

Interim Condensed Consolidated Financial Statements of

NAMASTE TECHNOLOGIES INC.

Three and nine months ended August 31, 2019
(Unaudited – Expressed in Canadian dollars)

NAMASTE TECHNOLOGIES INC.

Interim Condensed Consolidated Statements of Financial Position

As at August 31, 2019 and November 30, 2018
(Unaudited - Expressed in Canadian dollars)

| | Notes | 2019 | 2018 |
|--|-------|---------------|--------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 49,092,592 | 78,210,706 |
| Accounts receivable | 5 | 1,859,036 | 1,627,781 |
| Inventories | 6 | 5,043,547 | 5,767,729 |
| Prepaid expenses and other assets | | 5,664,943 | 1,720,365 |
| Income tax receivable | | 1,469 | 175,536 |
| Total current assets | | 61,661,587 | 87,502,117 |
| Non-current assets | | | |
| Investments in associates | 7 | 4,305,020 | - |
| Other investments | 8 | 3,242,649 | 3,752,589 |
| Property and equipment | 9 | 1,116,317 | 1,216,043 |
| Intangible assets | 10 | 9,735,198 | 9,222,530 |
| Goodwill | 11 | 11,702,454 | 15,280,854 |
| Long-term deposits and other assets | 18 | 2,299,237 | 15,826 |
| Total non-current assets | | 32,400,875 | 29,487,842 |
| Total assets | 4 | \$ 94,062,462 | 116,989,959 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 12 | \$ 7,165,997 | 6,508,113 |
| Current portion of loans payable | | 13,530 | 19,828 |
| Deferred revenue | | 241,585 | 81,425 |
| Income tax payable | | 171 | 33,888 |
| Total current liabilities | | 7,421,283 | 6,643,254 |
| Non-current liabilities | | | |
| Loans payable | | 10,148 | 20,611 |
| Deferred tax liabilities | | 377,766 | 718,732 |
| Total non-current liabilities | | 387,914 | 739,343 |
| Shareholders' equity | | | |
| Share capital | 13 | 137,062,717 | 125,123,144 |
| Contributed surplus | | 12,525,175 | 12,674,068 |
| Warrants reserve | | 33,105,831 | 34,340,037 |
| Accumulated other comprehensive income | | 557,719 | 576,717 |
| Accumulated deficit | | (96,949,697) | (63,085,385) |
| Total equity attributable to owners of the Company | | 86,301,745 | 109,628,581 |
| Non-controlling interest | | (48,480) | (21,219) |
| Total shareholders' equity | | 86,253,265 | 109,607,362 |
| Commitments and contingencies | 19 | | |
| Total liabilities and shareholders' equity | | \$ 94,062,462 | 116,989,959 |

See accompanying notes to interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved for issue on behalf of the Board of Directors on October 28, 2019 by:

Branden Spikes
Director

Meni Morim
Director

NAMASTE TECHNOLOGIES INC.

Interim Condensed Consolidated Statements of Operations

For the three and nine months ended August 31, 2019 and August 31, 2018

(Unaudited - Expressed in Canadian dollars, except for share and per share amounts)

| | Notes | Three months ended August 31, | | Nine months ended August 31, | |
|---|-------|-------------------------------|--------------|------------------------------|--------------|
| | | 2019 | 2018 | 2019 | 2018 |
| Revenue | 4,14 | \$ 3,805,614 | 3,934,150 | 12,393,303 | 13,630,201 |
| Cost of goods sold | 6 | (2,812,666) | (3,003,264) | (9,560,127) | (10,032,225) |
| Gross profit | | 992,948 | 930,886 | 2,833,176 | 3,597,976 |
| Selling, general and administration expenses | 15 | (10,958,012) | (10,269,895) | (32,533,462) | (24,986,007) |
| Impairment of goodwill | 11 | (3,578,400) | - | (3,578,400) | - |
| Other income | | 304,329 | 373,137 | 1,060,074 | 825,270 |
| Share of loss of the associates, net of tax | 7 | (1,464,565) | - | (1,561,667) | - |
| Loss before income taxes | | (14,703,700) | (8,965,872) | (33,780,279) | (20,562,761) |
| Income tax (expense) recovery: | | | | | |
| Current | | (96,066) | (74,336) | (112,009) | (116,138) |
| Deferred | | 147,648 | 350,488 | 329,363 | 549,361 |
| Net income tax recovery | 4 | 51,582 | 276,152 | 217,354 | 433,223 |
| Net loss | 4 | \$ (14,652,118) | (8,689,720) | (33,562,925) | (20,129,538) |
| Net loss attributable to: | | | | | |
| Owners of the Company | | \$ (14,643,145) | (8,678,640) | (33,535,664) | (20,118,458) |
| Non-controlling interest | | (8,973) | (11,080) | (27,261) | (11,080) |
| | | \$ (14,652,118) | (8,689,720) | (33,562,925) | (20,129,538) |
| Net loss per share (basic and diluted) attributable to owners of the Company | | \$ (0.05) | (0.03) | (0.11) | (0.07) |
| Weighted average number of outstanding common shares (basic and diluted) | | 323,118,866 | 283,119,300 | 319,142,328 | 268,688,680 |

See accompanying notes to interim condensed consolidated financial statements.

NAMASTE TECHNOLOGIES INC.

Interim Condensed Consolidated Statements of Comprehensive Loss

For the three and nine months ended August 31, 2019 and August 31, 2018
(Unaudited - Expressed in Canadian dollars)

| | Three months ended August 31, | | Nine months ended August 31, | |
|---|-------------------------------|-------------|------------------------------|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net loss | \$ (14,652,118) | (8,689,720) | (33,562,925) | (20,129,538) |
| Other comprehensive income (loss): | | | | |
| <i>Items that are or may be reclassified to profit or loss</i> | | | | |
| Cumulative translation adjustment (CTA) | 365,084 | (6,866) | (60,627) | (155,924) |
| Reclassification of CTA on disposal of subsidiary | - | - | - | 163,672 |
| <i>Items that will not be reclassified to profit or loss</i> | | | | |
| Changes in the fair value of equity investments, net of tax | 61,655 | 320,546 | 41,629 | 701,180 |
| Reclassification of unrealized gain on disposition of equity investments | - | (122,051) | - | (122,051) |
| | 426,739 | 191,629 | (18,998) | 586,877 |
| Comprehensive loss | \$ (14,225,379) | (8,498,091) | (33,581,923) | (19,542,661) |
| Comprehensive loss attributable to: | | | | |
| Owners of the Company | \$ (14,216,406) | (8,487,011) | (33,554,662) | (19,531,581) |
| Non-controlling interest | (8,973) | (11,080) | (27,261) | (11,080) |
| Comprehensive loss | \$ (14,225,379) | (8,498,091) | (33,581,923) | (19,542,661) |

See accompanying notes to interim condensed consolidated financial statements.

NAMASTE TECHNOLOGIES INC.

Interim Condensed Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended August 31, 2019 and August 31, 2018

(Unaudited - Expressed in Canadian dollars, except for common shares)

| | -----Attributable to owners of the Company----- | | | | | | | Non- | | Total |
|--|---|------------------|------------------------|--------------------|---------------------|--------------------|------------------------|--------------|-------------------------|--------------|
| | Common shares | Share capital | Contributed surplus | Deferred shares | Warrants reserve | Accumulated OCI | Accumulated deficit | Total | controlling interest | |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at November 30, 2018 | 308,981,542 | 125,123,144 | 12,674,068 | - | 34,340,037 | 576,717 | (63,085,385) | 109,628,581 | (21,219) | 109,607,362 |
| Total comprehensive loss: | | | | | | | | | | |
| Net loss | - | - | - | - | - | - | (33,535,664) | (33,535,664) | (27,261) | (33,562,925) |
| Other comprehensive loss | - | - | - | - | - | (18,998) | - | (18,998) | - | (18,998) |
| Transactions directly recorded in equity: | | | | | | | | | | |
| Issue of shares for purchase of Pineapple | 2,587,466 | 3,210,488 | - | - | - | - | - | 3,210,488 | - | 3,210,488 |
| Exercise of stock options and warrants | 12,653,875 | 8,901,294 | (3,403,998) | - | (1,234,206) | - | - | 4,263,090 | - | 4,263,090 |
| Share-based compensation | - | 10,542 | 3,255,105 | - | - | - | - | 3,265,647 | - | 3,265,647 |
| Shares buyback | (460,900) | (182,751) | - | - | - | - | (328,648) | (511,399) | - | (511,399) |
| Balance at August 31, 2019 | 323,761,983 | 137,062,717 | 12,525,175 | - | 33,105,831 | 557,719 | (96,949,697) | 86,301,745 | (48,480) | 86,253,265 |
| Balance on November 30, 2017 | 216,511,317 | 31,585,648 | 2,059,539 | 3,102,212 | 5,597,660 | (267,533) | (22,257,946) | 19,819,580 | - | 19,819,580 |
| Total comprehensive income (loss): | | | | | | | | | | |
| Net loss | - | - | - | - | - | - | (20,118,458) | (20,118,458) | (11,080) | (20,129,538) |
| Other comprehensive income | - | - | - | - | - | 586,877 | - | 586,877 | - | 586,877 |
| Transactions directly recorded in equity: | | | | | | | | | | |
| Issue of shares for cash | 15,784,900 | 27,698,404 | - | - | 12,553,091 | - | - | 40,251,495 | - | 40,251,495 |
| Share issuance costs | - | (5,076,498) | - | - | 1,699,318 | - | - | (3,377,180) | - | (3,377,180) |
| Issue of shares for acquisition of Findify | 7,142,857 | 11,785,714 | - | - | - | - | - | 11,785,714 | - | 11,785,714 |
| Deferred shares | - | - | - | 28,000 | - | - | - | 28,000 | - | 28,000 |
| Exercise of stock options and warrants | 41,132,642 | 19,502,376 | - | (1,911,576) | (7,855,014) | - | - | 9,735,786 | - | 9,735,786 |
| Share-based compensation | - | - | 9,989,340 | - | - | - | - | 9,989,340 | - | 9,989,340 |
| Issue of shares for earn-out | 5,067,406 | 1,190,636 | - | (1,190,636) | - | - | - | - | - | - |
| Shares buyback | (2,167,700) | (657,045) | - | - | - | - | (2,334,828) | (2,991,873) | - | (2,991,873) |
| Balance on August 31, 2018 | 283,471,422 | 86,029,235 | 12,048,879 | 28,000 | 11,995,055 | 319,344 | (44,711,232) | 65,709,281 | (11,080) | 65,698,201 |

See accompanying notes to interim condensed consolidated financial statements.

NAMASTE TECHNOLOGIES INC.

Interim Condensed Consolidated Statements of Cash Flow

For the nine months ended August 31, 2019 and August 31, 2018
(Unaudited - Expressed in Canadian dollars)

| | 2019 | 2018 |
|---|-----------------|--------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (33,562,925) | (20,129,538) |
| Adjustments for: | | |
| Depreciation | 288,745 | 185,780 |
| Amortisation | 1,398,812 | 1,203,033 |
| Share-based compensation | 3,265,647 | 9,989,340 |
| Impairment of goodwill | 3,578,400 | - |
| Gain on disposal of subsidiary | - | (265,345) |
| Unrealised gain on derivatives | 7,038 | (81,134) |
| Gain on disposal of AFS investments | - | (122,051) |
| Share of loss of the associates, net of tax | 1,561,667 | - |
| Reversal of provision for obsolete inventories | - | (562,506) |
| Other non-cash income | - | (48,644) |
| Deferred tax recovery | (329,363) | (549,361) |
| Foreign exchange gain | (56,591) | (57,574) |
| Cash used in operations before changes in working capital | (23,848,570) | (10,438,000) |
| Changes in non-cash working capital (note 17(a)) | (3,826,666) | (1,053,945) |
| Net cash used in operating activities | (27,675,236) | (11,491,945) |
| Cash flows from investing activities: | | |
| Investment in business acquisitions | - | (2,409,373) |
| Purchase of equity investments | (355,310) | (2,024,465) |
| Investment in associate | (1,500,000) | - |
| Purchase of property and equipment | (186,158) | (1,131,171) |
| Purchase of intangible assets | (1,916,819) | (836,896) |
| Loans advanced to associate | (1,200,000) | - |
| Proceeds from disposal of subsidiary | - | 48,548 |
| Proceeds from disposal of property and equipment | - | 3,614 |
| Proceeds from disposal of AFS investments | - | 246,157 |
| Net cash used in investing activities | (5,158,287) | (6,103,586) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of share capital | - | 40,251,495 |
| Proceeds from exercise of warrants and stock options | 4,263,090 | 11,647,362 |
| Movement in deferred shares | - | (1,883,576) |
| Cash used for shares buyback | (511,399) | (2,991,873) |
| Share issuance costs | - | (3,377,180) |
| Repayment of loans payable | (16,761) | (294,549) |
| Earn-out payment | - | (285,419) |
| Net cash provided by financing activities | 3,734,930 | 43,066,260 |
| Net (decrease) increase in cash and cash equivalents | (29,098,593) | 25,470,729 |
| Effect of movement in exchange rates on cash held | (19,521) | (20,625) |
| Cash and cash equivalents, beginning of period | 78,210,706 | 8,953,341 |
| Cash and cash equivalents, end of period | \$ 49,092,592 | 34,403,445 |

See accompanying notes to interim condensed consolidated financial statements.

Refer to note 17 for additional cash flow information.

NAMASTE TECHNOLOGIES INC.

Notes to Interim Condensed Consolidated Financial Statements

For the three and nine months ended August 31, 2019

(Expressed in Canadian dollars, except for share and per share amounts, unless otherwise noted)

1. General information

Namaste Technologies Inc. (the “Company”) is an entity formed under the British Columbia Business Corporations Act. The Company is a reporting issuer in British Columbia, Alberta and Ontario, listed on the TSX Venture Exchange (“TSXV”) under the trading symbol “N”. The Company’s registered office is 2300 - 550 Burrard Street, Vancouver, British Columbia, V6C 2B5, Canada. These interim condensed consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the “Group” or “Namaste”).

Namaste is ‘Your Everything Cannabis Store™’. It operates an e-commerce platform with websites and distribution hubs located around the world. Namaste has operations in Europe, Australia and Canada. Namaste's product offering includes vaporizers, glassware and accessories. CannMart Inc. (a wholly owned subsidiary of the Company) is pursuing a new revenue vertical in the online retail of medical cannabis in the Canadian market. CannMart Inc. is a Canadian-based “sales-only” licensed entity. Namaste has developed and acquired innovative technology platforms including NamasteMD.com, and in May 2018, the Company acquired a leading e-commerce Artificial Intelligence (AI) and machine learning company, Findify AB (“Findify”). Findify uses AI algorithms to optimise and personalise a consumer's on-site buying experience. Namaste is focused on leveraging its technology to enhance the user experience throughout its platforms. Namaste will continue to develop and acquire innovative technologies which will provide value to the Group and to its shareholders as well as to the broader cannabis market.

2. Basis of preparation

(a) *Statement of compliance*

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, and should be read in conjunction with the Group’s consolidated financial statements as at and for the fifteen months ended November 30, 2018 (“last annual financial statements”), which were prepared in accordance with International Financial Reporting Standards (“IFRS”). These interim condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to understanding of the changes in Group’s financial position and performance since the last annual financial statements.

These interim condensed consolidated financial statements were approved and authorised by the Board of Directors of the Company on October 28, 2019.

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Notes to Interim Condensed Consolidated Financial Statements

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(Expressed in Canadian dollars, except for share and per share amounts, unless otherwise noted)

(b) Basis of presentation and measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities, which are measured either through profit or loss (“FVTPL”) or through other comprehensive income (“FVOCI”).

For comparative purposes, the Group has reclassified certain immaterial comparative figures to conform with current period’s presentation.

(c) Functional and presentation currency

The interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency. All amounts have been rounded to the nearest dollar, unless otherwise indicated.

The functional currencies of the Company’s directly and indirectly owned subsidiaries are as follows:

| Entity | Percentage holding | Country of incorporation | Functional currency |
|------------------------------------|--------------------|--------------------------|----------------------|
| Namaste Technologies Holdings Inc. | 100 | Canada | United States dollar |
| Namaste Bahamas Inc. | 100 | Bahamas | United States dollar |
| Namaste MD Inc. | 100 | Canada | Canadian dollar |
| Australian Vaporizers Pty Ltd. | 100 | Australia | Australian dollar |
| CannMart Inc. | 100 | Canada | Canadian dollar |
| Findify AB | 100 | Sweden | Swedish krona |
| CannMart Labs Inc. | 51 | Canada | Canadian dollar |

(d) Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the interim condensed consolidated financial statements from the date on which control commences until the date on which control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those adopted by the Group.

(e) Use of management estimates, judgments and measurement uncertainty

The preparation of these interim condensed 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 interim condensed consolidated financial statements and reported

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amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as at the date of the interim condensed 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 differ from these estimates under different assumptions and conditions.

The critical judgments and significant estimates in applying accounting policies that have the most significant effect on the amounts recognised in the interim condensed consolidated financial statements are outlined in note 2 (e) of the last annual financial statements. There have been no significant changes in the Group's judgments and estimates applied during the three and nine months ended August 31, 2019 relative to those described in the last annual financial statements, except for new significant judgment and key source of estimation uncertainty related to the application of IAS 28 and IFRS 9, which are described in note 3 (a) and 3(b(i)).

3. Summary of significant accounting policies

Except as described below, there have been no material changes in the Group's significant accounting policies during the three and nine months ended August 31, 2019, as compared to the significant accounting policies described in the last annual financial statements.

(a) Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately. The consolidated statement of operations reflects the Group's share of the results of operations of the associates and a gain on bargain purchase, if applicable.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of operations and represents profit or loss after tax and a gain on bargain purchase, if applicable.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associates. At each reporting date, the Group determines

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whether there is objective evidence that the investments in the associates is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss as 'Share of loss of the associates, net of tax' in the consolidated statement of operations. The recoverable amount is based on a fair value less cost to sell. Accordingly, any reversal of that impairment is recognised to the extent that the recoverable amount of the associate subsequently increases.

Upon loss of significant influence over the associate, the Group measures and recognises any retained interest at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained interest and proceeds from disposal is recognised in the consolidated statement of operations.

(b) New accounting standards effective fiscal year 2019

The Group has adopted the following new standards, effective December 1, 2018.

(i) IFRS 9

IFRS 9, Financial Instruments was issued in July 2014 and includes (i) a third measurement category for financial assets - fair value through other comprehensive income; (ii) a single, forward-looking "expected loss" impairment model; and (iii) a mandatory effective date of annual periods beginning on or after January 1, 2018. On adoption of this standard, there was no accounting impact to the financial statements and there were no changes in the carrying values of any of the Group's financial instruments.

Recognition

The Group recognised a financial asset and financial liability when it becomes party to the contractual provisions of the financial instrument, except for trade receivables which are initially recognised when they are originated. Financial assets are initially measured at fair value and are derecognised either when the Group has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Classification and measurement

The Group determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified accordingly to the following measurement categories:

- those to be measured subsequently at FVTPL,
- those to be measured subsequently at FVOCI, and
- those to be measured subsequently at amortised cost.

The classification and measurement of financial assets after initial recognition at fair value

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depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortised cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortised cost or at FVOCI are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in profit or loss.

On the date of initial application, December 1, 2018, the financial instruments of the group were as follows, with the following changes to the measurement category:

| | -----Measurement category----- | |
|--|--------------------------------|---------------------|
| | Original (IAS 39) | Revised (IFRS 9) |
| Financial assets: | | |
| Cash and cash equivalents | Amortised cost | Amortised cost |
| Accounts receivable | Amortised cost | Amortised cost |
| Equity investments | AFS investments | FVOCI |
| Derivatives | FVTPL | FVTPL |
| Long-term deposits | Amortised cost | Amortised cost |
| Financial liabilities: | | |
| Accounts payable and accrued liabilities | Amortised cost | Amortised cost |
| Loans payable | Amortised cost | Amortised cost |

Impairment

The Group uses the “expected credit loss” model for calculating impairment and recognises expected credit losses as a loss allowance in the consolidated statement of financial position if they relate to a financial asset measured at amortised cost. The Group’s accounts receivable are typically short-term receivables and do not have a significant financing component. Therefore, the Group recognises impairment and measures expected credit losses as lifetime expected credit losses. The carrying amount of these assets in the consolidated statement of financial position is stated net of loss allowance, if any.

(ii) IFRS 15

In 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“IFRS 15”), replacing IAS 18, Revenue; IAS 11, Construction Contracts; and related interpretations. The

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new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

On December 1, 2018, the Group adopted the requirements of IFRS 15 retrospectively using the cumulative effect method. The adoption of IFRS 15 did not require any changes to the Group's revenue recognition approach and did not result in any measurement adjustments. As a result, there were no changes required to these interim condensed consolidated financial statements.

The Group generates revenue from the sale of goods. IFRS 15 did not have an impact on the Group's accounting policies for revenue recognition, as under both IFRS 15 and IAS 18, the Group recognizes revenue at a point in time, which is upon delivery of goods, as it meets the criteria to satisfy the performance obligation. The Group records deferred revenues until the delivery, as customers pay in advance. These deferred revenues are recognized within a short period of time as the goods are paid by customer shortly before delivery.

Having completed the five-step analysis, the Group identified contracts with customers and performance obligations therein, determined transaction price and its allocation to performance obligation and confirmed the appropriateness of its revenue recognition policy being at a point in time for hardware and cannabis sales as it is the moment the Group transfers control over the product to the customers, and being over time for revenue from rendering of services.

(c) Update on accounting standards issued but not yet effective

(i) IFRS 16

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases and related interpretations. The standard provides a new framework for lessee accounting that requires substantially all assets obtained through operating leases to be capitalised and a related liability to be recorded. The new standard seeks to provide a more accurate picture of a company's leased assets and related liabilities and create greater comparability between companies who lease assets and those who purchase assets.

Substantially all of the Group's existing leases are real estate leases for offices, warehouses and production facility, and are all classified as operating leases.

As a lessee, the Company will recognize right-of-use assets and lease liabilities for the aforementioned operating leases. The right-of-use assets will be depreciated on a straight-line basis over the remaining life of the lease. The lease liability will be recorded at amortized cost, with a finance charge recorded from unwinding the lease liability discount. The depreciation expense of the right-of-use assets and finance charge of the lease liability will replace rent

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expense, previously recognized on a straight-line basis under IAS 17 over the lease term.

IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. The Company intends to adopt IFRS 16 for the annual period beginning on December 1, 2019 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with no restatement of the comparative period.

In addition, the Company has elected to use the following practical expedients permitted on adoption of IFRS 16:

- contracts that were identified as not containing leases under IAS 17 will not be reassessed under IFRS 16;
- a single discount rate will be applied to a portfolio of leases with reasonably similar underlying characteristics;
- initial direct costs will be excluded in the measurement of the right-of-use asset on transition;
- use hindsight in determining lease term at the date of initial application;
- IFRS 16 will not be applied for leases where the original or the remaining terms is less than 12 months.

Based on the information as at October 28, 2019, in expectation of the initial application of IFRS 16 as at December 1, 2019, the Company anticipates recognizing approximately \$796,000 of right-of-use assets and lease liabilities on its consolidated statement of financial position.

(ii) Other amended standards and interpretations

Other amended standards and interpretations, including Foreign Currency Transactions and Advance Consideration (“IFRIC 22”), Uncertainty Over Income Tax Treatments (“IFRIC 23”) and amendments to IFRS 2 Share-Based Payment, are not expected to have significant impact on the Group’s consolidated financial statements.

4. Operating segments

(a) Segmented information

The operating segments of the Group are known as Namaste Bahamas & Dollinger US (together referred to as the “Namaste Vapes”), Australian Vaporizers, CannMart Inc. and CannMart Labs Inc. (together referred to as the “CannMart”), Namaste MD, Findify and Corporate & Other. In determining the operating segments, management considered the product mix as well as the geographical segments that the business units sell under. The chief operating decision maker monitors these segments separately throughout the year.

The results of Findify were included in the consolidated financial statements as of the May 18, 2018 (acquisition date). The results of Dollinger Enterprises US Inc. (“Dollinger US”) were included in the consolidated financial statements up to December 31, 2017, which was the date the Company

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disposed of the subsidiary.

Disclosure by segment for the three months ended August 31, 2019 and August 31, 2018 were as follows:

| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|-------------------------------|------------------|--------------------------|-----------|---------------|-----------|----------------------|--------------|
| 2019: | | | | | | | |
| Revenue | | | | | | | |
| Net segment revenue | \$ 1,904,695 | 1,387,140 | 138,302 | 70,254 | 317,886 | - | 3,818,277 |
| Intersegment revenue | - | - | - | (12,663) | - | - | (12,663) |
| External revenue | 1,904,695 | 1,387,140 | 138,302 | 57,591 | 317,886 | - | 3,805,614 |
| Depreciation and amortisation | (16,035) | (237,910) | (75,430) | (92,639) | (80,181) | (10,808) | (513,003) |
| Impairment of goodwill | - | (3,578,400) | - | - | - | - | (3,578,400) |
| Income tax (expense) recovery | - | (10,566) | - | - | 67,284 | (5,136) | 51,582 |
| Net loss | (1,596,007) | (3,555,336) | (753,810) | (326,498) | (266,841) | (8,153,626) | (14,652,118) |
| 2018: | | | | | | | |
| Revenue | | | | | | | |
| Net segment revenue | \$ 2,508,768 | 1,151,614 | 32,233 | 61,335 | 180,200 | - | 3,934,150 |
| Intersegment revenue | - | - | - | - | - | - | - |
| External revenue | 2,508,768 | 1,151,614 | 32,233 | 61,335 | 180,200 | - | 3,934,150 |
| Depreciation and amortisation | (12,552) | (236,238) | (68,529) | - | (435,334) | (673) | (753,326) |
| Income tax recovery (expense) | - | 31,189 | - | - | 248,299 | (3,336) | 276,152 |
| Net (loss) income | (3,178,820) | (72,779) | 329,832 | (356,378) | (201,392) | (5,210,183) | (8,689,720) |

Disclosure by segment as at August 31, 2019 and November 30, 2018, and for the nine months ended August 31, 2019 and August 31, 2018 were as follows:

| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|-------------------------------|------------------|--------------------------|-------------|---------------|-----------|----------------------|--------------|
| 2019: | | | | | | | |
| Revenue | | | | | | | |
| Net segment revenue | \$ 7,342,182 | 3,542,237 | 431,967 | 271,014 | 851,375 | - | 12,438,775 |
| Intersegment revenue | - | - | - | (45,472) | - | - | (45,472) |
| External revenue | 7,342,182 | 3,542,237 | 431,967 | 225,542 | 851,375 | - | 12,393,303 |
| Depreciation and amortisation | (42,609) | (708,401) | (223,663) | (453,492) | (237,312) | (22,080) | (1,687,557) |
| Impairment of goodwill | - | (3,578,400) | - | - | - | - | (3,578,400) |
| Income tax recovery (expense) | - | 113,843 | - | - | 111,706 | (8,195) | 217,354 |
| Net loss | (5,885,993) | (3,848,279) | (2,211,852) | (1,373,334) | (581,571) | (19,661,896) | (33,562,925) |
| Total assets | 16,077,837 | 6,026,636 | 8,066,675 | 830,172 | 2,001,967 | 61,059,175 | 94,062,462 |
| Total liabilities | 1,493,679 | 496,867 | 800,089 | 281,905 | 392,506 | 4,344,151 | 7,809,197 |

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| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|-------------------------------|------------------|--------------------------|-----------|---------------|-----------|----------------------|--------------|
| 2018: | | | | | | | |
| Revenue | | | | | | | |
| Net segment revenue | \$ 9,697,038 | 3,453,989 | 242,098 | 78,792 | 201,180 | - | 13,673,097 |
| Intersegment revenue | (42,896) | - | - | - | - | - | (42,896) |
| External revenue | 9,654,142 | 3,453,989 | 242,098 | 78,792 | 201,180 | - | 13,630,201 |
| Depreciation and amortisation | (34,453) | (708,410) | (145,540) | - | (499,350) | (1,060) | (1,388,813) |
| Income tax recovery | - | 130,123 | - | - | 248,299 | 54,801 | 433,223 |
| Net loss | (5,229,318) | (336,516) | (472,513) | (596,725) | (271,729) | (13,222,737) | (20,129,538) |
| Total assets | 19,454,901 | 9,598,520 | 7,160,503 | 1,084,958 | 2,353,144 | 77,337,933 | 116,989,959 |
| Total liabilities | 2,492,306 | 611,394 | 1,118,093 | 399,475 | 503,458 | 2,257,871 | 7,382,597 |

(b) Geographical information

The Group markets its products and services globally. Revenue is attributed to countries based on the location of customers:

| | Three months ended August 31, | | Nine months ended August 31, | |
|--------------------------|-------------------------------|-----------|------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Australia | \$ 1,457,498 | 1,171,595 | 3,714,897 | 3,697,751 |
| United Kingdom | 958,747 | 1,076,564 | 3,158,275 | 3,590,760 |
| Canada | 567,552 | 564,464 | 2,054,507 | 1,810,060 |
| Brazil | - | 382,379 | 638,401 | 1,147,725 |
| Germany | 150,260 | 134,500 | 614,278 | 626,628 |
| United States of America | 206,351 | 112,173 | 498,194 | 1,257,465 |
| France | 105,950 | 19,794 | 348,773 | 66,388 |
| Ireland | 82,205 | 80,802 | 315,999 | 263,095 |
| New Zealand | 6,982 | 78,113 | 155,494 | 235,746 |
| Other | 270,069 | 313,766 | 894,485 | 934,583 |
| | \$ 3,805,614 | 3,934,150 | 12,393,303 | 13,630,201 |

(c) Customer information

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

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5. Accounts receivable

Accounts receivable as at August 31, 2019 and November 30, 2018 were as follows:

| | 2019 | 2018 |
|-----------------------------|--------------|-----------|
| Trade and other receivables | \$ 940,262 | 803,035 |
| Sales tax receivable | 918,774 | 824,746 |
| | \$ 1,859,036 | 1,627,781 |

Information about the Group's exposure to credit and market risks is included in Note 16 (b) (i, ii).

6. Inventories

Inventories as at August 31, 2019 and November 30, 2018 were as follows:

| | 2019 | 2018 |
|--------------------------------------|--------------|-----------|
| Hardware | \$ 3,288,482 | 4,961,935 |
| Cannabis | 1,859,097 | 899,567 |
| Total inventories, gross | 5,147,579 | 5,861,502 |
| Provision for inventories - hardware | (104,032) | (93,773) |
| Total inventories, net | \$ 5,043,547 | 5,767,729 |

The cost of inventories recognised as an expense and included in cost of goods sold for the three and nine months ended August 31, 2019 was \$2,340,971 and \$7,852,201, respectively (2018: \$2,192,709 and \$7,792,069, respectively). There was no inventory write-down during the three and nine months ended August 31, 2019 (2018: \$nil and \$181,025). During nine months ended August 31, 2018 the reversal of write-down of inventories was \$743,531 which resulted from the sale of those items.

7. Investments in associates

(a) Cost of the investments in associates comprised as follows:

| | Pineapple | Choklat |
|--------------------------------------|--------------|-----------|
| Transfer from equity investments (i) | \$ 906,199 | - |
| Issuance of common shares (i) | 3,210,488 | - |
| Cash investment (ii) | - | 1,500,000 |
| Stock options (ii) | - | 250,000 |
| | \$ 4,116,687 | 1,750,000 |

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- (i) The Company signed a subscription agreement with Pineapple Express Delivery Inc. (“Pineapple”) on June 12, 2018 to invest an aggregate purchase price of \$1,000,000 to acquire 15% equity interest in Pineapple comprising of \$850,000 in cash and \$150,000 in shares of the Company. The total value transferred from equity investments represented the cash portion including an amount of \$355,310 paid during the three months ended February 28, 2019. For the remaining investment, 99,661 shares of the Company were issued for an aggregate value of \$150,488 during the three months ended May 31, 2019 based on the market price of the shares on the date of issuance.

Effective March 13, 2019, pursuant to another subscription agreement, the Company’s equity interest in Pineapple increased from 15% to 49% and Pineapple became an associate from that date. The equity interest was acquired when the Company issued 2,487,805 common shares valued at \$3,060,000 based on the market price of the shares on the date of issuance. Pineapple is a private entity involved in delivery of medical and recreational cannabis across Canada.

- (ii) Effective March 8, 2019, the Company acquired 49% of the issued and outstanding shares of Choklat Inc. (“Choklat”) for a purchase consideration of \$1,750,000, comprising of \$1,500,000 in cash and issuance of stock options having a fair value of \$250,000 based on the Black Scholes Model. Choklat is a private entity which is involved in manufacture and distribution of chocolate in Canada.

- (b) On acquisition date, the difference between the cost of the investments and the Company’s share of the net fair value of the investee's identifiable assets and liabilities comprised as follows:

| | Pineapple | Choklat |
|---|--------------|-----------|
| Cost of investments in associates | \$ 4,116,687 | 1,750,000 |
| Company’s share of net fair value of the investee’s identifiable assets and liabilities | 304,978 | 2,175,376 |
| Goodwill (gain on bargain purchase) | \$ 3,811,709 | (425,376) |

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- (c) The following tables illustrate the summarised financial information of the investees from the relevant acquisition date to August 31, 2019:

| | Pineapple | Choklat |
|---|--------------|-----------|
| Current assets | \$ 172,901 | 474,241 |
| Non-current assets | 293,618 | 3,586,086 |
| Current liabilities | (1,327,114) | (73,969) |
| Net assets | \$ (860,595) | 3,986,358 |
| Company's share in equity (49%) | (421,691) | 1,953,315 |
| Goodwill | 3,811,709 | - |
| Impairment loss | (1,038,313) | - |
| Company's carrying amount of the investment | \$ 2,351,705 | 1,953,315 |

| | Pineapple | Choklat |
|---------------------------------|-------------|-----------|
| Revenue | \$ 136,651 | 259,436 |
| Loss from continuing operations | (1,483,000) | (453,184) |

- (d) The following is the reconciliation of the cost of investments to carrying amount as at August 31, 2019:

| | Pineapple | Choklat | Total |
|--|--------------|-----------|-------------|
| Cost of investments in associates | \$ 4,116,687 | 1,750,000 | 5,866,687 |
| Gain on bargain purchase | - | 425,376 | 425,376 |
| Company's share of loss, net of tax | (726,669) | (222,061) | (948,730) |
| Impairment loss | (1,038,313) | - | (1,038,313) |
| Total share of (loss) gain of the associates | (1,764,982) | 203,315 | (1,561,667) |
| Company's carrying amount of the investment | \$ 2,351,705 | 1,953,315 | 4,305,020 |

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8. Other investments

Other investments as at August 31, 2019 and November 30, 2018 were as follows:

| | 2019 | 2018 |
|------------------------|--------------|-----------|
| Equity investments (a) | \$ 3,168,987 | 3,671,889 |
| Derivatives (b) | 73,662 | 80,700 |
| | \$ 3,242,649 | 3,752,589 |

(a) Details of equity investments as at August 31, 2019 and November 30, 2018 were as follows:

| | Number of shares acquired | Cost \$ | Fair value \$ | Unrealised (gain) loss - gross \$ |
|-------------------------------------|---------------------------------|------------|---------------------|--|
| 2019: | | | | |
| Atlas Biotechnologies | 200,000 | 200,000 | 1,200,000 | (1,000,000) |
| Cannbit Pharmaceutical Ltd. (i) | 404,933 | 464,715 | 1,292,085 | (827,370) |
| Inolife R&D Inc. | 2,000,000 | 200,000 | 200,000 | - |
| Kief Cannabis Company Ltd. | 46,729 | 250,000 | 250,000 | - |
| Lovelabs.com | 8,243 | 32,220 | 32,220 | - |
| RMMI Corp. | 100,000 | 250,000 | 70,000 | 180,000 |
| The Green Organic Dutchman Holdings | 26,021 | 94,982 | 7,551 | - |
| YPB Group | 3,800,000 | 130,000 | 37,251 | 92,749 |
| | | 1,621,917 | 3,168,987 | (1,547,070) |
| 2018: | | | | |
| Atlas Biotechnologies | 200,000 | 200,000 | 1,200,000 | (1,000,000) |
| Cannbit Pharmaceutical Ltd. | 404,933 | 464,715 | 1,156,869 | (692,154) |
| Inolife R&D Inc. | 2,000,000 | 200,000 | 200,000 | - |
| Kief Cannabis Company Ltd. | 46,729 | 250,000 | 250,000 | - |
| Lovelabs.com | 8,243 | 32,220 | 32,220 | - |
| Pineapple Express Delivery Inc. | 944 | 550,889 | 550,889 | - |
| RMMI Corp. | 100,000 | 250,000 | 130,000 | 120,000 |
| The Green Organic Dutchman Holdings | 26,021 | 94,982 | 85,870 | 9,112 |
| YPB Group | 3,800,000 | 130,000 | 66,041 | 63,959 |
| | | 2,172,806 | 3,671,889 | (1,499,083) |

(i) The Company signed a subscription agreement with Cannbit Pharmaceutical Ltd. (“Cannbit”) on June 13, 2018 to purchase 779 shares of Cannbit for an aggregate purchase price of NIS2,500,000. As of reporting date, the Company has purchased 389 shares for a cash consideration of \$464,715 (NIS1,250,000) and has a commitment to buy the remaining 390 shares, by issuing shares of the Company, for an amount equivalent to NIS1,250,000 in the future, subject to terms and conditions of the subscription agreement. In November 2018, Cannbit merged with a public company and as a result of share split, the Company now owns 404,933 shares in the new company.

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(b) Details of derivatives as at August 31, 2019 and November 30, 2018 were as follows:

| | Number of options | Number of warrants | Fair value |
|---------------------------------------|----------------------|-----------------------|---------------|
| 2019: | | | \$ |
| The Supreme Cannabis Company Inc. (i) | 50,400 | - | 14,616 |
| The Green Organic Dutchman Holdings | - | 34,347 | 58,046 |
| Inolife R&D Inc. | - | 1,000,000 | 1,000 |
| | | | 73,662 |
| 2018: | | | \$ |
| Blissco Cannabis Corp. (i) | 210,000 | - | 1,050 |
| The Green Organic Dutchman Holdings | - | 34,347 | 78,650 |
| YPB Group | 3,800,000 | - | - |
| Inolife R&D Inc. | - | 1,000,000 | 1,000 |
| | | | 80,700 |

(i)

(i) On July 6, 2018, the Company entered into stock option agreement with Blissco Cannabis Corp. (“Blissco”) and purchased 210,000 Blissco stock options. On July 12, 2019, The Supreme Cannabis Company, Inc. (“Supreme”) acquired all of the issued and outstanding shares of Blissco Cannabis Corp. As a result of the acquisition, 210,000 Blissco stock options were exchanged for 50,400 Supreme stock options.

(c) Following is the summary of various valuation techniques and the underlying key/significant observable/unobservable inputs used to determine the fair value of the investments:

| Type of investment | Fair value determination |
|---------------------------------|---|
| Equity investments - level 1 | Quoted price in active market. |
| Equity investments - level 2 | Fair value is determined based on per share value in the most recent financing transaction publicly available. |
| Equity investments - level 3 | Management has evaluated if any transactions or events would impact the cost and concluded that the cost approximates fair value at the reporting date. |
| Derivatives | Options and warrants are valued using Black-Scholes option pricing model. Quoted price of underlying share in active market is used as key input. Where underlying share price in active market was not available, management considered the fair value of those options/warrants as nominal. |

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- (d) Following is the movement schedule of derivatives and equity investments for the three months ended August 31, 2019:

| | Equity investments | Derivatives |
|---|-----------------------|-------------|
| Balance at May 31, 2019 | \$ 3,097,915 | 83,512 |
| Unrealised gain (loss) on changes in fair value | 71,072 | (9,850) |
| Balance at August 31, 2019 | \$ 3,168,987 | 73,662 |

Following is the movement schedule of derivatives and equity investments for the nine months ended August 31, 2019:

| | Equity investments | Derivatives |
|--|-----------------------|-------------|
| Balance at November 30, 2018 | \$ 3,671,889 | 80,700 |
| Purchases (note 7 (a)) | 355,310 | - |
| Transfer to investments in associates (note 7 (a)) | (906,199) | - |
| Unrealised gain (loss) on changes in fair value | 47,987 | (7,038) |
| Balance at August 31, 2019 | \$ 3,168,987 | 73,662 |

9. Property and equipment

During the nine months ended August 31, 2019, the Group acquired assets with a cost of \$186,158 (2018: \$1,131,171). There were no disposals or transfers during the nine months ended August 31, 2019 (2018: \$9,606). Depreciation expense on property and equipment for the three and nine months ended August 31, 2019 has been recognised as part of selling, general and administration expenses in the interim condensed consolidated statement of operations in the amount of \$102,700 and \$288,745, respectively (2018: \$83,431 and \$185,780).

10. Intangible assets

Intangible assets comprised of intellectual properties, licenses, customer lists, brand names, computer software and domains. Intellectual properties, customer lists and computer software and domains are considered definite life intangible assets and are amortised over their useful lives.

During the nine months ended August 31, 2019, the Group's additions to intangible assets were \$1,916,819 (2018: \$3,063,696), of which \$1,844,444 was attributable to development of internally generated software systems.

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Amortisation expense on definite life intangible assets for the three and nine months ended August 31, 2019 has been recognised as part of selling, general and administration expenses in the interim condensed consolidated statement of operations in the amount of \$410,303 and \$1,398,812, respectively (2018: \$669,895 and \$1,203,033). No impairment losses were recognised on intangible assets for the three and nine months ended August 31, 2019 and August 31, 2018.

11. Goodwill

The Company's goodwill was generated through various acquisitions and details are as follows:

| | | Australian Vaporizers | Namaste Vapes | Total |
|------------------------------|----|--------------------------|------------------|-------------|
| Balance at August 31, 2017 | \$ | 2,827,420 | - | 2,827,420 |
| Findify acquisition | | 3,301,100 | 9,152,334 | 12,453,434 |
| Balance at November 30, 2018 | | 6,128,520 | 9,152,334 | 15,280,854 |
| Goodwill allocation | | 538,571 | (538,571) | - |
| Impairment | | (3,578,400) | - | (3,578,400) |
| Balance at August 31, 2019 | \$ | 3,088,691 | 8,613,763 | 11,702,454 |

During the three months ended May 31, 2019, management has completed the goodwill allocation for the acquisition of Findify, which resulted in reallocation of \$538,571 from Namaste Vapes to Australian Vaporizers operating segment.

Goodwill for each cash generating unit ("CGU") is tested for impairment annually at its designated date. The designated dates for the annual impairment test for Australian Vaporizers and Namaste Vapes are August 31st and November 30th, respectively.

(a) Impairment testing for Namaste Vapes CGU

The annual impairment testing for goodwill allocated to Namaste Vapes CGU will be performed as its designated date, November 30. During the nine months ended August 31, 2019, there were no indications that the Namaste Vapes cash-generating unit may be impaired, as such there was no change in the carrying amount of goodwill.

(b) Impairment testing for Australian Vaporizers CGU

The recoverable amount of this CGU including the goodwill is based on a value in use calculation. The value in use is determined by discounting the future cash flows generated from the continuing use of the CGU.

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The key assumptions used in estimation of recoverable amount are set out below:

| | 2019 | 2018 |
|---|-------|-------|
| Weighted average cost of capital (“WACC”) | 15% | 13.5% |
| Terminal value growth rate | 1.6% | 2.0% |
| Budgeted sales growth rate (average of next five years) | 14.0% | 17.0% |

Cash flows are projected based on actual operating results and the annual plan. Cash flows for a five year period are projected using expected annual growth rates. Cash flows after the first five years were projected using terminal value growth rate, based on internal sources, in order to calculate the terminal recoverable amount. WACC is applied in determining the recoverable amount of the CGU.

The values assigned to the key assumptions represent management’s assessment of future trends in the vapes and ecommerce industry and are based on both external and internal sources (historical data). Management believes that any reasonable possible change in key assumptions on which recoverable amounts are based will not lead to a materially different outcome.

Based on the value in use calculation, management has determined that the carrying amount of this CGU was determined to be higher than its recoverable amount of \$4,382,396 and an impairment loss of \$3,578,400 was recognised during the three months ended August 31, 2019 (2018: \$nil). The impairment loss was fully allocated to goodwill and included in the interim condensed consolidated statement of operations.

12. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities as at August 31, 2019 and November 30, 2018 were as follows:

| | 2019 | 2018 |
|---------------------|--------------|-----------|
| Accounts payable | \$ 3,801,935 | 2,827,346 |
| Accrued liabilities | 3,364,062 | 3,680,767 |
| | \$ 7,165,997 | 6,508,113 |

13. Share capital

(a) Authorised share capital

The Company is authorised to issue an unlimited number of common shares with no par value. As at August 31, 2019 the Company had 323,761,983 common shares issued and outstanding.

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(b) *Shares buyback*

On July 18, 2018, the Company commenced a normal course issuer bid (“NCIB”) for up to a 12-month period to purchase up to 25,308,136 common shares, representing approximately 8.9% of the Company’s issued and outstanding common shares at the time. During the nine months ended August 31, 2019 and before NCIB was expired, the Company has completed a buyback of 460,900 shares at an average price of \$1.11 per share.

(c) *Issuance of shares*

For the nine months ended August 31, 2019, the Company issued 12,653,875 common shares on exercise of various warrants and options for total gross cash proceeds of \$4,263,090.

(d) *Share purchase warrants*

The following is a summary of the changes in the Company’s share purchase warrants for the nine months ended August 31:

| | -----2019----- | | -----2018----- | |
|----------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Outstanding, beginning of period | 40,495,658 | \$ 2.44 | 45,951,703 | \$ 0.30 |
| Granted | - | - | 18,636,418 | 2.83 |
| Exercised | (9,910,000) | 0.35 | (33,841,104) | 0.29 |
| Forfeited | (360,000) | 0.35 | - | - |
| Outstanding, end of period | 30,225,658 | 3.15 | 30,747,017 | 1.84 |

For nine months ended August 31, 2019, share purchase warrants exercised were the result of acceleration notice given by the Company for warrants issued as part of the non-brokered private placement in October 31, 2017.

The assumptions used for the calculation of the fair value of the warrants for the nine months ended August 31 were as follows:

| | 2019 | 2018 |
|-----------------------------|---------|---------------|
| Risk free rate | 1.46% | 0.50% - 1.80% |
| Expected life | 2 years | 2 years |
| Expected volatility | 125% | 125% |
| Expected dividend per share | Nil | Nil |

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Volatility was calculated using the historical volatility of other companies which the Company considered comparable that had trading and volatility history. The expected life in years represents the time that the warrants 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 warrants.

(e) *Stock options*

The Company has established a stock option plan (the “Plan”) for directors, officers and employees. Under the Plan, the exercise price of each option is determined by the Board. The aggregate number of common shares issuable pursuant to options granted under the Plan is being less than 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 movement in the Plan for the nine months ended August 31:

| | -----2019----- | | -----2018----- | |
|----------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| | | \$ | | \$ |
| Outstanding, beginning of period | 20,351,750 | 1.45 | 14,765,000 | 0.20 |
| Granted | 1,060,000 | 0.86 | 13,150,000 | 1.81 |
| Exercised | (2,743,875) | 0.29 | (7,291,538) | 0.26 |
| Forfeited | (5,132,625) | 1.69 | - | - |
| Outstanding, end of period | 13,535,250 | 1.55 | 20,623,462 | 1.20 |

For the nine months ended August 31, 2019, the Company recognised share-based compensation expense of \$3,265,647 (2018: \$9,989,340).

For the nine months ended August 31, 2019, the weighted average share price of options exercised was \$0.68 (2018: \$2.40).

The following table summarises information regarding stock options outstanding by exercise price as at August 31, 2019:

| | Number of options outstanding | Weighted average remaining contractual life in years | Weighted average exercise price |
|----------------------------|-------------------------------|--|---------------------------------|
| | | | \$ |
| \$0.01 - \$1.00 | 2,358,625 | 0.52 | 0.23 |
| \$1.01 - \$2.00 | 8,610,627 | 2.48 | 1.45 |
| \$2.01 - \$4.00 | 2,565,998 | 0.64 | 3.06 |
| Outstanding, end of period | 13,535,250 | 1.79 | 1.54 |

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The following table summarises information regarding exercisable stock options outstanding as at August 31, 2019:

| Exercise price range | Number of options outstanding | Weighted average remaining contractual life in years | Weighted average exercise price |
|----------------------------|-------------------------------|--|---------------------------------|
| | | | \$ |
| \$0.01 - \$1.00 | 2,021,125 | 2.17 | 0.26 |
| \$1.01 - \$2.00 | 4,941,875 | 3.83 | 1.47 |
| \$2.01 - \$4.00 | 1,747,625 | 3.20 | 3.07 |
| Exercisable, end of period | 8,710,625 | 3.32 | 1.51 |

The assumptions used for the calculation of the fair value of the options for the nine months ended August 31 were as follows:

| | 2019 | 2018 |
|-----------------------------|---------------|---------------|
| Risk free rate | 0.72% - 2.01% | 0.55% - 2.10% |
| Expected life | 2 - 5 years | 2 - 5 years |
| Expected volatility | 81% - 125% | 83 - 125% |
| Expected dividend per share | Nil | Nil |

Up to November 30, 2018, volatility was calculated using the historical volatility of other companies which the Company considered comparable that had trading and volatility history. Beginning December 1, 2019, the Company calculates volatility using its own historical trading prices. The expected life in years represents the 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.

14. Disaggregation of revenue

In the following table, revenue is presented for the three months ended August 31, 2019 and August 31, 2018, and disaggregated by major products, service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable operating segments (see Note 4).

| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|----------------------------------|---------------|-----------------------|----------|------------|---------|-------------------|-----------|
| 2019: | | | | | | | |
| <u>Major goods/service lines</u> | | | | | | | |
| Hardware | \$ 1,904,695 | 1,387,140 | 37,447 | - | - | - | 3,329,282 |
| Cannabis | - | - | 100,855 | - | - | - | 100,855 |
| AI services | - | - | - | - | 317,886 | - | 317,886 |
| Referral fees | - | - | - | 57,591 | - | - | 57,591 |
| | \$ 1,904,695 | 1,387,140 | 138,302 | 57,591 | 317,886 | - | 3,805,614 |

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| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|--------------------------------------|------------------|--------------------------|----------|---------------|---------|----------------------|-----------|
| 2019: | | | | | | | |
| <u>Timing of revenue recognition</u> | | | | | | | |
| Goods transferred | | | | | | | |
| at a point in time | \$ 1,904,695 | 1,387,140 | 138,302 | - | - | - | 3,430,137 |
| Services transferred over time | - | - | - | 57,591 | 317,886 | - | 375,477 |
| | \$ 1,904,695 | 1,387,140 | 138,302 | 57,591 | 317,886 | - | 3,805,614 |

| | | | | | | | |
|----------------------------------|--------------|-----------|--------|--------|---------|---|-----------|
| 2018: | | | | | | | |
| <u>Major goods/service lines</u> | | | | | | | |
| Hardware | \$ 2,508,768 | 1,151,614 | 32,233 | - | - | - | 3,692,615 |
| AI services | - | - | - | - | 180,200 | - | 180,200 |
| Referral fees | - | - | - | 61,335 | - | - | 61,335 |
| | \$ 2,508,768 | 1,151,614 | 32,233 | 61,335 | 180,200 | - | 3,934,150 |

| | | | | | | | |
|--------------------------------------|--------------|-----------|--------|--------|---------|---|-----------|
| <u>Timing of revenue recognition</u> | | | | | | | |
| Goods transferred | | | | | | | |
| at a point in time | \$ 2,508,768 | 1,151,614 | 32,233 | - | - | - | 3,692,615 |
| Services transferred over time | - | - | - | 61,335 | 180,200 | - | 241,535 |
| | \$ 2,508,768 | 1,151,614 | 32,233 | 61,335 | 180,200 | - | 3,934,150 |

In the following table, revenue is presented for the nine months ended August 31, 2019 and August 31, 2018, and disaggregated by major products, service lines and timing of revenue recognition.

| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|--------------------------------------|------------------|--------------------------|----------|---------------|---------|----------------------|------------|
| 2019: | | | | | | | |
| <u>Major goods/service lines</u> | | | | | | | |
| Hardware | \$ 7,342,182 | 3,542,237 | 123,954 | - | - | - | 11,008,373 |
| Cannabis | - | - | 308,013 | - | - | - | 308,013 |
| AI services | - | - | - | - | 851,375 | - | 851,375 |
| Referral fees | - | - | - | 225,542 | - | - | 225,542 |
| | \$ 7,342,182 | 3,542,237 | 431,967 | 225,542 | 851,375 | - | 12,393,303 |
| <u>Timing of revenue recognition</u> | | | | | | | |
| Goods transferred | | | | | | | |
| at a point in time | \$ 7,342,182 | 3,542,237 | 431,967 | - | - | - | 11,316,386 |
| Services transferred over time | - | - | - | 225,542 | 851,375 | - | 1,076,917 |
| | \$ 7,342,182 | 3,542,237 | 431,967 | 225,542 | 851,375 | - | 12,393,303 |

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| | Namaste Vapes | Australian Vaporizers | CannMart | Namaste MD | Findify | Corporate & other | Total |
|--------------------------------------|------------------|--------------------------|----------|---------------|---------|----------------------|------------|
| 2018: | | | | | | | |
| <u>Major goods/service lines</u> | | | | | | | |
| Hardware | \$ 9,654,142 | 3,453,989 | 242,098 | - | - | - | 13,350,229 |
| Cannabis | - | - | - | - | - | - | - |
| AI services | - | - | - | - | 201,180 | - | 201,180 |
| Referral fees | - | - | - | 78,792 | - | - | 78,792 |
| | \$ 9,654,142 | 3,453,989 | 242,098 | 78,792 | 201,180 | - | 13,630,201 |
| <u>Timing of revenue recognition</u> | | | | | | | |
| Goods transferred | | | | | | | |
| at a point in time | \$ 9,654,142 | 3,453,989 | 242,098 | - | - | - | 13,350,229 |
| Services transferred over time | - | - | - | 78,792 | 201,180 | - | 279,972 |
| | \$ 9,654,142 | 3,453,989 | 242,098 | 78,792 | 201,180 | - | 13,630,201 |

15. Selling, general and administration expenses

Selling, general and administration expenses for the three and nine months ended August 31, 2019 and August 31, 2018 were as follows:

| | Three months ended August 31, | | Nine months ended August 31, | |
|---|-------------------------------|------------|------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| Professional fees (i) | \$ 3,529,030 | 540,741 | 10,021,986 | 1,414,273 |
| Personnel costs | 2,937,643 | 2,105,227 | 9,287,249 | 4,944,636 |
| General and administration | 2,124,064 | 1,452,697 | 4,391,127 | 3,178,277 |
| Share-based compensation | 683,438 | 4,133,224 | 3,265,647 | 9,989,340 |
| Depreciation and amortisation | 513,003 | 753,326 | 1,687,557 | 1,388,813 |
| Consulting fees | 276,313 | 79,909 | 1,204,036 | 747,700 |
| Selling and marketing expense | 462,049 | 849,601 | 1,434,261 | 1,784,196 |
| Bank and merchant fees | 285,420 | 122,298 | 817,984 | 651,119 |
| Business development and investor relations | 147,052 | 215,592 | 423,615 | 500,363 |
| Acquisition costs | - | 17,280 | - | 387,290 |
| | \$ 10,958,012 | 10,269,895 | 32,533,462 | 24,986,007 |

(i) Professional fees for the three months ended August 31, 2019 included \$2,096,608 (for the nine months ended August 31, 2019: \$7,911,535) of non-recurring costs related to the work on the security class actions and those initiated by the Special Committee of the Board of Directors.

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16. Financial instruments and associated risks

(a) Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 includes quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 includes inputs that are observable other than quoted prices included in Level 1; and
- Level 3 includes inputs that are not based on observable market data.

Following is the summary of the financial instruments as at August 31, 2019 and November 30, 2018:

| | Financial assets at FVOCI | Financial assets at amortised cost | Financial assets at FVTPL | Financial liabilities at amortised cost | Total |
|---|---------------------------------|---|---------------------------------|--|------------|
| 2019: | | | | | |
| <i>Financial assets:</i> | | | | | |
| Cash and cash equivalents | \$ - | 49,092,592 | - | - | 49,092,592 |
| Accounts receivable | - | 1,859,036 | - | - | 1,859,036 |
| Other investments | 3,168,987 | - | 73,662 | - | 3,242,649 |
| Long-term deposits and other assets | - | 2,299,237 | - | - | 2,299,237 |
| | \$ 3,168,987 | 53,250,865 | 73,662 | - | 56,493,514 |
| <i>Financial liabilities:</i> | | | | | |
| Accounts payable and accrued liabilities | \$ - | - | - | 7,165,997 | 7,165,997 |
| Loans payable | - | - | - | 23,678 | 23,678 |
| | \$ - | - | - | 7,189,675 | 7,189,675 |
| 2018: | | | | | |
| <i>Financial assets:</i> | | | | | |
| Cash and cash equivalents | \$ - | 78,210,706 | - | - | 78,210,706 |
| Accounts receivable | - | 1,627,781 | - | - | 1,627,781 |
| Other investments | 3,671,889 | - | 80,700 | - | 3,752,589 |
| Long-term deposits and other assets | - | 15,826 | - | - | 15,826 |
| | \$ 3,671,889 | 79,854,313 | 80,700 | - | 83,606,902 |

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| | Financial assets at FVOCI | Financial assets at amortised cost | Financial assets at FVTPL | Financial liabilities at amortised cost | Total |
|---|---------------------------------|---|---------------------------------|--|-----------|
| <i>Financial liabilities:</i> | | | | | |
| Accounts payable and accrued liabilities | \$ - | - | - | 6,508,113 | 6,508,113 |
| Loans payable | - | - | - | 40,439 | 40,439 |
| | \$ - | - | - | 6,548,552 | 6,548,552 |

The carrying values of financial instruments and fair value amounts of all the Group's financial instruments approximate their fair values as at August 31, 2019.

The following is a summary of financial assets measured at fair value based on various level of inputs:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------|--------------|-----------|---------|-----------|
| Equity investments | \$ 1,486,767 | 1,200,000 | 482,220 | 3,168,987 |
| Derivatives | - | 72,662 | 1,000 | 73,662 |
| | \$ 1,486,767 | 1,272,662 | 483,220 | 3,242,649 |

During the three and nine months ended August 31, 2019 and August 31, 2018, there were no transfer between the levels of the fair value hierarchy.

(b) Risk management

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

(i) Market risk

Market risk is the risk that future changes in market conditions such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

a. Currency risk

The Group is party to financial instruments or enters into transactions denominated in currencies other than its functional currency. Consequently, the Group is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Group's assets or liabilities denominated in currencies other than Canadian dollars. This risk is mitigated by timely payment of creditors and monitoring of foreign exchange fluctuations by management. The Group does not hedge against movements in foreign currency exchange rates.

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A 5% change in the foreign currencies against functional currencies, assuming that all other variables are constant, would have increased or decreased net loss and equity by \$183,228 (2018: \$115,343) as a result of the revaluation on foreign currency denominated financial assets and liabilities.

b. Interest rate risk

Interest rate risk refers to the risk of loss due to adverse movements in interest rates. 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.

Interest rate risk on the loans receivable and loans payable is limited due to the fact that they both have fixed rate of interest.

c. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk. The Group's exposure to other price risks relates to fair value of its equity investments and derivatives.

If the fair value of these financial assets were to increase or decrease by 5%, net loss would have increased or decreased by \$3,683 and accumulated other comprehensive income would have changed by \$158,449 (2018: \$4,035 and \$183,594).

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash and cash equivalents, accounts receivable, deposits and other assets. The Group has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of cash deposited with reputable financial institutions which are closely monitored by management. Accounts receivable related to online sales are held in reputable merchant accounts and are received within a short period of time. Deposits and other assets are held with reputable financial institutions and business partners which are closely monitored by management. The carrying amount of financial assets represents the maximum credit exposure.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, without incurring unacceptable losses or risking damage to the Group's reputation.

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The following are the remaining contractual maturities of financial liabilities as at August 31, 2019 and November 30, 2018:

| | Carrying value | less than 3 months | 4 - 6 months | 7 - 12 months | Over 12 months |
|---|---------------------|-----------------------|-----------------|------------------|-------------------|
| 2019: | | | | | |
| Accounts payable and accrued liabilities | \$ 7,165,997 | 7,165,997 | | | |
| Loans payable | 23,678 | 4,828 | 4,828 | 7,623 | 6,399 |
| | <u>\$ 7,189,675</u> | <u>7,170,825</u> | <u>4,828</u> | <u>7,623</u> | <u>6,399</u> |
| 2018: | | | | | |
| Accounts payable and accrued liabilities | \$ 6,508,113 | 6,508,113 | - | - | - |
| Loans payable | 40,439 | 4,957 | 4,957 | 9,914 | 20,611 |
| | <u>\$ 6,548,552</u> | <u>6,513,070</u> | <u>4,957</u> | <u>9,914</u> | <u>20,611</u> |

17. Additional disclosures for statement of cash flows

(a) Changes in non-cash working capital

Changes in non-cash working capital for the nine months ended August 31, 2019 and 2018 were as follows:

| | 2019 | 2018 |
|--|-----------------------|--------------------|
| Increase in accounts receivables | \$ (231,255) | (461,872) |
| Decrease in inventories | 724,182 | 647,008 |
| Increase in prepaid expenses, other assets and long-term deposits | (5,027,989) | (2,290,100) |
| Decrease (increase) in income tax receivable | 140,350 | (8,658) |
| Increase in accounts payable and accrued liabilities | 407,886 | 998,129 |
| Increase in deferred revenue | 160,160 | 61,548 |
| Changes in non-cash working capital | <u>\$ (3,826,666)</u> | <u>(1,053,945)</u> |

(b) Additional information

Additional information for the nine months ended August 31, 2019 and 2018 were as follows:

| | 2019 | 2018 |
|---------------------------|-----------|-----------|
| Income tax refunds (paid) | \$ 27,814 | (123,371) |
| Interest paid | (1,792) | (1,522) |
| Interest received | 1,006,243 | 301,572 |

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18. Related party balances and transactions

Related parties include key management personnel and the entities controlled or directed by key management personnel. Key management personnel include board of directors and key executives of the Company together with certain individuals responsible for outsourced services who in the opinion of the Company have satisfied relevant criteria to be considered key management personnel under applicable accounting standards based on the information available as of the date of issuance of these financial statements.

(a) Related party balances

Related party balances as at August 31, 2019 and as at November 30, 2018 were as follows:

| | 2019 | 2018 |
|---|-----------|-----------|
| Accounts receivable (i) | \$ - | 18,173 |
| Loans receivable from associate (ii) | 1,200,000 | - |
| Interest receivable on loans receivable from associate (ii) | 36,696 | |
| Accounts payable and accrued liabilities (i) | (105,652) | (305,968) |

- (i) Balances with related parties are non-interest bearing, unsecured and due on demand.
- (ii) During the nine months ended August 31, 2019, the Company granted a promissory note to its associate, Pineapple, for a total of \$1,200,000 to finance the working capital and other general operating or corporate requirements, and recognised as part of long-term deposits and other assets in the interim condensed consolidated statements of financial position. Interest is charged at 12% per annum. The promissory note is secured with the general security agreement and is repayable in full together with any accrued but unpaid interest on the earlier of: (i) March 31, 2020, and (ii) the completion of (A) an initial public offering, reverse takeover, business combination or other similar transaction pursuant to which securities of Pineapple become listed on a stock exchange in Canada, (B) a prospectus-exempt offering of securities of Pineapple for aggregate net proceeds to Pineapple of at least \$3,000,000, or (C) any transaction whereby Pineapple or its securityholders receive and accept an offer to acquire all of the outstanding share capital or an offer to acquire all or substantially all of the assets of Pineapple, whether effected through an acquisition for cash or securities, and whether structured as a purchase or otherwise.

(b) Related party transactions

Related party transactions for the three months and nine period ended August 31, 2019 and August 31, 2018, respectively, were as follows:

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| | Three months ended August 31, | | Nine months ended August 31, | |
|--|-------------------------------|-----------|------------------------------|-----------|
| | 2019 | 2018 | 2019 | 2018 |
| Stock options (i) | \$ 42,691 | 1,876,000 | 384,373 | 9,246,726 |
| Key management personnel compensation (ii) | 851,273 | 159,077 | 2,418,099 | 1,169,116 |
| Director fees | 450,024 | - | 574,841 | - |
| Payment processing services (iii) | - | 109,357 | 14,028 | 186,588 |
| Consulting fees (iv) | - | 52,865 | 47,775 | 214,407 |
| Technology and IT support services (v) | 110,130 | 918,528 | 894,664 | 1,542,657 |
| Marketing services (vi) | - | 891,140 | 2,118,996 | 1,841,312 |
| Delivery services (vii) | 8,365 | - | 8,365 | - |
| Technology support income (viii) | - | - | (14,690) | - |

- (i) During the three months ended August 31, 2019, key management personnel were granted 200,000 stock options which vest in equal quarterly installments over two years period. These stock options have exercise price of \$0.50 and expire on July 31, 2024.
- (ii) The key management personnel compensation includes salaries and bonuses, benefits and incentives.
- (iii) Up to February 3, 2019, the Company utilized payment processing services from Dollinger Enterprises Europe Ltd., a company controlled by the former Chief Executive Officer. The amount outstanding against these services as at August 31, 2019 was \$nil (2018: \$14,138).
- (iv) The Company received e-commerce support services from the consulting companies controlled by a former Board Member of the Company. The amount outstanding against these services as at August 31, 2019 was \$nil (2018: \$nil).
- (v) Up to August 15, 2019, the Company outsourced some of its technology and IT support services to an entity controlled by a member of key management personnel. The amount outstanding against these services as at August 31, 2019 was \$104,725 (2018: \$nil).
- (vi) Up to May 26, 2019, The Company outsourced substantially all of its marketing and related services to an entity that is controlled by a member of key management personnel. There was no outstanding balance against these services as at August 31, 2019 (2018: \$25,810).
- (vii) The Company received delivery services from the associate. The amount outstanding against these services as at August 31, 2019 was \$927 (2018: \$nil).
- (viii) The Company received technology support income from an entity, the Company believes is related by virtue of the influence of a former Board Member over the entity under applicable accounting standards. The amount outstanding against these services as at August 31, 2019 was \$nil (2018: \$14,910).

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19. Commitments and contingencies

(a) Operating lease commitments

The Group's commitments on future minimum lease payments under operating leases are as follows:

| | | |
|----------------------------|----|-----------|
| Less than one year | \$ | 376,565 |
| Between one and five years | | 976,477 |
| More than five years | | 24,961 |
| | \$ | 1,378,003 |

Rent expense for the three months ended August 31, 2019 was \$149,545 (2018: \$97,622). Rent expense for the nine months ended August 31, 2019 was \$537,179 (2018: \$356,896).

(b) Contingencies

- (i) CannMart Inc. entered into a definitive supply agreement with 8528934 Canada Ltd. d/b/a 7ACRES ("the seller") dated January 24, 2018 under which it committed to purchase a minimum annual quantity of 1,000 kilograms of premium dried cannabis flower at \$6 per gram within the calendar year 2018. The Company is currently disputing its obligations to the seller under the definitive supply agreement and the amount payable thereunder remains uncertain at this time.
- (ii) On October 6, 2018, a securities class action was filed in the United States District Court, Central District of California against the Company and certain officers of the Company alleging false or misleading statements in violation of U.S. federal securities laws relating to the Company's December 2017 sale of its US subsidiary Dollinger US and the Company's application for listing on the NASDAQ. The plaintiff voluntarily dismissed this lawsuit on December 26, 2018.

On October 19, 2018, a putative class action was filed in the Ontario Superior Court of Justice against the Company and certain officers of the Company alleging, among other things, that misrepresentations were made in connection with the divestiture of Dollinger US. A Fresh as Amended Statement of Claim issued on February 22, 2019 which, among other changes, expands the proposed class period.

On October 22, 2018, a second securities class action was filed in the United States District Court, Central District of California against the Company and certain officers of the Company alleging false or misleading statements in violation of U.S. federal securities laws relating to the Company's December 2017 sale of Dollinger US and the Company's application for listing on the NASDAQ. The plaintiff voluntarily dismissed this lawsuit on November 16, 2018, and refiled in the United States District Court, Southern District of New York.

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(Expressed in Canadian dollars, except for share and per share amounts, unless otherwise noted)

On July 25, 2019, the Company reached settlements, in principle, of the security class actions that were commenced against the Company in Canada and in the United States in 2018. A total of \$2.15 million USD will be paid to settle all claims in the Canadian action and a total of \$2.75 million USD will be paid to settle all claims in the United States action. Namaste's contribution to the settlement amounts of \$0.5 million USD was recorded in the three months ended August 31, 2019 as part of selling, general and administration expenses. The settlements are made without any admission or finding of liability and are subject to court approval.

- (iii) As of the reporting date, there is an outstanding claim against the Company and one of its subsidiaries along with other individuals. This claim is for \$90 million and is for breach of contract, or, in the alternative, for breach of duty of good faith, or, in the alternative, for damages, against the Company and its subsidiary. The Company believes the claim is without merit and intends to vigorously defend the allegations and will pursue all available legal remedies that it deems necessary.

20. Subsequent events

- (a) On October 11, 2019 CannMart received approval from Health Canada for an amendment to its license allowing it to offer cannabis oil concentrates on its online marketplace, CannMart.com.
- (b) On October 16, 2019 the Company entered into a secured convertible loan agreement (the "Loan Agreement") with Choklat to advance \$300,000 at 12% interest rate per annum. The principal and all accrued interest thereon is repayable in full by Choklat at any time prior to December 31, 2020. In the event that Choklat fails to repay any principal or interest outstanding under the Loan Agreement on or prior to the Maturity Date, all such outstanding amounts will automatically convert into common shares in the capital of Choklat (each, a "Choklat Share") at a deemed value of \$0.15 per Choklat Share.