



Namaste Technologies

NAMASTE TECHNOLOGIES INC.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Three and Nine months ended August 31, 2020 and 2019

NAMASTE TECHNOLOGIES INC.
Table of Contents



Page

Contents

MANAGEMENT DISCUSSION AND ANALYSIS	3
COMPANY OVERVIEW	4
STRATEGIC VISION AND OUTLOOK.....	6
FINANCIAL DISCUSSION.....	7
LIQUIDITY AND CAPITAL RESOURCES	13
RELATED PARTY TRANSACTIONS	15
SEGMENT INFORMATION	16
RISKS AND RISK MANAGEMENT	20
NON-IFRS FINANCIAL MEASURES.....	26

MANAGEMENT DISCUSSION AND ANALYSIS

This Management Discussion and Analysis (“MD&A”) for Namaste Technologies Inc. (the “Company” or “Namaste”) covers the Company’s financial performance during and subsequent to the Third Quarter ended August 31, 2020 up to the date of this report October 29, 2020. This MD&A should be read in conjunction with Namaste’s Unaudited Condensed Consolidated Interim Financial Statements (“FS”) for the three months and nine months ended August 31, 2020 and Audited Consolidated Financial Statements for the year ended November 30, 2019.

The Company is a reporting issuer in British Columbia, Saskatchewan, Manitoba, Ontario, Alberta, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland, and Labrador. Namaste is listed on the TSX-V under the symbol “N”, on the OTCQB® Venture Market under the symbol “NXTTF” and traded as open stock on the Frankfurt Stock Exchange under the symbol “M5BQ”.

All dollar amounts are in Canadian dollars unless otherwise indicated. Namaste documents and securities filings can be viewed on the SEDAR website (www.sedar.com) and additional information on the Company can be obtained at www.namastetechnologies.com.

Forward Looking Statement Disclaimer

Certain statements in this MD&A may constitute “forward-looking” statements that involve known and unknown risks, uncertainties, and other factors. The actual results, performance or achievements of Namaste or the industry, may be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These statements include, but are not limited to, comments concerning the Company’s objectives, strategies to achieve those objectives, as well as Management’s beliefs, plans, estimates, and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. When used in this MD&A, such statements use words such as “may”, “will”, “expect”, “believe”, “plan” or similar terminology.

These statements reflect Management’s current expectations regarding future events and operating performance and speak only as of the date of this MD&A, and, except in compliance with applicable law, Namaste assumes no obligations to update or revise them to reflect new events or circumstances. Additionally, the Company undertakes no obligation to comment on analysis, expectations or statements made by third parties in respect of its financial/operating results or securities.

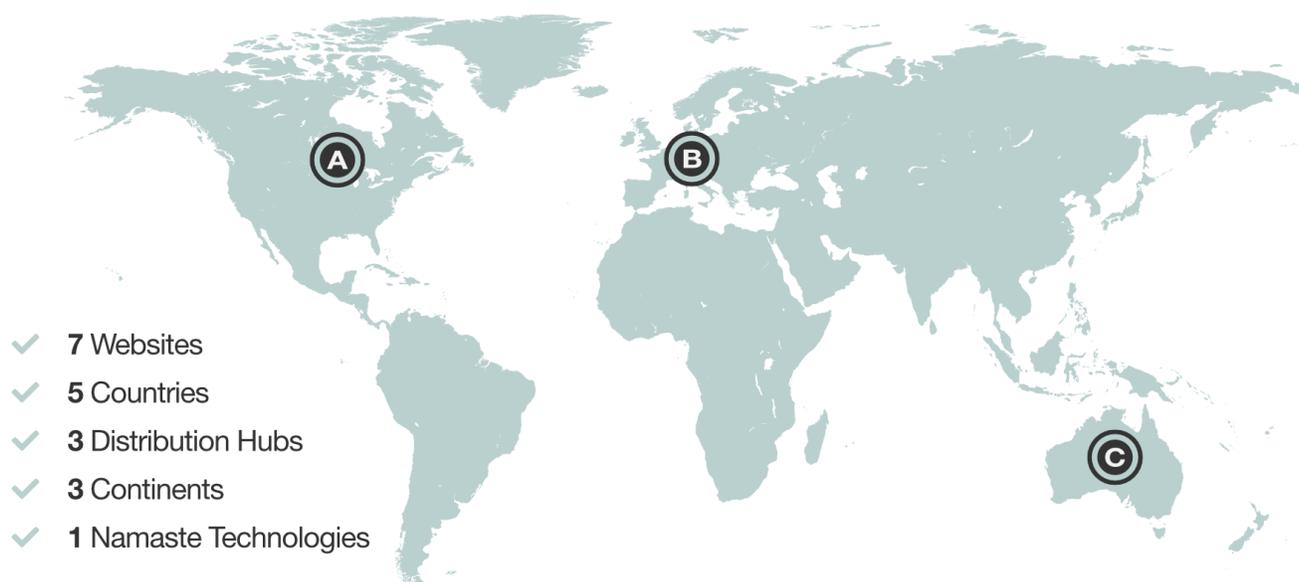
Non-IFRS Financial Measures

Namaste’s FS are prepared using International Financial Reporting Standards (“IFRS”); whereas this MD&A refers to certain non-IFRS measures such as Adjusted EBITDA and EBITDA (defined under the “Non-IFRS Financial Measures Definitions” section of this report). Non-IFRS measures are used externally to provide a supplemental measure of the Company’s operating performance, facilitate comparisons, and enable analysis of the Company’s ability to meet future capital and working capital requirements. Management uses them internally to prepare operating budgets and assess performance. These measures do not have standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company’s financial information reported under IFRS.

COMPANY OVERVIEW

Namaste is a Canadian consumer packaged goods company focused on the processing and distribution of cannabis, cannabis-derived products and accessories. The Company sells herbal vaporizer hardware and ancillary products in Australia, Europe and Canada, and has more recently expanded its business to become a processor and distributor in Canada of in-house and licensed branded cannabis and cannabis derived products. Currently, the Company has a strong focus on perfecting the mechanism of delivering branded cannabis products safely, reliably, and consistently into different market streams while simultaneously engaging in e-commerce activities on three continents.

Namaste Worldwide



Ⓐ North America

CannMart
NamasteMD

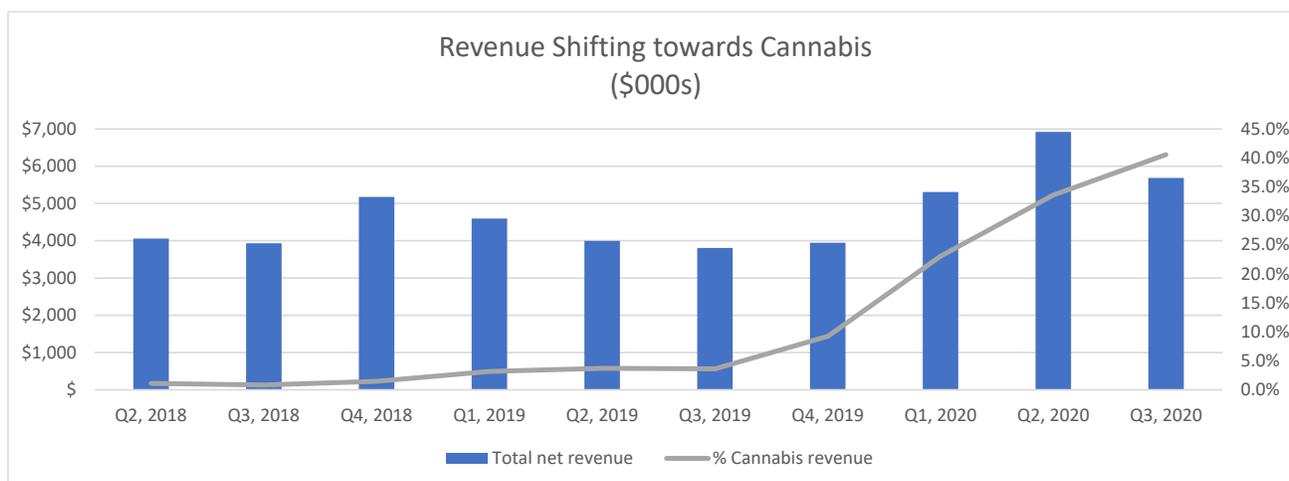
Ⓑ Europe

Namaste Vapes (UK)
Namaste Vapes (France)
Namaste Vapes (Germany)
EveryoneDoesIt (UK)

Ⓒ Australia

Australian Vaporizers

In Fiscal 2020, the leadership team focused its efforts on capitalizing on opportunities within the Canadian marketplace. This effort resulted in significant cannabis revenue growth over the last four quarters which increased from 3.6% of net consolidated revenues in Q3, 2019 to 40.6% in Q3, 2020. This growth is reflected in the chart below:



This growth has resulted from the following achievements:

- Receipt of Health Canada Approvals – the cornerstone of its bring-to-market services has been the receipt of regulatory approvals. In September 2018, wholly owned subsidiary CannMart Inc. (“CannMart”) received the first ever sales-only distribution licence for the sale and distribution of dried cannabis flower and bottled cannabis oil; and in October 2019, CannMart received approval from Health Canada for an amendment to its Federal Medical Sales License sales and processing licence allowing it to offer cannabis oil, extracts, topicals and edibles through its medical channel.
- Execution of Provincial Government Cannabis Control Board and Retailing Body Supply Agreements -- Since September 2019, the Company has developed its recreational channel, having been approved for the sale of cannabis and cannabis derived products, and receives purchase orders from provincial bodies in Alberta, British Columbia, Manitoba, Ontario, New Brunswick and Saskatchewan.
- Execution of Strategic Supply Agreements – including Adastra Labs Holdings Ltd., Kief Cannabis Company Limited, Eroll Grow Tech Ltd., and True Leaf Brands Inc.
- Execution Brand Licensing Agreements -- Since November 2019, licensing and manufacturing agreements with Phyto Extractions Inc., Stigma Grow, and Indiva Inc. have been signed,
- Technological Development – in September 2020 Namaste entered the direct-to-consumer recreational cannabis market via CannMart.com by using its new marketplace solution, VendorLink, to facilitate the sale of cannabis products by licensed retailers.

STRATEGIC VISION AND OUTLOOK

The Company intends on continuing its focus on business development opportunities within the cannabis space including:

1. Contract Manufacturing – evaluating contract manufacturing concepts whereby certain company processing and packaging may be undertaken by Canadian cultivators directly rather than by the Company at its facilities, prior to sale by the Company through the Company’s medical and recreational channels. The Company believes that outsourcing certain functions will allow the Company to expand capacity, sales and fulfill consumer demand without additional capital expenditure, resulting in higher margins and lower overhead costs.
2. Expansion of Recreational Channel - Subject to applicable laws, the Company is exploring ways in which to leverage its online e-commerce platform, www.cannmart.com, and expand the recreational channel to allow the Company to sell or facilitate the sale of recreational cannabis across Canada. In conjunction with this initiative, the Company is continuing to seek ways to improve the online buying experience through online tools that allow for greater discovery and education of the products and brands offered, build trust and loyalty for those products, and provide for quicker execution of orders; providing consumers with a platform to connect with the brand and other consumers through a robust user-generated content program.
3. Expansion into new product offerings and geographies - The Company’s mindset is to focus on consumer demand driven by insight thereby allowing it to deliver more unique product innovations and depth within current cannabis categories. In the long-term the Company intends to expand its offering beyond strictly regulated-cannabis material and expand its total addressable market via product categories that can satisfy consumer needs beyond cannabis-consumables delivered in Canada.

To facilitate these and other opportunities, the Company may leverage the Shelf Prospectus filed in September, 2020 to gain access to capital when and as needed.

FINANCIAL DISCUSSION

During the First Quarter of Fiscal 2020, the COVID-19 pandemic impacted global economies, individual businesses, and people. Due to the Company's investment in technology, it was well positioned to transition to a remote workforce (where able) with minimal interruptions, and as on-line retailers, and a supplier of cannabis, Namaste and its subsidiaries were viewed as essential services resulting in positive revenue growth. Notwithstanding, Namaste was not fully immune from the virus's impact. While the financial and operational impact of COVID-19 has yet to be fully determined, the Company has incurred increased costs as a result of the declining Canadian dollar, decreased asset valuations due to the downturn in the economy, and delays in the Company's annual and quarterly filings were experienced due to COVID-19. At CannMart the implementation of new protocols aimed at protecting the workforce resulted in reduced shifts, and manufacturing delays were experienced due to the virus's impact on vendors which caused logistic issues with products, supplies and equipment. In addition, building contractors hired to work on the construction of CannMart Labs Inc. facility were forced to reduce activity to protect their health and safety. Future risks may include those noted above, as well as curtailment of operations if deemed non-essential, stock market volatility resulting in both valuation changes to Namaste's portfolio investments and limiting access to capital markets, revaluation of other financial assets.

Operational Results

Selected financial information from the Condensed Consolidated Interim Statements of Operations for the three and nine months ended August 31, 2020 and August 31, 2019 are presented below:

	Three months ended		Nine months ended	
	31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Net revenue	\$ 5,684,847	\$ 3,805,614	\$ 17,918,314	\$ 12,393,303
Cost of goods sold	(5,132,466)	(3,019,030)	(16,003,155)	(10,087,487)
Gross profit before inventory adjustment	552,381	786,584	1,915,159	2,305,816
<i>Gross profit (before inventory adjustment) as a % of net revenue</i>	<i>10%</i>	<i>21%</i>	<i>11%</i>	<i>19%</i>
Inventory adjustment	135,403	-	380,311	-
Operating costs	5,308,038	5,104,160	17,217,801	15,487,142
Professional fees	519,026	1,401,932	1,270,310	1,902,876
Adjusted EBITDA	(5,410,086)	(5,719,508)	(16,953,263)	(15,084,202)
Other income	(235,487)	(304,329)	(513,612)	(1,060,074)
Impairment of goodwill	-	3,578,400	-	3,578,400
Share-based compensation	422,349	683,438	601,030	3,265,647
Restructuring and other costs	-	2,368,737	(1,300,000)	9,294,840
Impairment loss on loans receivable	-	-	322,887	-
Impairment of investment in associate	-	-	1,016,127	-
Share of associate's loss, net of tax	-	1,464,565	329,652	1,561,667
Foreign exchange loss	1,737,576	680,378	893,998	368,040
EBITDA	\$ (7,334,524)	\$ (14,190,697)	\$ (18,303,345)	\$ (32,092,722)

Net revenue

Net revenue is comprised of: (1) cannabis and cannabis derivatives sales less excise tax; (2) hardware sales; (3) SAAS fees and (4) commission.

Net revenue for Q3 2020 was \$5.7 million compared to \$3.8 million in Q3 2019 (\$17.9mm Q3/20 YTD vs \$12.4mm Q3/19 YTD). The improvement of \$1.9 million in the quarter (\$5.5 million YTD) was primarily attributable to the sale of cannabis products which increased \$2.2mm over Q3 2019 (\$5.4 million increase for the first nine months of Fiscal 2020 compared to prior year).

The following table presents the Company’s net revenue based on the location of customers for each of the three and nine months ended August 31, 2020 and 2019:

	Three months ended		Nine months ended	
	31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Australia	\$ 1,882,111	\$ 1,457,498	\$ 4,334,144	\$ 3,714,897
Brazil	-	-	-	638,401
Canada	2,504,628	567,552	7,972,215	2,054,507
France	79,231	105,950	290,197	348,773
Germany	110,198	150,260	110,194	614,278
Ireland	16,789	82,205	106,323	315,999
United Kingdom	656,312	958,747	3,114,391	3,158,275
United States of America	276,284	206,351	904,452	498,194
Other	159,294	277,051	1,086,398	1,049,979
	\$ 5,684,847	\$ 3,805,614	\$ 17,918,314	\$ 12,393,303

The Company’s focus on cannabis within the domestic market resulted in 44% of the third quarter net revenues being derived from Canadian clients compared to 15% in Q3 2019 (44% vs 17% YTD).

Despite growth in the accessories market in Australia of 29% and SAAS revenue increases in the USA of 34%, revenue generated from international clients decreased by \$58 thousand in the third quarter primarily due to sales declines in Europe. Year to date international revenue decreased by \$392 thousand, primarily due to the closure of the Brazilian operations in Q2/19 which had generated \$638 thousand in the nine months ended August 31, 2019.

Cost of goods sold (“COGS”)

COGS include expenditures directly related to generating revenue e.g. raw material costs, production labour, product licensing fees, merchant fees, shipping fees, import duties, and commission.

The increase in COGS of \$2.1mm in the third quarter over Q3 2019 (\$5.9mm YTD) was due to increased revenues and a change in product mix and quantities.

Gross profit (before inventory adjustment) (“GP”)

Compared to prior year GP decreased by \$234 thousand in the three months ended August 31, 2020 and \$391 thousand for nine months then ended. The largest decline in GP was in Namaste Bahamas which decreased

\$150 thousand quarter over quarter (\$667 thousand Q3 YTD) partially due to the closure of the Brazilian marketplace in 2019. GP declines were partially offset by improvements in both Australian Vapes and Findify.

Inventory adjustment

Inventory adjustments are write-down which are not directly associated with sales revenue. During the third quarter, the Company wrote down packaging material for cannabis products and cannabis accessories in the amount of \$135 thousand. Earlier in the 2020, the Company made the decision to destroy certain regulated product valued at \$245 thousand.

Operating costs

The following table presents the Company’s operating costs by type of expense for the quarter and YTD:

	Three months ended		Nine months ended	
	31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Office and general	\$ 1,975,282	\$ 1,710,492	\$ 6,828,352	\$ 4,773,254
Salaries and other compensation costs	2,633,216	2,448,909	7,950,416	7,724,950
Selling and marketing expense	361,882	392,782	1,119,119	1,388,109
Technological development	337,658	551,977	1,319,914	1,600,829
Total operating costs	\$ 5,308,038	\$ 5,104,160	\$ 17,217,801	\$ 15,487,142

Office and general

Office and general expenses include service costs, travel, business development, insurance, operating license fees and telecommunication, expected credit losses (“ECLs”) and historically included operating leases on the Company’s facilities which due to the prospective adoption of IFRS 16 are amortized in Fiscal 2020.

Office and general expenses increased in the quarter by \$204 thousand compared to prior year (\$1.7 million YTD). These increases reflect increased insurance premiums (Q3-\$298K; YTD-\$1.1mm), and provisions for ECLs (Q3-\$315K and YTD-\$1.7mm), offset by cost cutting measures rolled out by Management.

The Company has implemented new strategies targeted at reducing corporate overhead and building the infrastructure to support the corporate vision. The execution of these transformational strategies is partially reflected in the results. Full annualized savings are anticipated to be realized in 2021.

Salaries and other compensation costs

Salaries and other compensation costs include remuneration and benefits paid to employees and consultants.

Namaste believes that its people are critical to the organization’s success and is committed to investing in employees and building on the corporate culture of excellence. To reduce operating costs and provide a quicker path to success, the Company has evaluated the corporate structure and associated headcount and has moved to reduce complexity within the business units by hiring subject-matter experts with clear, focused goals tied to financial results – both long and short term. Initial results of this strategy are illustrated by \$77 thousand in decrease in total compensation in the quarter (\$2.4mm YTD) as noted in the chart below:

	Three months ended		Nine months ended	
	31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Salaries and other compensation costs	\$ 2,633,216	\$ 2,448,909	\$ 7,950,416	\$ 7,724,950
Share based compensation	422,349	683,438	601,030	3,265,647
Total compensation	\$ 3,055,565	\$ 3,132,347	\$ 8,551,446	\$ 10,990,597

During/Subsequent to the quarter and subsequent, the Company announced the granting of options to officers, directors and employees (details under Share Based Compensation). During the quarter, the Company also approved of the CEO's request to a 17% pay cut in favour of long term incentives to conserve cash.

Selling and marketing expense

Selling and marketing expenses are comprised of advertising and promotion costs including online search services, and online promotional and social media tools. Focus is on consumer engagement through digital content for the Business to Consumer ("B2C") platform and retail partnerships that have an identifiable impact on sell-through for Business to Business ("B2B"). Spend in this area is heavily monitored against key performance indicators to ensure appropriate rates of return.

Selling and marketing cost savings initiatives began in Fiscal 2019 with the termination of the Company's outsourced marketing firm. As a result, costs savings were realized in Fiscal 2019 and continue to be realized through Fiscal 2020. In the third quarter, realized cost reductions were \$31 thousand (\$269 thousand YTD).

Technological development

As Namaste continuously monitors trends in customer behaviour and listens to the voice of its users; leveraging this data the Company invests strategically in technology. Technological development costs represent Namaste's investment into various areas including machine-learning, on-site personalization, platform development and its ongoing customer acquisition; all to further delight customers.

In an effort to continuously do more with less, development costs decreased in the quarter by 38.8% (\$281 thousand YTD) and are projected to decrease as projects are delivered. Maintenance costs associated with the platforms (recorded in salaries and other compensation costs) are anticipated to remain the same.

Professional fees

Professional fees include legal, audit, accounting, tax services and Directors' fees. The three and nine month comparatives over prior year are disclosed below:

	Three months ended		Nine months ended	
	31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Legal	\$ 197,220	\$ 753,228	\$ 299,569	\$ 1,083,212
Audit, accounting and tax services	136,331	180,216	382,137	328,646
Directors' fees	185,475	450,024	579,485	450,024
Other	-	18,464	9,119	40,994
Total professional fees	\$ 519,026	\$ 1,401,932	\$ 1,270,310	\$ 1,902,876

Significant effort has been made by Management to resolve historic legal issues and focus spend on current priorities. The majority of these legacy issues have been resolved, and legal costs have been dramatically reduced as a result.

Audit, accounting and tax services reflect a proportionate accrual for the upcoming Fiscal year end audit, which is anticipated to be lower than the prior year's actual spend. The comparable numbers reflect a reversal of an over accrual from Fiscal 2018.

Directors' fees were higher year to date than the comparable period prior year by \$129 thousand, as no fees were paid in the first six months of the prior year.

Adjusted EBITDA

Adjusted EBITDA is a non-financial measure which Management believes provides the user with an understanding of profit/loss before non-cash and non-recurring expenses. The definition and reconciliation from the reported IFRS operating results in the financial statements can be found in the "Non-IFRS Financial Measures" section of this MD&A.

Beginning in the latter half of 2019, Management has put in place a number of Objectives and Key Results (OKRs) with supporting procedures and metrics to focus decision making on governance/controls, and expenditures including allocated headcount, in order to lead to an improvement in Adjusted EBITDA and profitable growth.

Other income

Other non-operating income is primarily composed of interest earned on the Company's cash reserves.

It is anticipated that the cash reserves will decline in Fiscal 2020 due to business development opportunities and capital intense initiatives. As a result, interest income is expected to decrease.

Share based compensation

Share based compensation is the non-cash value of stock options issued to Directors, Officers, employees, and consultants. During the quarter, Namaste announced the Company's Board the granting of 7,626,751 stock options to officers, directors and employees of the Company which are exercisable into common shares at a price of \$0.33 per common share. The options will expire on July 2, 2024. An additional 225,000 options were granted subsequent to the quarter to an officer of the Company. These reflect short and long term incentives, and the payment of options in lieu of cash remuneration.

Restructuring and other costs

This expense category includes the costs associated with the class action lawsuits (including Special Committee costs), non-standard legal costs, employee restructuring and other non-recurring items. The table below summarizes these expenses:

	Three months ended		Nine months ended	
	31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Class action related costs	\$ -	\$ 2,211,689	\$ (300,000)	\$ 8,838,180
Legacy resolutions and other costs	-	157,048	(1,000,000)	456,660
	\$ -	\$ 2,368,737	\$ (1,300,000)	\$ 9,294,840

Class action related costs

During October 2018, the Board formed a Special Committee to investigate certain allegations made by Citron Research Inc. pertaining to the sale of the Company's wholly owned subsidiary, Dollinger Enterprises US Inc. The Special Committee was comprised of independent Directors, legal counsel, and representatives of a top tiered accounting firm. As a result of these allegations two class action lawsuits were launched, one in the USA, the second in Canada. In July 2019, agreements of \$4.9 million to settle the claims in principle were reached. In Q2, 2020, the courts approved the settlement amounts, and the Company reduced the associated provision.

Legacy resolutions and other costs

On February 4, 2019, following the investigation, the Board made its first changes to the Senior Officers including the appointment of an Interim CEO. Settlement costs associated with former executive and management, and legal fees pertaining to restructuring agreements entered into by former employees are recorded in this line item. In the prior quarter, the Company settled a claim for less than the amount originally provided, a portion of the original provision pertaining to this claim was reversed.

Impairment of investment in associate

Due to operational concerns, the Company has fully impaired the carrying value of Choklat Inc.

Share of associates' losses, net of tax

The Company accounted for its investment in Choklat and Pineapple using the equity method. Both of these investments were fully impaired as of Q2, 2020. In the third quarter prior year, Namaste recorded losses/impairment on these two investments totalling \$1.5mm (\$1.6mm Q3/19 YTD).

Foreign Exchange

The Company's subsidiaries operate in multiple currencies, and the foreign exchange impact on converting transactions, assets and liabilities into Canadian currency is calculated each period. This unrealized, non-cash foreign exchange expense was \$1.1 million higher in the third quarter compared to the comparable period prior year (\$526 thousand higher for the nine months ended August 31, 2020 compared to the comparable period prior year). This was primarily due to the revaluation of intercompany balances.

Balance sheet

The following table provides selected financial information derived from the consolidated statements of financial position as at the following dates:

		31-Aug-20	30-Nov-19
Total current assets	\$	30,987,539	\$ 51,078,555
Total non-current assets		15,493,697	16,640,689
	\$	46,481,236	\$ 67,719,244
Total current liabilities	\$	9,572,413	\$ 11,664,773
Total non-current liabilities		613,853	276,534
	\$	10,186,266	\$ 11,941,307
Working Capital	\$	21,415,126	\$ 39,413,782

Total current assets

Total current assets decreased by \$20.1 million from November 30, 2019 primarily due to a reduction in cash of \$24.2 million offset by increases in inventory of \$1.8 million and receivables of \$2.6 million. The reduction of cash is more fully explained under Liquidity and Capital Resource section of this MD&A.

Total non-current assets

Total non-current assets decreased by \$1.1 million from November 30, 2019 of which declines in investments values accounted for \$2.0 million. Increases in property and equipment resulting from the changes in lease accounting (net of amortization) partially offset the decline.

Total current liabilities

Total current liabilities decreased by \$2.1 million from November 30, 2019, as a result of legacy and class action provision reductions of \$2.8 million, offset by increases in accounts payable of \$751 thousand.

Total non-current liabilities

Total non-current financial liabilities increased by \$337 thousand from November 30, 2019 due to changes in the lease accounting offset by reductions in deferred tax liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Management monitors the Company's capital resources to ensure adequate liquidity to fund operations and planned expansions. Management's objectives with respect to liquidity and capital structure are to generate cash to fund the Company's existing operations and growth strategy. As of the date of this report, the Company has sufficient capital resources to satisfy its near term financial obligations, as well as certain initiatives related to realizing its strategic vision. To facilitate longer term growth, the Company filed a Shelf Prospectus subsequent to the quarter which allows it to leverage capital in the market on an as needed basis.

As of August 31, 2020, Namaste had a cash and cash equivalent balance of \$13.6 million, a reduction of \$6.8 million in the quarter. The table below sets out the use of cash and cash equivalents for the three and nine months then ended:

	Three months ended 31-Aug-20	Three months ended 31-Aug-19	Nine months ended 31-Aug-20	Nine months ended 31-Aug-19
Cash used in operating activities	\$ (5,262,843)	\$ (6,342,084)	\$ (20,506,990)	\$ (27,691,997)
Cash used in investing activities	(1,439,987)	(975,003)	(3,491,725)	(5,158,287)
Cash provided by financing activities	(66,728)	549,051	(212,621)	3,751,691
	\$ (6,769,558)	\$ (6,768,036)	\$ (24,211,336)	\$ (29,098,593)

Operating activities

Operating activities impact both cash and non-cash working capital, as indicated in the table below:

	Three months ended 31-Aug-20	Three months ended 31-Aug-19	Nine months ended 31-Aug-20	Nine months ended 31-Aug-19
Cash used in operations before changes in non-cash working capital	\$ (4,223,370)	\$ (8,152,381)	\$ (14,945,953)	\$ (23,848,570)
Changes in non-cash working capital	(1,039,473)	1,810,297	(5,561,037)	(3,843,427)
	\$ (5,262,843)	\$ (6,342,084)	\$ (20,506,990)	\$ (27,691,997)

During the third quarter, \$1.1 million less was used in operating activities than the comparable quarter prior year (\$7.2 million less YTD).

Investing activities

In Q3 2020, cash used in investing activities was \$1.4 million compared to \$975 thousand in the third quarter prior year (\$3.5 million Q3/20 YTD compared to \$5.2 million Q3/19 YTD). In 2019, these funds were used to acquire both portfolio and equity investments, while 2020's investments were capital expenditures, focused on CannMart Labs' facility and acquisition of equipment.

Financing activities

Changes to lease accounting accounted for 96% of the financing activities in 2020. In 2019, \$4.3 million was generated from warrant and stock conversions, of which \$511 thousand was utilized for the buy back of shares.

Subsequent to the quarter, the Company received final approval for a base shelf prospectus that allows Namaste to qualify the distribution by way of a prospectus of up to \$90 million of common shares, preferred shares, debt securities, subscription receipts, warrants and units, or any combination thereof, from time to time, during the 25-month period thereafter. The specific terms of any offering under the base shelf prospectus will be established in a prospectus supplement, which will be filed with the applicable securities regulators in connection with any such offering. The Company has filed this shelf prospectus to maintain financial flexibility to access capital quickly, when available and needed, but the Company has no immediate intention to undertake an offering.

Capital resources

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. The Company had 323,954,483 common shares that are issued and fully paid as of August 31, 2020 (323,761,983 as of August 31, 2019). In the first nine months of 2020, the Company issued 5,000

shares due to option conversions. In the first nine months of 2019, 2,587,466 shares were issued for the purchase of Pineapple, 12,683,875 shares were issued as a result of warrant and option conversions and 460,900 shares were repurchased.

RELATED PARTY TRANSACTIONS

Related party balances

The following table summarizes related party balances as at August 31, 2020 and November 30, 2019:

	Note	31-Aug-20	30-Nov-19
<i>Related party balances</i>			
Accounts payable and accrued liabilities	(i)	\$ (7,542)	\$ (2,608)
Loans receivable from associates		\$ 201,215	\$ 465,149

(i) accounts payable balances are non-interest bearing and due on demand.

Payments to related parties

The following table summarizes transactions with related parties for the three and nine month period ended August 31, 2020 and 2019:

	Note	Three months ended August 31,		Nine months ended August 31,	
		2020	2019	2020	2019
<i>Related party transactions</i>					
Salaries and other compensation costs	(i)	\$ 202,500	\$ 851,273	\$ 850,574	\$ 2,418,099
Directors fees		\$ 185,475	\$ 450,024	\$ 579,485	\$ 574,841
Service fees	(ii)	\$ -	\$ 110,130	\$ -	\$ 3,060,773
Share based compensation	(iii)	\$ 897,804	\$ 42,691	\$ 935,451	\$ 384,373
Shipping and delivery services	(iv)	\$ 18,743	\$ 8,365	\$ 129,312	\$ 8,365
		<u>\$ 1,304,523</u>	<u>\$ 1,462,483</u>	<u>\$ 2,494,823</u>	<u>\$ 6,446,451</u>

- i. Salaries paid to the Officers of the Company.
- ii. In 2019, service charges were incurred from companies associated with key personnel. The Company has discontinued use of these services.
- iii. In Q3, 2020 4,537,056 options were granted to the Officers and Directors of the Company. Subsequent to the quarter, an additional 225,000 options were granted to the CFO.
- iv. The Company received delivery services from one of its associates.

SEGMENT INFORMATION

The Company consolidates results from six Cash Generating Units (“CGUs” or “Operating Segments”). These include: Namaste Vapes, Australian Vaporizers, CannMart, NamasteMD, Findify and Corporate.

Operational results

The following tables presents the Company’s operational results by CGU for the three months ended August 31:

Three months ended	Namaste Vapes	Australian Vaporizers	CannMart	Namaste MD	Findify	Corporate & Other	Total
August 31, 2020:							
Net revenue	\$ 1,090,142	\$ 1,846,322	\$ 2,331,685	\$ 46,519	\$ 370,179	\$ -	\$ 5,684,847
Adjusted EBITDA	\$ (1,886,020)	\$ (1,062,919)	\$ (3,431,046)	\$ (144,703)	\$ (399,183)	\$ 1,513,785	\$ (5,410,086)
EBITDA	\$ (1,886,020)	\$ (1,062,919)	\$ (3,431,046)	\$ (144,703)	\$ (399,183)	\$ (410,653)	\$ (7,334,524)

Three months ended	Namaste Vapes	Australian Vaporizers	CannMart	Namaste MD	Findify	Corporate & Other	Total
August 31, 2019:							
Net revenue	\$ 1,904,695	\$ 1,387,140	\$ 138,302	\$ 57,591	\$ 317,886	\$ -	\$ 3,805,614
Adjusted EBITDA	\$ (1,579,972)	\$ 271,540	\$ (678,380)	\$ (233,859)	\$ (253,944)	\$ (3,244,893)	\$ (5,719,508)
EBITDA	\$ (1,579,972)	\$ (3,306,860)	\$ (678,380)	\$ (233,859)	\$ (253,944)	\$ (8,137,682)	\$ (14,190,697)

The following table presents the Company’s operational results by CGU for the nine months ended August 31:

Nine months ended	Namaste Vapes	Australian Vaporizers	CannMart	Namaste MD	Findify	Corporate & Other	Total
August 31, 2020:							
Net revenue	\$ 6,484,690	\$ 4,226,463	\$ 5,998,547	\$ 148,883	\$ 1,059,731	\$ -	\$ 17,918,314
Adjusted EBITDA	\$ (3,769,560)	\$ (1,480,437)	\$ (11,112,340)	\$ (541,363)	\$ (956,830)	\$ 907,269	\$ (16,953,263)
EBITDA	\$ (3,769,560)	\$ (1,480,437)	\$ (11,112,340)	\$ (541,363)	\$ (956,830)	\$ (442,814)	\$ (18,303,344)

Nine months ended	Namaste Vapes	Australian Vaporizers	CannMart	Namaste MD	Findify	Corporate & Other	Total
August 31, 2019:							
Net revenue	\$ 7,342,182	\$ 3,542,237	\$ 431,967	\$ 225,542	\$ 851,375	\$ -	\$ 12,393,303
Adjusted EBITDA	\$ (5,843,384)	\$ 324,679	\$ (1,988,189)	\$ (919,842)	\$ (455,965)	\$ (6,201,501)	\$ (15,084,202)
EBITDA	\$ (5,843,384)	\$ (3,253,721)	\$ (1,988,189)	\$ (919,842)	\$ (455,965)	\$ (19,631,621)	\$ (32,092,722)

**Share service cost allocations from the corporate office to the individual CGUs began in Q1 2020 resulting in reduced Adjusted EBITDA and EBITDA in the operating units and higher Adjusted EBITDA and EBITDA in Corporate.*

Namaste Vapes

Namaste Vapes is comprised of Namaste Bahamas Inc. (“Namaste Bahamas”), a wholly owned subsidiary of the Company. Namaste Bahamas sells herbal vaporizer hardware and ancillary products such as vaporizers and other related accessories in Australia, Europe and Canada through a mixture of (i) drop-shipping (where suppliers hold the inventory and ship directly to the customer) and (ii) direct fulfilment arrangements (where goods are shipped directly by the Company to customers). These sales accounted for 19% of the consolidated net revenue in the quarter and 36% of the revenue year to date (50% and 59% in the comparative periods prior year). The year over year decline in revenue was primarily due to the closure of the Brazilian operations in Q2, 2019.

Namaste Bahamas markets and sells these products through highly-optimized, Company-owned eCommerce website platforms (www.CannMart.com; www.namastevaporizers.co.uk; www.everyonedoesit.co.uk; www.namastevapes.de; www.namastevapes.fr; and www.australianvaporizers.com.au) and relies on organic traffic and email automation tools to generate sales.

In the third quarter, the Company completed the consolidation of all its hardware and ancillary product sales in Canada through its www.cannmart.com e-commerce platform and currently maintains hardware sales in Europe and Australia through existing partners and marketplaces, such as Amazon. The Company intends to continue to match quarterly consumer demand for its current hardware and ancillary demand portfolio with a focus on distributing directly through online marketplaces such as Amazon, in order to reduce overhead costs and increase the total addressable market.

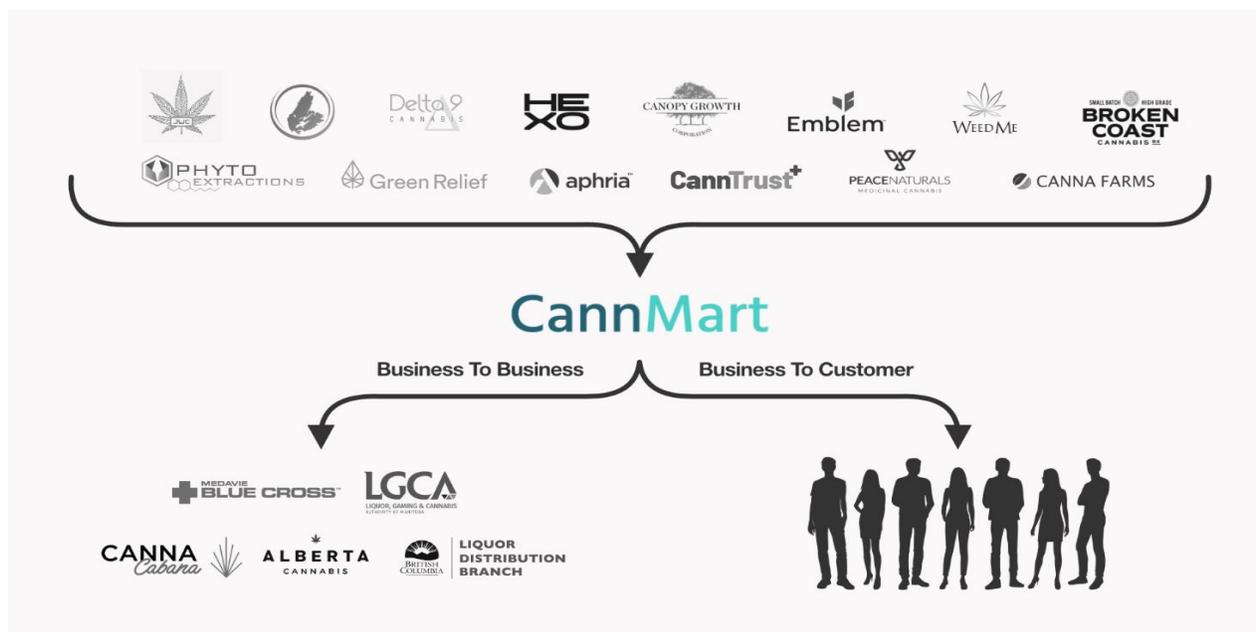
Australian Vaporizers

Australian Vaporizers is the largest online supplier of hardware, including vaporizers, glassware, and related accessories in Australia. The company is known for its commitment to selection, price, and customer service.

Revenue increased by \$459 thousand from the comparable quarter prior year (\$684 thousand YTD).

CannMart

The CannMart CGU is comprised of CannMart Inc. and CannMart Labs Inc. A Licensed Producer (LP) under the Cannabis Act, it received the first Canadian medical sales-only licence and operates an on-line platform geared toward the Canadian medical cannabis marketplace. CannMart.com, known as ‘your everything cannabis store’, offers clients a large variety of medical cannabis strains to fill their prescription needs. Incorporated into this platform is Findify’s unique artificial intelligence engine, as well as, ‘Uppy’ an inhouse application which assists customers by identifying the right product and pairing it to address specific medical cannabis requirements. During most of 2019, CannMart Inc. focused on the Business to Consumer (B2C) sales channel. In Q4, 2019 it expanded its offerings to both the provinces and stand-alone business [Business to Business (B2B)]. Currently the company has relationships with several partners including those noted in the chart below:



In Q3, 2020, CannMart’s revenue grew \$2.2mm from the same quarter prior year and now comprise 41% of the consolidated net revenues (\$5.6 million growth over prior year for the nine months ended August 31, 2020).

CannMart delivers branded cannabis and cannabis derived products safely, reliably and consistently to both registered medical patients in Canada through its website www.cannmart.com, and to recreational cannabis consumers in Canada through supply agreements with provincial government cannabis control boards and retailing bodies in the provinces of Alberta, British Columbia, Manitoba, Ontario, New Brunswick and Saskatchewan.

Due to COVID-19, CannMart Inc. was forced to limit shifts both as it rolled out new policies to protect the workforce, and as a result of vendor delays in receiving materials purchased from abroad. This impacted both the gross margin and the operating results of the company.

The Company owns 51% of CannMart Labs Inc. (“Labs”). Labs is currently in the process of building a dedicated facility designed to enable Namaste’s strategic vision of introducing a larger portfolio of cannabis products to market. The facility will be capable of producing oil, extract, and other products such as gel-caps, tinctures, pre-filled cartridges, and edibles This will allow the Company to drive profitable growth via its unique distribution strategy. As a result of COVID-19, delays in the completion of the facility have been incurred, however, this purpose-built facility which incorporates leading extraction technology is anticipated to be complete in Q4, 2020. An evidence package was submitted to Health Canada (“HC”) in July 2020. Pending HC’s schedule, an operating license is anticipated in the first quarter of Fiscal 2021.

NamasteMD Inc.

NamasteMD.com is a Health Canada compliant telemedicine application, providing an integrated patient portal with remote access to healthcare practitioners for the purpose of acquiring authorizations for medical cannabis. The platform connects medical clients with health care practitioners to issue and renew medical cannabis authorizations online more readily. The platform is available from web browsers and on both Android and Apple native apps. The company also has a clinical referral program with bricks and mortar clinics.

NamasteMD’s EBITDA improved by \$89 thousand in the third quarter over the comparable quarter prior year, and significantly improved by \$378 thousand for the nine months ended August 31, 2020 compared to the comparable nine month period in 2019.

Findify

Findify is a leading e-commerce Artificial Intelligence (“AI”) and machine learning company, which provides its customers with AI algorithms to optimize and personalise a consumer's on-site buying experience. Its primary product is a holistic AI-powered solution providing real-time personalized search, smart collection, and recommendation to increase conversion. Findify is an official Shopify Plus Technology Partner, recognized as a “Best-In-Class Solution” for modern, rapidly growing e-commerce businesses.

Since Findify was acquired by Namaste, Findify has taken the time to identify the appropriate consumer market, reorient its sales strategy and retain the appropriate talent to make long-term growth stable and scalable. Findify has since completed changes to its customer mix from an emphasis on small businesses to medium sized business. Since January 2019, the average revenue per paying customer is up by +33%, and total revenue growth is approx. 30% annually. Findify revenue was up by 16% from the comparable

quarter in 2019 (24% YTD). Looking forward Findify continues to innovate and build the organization to solidify its position in the mid-market segment.

Corporate

The Corporate operating segment includes the corporate office, shared services, and the Company's investment in both Choklat Inc. and Pineapple Delivery Express Inc. In Fiscal 2020, the Corporate division began allocating shared service expenses to the other CGUs.

Choklat Inc.

In Q2, 2019, the Company acquired 49% of Choklat, an Albertan food manufacturer known for its artisanal chocolates. Choklat's intention was to produce a line of cannabis-related products for the retail market and to cannabis companies in bulk.

In October 2019, the Company extended a secured convertible loan to Choklat to aid with the build out of facilities geared toward the manufacturing of edibles. The Company subsequently advanced \$900 thousand to Choklat to secure a purchase order. The order was terminated in the third quarter of 2020 due to contractual breaches. In July 2020, Namaste issued a statement of claim against Choklat and its chief executive officer seeking the return of the \$900 thousand advanced and additional punitive damages. In August 2020, the Company received a counterclaim prepared by Choklat's chief executive officer, which the Company views as having no merit and will vigorously defend and continue to pursue its own claims. Namaste has recorded a reserve for the carrying value of its investment in Choklat and recorded a full expected credit loss provision for the purchase order deposit.

Pineapple Express Delivery Ltd.

Pineapple delivers legal, dependable, quality medicinal and recreational cannabis at a competitive price. The company focuses on security and delivery protocols to facilitate same-day delivery seven days/week in Canada. Pineapple adheres to the highest standards of health, quality, patients' rights, and discreetly services both adult-use and medicinal patients.

Namaste agreed to make its first investment in Pineapple in Q2, 2018 when it signed a subscription agreement to acquire a 15% equity interest. In Q2, 2019, the Company increased its interest to 49%. During Fiscal 2019, Namaste also provided working capital in separate tranches by granting secured promissory notes to the Company. At November 30, 2019, the balance of \$1,512,575, was impaired to the value of security. In Q1, 2020, the Company agreed to loan an additional amount of \$125,000 for working capital purposes for the consideration of amendments to certain debt clause.

In Q2, 2020, a controlling interest of Pineapple was acquired by World Class Extractions Inc. ("WCE"). As part of the transaction, Namaste will be able to convert its outstanding debt into shares of WCE in March 31, 2021. In addition, Namaste granted WCE the option to acquire Namaste's equity interest in Pineapple which is exercisable during a 60 day period March 31, 2022. This transaction allowed Namaste's Management to increase their focus on the core business, while adding a new conversion feature to Pineapple's debt thus providing a path to liquidity in the future.

Summary of quarterly operational results

Quarter ending	August 2020	May 2020	February 2020	November 2019	August 2019	May 2019	February 2019	November 2018
Net revenue	\$ 5,684,847	\$ 6,934,078	\$ 5,307,155	\$ 3,947,018	\$ 3,805,613	\$ 3,994,232	\$ 4,593,457	\$ 5,234,082
Gross profit before inventory adjustment	\$ 552,381	\$ 593,442	\$ 769,336	\$ 418,435	\$ 786,583	\$ 736,079	\$ 783,153	\$ 949,088
Gross profit %	10%	9%	14%	11%	21%	18%	17%	18%
Net loss	\$ (7,833,495)	\$ (4,842,373)	\$ (7,391,665)	\$ (29,667,429)	\$ (14,652,118)	\$ (9,058,147)	\$ (10,278,036)	\$ (18,384,292)
Net loss per share (basic and diluted)	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.09)	\$ (0.05)	\$ (0.03)	\$ (0.03)	\$ (0.06)
Total assets	\$ 46,481,236	\$ 52,365,403	\$ 59,265,263	\$ 67,719,244	\$ 94,062,462	\$ 104,831,382	\$ 110,680,055	\$ 116,989,959

The Company's net revenue growth quarter over comparable quarter prior year has been impressive. On a trailing 12 month basis, net revenue generated to August 2020 was \$21.9mm compared to \$17.6mm revenue generated to August 2019. Namaste's strategic focus on the Canadian cannabis market has contributed to these improvements. Net cannabis revenue has grown from \$32 thousand in Q3 2018, to \$2.3mm in Q3 2020. It is anticipated the cannabis revenue will continue to increase as additional 2.0 products are introduced to the market.

Net loss and net loss per share have also shown improvements over the last three quarters when compared to the same quarter prior year. The Company is committed to its shareholders, and the Management team is focused on maintaining these positive trends.

RISKS AND RISK MANAGEMENT

This section discusses factors relating to the business of Namaste which should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and Namaste may face additional risks and uncertainties not discussed in this section, or not currently known. All risks to Namaste's business have the potential to influence its operations in a materially adverse manner.

Impact of Coronavirus ("COVID-19")

The rapid spread of COVID-19 has affected both people and global operations and may continue to do so for the foreseeable future. The extent of the financial and operational impact of COVID-19 has yet to be fully determined. The impact on the Company has/ may include curtailment of operations if deemed non-essential, logistic issues related to supply and delivery of products, stock market volatility resulting in both valuation changes to Namaste's portfolio investments and limiting access to market capital, revaluation of other financial assets, foreign translation risk as a result of the declining Canadian dollar, and delays in financial reporting. Canadian securities regulators have recognized the latter and provided blanket relief for filers with up to 45 day filing extensions. The Company has leveraged this for both the annual filings and first quarter reporting.

To minimize the spread of the virus and its impact on the operations, the Company has instituted measures including creating a Committee focused on consistent and open communications with the staff, implementing best in-class hygiene practices, facilitating remote work locations where possible, imposing travel restrictions and minimizing social exposure by conducting meetings remotely.

Changes in the Company's Strategy

The Company's proposed business plan is subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Company operates. It is possible that the Company will incur losses in the future. There is no guarantee that the Company will be profitable.

Regulatory Environment

The Company operates in a new and highly regulated industry and is dependent on receiving and maintaining licences in good standing with Health Canada ("HC"). The Company believes that it currently holds or has applied for all necessary licences/permits to carry on the activities which it is currently conducting under applicable laws and regulations. The Company may incur ongoing costs and obligations related to changing regulatory laws. Failure to comply with regulations may result in additional costs for corrective measures, penalties, or restrictions on the Company's operations.

HC routinely inspects license holders to ensure compliance with existing regulations. The Company is continuously reviewing and improving its standard operating procedures, associated operational plans, and employee training, both proactively and in response to these routine inspections. The Company responds to all inspections in a timely manner, including in relation to any noted areas of concern. If the Company fails to comply with applicable laws, regulations, guidelines, and enforceable policies, the Company may be the subject of enforcement action, which could include incurring additional costs or penalties, or the Company's licence may be restricted, suspended, or revoked.

Lack of Control Over Operations of Supply Partners

The Company's business relies on its supply partners to execute on its business plans and produce cannabis products. The operators of its partners have significant influence over the results of operations of the partners. Further, the interests of the Company's and the operators of the partners may not always be aligned. As a result, there is a risk to the Company that at any time those third parties may: (a) have business interests or targets that are inconsistent with those of the Company; (b) take action contrary to the Company's policies or objectives; (c) be unable or unwilling to fulfill their obligations under their agreements with the Company; or (d) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations. The Company must also rely, in part, on the accuracy and timeliness of the information it receives from the supply partners, and uses such information in its analyses, forecasts and assessments relating to its own business. If the information provided by its partners to the Company contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

Supply Arrangements with Provincial Governments

The Company expects to derive a significant portion of its future revenues from its supply arrangements with the various Canadian provinces. There are many factors which could impact the Company's contractual and other arrangements with the provinces, including but not limited to availability of supply, product selection and the popularity of the Company's products with retail customers. If the Company's supply arrangements with certain Canadian provinces are amended, terminated or otherwise altered, the

Company's sales and results of operations could be adversely affected, which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's supply arrangements with the various Canadian provinces do not contain purchase commitments or otherwise obligate the provincial or territorial wholesaler to buy a minimum or fixed volume of cannabis products from the Company. The amount of cannabis products that the provincial or territorial wholesalers may purchase under the supply arrangements may therefore vary from what the Company expects or has planned for. As a result, the Company's revenues could fluctuate materially in the future and could be materially and disproportionately impacted by the purchasing decisions of the provincial or territorial wholesalers. The Company cannot accurately predict the quantities of its products that will be purchased by the provincial or territorial wholesalers, or if they will purchase any products at all. Any inability to secure purchase orders could have a material adverse effect on the Company's business, financial condition or results of operations.

Development of New Products

It is likely that the Company, and its competitors, will seek to introduce new products in the future, including additional edible cannabis product formats and cannabis derivatives. In attempting to keep pace with any new market developments, the Company may need to deploy significant amounts of capital in order to successfully develop and generate revenues from new products introduced by the Company. As well, the Company may be required to obtain and maintain additional regulatory approvals from Health Canada and any other applicable regulatory authority, which may take significant amounts of time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, gaining market acceptance for such products or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

New well-capitalized entrants may develop large-scale operations

Currently, the cannabis industry generally is comprised of individuals and small to medium-sized entities, however, the risk exists that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger or a larger number of production facilities, which trend is now being observed by the Company. These potential competitors may have longer operating histories, significantly greater financial, technological, engineering, manufacturing, marketing, and distribution resources, and be better capitalized. Larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical and adult-use cannabis industry. While the approach in most laws and regulations seemingly deters this type of takeover, this industry remains nascent and as indicated above this trend is being observed, so what the landscape will be in the future remains largely unknown.

The Company may not be able to achieve or maintain sufficient working capital to meet future obligations

At August 31, 2020, the Company had working capital of \$21,415,126. The Company's ability to satisfy its working capital requirements will depend on a number of factors, some of which are beyond its control. Factors that will influence the Company's ability to achieve or maintain sufficient working capital to meet its future obligations will include general global economic conditions, credit and capital market

conditions, cannabis industry conditions and results of operations. There is no guarantee that the Company will continue to have positive working capital in the future, or that the working capital generated from operations will be sufficient to cover its expansion plans or the cost of future operations.

The Company has negative cash flow from operations and may need additional financing

To date, the Company has had negative cash flow from operating activities. To fund anticipated growth, additional funds may be required. A portion of these funds may be funded out of the net proceeds of an offering of securities for which a shelf prospectus has been filed. The Company cannot guarantee it will achieve cash flow positive status in the future or have access to sufficient financial resources to fund its operations. Continued negative cash flow may restrict the Company's ability to pursue its business objectives which could have a material adverse effect on the Company's business, prospects, financial condition and results of operations.

The building and operation of the Company's facilities and business are capital intensive. In order to execute the anticipated growth strategy, the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures and to undertake additional acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed, or on terms which are acceptable to the Company. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows.

Impact of the Illicit Supply of Cannabis

In addition to competition from licenced producers and those able to produce cannabis legally without a licence, we also face competition from unlicensed and unregulated market participants, including illegal dispensaries and black-market suppliers selling cannabis and cannabis-based products in Canada.

Despite the legalization of medical and adult-use cannabis in Canada, black market operations remain and are a substantial competitor to our business. In addition, illegal dispensaries and black market participants may be able to (i) offer products with higher concentrations of active ingredients that are either expressly prohibited or impracticable to produce under current Canadian regulations, and (ii) use delivery methods, including edibles, concentrates and extract vaporizers, that we are currently prohibited from offering to individuals in Canada, (iii) use marketing and branding strategies that are restricted under the Cannabis Act and Cannabis Regulations, and (iv) make claims not permissible under the Cannabis Act and other regulatory regimes. As these illicit market participants do not comply with the regulations governing the medical and adult-use cannabis industry in Canada, their operations may also have significantly lower costs.

As a result of the competition presented by the black market for cannabis, any unwillingness by consumers currently utilizing these unlicensed distribution channels to begin purchasing from licenced producers for any reason or any inability or unwillingness of law enforcement authorities to enforce laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could (i) result in the perpetuation of the black market for cannabis, (ii) adversely affect our market share and (iii) adversely impact the public perception of cannabis use and licenced cannabis producers and dealers, all of which would have a materially adverse effect on our business, operations and financial condition.

Results of Future Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids and future research and clinical trials may discredit the medical benefits, viability, safety, efficacy, and social acceptance of cannabis or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Company's securities should not place undue reliance on such articles and reports. Future research studies may reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects

Product Liability

As a processor and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. As a processor, distributor and retailer of medical cannabis, or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use or medical cannabis, the Company may be subject to various product liability claims, including, among others, that the cannabis product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. Such recalls cause unexpected expenses of the recall and any legal proceedings that might arise in connection with the recall. This can cause loss of a significant amount of sales. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency, or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action, or lawsuits. Additionally, if one of the Company's products were subject to recall, the image of that product and the Company could be harmed. Additionally, product recalls can lead to increased scrutiny of operations by applicable regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Risks related to vaping and vaping products

On October 4, 2019, the U.S. Food and Drug Administration issued a warning to the public to stop using vaping liquids containing cannabis derivatives and ingredients, such as CBD and THC, in light of a potential but unconfirmed link to lung injuries such as severe pulmonary illness. Such warnings appear to be particularly focused on the use of vaping liquids purchased from unlicensed or unregulated retailers. Lung injuries associated with the use of cannabis derivative containing vaping liquid have equally been reported in Canada but to a lesser extent. In response, Health Canada has issued an information update advising Canadians who use cannabis derivative containing vaping liquids to monitor themselves for symptoms of pulmonary illness. There may be further governmental and private sector actions aimed at reducing the sale of cannabis containing vaping liquids and/or seeking to hold manufacturers of cannabis containing vaping liquids responsible for the adverse health effects associated with the use of these vaping products. These actions, combined with potential deterioration in the public's perception of cannabis containing vaping liquids, may result in a reduced market for vaporizer products. Federal, provincial and local regulations or actions that prohibit or restrict the sale of vaporizer products including cannabis derivative vaping liquids, or that decrease consumer demand for the Company's products by prohibiting their use, raising the minimum age for their purchase, raising the purchase prices to unattractive levels via taxation, or banning their sale, could adversely impact the financial condition and results of operations of the Company.

Increased tax on products could adversely affect the business

Supply to our customers is sensitive to increased sales taxes and economic conditions affecting their disposable income. Discretionary consumer purchases, such as cannabis, vaporization products and consumption accessories, may decline during recessionary periods or at other times when disposable income is lower, and taxes may be higher. Presently, the sale of products is, in certain jurisdictions, subject to federal, state, provincial and local excise taxes like the sale of conventional cigarettes or other tobacco products, all of which generally have high tax rates and have faced significant increases in the amount of taxes collected on their sales. Other jurisdictions are contemplating similar legislation and other restrictions on electronic cigarettes and certain other vaporizer products. Should federal, state, provincial and local governments and/or other taxing authorities begin or continue to impose excise taxes similar to those levied against conventional cigarettes and tobacco products on cannabis, vaporization products or consumption accessories, it may have a material adverse effect on the demand for those products, as consumers may be unwilling to pay the increased costs, which in turn could have a material adverse effect on our business, results of operations and financial condition. We may become involved in regulatory or agency proceedings, investigations, and audits. Our business, and the business of the suppliers from which we acquire the products we sell, requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject us or such suppliers to regulatory or agency proceedings or investigations and could also lead to damage awards, fines, and penalties. We or such suppliers may become involved in a number of government or agency proceedings, investigations, and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm our reputation or the reputations of the brands that we sell, require us to take, or refrain from taking, actions that could harm our operations or require us to pay substantial amounts of money, harming our financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on our business, financial condition, and results of operations.

In addition to the above, the Company is also subject other risk factors as described in greater detail under the heading “Risks Factors” in the Company’s Annual Information Form for the Fiscal year ended November 30, 2019, and available under the Company’s profile at www.sedar.com.

NON-IFRS FINANCIAL MEASURES

The following table reconciles net loss to Adjusted EBITDA for the three and nine months ended August 31:

	Notes	Three months ended		Nine months ended	
		31-Aug-20	31-Aug-19	31-Aug-20	31-Aug-19
Net loss		\$ (7,833,495)	\$ (14,652,118)	\$ (20,067,532)	\$ (33,562,925)
Income tax	(i)	45,309	(51,582)	78,057	(217,354)
Depreciation and amortization	(i)	453,662	513,003	1,686,131	1,687,557
EBITDA		(7,334,524)	(14,190,697)	(18,303,345)	(32,092,722)
Other income	(ii)	(235,487)	(304,329)	(513,612)	(1,060,074)
Impairment of goodwill	(iii)	-	-	322,887	-
Share-based compensation	(iii)	422,349	683,438	601,030	3,265,647
Restructuring and other costs	(iii)	-	2,368,737	(1,300,000)	9,294,840
Impairment loss on loans receivable	(iii)	-	3,578,400	-	3,578,400
Impairment of investment in associate	(iii)	-	-	1,016,127	-
Share of associates’ loss, net of tax	(iv)	-	1,464,565	329,652	1,561,667
Foreign exchange	(i)	1,737,576	680,378	893,998	368,040
Adjusted EBITDA		\$ (5,410,086)	\$ (5,719,508)	\$ (16,953,263)	\$ (15,084,202)

- (i) Current and deferred income taxes, depreciation and amortization, foreign exchange on revaluation and share-based compensation were excluded from the Adjusted EBITDA calculation as they do not represent cash expenditures.
- (ii) Other income consisting of interest income, unrealized gain on derivatives and other miscellaneous non-recurring income was excluded from Adjusted EBITDA calculation.
- (iii) Non-recurring costs related to impairment, restructuring and legacy issues were excluded from Adjusted EBITDA calculation.
- (iv) Share of associates’ loss, net of tax, is excluded due to lack of control.