

**Namaste Technologies Inc.**  
**Consolidated**  
**Financial Statements**

*For the quarter ended May 31, 2017*  
*Expressed in Canadian dollars*  
*(Unaudited)*

## **MANAGEMENT'S COMMENTS ON UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if any auditor has not performed a review of the consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of consolidated interim financial statements by an entity's auditor.

**Namaste Technologies Inc.**  
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*For the quarter ended May 31, 2017*  
*(Unaudited)*

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**Namaste Technologies Inc.**  
**Consolidated Statement of Financial Position**  
As at May 31, 2017  
(Expressed in Canadian dollars)  
(Unaudited)

	<i>May 31, 2017</i>	<i>August 31, 2016</i>
<b>Assets</b>		
<b>Current</b>		
Cash	3,288,519	113,665
Prepays, deposits and other	461,543	91,946
Inventory (Note 6)	2,911,017	943,306
Receivables	600,025	40,694
Tax receivable	344,130	31,881
Due from related party (Note 8)	219,907	6,531
<b>Total current assets</b>	<b>7,825,141</b>	<b>1,228,023</b>
<b>Long-term</b>		
Intangibles (Note 5)	9,348,598	892,342
Goodwill (Note 5)	4,200,369	1,990,716
<b>Total long-term assets</b>	<b>13,548,967</b>	<b>2,883,058</b>
<b>Total assets</b>	<b>21,374,108</b>	<b>4,111,081</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 7)	2,527,007	489,482
Earn-out payable (Note 5)		398,092
Due to related party (Note 8)	47,827	79,449
<b>Total current liabilities</b>	<b>2,574,834</b>	<b>967,023</b>
<b>Long-term</b>		
Long-term debt (Note 5)	357,011	-
Earn-out payable (Note 5)		1,232,935
<b>Total long-term liabilities</b>	<b>357,011</b>	<b>1,232,935</b>
<b>Equity</b>		
Share capital	17,882,487	1,929,133
Deferred share issuance (Note 5)	616,394	595,831
Warrant and option reserve (Note 9)	7,181,652	872,317
Contributed surplus	1,352,458	250,061
Accumulated other comprehensive income	(105,344)	(163,672)
Retained earnings (deficit)	(8,485,382)	(1,572,547)
<b>Net assets</b>	<b>18,442,265</b>	<b>1,911,123</b>
<b>Total equity &amp; liabilities</b>	<b>21,374,110</b>	<b>4,111,081</b>

Approved on behalf of the Board of Directors on July 28, 2017:

(Signed) Sean Dollinger  
Director

(Signed) Philip van den Berg  
Director

# Namaste Technologies Inc.

## Consolidated Statement of Loss

*For the quarter ended May 31, 2017*

*(Expressed in Canadian dollars)*

*(Unaudited)*

	<i>For three months ended</i>		<i>For nine months ended</i>	
	<i>May 31, 2017</i>	<i>May 31, 2016</i>	<i>May 31, 2017</i>	<i>May 31, 2016</i>
<b>Sales</b>	<b>3,164,232</b>	738,199	<b>7,159,823</b>	2,611,871
<b>Cost of goods sold</b>	<b>2,632,202</b>	384,838	<b>5,117,637</b>	1,553,717
<b>Gross profit</b>	<b>532,030</b>	353,361	<b>2,042,186</b>	1,058,154
Advertising and promotion	253,556	34,148	556,379	183,926
Consulting fees	1,362,918	72,439	2,200,035	252,591
Salaries	282,996	46,481	792,034	168,538
Share-based compensation (Note 9)	1,896,518	235,450	2,522,128	235,450
Bank and credit card fees	106,131	21,238	354,880	128,712
Professional fees	423,522	39,400	891,196	57,914
Communications	(91,495)	80,869	22,730	100,190
General and administrative	251,681	22,189	583,223	44,901
Rent and rental services	25,620	6,124	56,950	29,602
Shipping	311,673	60,386	636,419	128,562
Travel and vehicles	124,939	18,857	226,426	67,249
Foreign exchange loss	28,146	33,713	45,884	90,712
Investor relations	15,301	45,561	63,292	631,907
<b>Total operating expenses</b>	<b>4,991,507</b>	716,855	<b>8,951,576</b>	2,120,254
Other income	-	-	-	125,137
<b>Income (loss) before income taxes</b>	<b>(4,459,477)</b>	<b>(363,494)</b>	<b>(6,909,390)</b>	<b>(936,963)</b>
Provision for income taxes (Note 13)	-	-	-	(238,416)
<b>Net income (loss)</b>	<b>(4,459,477)</b>	<b>(363,494)</b>	<b>(6,909,390)</b>	<b>(698,547)</b>
Net income (loss) per share, basic and diluted:	<b>\$(0.03)</b>	\$(0.01)	<b>\$(0.06)</b>	\$(0.01)
Weighted average number of outstanding common shares, basic and diluted:	<b>157,656,953</b>	59,514,836	<b>119,117,338</b>	47,370,177

# Namaste Technologies Inc.

## Consolidated Statement of Comprehensive Loss

*For the quarter ended May 31, 2017*

*(Expressed in Canadian dollars)*

*(Unaudited)*

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	<i>For three months ended</i>		<i>For nine months ended</i>	
	<i>May 31, 2017</i>	<i>May 31, 2016</i>	<i>May 31, 2017</i>	<i>May 31, 2016</i>
<b>Net income (loss)</b>	<b>(4,459,477)</b>	(363,494)	<b>(6,909,390)</b>	(698,547)
<b>Other comprehensive income</b>				
Cumulative translation adjustment	<b>44,953</b>	(9,413)	<b>58,328</b>	32,250
<b>Net comprehensive income (loss) for the year</b>	<b>(4,414,524)</b>	(372,907)	<b>(6,851,062)</b>	(666,297)

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# Namaste Technologies Inc.

## Consolidated Statement of Changes in Equity

As at May 31, 2017  
(Expressed in Canadian dollars)  
(Unaudited)

### Statement of change in equity

	Common shares	Common shares \$	Deferred shares \$	Options and warrants \$	Accumulated OCI \$	Contributed surplus \$	Retained earnings \$	Total \$
<b>Shareholders equity August 31, 2016</b>	67,852,303	1,929,133	595,831	872,317	(163,672)	250,061	(1,572,547)	<b>1,911,123</b>
Share issuance (Note 9)	71,176,921	8,875,263	-	6,078,539	-	-	-	<b>14,953,802</b>
Issuance costs	600,000	(2,144,257)	-	1,156,178	-	-	-	<b>(988,079)</b>
Shares issued to acquire URT1	15,784,754	2,045,132	(392,500)	-	-	-	-	<b>1,652,632</b>
Shares issued to acquire Australian Vaporizers	1,988,182	586,514	-	-	-	-	-	<b>586,514</b>
Shares issued to acquire CannMart	8,668,515	2,500,000	-	-	-	-	-	<b>2,500,000</b>
Deferred shares (Note 5)	-	-	413,063	-	-	-	-	<b>413,063</b>
Net income/(loss)	-	-	-	-	-	-	(6,909,390)	<b>(6,909,390)</b>
Shares issued on exercise of options and warrants	12,029,805	2,455,246	-	(925,382)	-	-	-	<b>1,529,864</b>
Share-based compensation	-	-	-	-	-	1,096,415	-	<b>1,096,415</b>
Shares issued for services	6,659,436	1,635,456	-	-	-	-	-	<b>1,635,456</b>
Contributed surplus	-	-	-	-	-	5,982	(3,445)	<b>2,537</b>
Other comprehensive income	-	-	-	-	58,328	-	-	<b>58,328</b>
<b>Shareholders equity May 31, 2017</b>	<b>184,759,916</b>	<b>17,882,486</b>	<b>616,394</b>	<b>7,181,652</b>	<b>(105,344)</b>	<b>1,352,458</b>	<b>(8,485,382)</b>	<b>18,442,265</b>

**Namaste Technologies Inc.**  
**Consolidated Annual Statement of Cash Flows**  
*For the quarter ended May 31, 2017*  
*(Expressed in Canadian dollars)*  
*(Unaudited)*

	<i>For three months ended</i>		<i>For nine months ended</i>	
	<i>May 31, 2017</i>	<i>May 31, 2016</i>	<i>May 31, 2017</i>	<i>May 31, 2016</i>
<b>Cash provided by (used for) the following activities</b>				
Net earnings and comprehensive income	<b>(4,459,477)</b>	(363,494)	<b>(6,909,390)</b>	(698,547)
Adjustments for:				
Share based compensation	<b>1,896,518</b>	-	<b>2,522,128</b>	-
Listing costs	-	-	-	586,346
Foreign exchange loss (gain)	<b>28,140</b>	33,713	<b>45,884</b>	(90,712)
Provision for income taxes	-	-	-	(238,416)
Forgiveness of loans	-	-	-	(344,151)
Changes in non-cash working capital items:				
Increase in current assets	<b>(1,491,446)</b>	(94,770)	<b>(2,896,640)</b>	(193,031)
Increase in accounts payable and accrued liabilities	<b>1,620,626</b>	(83,182)	<b>2,037,526</b>	(83,540)
Provision for taxes	<b>(309,645)</b>	(18,811)	<b>(312,249)</b>	(222,380)
	<b>(2,715,284)</b>	(526,544)	<b>(5,512,741)</b>	(1,284,431)
<b>Cash flows from financing activities:</b>				
Change in related party balances	<b>(378,893)</b>	(307,529)	<b>(244,998)</b>	42,628
Proceeds from issuance of share capital	<b>8,644,647</b>		<b>12,983,141</b>	1,452,412
Share issuance costs	-	(178,798)	-	(290,995)
Share subscriptions	-	<b>235,450</b>	-	<b>235,450</b>
Long-term debt payment	<b>1,576,494</b>		<b>536,822</b>	
Proceeds from exercise of warrants and options	<b>4,240,792</b>		<b>6,078,539</b>	
	<b>14,083,040</b>	(250,877)	<b>19,353,504</b>	1,439,495
<b>Cash flows from investing activities:</b>				
Investments	<b>(8,550,128)</b>	-	<b>(10,665,909)</b>	-
	<b>(8,550,128)</b>	-	<b>(10,665,909)</b>	-
<b>Increase in cash resources</b>	<b>2,817,628</b>	<b>(777,421)</b>	<b>3,174,854</b>	<b>155,064</b>
<b>Cash resources, beginning of the period</b>	<b>470,891</b>	1,102,127	<b>113,665</b>	169,642
<b>Cash resources, end of the period</b>	<b>3,288,519</b>	324,706	<b>3,288,519</b>	324,706



# Namaste Technologies Inc.

## Notes to the Consolidated Financial Statements

For the quarter ended May 31, 2017

(Expressed in Canadian dollars)

(Unaudited)

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### 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. 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 February 19, 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 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 are 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 July 28, 2017.

### 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

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**Notes to the Consolidated Financial Statements**

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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 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.

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 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)
- New and revised standards

3.3. 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

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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.

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.

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

#### **4. Summary of significant accounting policies**

##### **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 investees;
- 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:

**Namaste Technologies Inc.**  
**Notes to the Consolidated Financial Statements**

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*(Expressed in Canadian dollars)*

*(Unaudited)*

**Equity interests**

<b>Principal subsidiaries</b>	<b>% Holding</b>
Namaste Technologies Holdings Inc.	100%
Dollinger Enterprises US Ltd.	100%
Namaste Bahamas Inc.	100%
Australian Vaporizers Pty Ltd.	100%
CannMart 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.

**4.2. 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 re-measured 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 re-measured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: recognition and

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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 re-measured 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. Cash and cash equivalents

- 4.4. 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 May 31, 2017 and as at August 31, 2016, 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 bringing 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

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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 May 31, 2017 consolidated statement of financial position to reflect the change in reporting currency was \$1.3301. 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.

**4.9. 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 May 31, 2017 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

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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.

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;

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- 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.

#### 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). On October 18, 2016, the Company acquired certain assets of URT1 Limited ("URT1") (Note 5), on March 16, 2017 the Company acquired the shares in Australian Vaporizers Pty Ltd. and on May 3, 2017 the Company acquired the shares of CannMart Inc.. Pursuant to the transactions, the Company acquired intangible assets with estimated values set forth as follows:



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**Intangibles in C\$**

	<b>May 31, 2017</b>
Customer lists	1,070,324
Domains	4,761,964
Other intangibles	3,516,310
<b>Total intangibles</b>	<b>9,348,598</b>

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. De-recognition 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.

**4.18. 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 another 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.

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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 May 31, 2017 or the average exchange rate for the period, as applicable.

## 5. Business acquisitions

### 5.1. VaporSeller 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.

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.

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The earn-out is 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 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 an average purchase price for converted sales 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.

On January 16, 2016 Namaste Technologies Inc. announced that it entered into a binding amending agreement with Haze Industries, Inc. for the purchase of the remaining earn-out obligation as set forth in the definitive asset purchase agreement announced on June 7, 2016. The initial undiscounted value of the earn-out was approximately US\$1.5 million. Namaste settled the remaining earn-out obligation by making an initial payment of US\$285,000 and monthly payments of US\$8,000 for 12-months. The purchase price allocation is adjusted for this.

**Consideration paid for VaporSeller in C\$**

Cash	656,200
Common shares	595,831
Earn-out	528,909
<b>Net purchase price</b>	<b>1,780,940</b>

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

**Purchase price allocation VaporSeller in C\$**

Customer list	599,256
Domain	318,744
Goodwill <sup>(1)</sup>	862,940
<b>Net purchase price</b>	<b>1,780,940</b>

<sup>(1)</sup> 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.

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

## 5.2. URT1 Acquisition

On October 18, 2016, the Company reported it closed its purchase of certain assets of URT1 Limited ("URT1") representing its Everyonedoesit 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. URT1 is one of the top five domains in the world for the sale of vaporizers, pipes and accessories. The company operates two websites, www.everyonedoesit.com and www.everyonedoesit.co.uk, and retails through select third-party marketplaces. It is anticipated the acquisition of the URT1 assets will generate synergies for the Company in the form of reduced operating costs associated with employees and consultants, software and information technology, and rent.

Pursuant to the terms of the Definitive Asset Purchase Agreement announced on September 15, 2016, Namaste acquired all the website domains, the customer list of over 40,000 individuals, the EDIT Collection of smoking accessories, direct relationships with over 190 vendors, intellectual property and related technologies. 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 \$515,499 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, 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.

### **Consideration paid for URT1 in C\$**

Cash	895,990
Assumed liabilities	371,020
Common shares	1,570,000
Deferred share issuance	392,500
<b>Net purchase price</b>	<b>3,229,510</b>

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

### **Purchase price allocation URT1 in C\$**

Customer list	128,565
Domain	1,234,019
Goodwill <sup>(1)</sup>	1,866,926
<b>Net purchase price</b>	<b>3,229,510</b>

<sup>(1)</sup> Goodwill is not deductible for tax purposes

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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 URT1 and credibility it has established in the US and 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 \$170,422. These expenses related mainly to legal costs incurred which are included in the consolidated statement of loss.

**5.3. Australian Vaporizers Pty Ltd. Acquisition**

On March 16, 2017 the Company announced that it completed its acquisition of Australian Vaporizers PTY Ltd. Post consolidation, Namaste will control approximately 90% of the vaporizer online retail market in Australia. During the last fiscal year ended June 30, 2016, Australian Vaporizers operated with a 45% gross margin and an EBITDA margin of 27%. The acquisition of Australian Vaporizers represents a 33% increase in Namaste's revenue. In the last fiscal year ending August 31, 2016 the number of visitors to its site was 344,414 with a conversion ratio of 4.6%.

Pursuant to the terms of the definitive agreement announced on February 24, 2017, Namaste acquired all of the issued and outstanding shares of Australian Vaporizers. The purchase price was calculated as 1.0x 12-month trailing sales of AUD\$5.0 million, plus the value of inventory acquired within six (6) months preceding the closing, and 50% of the value of the inventory acquired prior to six (6) months preceding the closing, less all liabilities and plus trade debt and cash.

Upon closing of the transaction, the Company provided an initial 75% of the purchase price in cash, being AUD\$4,256,197 and 10% of the purchase price was satisfied with 1,988,182 common shares in the capital of the Company, based on the 20-day volume weighted average trading price upon signing of the definitive agreement.

**Consideration paid for Australian Vaporizers in C\$**

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Cash net of assumed liabilities	4,324,297
Common shares issued	576,573
Milestone shares	288,286
Earn-out shares	576,573
<b>Net purchase price</b>	<b>5,765,729</b>

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

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**Purchase price allocation Australian Vaporizers in C\$**

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Customer list	342,503
Domain	3,209,201
Net assets acquired	764,077
Goodwill <sup>(1)</sup>	1,449,948

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<b>Net purchase price</b>	<b>5,765,729</b>
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<sup>(1)</sup> 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 Australian Vaporizers and credibility it has established in the Australian 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.

The remaining 15% of the consideration will be satisfied through an earn-out based on sales and integration milestones.

Acquisition costs related to the business combination amounted to \$73,568. These expenses related mainly to legal costs incurred which are included in the consolidated statement of loss.

#### 5.4. CannMart Inc. Acquisition

On May 3, 2017 the Company completed its acquisition of all of the issued and outstanding shares in the capital of Cannmart Inc. ("CannMart"), a late stage applicant under the Access to Cannabis for Medical Purposes Regulations. The acquisition of CannMart represents a strategic decision for Namaste to leverage its strength in ecommerce and logistics in becoming a leader in retail distribution of medical cannabis in Canada. The rationale for the acquisition includes but is not limited to:

- Expansion of Namaste's product offerings, with the ability to sell both vaporizers and consumables from one location. Namaste aims to be a one-stop-shop for medical cannabis consumers in Canada.
- Namaste's ability to market and brand medical cannabis products to its 50,000+ dataset of Canadian consumers.
- Namaste launching a Canadian warehouse in the CannMart facility in order to process both vaporizer and medical cannabis shipments, medical cannabis packaging, filling for pod-based vaporizers, and distribution for other brands of medical cannabis products.
- Namaste's ability to provide same day delivery within the Greater Toronto Area and next day delivery within Canada.

In consideration for its acquisition of CannMart, Namaste made a one-time payment of \$50,000 and issued 8,668,515 common shares of the Company to the vendors. An additional 3,467,406 common shares will be issued to the vendors upon satisfaction of certain milestones outlined in the definitive agreement.

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**Consideration paid for CannMart in C\$**

Cash net of assumed liabilities	50,000
Common shares	2,500,000
Earn-out	1,000,000

<b>Net purchase price</b>	<b>3,550,000</b>
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The preliminary purchase price allocation attributed to the identifiable net assets acquired is as follows:

**Purchase price allocation CannMart in C\$**

Net assets acquired	33,690
Intangibles	3,516,310
Goodwill <sup>(1)</sup>	-

<b>Net purchase price</b>	<b>3,550,000</b>
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<sup>(1)</sup> Goodwill is not deductible for tax purposes

Goodwill reflects how the acquisition will impact the Company's ability to generate future profits due to the reputation of Namaste and the credibility it has established in the Canadian market for selling quality products. The consideration paid mostly relates to the expected revenues generated with CannMart's sales license and combined synergies, related mainly to traffic generated on the Canadian website. These benefits are not recognized separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

Acquisition costs related to the business combination amounted to \$79,891. These expenses related mainly to legal and advisory costs incurred which are included in the consolidated statement of loss.

6. 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 May 31, 2017 is \$2,632,202 (August 31, 2016 - \$514,097).

**Inventory by location in C\$**

<b>Region</b>	<b>May 31, 2017</b>	<b>August 31, 2016</b>
United States	<b>1,193,608</b>	493,286
UK	<b>897,576</b>	324,926
Brazil	<b>95,575</b>	69,961
Australia	<b>724,258</b>	55,132
<b>Total</b>	<b>2,911,017</b>	943,305

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**7. Accounts payable and accrued liabilities**

**Accounts payable & accrued liabilities in C\$**

	<b>May 31, 2017</b>	<b>August 31, 2016</b>
Trade payables	<b>356,794</b>	411,057
Consulting accrual	<b>89,207</b>	24,724
Payroll accrual	<b>87,894</b>	35,621
Credit card payable	<b>151,631</b>	14,170
Other accounts payable for acquisitions	<b>1,825,627</b>	3,910
<b>Total</b>	<b>2,511,153</b>	489,482

**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 May 31, 2017, the Company had 184,759,916 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 Metals Inc. ("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.

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



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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.

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. On October 17, 2016, the Company received election from its arm's length bridge note lender to convert the total \$400,000 principal amount into common shares of the Company. The Company also issued 37,777 common shares for the term between issuance of the note and conversion.

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 November 30, 2016, the Company closed a non-brokered private placement by issuing 25,000,000 units at a price of \$0.12 per unit for total gross proceeds of \$3,000,000. Each unit was comprised 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.

On March 9, 2017 the Company completed its "bought deal" private placement with Eight Capital and Canaccord Genuity Corp. as co-lead underwriters and joint book runners, and including Beacon Securities Limited (together, the "Underwriters"), whereby a total of 45,352,000 units of the Company (the "Units") have been issued and sold, at a price per Unit of \$0.25, for total gross proceeds of \$11,338,000 (the "Offering"). Each Unit consisted of one common share of the Company (a "Share") and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant entitles the holder thereof to acquire one Share at a price of \$0.35 for a period of 24 months following the closing date. In the event that the closing sale price of the Company's Shares on the Canadian Securities Exchange is greater than \$0.70 per Share for a period of 10 consecutive trading days at any time after the closing of the Offering, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Company. The Company used the net proceeds of the Offering for the acquisition of Australian Vaporizers PTY Ltd and for working capital and general corporate purposes.

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9.3. Share purchase warrants

The following table summarizes information regarding share purchase warrants outstanding as at May 31, 2017:

<b>Share purchase warrants</b>		
<b>Date granted / exercised</b>	<b>Warrants issued</b>	<b>Exercise price</b>
Q1 2015		
Issued	96,666	\$0.54
Exercised	-	
Q1 2016		
Issued	533,333	\$0.15
Exercised	-	
Q2 2016		
Issued	2,304,333	\$0.08 - \$0.15
Exercised	-	
Q4 2016		
Issued	8,380,737	\$0.12 - \$0.18
Exercised	-	
Q1 2017		
Issued	15,793,525	\$0.12 - \$0.20
Exercised	(712,665)	\$0.15 - \$0.18
Forfeited	(96,666)	\$0.18
Q2 2017		
Issued	-	
Exercised	(2,538,466)	\$0.15 - \$0.20
Q3 2017		
Issued	23,314,229	\$0.20 - \$0.35
Exercised	(3,474,232)	\$0.12 - \$0.20
Issued	50,422,823	
Exercised	(6,725,363)	
Forfeited	(96,666)	
<b>Total</b>	<b>43,600,794</b>	

23,314,229 warrants were issued during the period under review. 22,767,000 warrants were issued in relation to the brokered placement in March. In addition a number of broker warrants were exercised which resulted in the issue of warrants. Broker warrants comprise a share and a warrant which is issued when the broker warrant is exercised. The weighted average exercise price of each full warrant issued during the period under review is \$0.35. The weighted average fair value of each warrant issued is \$0.19 using the Black-Scholes Option Pricing Model. The weighted average exercise price of each warrant exercised during the period under review is \$0.18. The fair value of each warrant exercised under the Black-Scholes Option Pricing Model is \$0.21.

The following is a summary of the changes in the Company's share purchase warrants for the quarter ended May 31, 2017:

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**Share purchase warrants**

	<b>May 31, 2017</b>		<b>February 28, 2017</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price</b>	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
Outstanding beginning of period	23,760,797	\$ 0.18	26,299,263	\$ 0.18
Granted	23,314,229	\$ 0.35	-	\$ -
Exercised	(3,474,232)	\$ 0.18	(2,538,466)	\$ 0.17
Forfeited	-	\$ -	-	\$ -
<b>Outstanding end of period</b>	<b>43,600,794</b>	<b>\$ 0.27</b>	<b>23,760,797</b>	<b>\$ 0.18</b>

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

**Black-Scholes assumptions for warrants**

Risk free rate	0.70% - 1.07%
Expected life	2 years
Expected volatility	125%
Expected dividend per share	Nil

Volatility is 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.

**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 18,475,992 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. The following is a summary of the changes in the Company's stock option plan for the quarter ended May 31, 2017:

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**Options outstanding**

	May 31, 2017		February 28, 2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	8,430,000	\$ 0.29	9,430,000	\$ 0.27
Granted	6,024,640	\$ 0.25	-	
Exercised	(100,000)	\$ 0.15	(1,000,000)	\$ 0.12
Forfeited	-		-	
<b>Outstanding, end of period</b>	<b>14,354,640</b>	<b>\$ 0.27</b>	<b>8,430,000</b>	<b>\$ 0.29</b>

3,174,640 compensation options with exercise price \$0.25 were granted to the brokers in the brokered placement in March 2017. In addition 2,850,000 options with exercise price \$0.26 were granted to personnel and consultants during the period under review. The weighted average exercise price is \$0.25 and the weighted average fair value of options granted is \$0.21 using the Black-Scholes Option Pricing Model. 100,000 options were exercised. The weighted average exercise price of each option exercised is \$0.15. The weighted average fair value of each option exercised is \$0.17 using the Black-Scholes Option Pricing Model. The Company recognized share-based compensation expense of \$447,330 during the period for the value of stock options earned. The weighted average fair value of each option that vested is \$0.27. The Company also recognized a non-cash salary expense of \$599,188 during the period for the value of shares earned.

The assumptions used for the calculation of the fair value of options are:

**Black-Scholes assumptions for options**

Risk free rate	0.82% - 1.06%
Expected life	2 - 5 years
Expected volatility	125%
Expected dividend per share	Nil

The following table summarizes information regarding stock options outstanding and exercisable as at May 31, 2017:

**Options outstanding by exercise price**

	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted average exercise price
\$0.01 - \$0.19	2,500,000	4.04	\$ 0.15
\$0.20 - \$0.39	11,854,640	4.06	\$ 0.30
<b>Total options outstanding</b>	<b>14,354,640</b>	<b>4.05</b>	<b>\$ 0.27</b>

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**Options exercisable**

	Number of options outstanding	Weighted- average remaining contractual life (years)	Weighted average exercise price
\$0.01 - \$0.19	2,500,000	4.04	\$ 0.15
\$0.20 - \$0.39	991,250	2.62	\$ 0.07
<b>Total options exercisable</b>	<b>3,491,250</b>	<b>3.15</b>	<b>\$ 0.13</b>

**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 May 31, 2017, the Company is not subject to any externally imposed capital requirements.

**11. Financial instruments**

**11.1. 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; and
- 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 May 31, 2017, both the carrying and fair value amounts of all of the Company's financial instruments are approximately equivalent due to their short term nature.

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11.2. 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 May 31, 2017 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 its operations and anticipating its operating and investing activities. As at May 31, 2017, the Company had current assets of \$7,825,141 compared to current liabilities of \$2,574,834. 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.

**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.

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

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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 three months to May 31, 2017, the compensation awarded to key management was \$234,585 in share-based compensation and \$189,572 of cash compensation for consulting fees and salaries.

**Income taxes**

The reconciliation of the combined US federal and state statutory income tax rate of 39% to the effective tax rate is as follows:

<b>Income tax in C\$</b>	<i>For three months ended</i>	
	<i>May 31, 2017</i>	<i>May 31, 2016</i>
Net income (loss) before income taxes	(4,459,477)	(363,494)
Expected income tax expense (recovery)	-	-
<b>Decrease in income taxes resulting from:</b>		
Permanent differences	-	-
<b>Income tax expense</b>	-	-

**Deferred tax**

As of May 31, 2017, there were no material temporary differences.

**13. Commitments and contingencies**

The Company has commitments under operating leases for office space and a commitment to the repayment of a loan in relation to the acquisition of URT1. The estimated amounts are as follows:

<b>Commitments in C\$</b>	
<b>Year</b>	<b>May 31, 2017</b>
2017	191,907
2018	358,365
2019	206,742
2020	203,331
2021	104,523
2022	107,659

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**14. Segmented information**

**14.1. 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.

**14.2. Customer information**

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

**14.3. Geographical 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.

**Revenues by country for the quarter ending May 31, 2017 in C\$**

<b>Country</b>	<b>Revenues</b>	<b>% of total</b>
Australia	1,120,655	35.4%
Great Britain	809,957	25.6%
United States	445,834	14.1%
Brazil	166,409	5.3%
Canada	117,763	3.7%
Germany	84,189	2.7%
New Zealand	79,467	2.5%
Israel	56,037	1.8%
Ireland	55,998	1.8%
Chile	23,486	0.7%
Italy	21,388	0.7%
Denmark	21,117	0.7%
Austria	18,522	0.6%
Sweden	18,135	0.6%
Other	125,273	4.0%
<b>Total</b>	<b>3,164,232</b>	<b>100.0%</b>

**15. Subsequent events**

At the end of June 2017 the Company granted 1,725,000 options to staff and consultants. The options will vest quarterly over a period of two years and are exercisable for five years at an exercise price of \$0.25.