loss per share, basic and fully diluted</i>	\$0.03	\$0.05	Nil
<i>Total Assets</i>	\$391,087	\$202,313	Nil
<i>Total Long Term Financial Liabilities</i>	Nil	Nil	Nil
<i>Cash dividends declared</i>	Nil	Nil	Nil

### DISCUSSION OF OPERATIONS

On October 27, 2014 Private Lotus completed a non-brokered private placement of 1,374,000 Private Lotus shares at \$0.25 per share for gross proceeds of \$343,500. Private Lotus paid \$10,000 in finder's fees.

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 shareholders of each of 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.

On November 28, 2014, the Company issued 2,500,000 shares to Strachan founders for \$0.005 per share, a total value of \$12,500.

On August 12, 2015, the Company completed a non-brokered private placement of 1,970,000 shares at \$0.05 per share for gross proceeds of \$98,500.

For the 12 months ended August 31, 2015, the general and administrative expenses totalled \$542,144. These expenses included \$41,617 in listing expenses, \$89,458 in professional fees, \$127,086 in consulting fees, \$29,241 in office and miscellaneous, \$11,237 in research and development and \$16,802 in travel expenses. During the period \$186,500 was recorded as share-based compensation.

The company has applied to Health Canada for a license to produce medical marijuana under the Marijuana for Medical Purposes Regulations. Health Canada is reviewing the application and we have been in correspondence with the Licenses and Permit Division to provide additional information for our application.

Health Canada notified the Company in early December 2015 that it is in the personnel Security Clearance phase of the MMPR application process. This is an important step in the licensing process and permits the Company to make concrete plans for the construction of the planned facility, providing it passes the final Review stage and receives a Confirmation of Readiness for Pre License Inspection from Health Canada. The policy of the new federal government to legalize marijuana will require extensive expansion of properly licensed production capacity to replace illicit market production. Accordingly the Company will file a second MMPR application for an identical second facility without delay and add to its present building design prototype to double the production space for a third application. The company is presently preparing detailed architecture and design work to enable detailed capital budgeting and municipal permitting.

#### **SUMMARY OF QUARTERLY RESULTS**

The Company was formed on November 27, 2014 and does not have comparative quarterly results for the first, second and third quarters of 2014-15. The financial results for Lotus Ventures Inc. for the quarters ended November 30, 2014, February 28, 2015, May 31, 2015 and August 31, 2015 are summarized below. For continuity we also provide financial information for Strachan and Lotus predating the amalgamation.

The following provides quarterly financial information for Strachan and Private Lotus for each three month period since Nov 30, 2012.

**For Strachan:**

Description	Three months ended Aug 31, 2014	Three months ended May 31, 2014	Three months ended Feb 28, 2014	Three months ended Nov 30, 2013	Three months ended Aug 31, 2013	Three months ended May 31, 2013	Three months ended Feb 28, 2013	Three months ended Nov 30, 2012
Revenues	0	0	0	0	0	0	0	0
Net Income (loss)	(\$11,813)	(\$6,185)	(\$7,001)	\$103	(\$84,556)	(\$36,425)	(\$19,577)	(\$15,380)
Net loss per share, basic and diluted	(0.00)	(0.00)	(0.00)	0.00	(0.02)	(0.01)	(0.00)	(0.00)
Total Assets	1,946	5,006	8,385	21,472	17,740	21,715	101,597	144,949
Total Long Term Liabilities	29,917	26,445	Nil	Nil	Nil	Nil	Nil	Nil
Cash Dividends / Share	Nil							

**For Private Lotus:**

Description	Three months ended Aug 31, 2014	Three months ended May 31, 2014	Three months ended Feb 28, 2014	Three months ended Nov 30, 2013	Three months ended Aug 31, 2013	Three months ended May 31, 2013	Three months ended Feb 28, 2013	Three months ended Nov 30, 2012
Revenues	0	0	0	0	0	0	0	0
Net Income (loss)	(\$60,996)	(\$67,526)	Nil	Nil	Nil	Nil	Nil	Nil
Net loss per share, basic and diluted	0.004	0.004	Nil	Nil	Nil	Nil	Nil	Nil
Total Assets	\$202,313	\$62,239	Nil	Nil	Nil	Nil	Nil	Nil
Total Long Term Liabilities	Nil							
Cash Dividends / Share	Nil							

**For Lotus Ventures Inc.**

Description	Three months ended Aug 31, 2015	Three months ended May 31, 2015	Three months ended Feb 28, 2015	Three months ended Nov 30, 2014
Revenues	0	0	0	0
Net Income (loss)	(\$152,362)	(\$36,612)	(\$257,324)	(\$95,846)
Net loss per share, basic and diluted	0.01	0.00	0.01	0.004
Total Assets	\$391,087	\$325,898	\$402,805	\$470,477
Total Long Term Liabilities	Nil	Nil	Nil	Nil
Cash Dividends / Share	Nil	Nil	Nil	Nil

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash was \$234,674 on August 31, 2015. The Company has no other liquid assets other than GST receivable of \$13,824. The Company does not have any operating activities.

As at August 31, 2015, the Company had net working capital of \$126,128. 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.

## **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

## **TRANSACTIONS BETWEEN RELATED PARTIES**

During the year ended August 31, 2015, Private Lotus incurred \$17,395 (2014 - \$106,249) in legal fees and reimbursable expenses paid or accrued to a company controlled by a former Private Lotus director. Private Lotus owed or had accrued as payable to this company \$13,667 at August 31, 2014. The former Private Lotus director controlling this company is not a director or officer of the Company and, as a result, this company has not been a related party of the Company since completion of the Transaction and formation of Amalco on November 27, 2014.

The Company accrued monthly management fees of \$3,333 per month to a company controlled by the Company's President and CEO starting in November 2014. As at August 31, 2015, \$35,000 was payable to this company.

## **PROPOSED TRANSACTIONS**

Other than the private placement detailed in subsequent events below, 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 financial statements for the period ended August 31, 2015.

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 International Financial Standards (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.

## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company has no financial or other instruments.

## **ADDITIONAL DISCLOSURE FOR ISSUERS WITHOUT SIGNIFICANT REVENUES**

A breakdown of the material components of the Company's general and administrative expenses is disclosed in the Company's audited financial statements for the year ended August 31, 2015.

## **OUTSTANDING SHARE CAPITAL**

The authorized share capital of the Company consists of unlimited common shares without par value. As of the date of this MD&A, 28,744,000 common shares are issued and outstanding.

As at the date of this MD&A, there are 2,785,000 options outstanding of which:

- 300,000 are exercisable until December 24, 2015 at \$0.10;
- On December 8, 2014, pursuant to the Company's listing on the CSE, the Company granted 1,000,000 share purchase options exercisable for five years at a price of \$0.25 per share, including 500,000 options to the Company's President and CEO; and
- On November 3, 2015, the Company granted 1,485,000 share purchase options exercisable for a five year period at a price of \$0.20 per share, including 450,000 options to the Company's President and CEO and 450,000 options to a Director of the Company.

## **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's 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.

## **SUBSEQUENT EVENTS**

On December 16, 2015 the Company announced it will be conducting a non-brokered private placement financing of up to 1,400,000 units at a price of \$0.15 per unit for gross proceeds of \$210,000. Each unit comprise one common share of the Company and one warrant to purchase one common share of the Company at a price of \$0.20 per share for a two-year period and is subject to regulatory review.

On November 7, 2015 the Company entered into a three-year lease agreement on the property near Armstrong, British Columbia on which it intends to build the facility which is planned and contained in its MMPR application to Health Canada. The property is approximately 23 acres. The Company will pay \$4,000 per month rent beginning December 1, 2015. The Company also acquired the right to purchase the property at any time during the lease for \$1.1 million by payment of \$50,000. The Company is also required to pay a further \$50,000 in March 2016. The Company has the right to extend the lease and option to purchase for one additional year under certain conditions.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com).