Namaste Technologies Inc.

(Formerly Next Gen Metals Inc.)

Consolidated Financial Statements

For the years ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

(Audited)

Namaste Technologies Inc.
Contents
For the years ended August 31, 2016 and 2015
(Audited)

Management's Responsibility

To the Shareholders of Namaste Technologies Inc.:

The accompanying audited consolidated financial statements ("financial statements") of Namaste Technologies Inc. and all the information in this financial report are the responsibility of management and are approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it considers most appropriate in the circumstances.

The significant accounting policies used are described in Note 4 to the financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the financial report and has ensured that it is consistent with that in the financial statements.

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting. The CEO and the CFO have supervised an evaluation of the effectiveness of the Company's internal control over financial reporting, as at August 31, 2016. Based on this evaluation, the CEO and the CFO have concluded that the Company's internal control over financial reporting, as at August 31, 2016, was effective to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements for external purposes in accordance with applicable accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and all of its members are independent directors. The Audit Committee meets periodically with management to discuss disclosure controls and procedures, internal control over financial reporting, management information systems, accounting policies, auditing and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the financial statements, the Management's Discussion and Analysis and the independent auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditor, and reviews and approves the terms of its engagement as well as the fee, scope and timing of its services.

The financial statements have been audited, on behalf of the shareholders, by MNP LLP, the independent auditor, in accordance with Canadian generally accepted auditing standards. The independent auditor has full and free access to the Audit Committee and may meet with or without the presence of management.

January 5, 2017

(Signed) Sean Dollinger
President and Chief Executive Officer

(Signed) Philip van den Berg
Chief Financial Officer

MNP SENCRL srl / LLP

Independent Auditors' Report

To the Shareholders of Namaste Technologies Inc.:

We have audited the accompanying consolidated financial statements of Namaste Technologies Inc., which comprise the consolidated statements of financial position as at August 31, 2016 and August 31, 2015, and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Namaste Technologies Inc. as at August 31, 2016, August 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Montréal, Québec

MNP SENCRL, srl [1]

January 5, 2017

[1] CPA auditor, CA, public accountancy permit No. A122514

Namaste Technologies Inc.
Consolidated Statements of Financial Position
As at August 31, 2016 and 2015
(Expressed in Canadian dollars)
(Audited)

	August 31, 2016	*August 31, 2015*
Assets		
Current		
Cash	**113,665**	168,691
Prepaids, deposits and other	**91,946**	6,214
Inventory *(Note 6)*	**943,306**	493,335
Receivables	**40,694**	80,025
Taxes receivable	**31,881**	-
Due from related party *(Note 8)*	**6,531**	152,157
	1,228,023	900,422
Intangibles *(Note 5)*	**892,342**	-
Goodwill *(Note 5)*	**1,990,716**	-
	2,883,058	-
	4,111,081	900,422
Liabilities		
Current		
Accounts payable and accrued liabilities *(Note 7)*	**489,481**	182,337
Taxes payable	**-**	231,381
Earn-out payable *(Note 5)*	**398,092**	-
Due to related party *(Note 8)*	**79,449**	134,902
	967,022	548,620
Long-term		
Earn-out payable *(Note 5)*	**1,232,935**	-
	1,232,935	-
Equity		
Share capital	**1,929,133**	-
Deferred shares *(Note 5)*	**595,831**	-
Warrant and option reserve *(Note 9)*	**872,317**	-
Contributed surplus	**250,061**	-
Accumulated other comprehensive income	**(163,672)**	-
Retained earnings (deficit)	**(1,572,546)**	351,802
	1,911,124	351,802
	4,111,081	900,422

Approved on behalf of the Board of Directors on January 5, 2016:

(Signed) Sean Dollinger
Director

(Signed) Philip van den Berg
Director

The accompanying notes are an integral part of these Consolidated Financial Statements

Namaste Technologies Inc.
Consolidated Statements of Income (Loss)
For the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)
(Audited)

	August 31, 2016	*August 31, 2015*
Sales	**3,488,902**	4,568,276
Cost of goods sold	**2,368,428**	2,565,251
Gross profit	**1,120,474**	2,003,025
Operating expenses		
Advertising and promotion	**203,423**	466,379
Consulting fees	**511,403**	395,083
Salaries	**375,674**	187,500
Share-based compensation *(Note 9)*	**277,826**	-
Bank and credit card fees	**176,151**	125,083
Professional fees	**308,195**	51,179
Communications	**122,754**	45,037
General and administrative	**111,624**	45,984
Rent and rental services	**36,039**	41,503
Travel and vehicles	**99,733**	20,688
Foreign exchange loss	**216,134**	35,721
Investor relations	**277,360**	-
Listing costs expensed *(Note 1)*	**570,350**	-
	3,286,666	1,414,157
Income (loss) before other income	**(2,166,192)**	588,868
Other income *(Note 1)*	**238,416**	-
Income (loss) before income taxes	**(1,927,776)**	588,868
Provision for income taxes (*Note 13*)	**-**	233,638
Net income (loss)	**(1,927,776)**	355,230
Net income (loss) per share, basic and diluted:	**$(0.036)**	$0.01
Weighted average number of outstanding common shares, basic and diluted:	**53,458,671**	36,218,202

The accompanying notes are an integral part of these Consolidated Financial Statements

Namaste Technologies Inc.
Consolidated Statements of Comprehensive Income (Loss)
For the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)
(Audited)

	August 31, 2016	*August 31, 2015*
Net income (loss)	**(1,927,776)**	355,230
Other comprehensive income		
Cumulative translation adjustment	**(160,244)**	(3,428)
Net comprehensive income (loss) for the year	**(2,088,020)**	351,802

The accompanying notes are an integral part of these Consolidated Financial Statements

Namaste Technologies Inc.
Consolidated Statements of Changes in Equity
For the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)
(Audited)

	Common shares	*Common shares $*	*Deferred shares $*	*Options and warrants $*	*Accumulated OCI $*	*Contributed Surplus $*	*Retained earnings $*	*Total $*
Shareholder's equity - September 3, 2014	-	-	-	-	-	-	-	**-**
Net income (loss)	-	-	-	-	-	-	355,230	**355,230**
Other comprehensive income	-	-	-	-	(3,428)	-	-	**(3,428)**
Shareholder's equity - August 31, 2015	-	-	-	-	(3,428)	-	355,230	**351,802**
Shares issued on Business Combination *(Note 1)*	36,218,202	-	-	-	-	-	-	**-**
Shares retained by Next Gen shareholders *(Note 1)*	8,310,301	498,618	-	-	-	-	-	**498,618**
Share issuance *(Note 9)*	23,323,794	1,640,349	-	-	-	-	-	**1,640,349**
Deferred shares *(Note 5)*	-	-	595,831	-	-	-	-	**595,831**
Options and warrants issued *(Note 9)*	-	-	-	872,317	-	-	-	**872,317**
Share issuance costs	-	(209,834)	-	-	-	-	-	**(209,834)**
Forgiveness of related party amounts on Business Combination	-	-	-	-	-	250,061	-	**250,061**
Net income (loss)	-	-	-	-	-	-	(1,927,776)	**(1,927,776)**
Other comprehensive income	-	-	-	-	(160,244)	-	-	**(160,244)**
Shareholder's equity - August 31, 2016	67,852,297	1,929,133	595,831	872,317	(163,672)	250,061	(1,572,546)	**1,911,124**

The accompanying notes are an integral part of these Consolidated Financial Statements

Namaste Technologies Inc.
Consolidated Statements of Cash Flows
For the years ended August 31, 2016 and 2015
(Expressed in Canadian dollars)
(Audited)

	August 31, 2016	*August 31, 2015*
Cash provided by (used for) the following activities		
Net earnings and comprehensive income	**(2,088,022)**	351,802
Adjustments for:		
Non-cash listing costs	**570,350**	-
Share-based compensation	**277,826**	-
Other non-cash income	**(238,416)**	-
Changes in non-cash working capital items:		
Increase in current assets	**(496,372)**	(579,574)
Increase in accounts payable and accrued liabilities	**282,299**	182,337
Provision for income taxes	**-**	231,381
	(1,692,335)	185,946
Cash flows from financing activities:		
Change in related party balances	**340,235**	(17,255)
Proceeds from issuance of share capital	**1,358,783**	-
Proceeds from issuance of warrants and options	**594,491**	-
	2,293,509	(17,255)
Cash flows from investing activities:		
Investment in VaporSeller business	**(656,200)**	-
	(656,200)	-
Increase in cash resources	**(55,026)**	168,691
Cash resources, beginning of year	**168,691**	-
Cash resources, end of year	**113,665**	168,691

The accompanying notes are an integral part of these Consolidated Financial Statements

1. Nature of operations and background information

Namaste Technologies Inc. ("Namaste" or the "Company") is an e-commerce business that distributes vaporizers and accessories for aromatherapy purposes. The Company is also designing with the intention to fully commercialize its own proprietary vaporizer products. Namaste is an entity formed under the British Columbia *Business Corporations Act*. The Company is a reporting issuer in British Columbia, Alberta and Ontario, listed (since 19 February 2014) on the Canadian Securities Exchange ("CSE") under the trading symbol "N".

The Company's head office is located at Suite 2300, Bentall 5, 550 Burrard Street, Vancouver, British Columbia, V6C 2B5, Canada.

The accompanying audited consolidated statement of financial position of the Company has been prepared by management to reflect the three-cornered amalgamation of 9558039 Canada Inc. ("Dollinger Canada"), an incorporated entity that was comprised of a vaporizer and accessories division (the "Division") formerly included in the operations of Dollinger Enterprises USA Inc. ("Dollinger USA"), Next Gen Metals Inc. ("Next Gen"), an incorporated public entity listed on the CSE, and Greenrush Analytical Laboratories Inc. ("Green Rush"), a wholly owned subsidiary of Next Gen. The consolidated statement of financial position gives effect to the Transaction as closed on February 26, 2016.

Pursuant to the business combination agreement (the "Agreement") dated October 30, 2015, and extended and revised on December 15, 2015, and again on February 12, 2016 between Next Gen, Dollinger Enterprises Ltd. ("Dollinger Enterprises", parent company of Dollinger USA), Dollinger USA, and Green Rush, Next Gen acquired all of the issued and outstanding shares of Dollinger Canada, through a three-cornered amalgamation whereby prior to the Transaction, Dollinger Enterprises transferred all of the shares it held in Dollinger USA (its wholly owned subsidiary) and in Dollinger Enterprises Bahamas Ltd. (its wholly owned subsidiary) to a newly incorporated company, Dollinger Canada. Next Gen then acquired all of the issued and outstanding shares of Dollinger Canada through a three-cornered amalgamation whereby Dollinger Canada and Green Rush amalgamated and the shareholders of Dollinger Canada received post consolidated shares of Next Gen in exchange for their shares of Dollinger Canada (the "Transaction").

Under International Financial Reporting Standards ("IFRS"), the share exchange between Dollinger Canada and Next Gen is considered to be a capital transaction in substance, rather than a business combination. That is, the share exchange is equivalent to the issuance of stock by Dollinger Canada for the net monetary assets of Next Gen, accompanied by a recapitalization, and is accounted for as a change in capital structure. Accordingly, the accounting for the share exchange is identical to that resulting from a reverse acquisition, except no goodwill is recorded. Under reverse acquisition accounting, the post reverse acquisition comparative financial statements of Next Gen, the legal acquirer, are now those of Dollinger Canada, the accounting acquirer.

These consolidated financial statements reflect the assets, liabilities and results of operations of Dollinger Canada, since it is deemed to be the accounting acquirer. The results of operations, cash flows and assets and liabilities of Next Gen have been included in the consolidated financial statements since February 26, 2016, the acquisition date. All amounts reported prior to February 26, 2016 are those of Dollinger Canada and its subsidiaries.

All of the shares of Dollinger Canada shares were exchanged for shares of Next Gen as follows:

Pursuant to the Agreement, Next Gen consolidated its issued and outstanding common shares on a 3:1 basis and had 8,310,301 common shares issued and outstanding post consolidation, such that each Next Gen shareholder received one (1) post consolidated common share for each (3) pre consolidation common shares of Next Gen. Post consolidation, Next Gen issued Dollinger Canada five (5) Next Gen post consolidated common shares for every one (1) common share of Dollinger Canada for a total issuance of 36,218,202 post consolidated common shares of Next Gen to the shareholders of Dollinger Canada.

1. Nature of operations and background information *(Continued from previous page)*

The fair value of consideration and net assets of Next Gen acquired on February 26, 2016 are as follows:

The fair value of the consideration is as follows:

Deemed issuance price of common shares issued to former shareholders of Next Gen	**0.06**
Deemed issuance of common shares of former shareholders of Next Gen	**8,310,301**
Fair value of consideration	**498,618**

The allocation of the consideration is as follows:

Cash	**7,281**
Short and long term investments	**300**
Accounts receivable	**5,149**
Property and equipment	**3,861**
Accounts payable	**88,323**
Listing costs expensed	**570,350**
Value attributed to Next Gen shares issued	**498,618**

The share capital, warrant and option reserve, and deficit of Next Gen have been eliminated for the purposes of these consolidated financial statements and the listing costs expensed of $570,350 and net amount of identifiable current assets and liabilities have been reduced from deficit. Because the Company issued shares with a value in excess of the assets deemed received, IFRS 2 would indicate the difference be recognized in comprehensive loss as a listing expense. The fair value of consideration provided to Next Gen was determined based on the value of the Next Gen's common shares quoted on the Canadian Securities Exchange prior to the announcement of the Transaction. The Company also recognized an additional $10,665 of cash fees associated with the Transaction.

The Company has recognized $238,416 as other income in the statement of loss. These amounts are specifically related to revisions in taxes payable attributable to unutilized tax loses associate with a former division of Dollinger USA. The Company has also recognized $250,061 as contributed surplus specifically relate to related party loan forgiveness.

These consolidated financial statements are not necessarily indicative of the results that would have been attained if the Division had been operated as a separate legal entity during the period presented and therefore are not necessarily indicative of future operating results.

The consolidated statement of financial position has been prepared in accordance with International Financial Reporting Standards ("IFRS"), and, in the opinion of management, include all adjustments necessary for fair presentation.

All amounts in these consolidated financial statements have presented in Canadian dollars and indicated as "$". Canadian dollars are the reporting currency of the Company.

These consolidated financial statements were approved and authorized by the Board of Directors of the Company on January 5, 2016.

2. Going concern

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The ability of the Company to continue as a going concern is dependent on generating profitable operations, raising additional financing, and developing its products and services.

Historically, management has been successful in generating profits from operation, obtaining sufficient funding for operating and capital requirements. There is, however, no assurance that the Company will continue to generate profits from operation or that additional future funding will be available to the Company, or that such funding will be available on terms which are acceptable to the management of the Company.

These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported amounts of expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate and such adjustments could be material.

3. Basis of preparation

3.1. Basis of presentation and statement of compliance

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The consolidated financial statements are presented in Canadian dollars, which is the Company's reporting currency. The Company's functional currency is US dollars.

The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effect are disclosed below.

The consolidated financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4.

3.2. Use of management estimates, judgments and measurement uncertainty

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenues, and expenses. Management uses various factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

3. Basis of preparation *(Continued from previous page)*

The critical judgements and significant estimates in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are:

- the fair value of the share consideration deemed issued to acquire Namaste (Note 1)
- the determination of the business combination, purchase price allocation and measurement of the fair value of the consideration paid (Note 5)
- the fair value of options and warrants (Note 9)
- the fair value of deferred taxes (Note 13)

3.3 New and revised standards

New standards and interpretations to be adopted in future periods

At the date of authorization of these consolidated financial statements, the IASB and IFRS Interpretations Committee (IFRIC) have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements.

IAS 1 “Presentation of Financial Statements” was amended by the IASB in December 2014. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures. The effective date is for annual periods beginning or after January 1, 2016. Entities may still choose to apply IAS 1 immediately, but are not required to do so.

IFRS 9 “Financial Instruments” was issued in final form in July 2014 by the IASB and will replace IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however early adoption is permitted.

IFRS 15 Revenue from Contracts with Customers. In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2018.

(Expressed in Canadian dollars)

3. Basis of preparation *(Continued from previous page)*

IFRS 16 - Leases replaces IAS 17, Leases. The new model requires the recognition of almost all lease contracts on a lessee's statement of financial position as a lease liability reflecting future lease payments and a "right-of-use asset" with exception for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within the operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual period beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, Revenue of Contracts with Customers, is also applied. The Company has yet to evaluate the impact of this new standard.

4. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

4.1 Basis of consolidation

The consolidated financial statements include the accounts of the Company and entities controlled by the Company and its subsidiaries.

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Subsidiaries of the parent Company, Namaste Technologies Inc., are as follows:

Principal subsidiaries	**Percentage of equity interest**
	%
Namaste Technologies Holdings Inc.	100
Dollinger Enterprises US Ltd.	100
Namaste Bahamas Inc.	100
Next Gen USA Inc.	100
Greenrush Financial Conferences Inc.	100

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of income and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intercompany transactions, balances, revenue and expenses are eliminated in full on consolidation.

4. Summary of significant accounting policies *(Continued from previous page)*

4.2 Business combinations

Acquisitions of business are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. This is calculated as the sum of the acquisition date fair values of the assets transferred by the Company and liabilities incurred by the Company to the former owners of the acquiree in exchange for control of the acquiree Acquisition related costs are recognized in profit and loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

4.3 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Where goodwill forms part of a cash-generating unit and part of the operation within the unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation and the portion of the cash-generating unit retained.

4. Summary of significant accounting policies *(Continued from previous page)*

4.4 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short term deposits with original maturities of three months or less. As at August 31, 2016 and as at August 31, 2015, there were no cash equivalents.

4.5 Inventory

Inventory is valued at the lower of cost and net realizable value. Cost comprises all costs of purchases and other costs incurred in brining inventories to their present location and condition. The Company uses the weighted average method to track and cost inventory items. The inventory consists of vaporizers, vaporizer accessories, and therapeutic herbs. The inventory consists solely of goods currently available for sale and does not include any unfinished goods or work-in-progress.

Inventory is written down to net realizable value by item when a decline in the price of items indicates that the cost is higher than the net realizable value. When events having caused a decline in the valuation of inventories no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value.

4.6 Accounts payable and accrued liabilities

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not. Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the Company has a present obligation, and the costs to settle this obligation are both probable and able to be reliably measured.

4.7 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 policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. 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.

4.8 Change in presentation currency

Effective September 1, 2015, the Company changed its reporting currency to Canadian dollars to reflect the Canadian listing of the Company's common shares on the Canadian Securities Exchange. The change in reporting currency from US dollars to Canadian dollars is accounted for retrospectively from September 1, 2014. The exchange rates used to translate the year end August 31, 2015 consolidated statement of financial position to reflect the change in reporting currency was $1.31. These consolidated financial statements are presented in Canadian dollars and prior year comparable information is restated to reflect the change in reporting currency.

In making the change to a Canadian dollar reporting currency, the Company followed the guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* ("IAS 8") and has applied the change retrospectively as if the reporting currency of Canadian dollars had always been the Company's presentation currency. The financial statements for all the periods presented have been translated into the presentation currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21"). For comparative balances, assets and liabilities have been translated into the presentation currency at the rate of exchange prevailing at the reporting date, or at the exchange rate prevailing at the date of the transactions, with the difference between these rates being reflected in accumulated other comprehensive income.

4. Summary of significant accounting policies *(Continued from previous page)*

4.9 Revenue recognition

The Company derives its revenues from the online sales of vaporizers and accessories through e-commerce platforms. Revenue is recognized when goods are dispatched, the amount of revenue can be measured reliably, the receipt of economic benefits is probable and costs incurred can be measured reliably.

4.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As at August 31, 2016 and August 31, 2015, the Company did not have any finance leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4.11 Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized 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 options reserve. The fair value of options is determined using the Black-Scholes Option 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 will eventually vest.

4.12 Income taxes

Tax expense is recognized in the statement of profit and loss, except to the extent it relates to items directly in equity, in which case the related tax is recognized in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

4. Summary of significant accounting policies *(Continued from previous page)*

4.12 Income taxes *(Continued from previous page)*

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.

4.13 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

Financial assets of the Company are comprised of cash and receivables. The financial liabilities of the Company are comprised of accounts payable and accrued liabilities, due to related party and earn-out payable.

Financial assets and financial liabilities are recognized in the statement of financial position initially at fair value when the Company becomes a party to the contractual provisions of the financial instrument.

4.14 Financial assets

Financial assets are classified, at initial recognition, into one of the following categories:

- fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets; or
- derivatives designated as hedging instruments in an effective hedge.

Financial assets at fair value through profit or loss (“FVTPL”) include financial assets held for trading, and are classified as such if they are acquired for the purpose of selling or repurchasing in the near term, and those that are designated as such upon initial recognition when doing so results in more relevant information being presented. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in an effective hedging relationship. Cash is classified into this category.

Financial assets are initially and subsequently measured at fair value with the exception of loans and receivables and investments that are held-to-maturity, which are subsequently measured at amortized cost using the effective interest rate method, less impairment. Accounts receivable are currently classified in loans and receivables.

Subsequent recognition of changes in fair value of financial assets re-measured at each reporting date at fair value depend on their initial classification. Financial assets at fair value through profit or loss are measured at fair value with all gains and losses included in net income in the period in which they arise. Available-for-sale financial assets are measured at fair value with gains and losses included in other comprehensive income until the asset is removed from the consolidated statement of financial position or until impaired. No assets are currently classified as available-for-sale financial assets.

(Expressed in Canadian dollars)

4. Summary of significant accounting policies *(Continued from previous page)*

4.15 Intangibles

Purchased intangible assets are recognized as assets in accordance with IAS 38, *Intangible Assets,* where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization, if applicable, and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Management has determined that trade names have an indefinite useful life.

On July 15, 2016, the Company acquired certain assets of Haze Industries, Inc. ("Haze") representing its VaporSeller business (note 5). Pursuant to the transaction, the Company acquired intangible assets with estimated values set forth as follows:

	2016
Customer list	577,456
Domain	314,976
Total intangibles	892,432

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The customer list and domains have a useful life not exceeding 5 years respectively.

4.16 Impairment of financial assets

At each reporting date, the Company assesses whether its financial assets are impaired. Impairment losses are recognized in the consolidated income statement when there is objective evidence that the financial assets are impaired. Financial assets are deemed to be impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset(s) that can be reliably estimated.

4.17 Derecognition of financial assets

Financial assets are derecognized when the Company’s contractual rights to the cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them.

4. Summary of significant accounting policies *(Continued from previous page)*

4.18 Financial liabilities and equity instruments

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities are classified, at initial recognition, into one of the following categories:

- fair value through profit or loss;
- other financial liabilities measured at amortized cost; or
- derivatives designated as hedging instruments in an effective hedge.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term, and those that are designated as such upon initial recognition when doing so results in more relevant information being provided. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in an effective hedging relationship. Otherwise, they are considered as an other financial liability. No financial liabilities are currently classified as at fair value through profit or loss. Accounts payable and accrued liabilities, due to related party and earn-out payable are currently classified as other liabilities.

Financial liabilities at fair value through profit or loss are measured at fair value with all gains and losses included in net income in the period in which they arise. Other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs and applicable income taxes.

4.19 Foreign currency transactions

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured. Foreign denominated monetary assets and liabilities are translated to their US dollar equivalents, the Company's functional currency, using foreign exchange rates prevailing at the financial position reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

All conversions from US dollars, the Company's functional currency, to Canadian dollars, the Company's reporting currency, have been calculated utilizing the exchange rate as at August 31, 2016 or the average exchange rate for the period, as applicable.

5. Business acquisition

On July 15, 2016, the Company reported it closed its purchase of certain assets of Haze representing its VaporSeller business. The Company acquired assets constituting an identifiable business thereby acquiring control of the business. The purchase price was determined as one-times the trailing revenue of the business.

VaporSeller is an e-commerce platform for the retail distribution of vaporizers with a presence in the United States. VaporSeller is a recognized name within the industry with a reputation for providing quality products and service for competitive prices. It is anticipated the acquisition of VaporSeller will generate synergies for the Company in the form of reduced operating costs associated with employees and consultants, software and information technology, and rent. For the period from September 1, 2015 to August 31, 2016, management estimates the combined revenue and pre-tax earnings of the VaporSeller assets and the Company to be $8,290,399 and $(2,262,004), respectively. For the period from July 15, 2016 to August 31, 2016, management estimates the revenue and pre-tax earnings of the VaporSeller assets to be $394,901 and $16,805, respectively.

The Company acquired the VaporSeller assets from Haze in exchange for cash, shares and an earn-out. Financial terms of the transaction are as follows:

- US$500,000 in cash upon closing of the transaction;
- 5,000,000 common shares of the Company issued to Haze in three installments and not subject to any lockup period at an assumed value of US$0.10 per share. 1,700,000 common shares will be issued January 1, 2017, 1,700,000 common shares will be issued on July 1, 2017 and 1,600,000 common shares will be on January 1, 2018; and
- US$1,527,052 in earn-out cash payments over a maximum of 4 years, subject to certain performance criteria including operational controls on revenue and margins.

The earn-out will be in equal installments paid monthly based on revenue performance. To receive the full payment for the month of US$42,418, the assets must produce a minimum revenue of US$281,535 monthly and, in the event revenues decline below US$168,321, no earn-out payment will be made for the month by the Company. Any revenue amount between the US$281,535 and US$168,321 for the month will result in partial payment. During the term of the earn-out, the Company will provide the principals of Haze with a consulting contract providing for compensation of US$89,000 annually, this contract is not considered to be part of the purchase consideration but rather is considered compensation for ongoing services rendered.

Management determined the full value of the earn-out to be payable in full over the timeline based on an annual website traffic growth rate of 30%, traffic to sale conversion ratio of 1.57-1.70%, and average purchase price for converted sale of $73.00 - $75.00.

In addition to the purchase price, Haze also consigned the Company an initial inventory amount of $153,901 at an agreed value for each product. The agreed value of each product is reimbursed to Haze as the product is sold. The Company has not recognized this inventory in its statement of financial position and has recorded the value of the product at the time it is sold as cost of goods.

(Expressed in Canadian dollars)

5. Business acquisition *(Continued from previous page)*

	2016
Consideration paid:	
Cash	656,200
Common shares	595,831
Earn-out	2,004,103
Discount on non-interest bearing holdback	(373,076)
Net purchase price	2,883,058

The preliminary purchase price allocation attributed to the identifiable net assets acquired is as follows:

	2016
Customer list	577,456
Domain	314,886
Goodwill (1)	1,990,716
Net purchase price	2,883,058

(1) Goodwill is not deductible for tax purposes

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits in excess of existing profits due to the reputation of VaporSeller and credibility it has established in the US market for selling quality products. The consideration paid mostly relates to combined synergies, related mainly to revenue growth. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

The useful life of the customer list and domains have a useful life of not exceeding 5 years.

Total acquisition costs related to the business combination amounted to $81,808. These expenses incurred related mainly to legal costs incurred which are included in the consolidated statement of loss.

The purchase price allocation is still preliminary as post-closing adjustments have not been finalized.

6. Inventory

All inventory consists of finished goods. The cost of inventory recognized as an expense and included in cost of goods sold for the period ended August 31, 2016 is $2,260,244 (August 31, 2015 - $1,779,611).

(Expressed in Canadian dollars)

7. Accounts payable and accrued liabilities

	As at August 31, 2016	*As at August 31, 2015*
Trade payables	**411,057**	-
Consulting accrual	**24,724**	63,811
Payroll accrual	**35,621**	7,497
Employee contributions payable	**14,170**	45,663
Audit accrual	**-**	34,998
Rent payable and leasehold inducements	**-**	12,973
Deferred revenue	**-**	5,821
Other accounts payable	**3,910**	11,574
Total	**489,482**	182,337

8. Due to and from related party

Amounts due to and due from related parties are non-interest bearing, unsecured, and payable within the upcoming fiscal year.

9. Share capital

9.1 Authorized share capital

The Company has authorized for issuance an unlimited number of common shares. At August 31, 2016, the Company had 67,852,297 common shares issued and outstanding.

9.2 Issuance of shares

During the second quarter ending February 29, 2016, the Company secured $1,213,975 of equity capital (before deduction for transaction financing expenses) pursuant to the completion of its three-cornered amalgamation with Next Gen.

Pursuant to the terms of the Transaction between the Company and Next Gen, Next Gen issued 3.6 million subscription receipts at a price of $0.10 per subscription receipt for a total of gross proceeds of $360,000. Each subscription receipt automatically converted, for no additional consideration, into 3.6 million units of the Company upon the closing of the transaction with Next Gen, which occurred on February 26, 2016. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.15 per common share for a period of two years from closing of the private placements. The weighted average fair value of each full warrant is estimated at $0.02 using the Black Scholes Option Pricing Model as disclosed further in 9.4.

In addition to the unit offering, Next Gen also completed a concurrent private-placement offering by issuing 11,386,330 subscription receipts at a price of $0.075 cents per subscription receipt for a total of $853,975. Each of these subscription receipts automatically converted, for no additional consideration, into 11,386,330 common shares of the Company, upon the closing of the Transaction with Next Gen, which occurred on February 26, 2016.

In the fourth quarter ending August 31, 2016, the Company closed a non-brokered private placement by issuing 8,087,454 units of the Company for gross proceeds of $970,496. Each Unit consists of one common share of the Company and one common share purchase warrant at an exercise price of $0.18 for a period of 2-years. In addition to the initial closing, the Company issued an additional 250,000 units for gross proceeds of $30,000 on August 5, 2016. The weighted average fair value of each full warrant is estimated at $0.03 using the Black Scholes Model as described in 9.4.

(Expressed in Canadian dollars)

9. Share capital *(Continued for previous page)*

9.3 Share purchase warrants

The following is a summary of the changes in the Company's share purchase warrants for the years ended August 31, 2016 and 2015 and August 31, 2015:

	August 31, 2016		*August 31, 2015*	
	Number of warrants	***Weighted average exercise price***	*Number of warrants*	*Weighted average exercise price*
Outstanding, beginning of period	-	-	-	-
Granted	11,213,402	0.17	-	-
Warrants retained by Next Gen shareholders	627,917	0.36	-	-
Exercised	-	-	-	-
Forfeited	531,250	0.54	-	-
Outstanding, end of period	11,315,069	0.17	-	-

The following table summarizes information regarding share purchase warrants outstanding as at August 31, 2016:

Date issued	***Number of warrants***	***Exercise price***	***Expiry date***
September 30, 2014	96,666	0.54	September 30, 2016
November 19, 2015	533,333	0.15	December 15, 2017
December 15, 2015	1,800,000	0.15	December 15, 2017
December 15, 2015	429,333	0.075	December 15, 2017
December 15, 2015	75,000	0.12	December 15, 2017
July 18, 2016	8,087,454	0.18	July 18, 2018
July 13, 2016	43,283	0.12	July 18, 2018
August 5, 2016	250,000	0.18	August 5, 2018
Outstanding, end of period	11,315,069	0.17	

9.4 Stock options

The Company has established a stock option plan for directors, employees, and consultants. Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the Discounted Market Price policies of the CSE. The aggregate number of common shares issuable pursuant to options granted under the plan is 6,785,229 common shares, being 10% of the Company's issued common shares under the plan. The board of directors has the exclusive power over the granting of options and their vesting and cancellation provisions.

(Expressed in Canadian dollars)

9. Share capital *(Continued from previous page)*

9.4 Stock options

The following is a summary of the changes in the Company's stock option plan for the years ended August 31, 2016 and 2015 and August 31, 2015:

	August 31, 2016		August 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	-	-	-	-
Granted	5,300,000	0.16	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding, end of period	5,300,000	0.16	-	-

The fair value of the options granted during the years ended August 31, 2016 and 2015 was estimated at $277,826 (2015 – $Nil) at the grant date using the Black-Scholes Option Pricing Model. The weighted average value of each option granted was estimated at $0.065.

The assumptions used for the calculation were:

	Twelve months ended August 31, 2016
Risk free rate	0.66-0.77%
Expected life	5 years
Expected volatility	125.0%
Expected dividend per share	Nil

Volatility was calculated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that the options granted are expected to be outstanding. The risk free rate is based on zero coupon Canada government bonds with a remaining term equal to the expected life of the options.

The assumptions used for the calculation of the fair value of the warrants described in note 9.2 are as follows:

	Twelve months ended August 31, 2016
Risk free rate	0.50-1.10%
Expected life	2 years
Expected volatility	125.0%
Expected dividend per share	Nil

(Expressed in Canadian dollars)

9. Share capital *(Continued from previous page)*

9.4 Stock options

The following table summarizes information regarding stock options outstanding and exercisable as at August 31, 2016:

	Number of options outstanding	***Weighted-average remaining contractual life (years)***	***Weighted average exercise price***
Options outstanding			
$0.01 - $0.19	4,400,000	4.53	0.15
$0.20 - $0.39	900,000	4.70	0.20
Total options outstanding	5,300,000	4.55	0.16
Options exercisable			
$0.01 - $0.19	4,400,000	4.53	0.15
$0.20 - $0.39	900,000	4.70	0.20
Total options exercisable	5,300,000	4.55	0.16

10. Capital management

Capital structure financial policy

The Company's objective for managing capital are: (i) to maintain a flexible capital structure which optimizes the cost/risk equation; and (ii) to manage capital in a manner which maximizes the interests of shareholders. The Company considers capital as the total equity disclosed on the statement of financial position.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's capital structure is managed in conjunction with the capital structure and financial needs of the day-to-day operations. The Company currently funds the working capital requirements out of its cash, internally-generated cash flows and the periodic use of credit facilities.

Management does not establish quantitative return on capital criteria, however management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is appropriate. As at August 31, 2016, the Company is not subject to any externally imposed capital requirements.

11. Financial instruments

Fair value of financial instruments

Financial instruments that are measured at fair value use inputs which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level One includes quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level Two includes inputs that are observable other than quoted prices included in Level One.
- Level Three includes inputs that are not based on observable market data.

The Company has designated its cash as FVTPL. Its accounts receivable is classified as loans and receivables. Its accounts payable and accrued liabilities, due to related party and earn-out have been designated as other financial liabilities. The fair value of all financial instruments is determined using level three of the hierarchy.

As at August 31, 2016, both the carrying and fair value amounts of all of the Company's financial instruments are approximately equivalent due to their short term nature.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash consists of cash on hand deposited with reputable financial institutions which is closely monitored by management. Management believes credit risk with respect to financial instruments included in cash and due from related parties is minimal. The Company's maximum exposure to credit risk as at August 31, 2016 is the carrying value of cash and accounts receivable.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting it operations and anticipating its operating and investing activities. As at August 31, 2016, the Company had current assets of $1,228,023 compared to current liabilities of $967,023. All amounts in current liabilities are due within one year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

Interest rate risk

Interest rate risk consists of a) the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, and b) to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities. The Company is not exposed to interest rate price risk.

11. Financial instruments *(Continued from previous page)*

Foreign currency risk

The Company buys inventory and sells products in several countries. The Company is exposed to foreign currency risk from fluctuations in foreign exchange rates and the degree of volatility in these rates due to the timing of their accounts payable balances. This risk is mitigated by timely payment of creditors and monitoring of foreign exchange fluctuations by management. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Transactions in foreign currencies are translated to the respective functional currencies at the spot rate on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in income.

The Company's exposure to foreign exchange risk of transactions and the effects on revenue as a result of a strengthening of 1% in the relevant foreign currencies against the Canadian dollar as at August 31, 2016, would be $16,500 if GBP increases 1% in value, $3,800 if the USD increases 1% in value and $5,000 if the euro increases 1% in value. A weakening of 1% in the relevant foreign currencies against the Canadian dollar would have an equal and opposite impact on revenue.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

12. Related parties and key management

Key management includes the Company's directors, senior officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly. For the period from September 1, 2015 to August 31, 2016, the compensation awarded to key management was $25,650 in share-based compensation and $21,721 of cash compensation for consulting fees and salaries.

(Expressed in Canadian dollars)

13. Income taxes

The relationship between the expected tax expense based on the combined federal and state income tax rate in the United States and the reported tax expense in the statements of comprehensive loss can be reconciled as follows:

	August 31, 2016	*August 31, 2015*
Accounting Income (loss) before income tax	**(1,927,776)**	**588,868**
Expected Income tax expense (recovery) at combined U.S. federal and state income tax rate of 37.63% (2015 - 39%)	(725,422)	229,659
Adjustments for the following items:		
Non-deductible share issue costs	218,636	-
Stock-based compensation	104,546	-
Tax impact of temporary differences for which no deferred tax asset was recorded	349,181	-
Effect of Tax Rates of Foreign Jurisdictions	67,854	-
Permanent differences and other	(14,795)	3,979
Deferred income tax expense (recovery)	**-**	**233,638**

Significant components of the deferred income tax assets and (liabilities) of the Corporation are as follows:

	Opening Balance	*Recognized in net income*	*Closing Balance*
Deferred income tax assets (liabilities):			
Intangible Assets	-	(3,872)	(3,872)
Property & Equipment	-	(3,945)	(3,945)
Total deferred income tax asset (liabilities)	-	(7,817)	(7,817)
Losses carried forward	-	7,817	7,817
Deferred income tax assets (liabilities)	-	-	-

(Expressed in Canadian dollars)

13. Income taxes *(Continued from previous page)*

As at August 31, 2016, the Company has the following temporary differences. No deferred tax assets were recorded for these temporary differences.

	United States	***Canada***
	$	***$***
Property & Equipment	-	105,955
Share issuance costs	-	299,598
Resourse-related deductions	521,358	1,632,160
Non-capital losses	364,965	4,004,411
	886,323	6,042,124

As at August 31, 2015, there were no material temporary differences.

As at August 31, 2016, the Company has the following non-capital losses for which no deferred tax asset was recorded. These carry forward balances expire as follows:

	United States	***Canada***
	$	***$***
2036	385,740	717,911
2035	-	595,862
2034	-	308,921
2033	-	415,559
2032	-	689,782
2031	-	448,340
2030	-	174,093
2029	-	70,240
2028	-	165,424
2027	-	243,922
2026	-	183,998
	385,740	4,014,052

The temporary differences relating to the share issuance costs which the Company has not recognized will be deductible until the year 2021.

The temporary differences relating to the resource-related deductions which the Company has not recognized have no expiry date.

As at August 31, 2016, the Company has investment tax credits in the amount of $70,193 (2015 - $nil) which were not recorded. These credits can be used against Canadian federal income taxes payable and expire in the years 2032 and 2033.

(Expressed in Canadian dollars)

14. Commitments and contingencies

a) The Company has commitments under operating leases for its office space, earn-out payments to Haze and consulting commitments. The estimated amounts are as follows:

Fiscal year	
2017	**986,857**
2018	**1,088,838**
2019	**630,758**
2020	**-**
2021	**-**

15. Segmented information

Product information

The Company has one reportable segment as the Company's operations are substantially all related to the sales of vaporizers and accessories through ecommerce platforms.

Geographic information

The Company markets its products globally. Sales are attributed to countries based on the location of customers. Current assets other than financial instruments and deferred taxes are attributed to countries based on the location of the assets.

	Years ended August 31, 2016 and 2015	***Percentage of total revenue***	***Year ended August 31, 2015***	***Percentage of total revenue***
Revenue from external customers				
UK	1,534,271	44.0%	1,982,843	43.5%
US	391,887	11.2%	43,311	1.0%
Brazil	279,379	8.0%	299,769	6.6%
New Zealand	270,353	7.7%	208,918	4.6%
Australia	176,488	5.1%	384,011	8.4%
Germany	133,391	3.8%	538,972	11.8%
Italy	86,959	2.5%	188,030	4.1%
Sweden	67,586	1.9%	140,259	3.1%
Israel	63,820	1.8%	34,498	0.8%
Spain	61,335	1.8%	92,873	2.0%
France	55,704	1.6%	190,214	4.2%
Canada	52,296	1.5%	21,901	0.5%
Denmark	51,972	1.5%	45,827	1.0%
Ireland	42,486	1.2%	82,569	1.8%
Netherlands	41,080	1.2%	168,691	3.7%
Austria	38,449	1.1%	77,173	1.7%
Mexico	25,468	0.7%	9,829	0.2%
Belgium	17,279	0.5%	-	0.0%
Other	98,699	2.8%	48,724	1.1%
Total	**3,488,902**	**100.0%**	**4,558,412**	**100.0%**

(Expressed in Canadian dollars)

15. Segmented information (*Continued from previous page*)

Customer information

The Company does not have any major customers representing more than 10% of total sales for the reporting segment.

	August 31, 2016	*August 31, 2015*
Inventory by location		
United States	**493,286**	83,934
UK	**324,926**	412,335
Brazil	**69,961**	-
Australia	**55,132**	-
Total	**943,306**	496,335

16. Subsequent events

On November 9, 2016, the Company's Board of Directors granted a total of 5,530,000 Incentive Stock Options ("Options") to directors, officers, employees and consultants of the Company. 4,930,000 Options shall vest over a period of 2 years and 600,000 Options shall vest over a period of 1 year. All Options vest on a quarterly basis and have an exercise price of $0.35.

Select compensation includes:

- Sean Dollinger, President and CEO – 1,500,000 Options and US$125,000 annual cash compensation; and
- Philip van den Berg, CFO – 1,200,000 Options and US$100,000 annual cash compensation.

On October 18, 2016, the Company acquired all the website domains, customer list of over 40,000 individuals, EDIT Collection of smoking accessories, direct relationships with over 190 vendors, intellectual property and related technologies of URT1 Limited and its wholly owned US subsidiaries (collectively referred to as "URT1"). The purchase price was calculated as one-times the 12-month trailing gross revenue of URT1, subject to adjustments for inventory, wind down costs, and assumed liabilities. The assumed liabilities include a secured note of approximately $500,000 for 4 years at an interest rate of 4% payable in equal annual installments. Upon closing of the transaction, the Company has provided an initial 80% of the purchase price to URT1 of the estimated cash wind down costs and 13,771,933 common shares. The Company will make an adjustment to the purchase price in 45 days, subject to the actual wind down costs realized by URT1. Any additional consideration to URT1 will either be provided in cash or common shares of the Company at a 25% discount to the 10 day volume weighted average trading price of the common shares of the Company on the Canadian Securities Exchange.

On October 15, 2016, the Company completed a non-brokered private placement of 25,000,000 units of the Company for gross proceeds of $3,000,000. The offering was completed at a price of $0.12 per unit. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant, with each full warrant being exercisable for one Common Share at an exercise price of $0.20 per Common Share for a period of 24 months from the date of closing. In addition, further to the Company's press release dated September 7, 2016, the Company has received election from its arm's length bridge note lender to convert the total $400,000 principal amount into common shares of the Company at a price of $0.15 per common share in lieu of repayment. Thus, the Company will issue the Lender a total of 2,666,666 common shares and have increased cash proceeds available to the Company.

16. Subsequent events *(Continued from previous page)*

On September 12, 2016, the Company closed a non-brokered private placement by issuing approximately 825,000 units of the Company for gross proceeds of approximately $99,000. Each Unit consists of one common share of the Company and one common share purchase warrant at an exercise price of $0.18 for a period of 2-years.

On September 7, 2016, the Company reported that it issued a convertible unsecured note to an arm's length lender for an aggregate principal amount of $400,000 in accordance with the terms of a subscription agreement. The term of the note is for an initial 90 days with an option to extend for up to 2 years. The Company issued the lender an initial 100,000 common shares of the Company and an additional 100,000 common shares of the Company for each 90 days the note is outstanding. The note is redeemable at any time during the initial 90 day term by making a payment equal to the principal amount of the note. If the Company elects to exercise the extension option, the lender will be issued an additional 550,000 common shares of the Company and the note shall be redeemable at a ten-percent (10%) premium to the principal amount of the note. At the option of the lender, the principal amount of the note is convertible into common shares of the Company at a conversion price of $0.15 per common share.