

**Namaste Technologies Inc.**  
**Management Discussion and Analysis**  
*Three months ending November 30, 2016*

This “Management’s Discussion and Analysis” (“MD&A”) has been prepared as at January 30, 2017, and should be read in conjunction with the un-audited consolidated financial statements of Namaste Technologies Inc. (the “Company”) for the three months ending November 30, 2016.

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Management’s responsibility for financial reporting**

MD&A for the Company is the responsibility of management. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the MD&A.

### **Forward looking statements**

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with the Company’s business and the economic environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, which are often, but not always, identified by the use of words such as “seek”, “anticipate”, “budget”, “plan”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “should”, “believe” and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. The forward- looking statements are not historical facts, but reflect the Company’s current expectations regarding future results or events. Forward-looking statements contained in this MD&A are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including the matters discussed in the section “Risks and Uncertainties” below.

Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding: management’s goal of creating shareholder value; ability to fund future operating costs, and timing for future research and development of the Company’s current and future technologies; management’s outlook regarding commercialization of its Guru vaporizer; sensitivity analysis on financial instruments that may vary from amounts disclosed; prices and price volatility of the Company’s products; and general business and economic conditions.

Readers are cautioned that the above factors are not exhaustive. Although management has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated.

Management believes the expectations reflected in the forward-looking information are reasonable, but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A.

The forward-looking information contained in this MD&A is provided as of the date hereof and management undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

### **Basis of presentation and statement of compliance**

The Company’s consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as are issued by the International Accounting Standards Board (IASB) and are reported in Canadian dollars.

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

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

### **Basis of consolidation**

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

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

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

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

#### **Equity interests**

| <b>Principal subsidiaries</b>        | <b>Percentage of equity interest</b> |
|--------------------------------------|--------------------------------------|
| Namaste Technologies Holdings Inc.   | 100%                                 |
| Dollinger Enterprises US Ltd.        | 100%                                 |
| Namaste Bahamas Inc.                 | 100%                                 |
| Next Gen USA Inc.                    | 100%                                 |
| Greenrush Financial Conferences Inc. | 100%                                 |

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

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

### **Description of the business**

Dollinger Enterprises U.S.A. commenced commercial operations on September 3, 2014, and following an amalgamation with Next Gen Metals Inc. in February 2016, continued its operations under the name Namaste Technologies Inc. (the Company).

The Company is a publicly traded corporation, incorporated in British Columbia, Canada, with its office located at Suite 2300, 550 Burrard Street, Vancouver, British Columbia, Canada V6C 2B5. The Company's primary listing is on the Canadian Securities Exchange, under the trading symbol "N". The Company has 113,449,597 common shares that are issued and fully paid as of January 30, 2017.

Through its wholly-owned subsidiaries, the Company is an international leader in vaporizer and accessories distribution, social media and e-commerce, and product design and manufacturing. The Company has over 30 e-commerce retail stores in 20 countries and offers one of the largest range of brand name vaporizer products on the market. Recognized as a source of information, reviews and social media on vaporizer products, the Company has a unique market perspective and ability design and engineer products that align with the current direction of the market. This includes the Guru™, an enhanced vaporizer capable of seamlessly vaporizing liquids, concentrates and dry herbs from a single portable unit. The Company is currently focused on expanding its product offering, acquisitions and strategic partnerships, and entering new markets globally.

## **Business Strategy of the Company**

Management's business strategy is currently focused on a multi-pronged approach to diversify revenue streams including e-commerce, wholesale distribution, product design and manufacturing, and selective acquisitions. Management believes there is an established and growing consumer demand for its products internationally and has developed strong sales channels in the United States, United Kingdom and Continental Europe. The current expansion focus is as follows:

- **E-Commerce, Social Media**

Namaste has a competitive advantage in international markets through its established e-commerce presence, logistics and fulfillment capabilities, and best-in-class customer service standards as evidenced by the Company receiving the #1 rating in the online vaporizer category from TrustPilot, a globally recognized and independent customer review portal. Going forward, Namaste will continue to expand its presence through further enhancement of its search engine optimization, online advertising through select channels, and social media campaigns. The Company is currently focused on entering and expanding in key markets including the US and Canada, Mexico, Australia, and Brazil.

- **Design, Manufacturing**

The Company has completed development and is proceeding with commercialization of its in-house designed proprietary product, the Guru™. This is the first vaporizer to seamlessly provide a solution to vaporize all of dry herbs, concentrates and liquids. The product will be distributed through the Company's e-commerce platform as well as distribution agreements with wholesalers. After this initial launch, the Company also plans on commercializing additional products to expand its propriety portfolio.

- **Wholesale Distribution**

Namaste has identified an opportunity to further expand into wholesale distribution in international markets and intends to utilize its established infrastructure to provide tangible benefits to select manufacturers. This includes entering into exclusive distribution partnerships with manufacturers for select territories and providing international services including fulfillment and logistics management, inventory control, repair and replacement centers, and multi-lingual customer service support. Management believes as the market potential for vaporizers expands and continues to become mainstream, more manufacturers will seek to expand outside the US. Namaste is ideally positioned to capture this market share with distribution and fulfillment centers located in the US, UK, Australia and Brazil.

- **Industry Consolidation**

As one of the first true vaporizer and accessories companies to access public capital, the Company has identified multiple opportunities to expand by acquisition. The focus of the Company's acquisition strategy is to identify companies that complement Namaste in terms of financial profile, geographical focus, and product and service offering and enter into transactions that are accretive on a per share basis. Based on management's analysis of the market, the

vaporizer and accessory space is fragmented and high growth, which makes the industry ideal for consolidation.

### **Selected quarterly information**

The Company's quarterly consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as are issued by the International Accounting Standards Board (IASB) and are reported in Canadian dollars.

The following table sets out selected financial information for the period under review compared to the three months period in the previous fiscal year. The information is presented on the same basis as the consolidated financial statements and should be read in conjunction with the statements and the accompanying notes.

### **Selected Financial Information**

|  | <i>For the three months ended</i> |                     |
|--|-----------------------------------|---------------------|
|  | <i>November 30,</i>               | <i>November 30,</i> |
|  | <i>2016</i>                       | <i>2015</i>         |
| Sales  | 2,087,188                         | 1,175,341           |
| COGS   | 1,404,172                         | 787,008             |
| Gross profit   | 683,016                           | 388,333             |
| Operating expenses   | 1,580,087                         | 513,977             |
| Other income   | -                                 | -                   |
| Provision for income tax   | -                                 | 238,416             |
| Net income (loss)  | (897,072)                         | (364,060)           |
| Total net comprehensive income (loss)                                  | (842,679)                         | (325,661)           |
| Net income (loss) per share, basic & diluted:                          | (0.009)                           | (0.01)              |
| Weighted average number of outstanding common shares, basic & diluted: | 94,456,479                        | 36,334,374          |
| Total assets   | 8,865,274                         | 824,144             |
| Long-term financial liabilities  | 1,618,318                         | -                   |

### **Discussion of operations**

During the period under review, the Company focused its efforts on growing revenues in select markets by implementing inbound organic marketing e-commerce strategies, securing inorganic expansion opportunities including the acquisition of URT1 in October 2016. On September 15, 2016 the Company entered into a Definitive Asset Purchase Agreement with URT1 Limited and its wholly owned US subsidiaries to create the world's largest e-commerce company focused on sales of vaporizers and accessories. The acquisition was closed on October 17, 2016. Pursuant to the terms of the Agreement, Namaste acquired all the website domains, the customer list of over 40,000 individuals, the vendor list of over 197 vendors, intellectual property and related technologies, in exchange for common shares of Namaste. The purchase price was calculated as one-times the 12-month trailing gross revenue of URT1, subject to adjustments for inventory, wind-down costs, and assumed liabilities including a secured note of \$515,499 to be transferred at closing of the transaction.

On October 4, 2016 the Company entered into two new strategic partnerships to expand its market presence as the leading e-commerce company focused on vaporizers and accessories. The partnerships were with online reviewer Sneaky Pete (SPV Enterprises LLC) and VaporTownUSA.com. Both these partnerships are anticipated to enhance the overall revenue of Namaste through online video reviews, high quality links to the Namaste sites and expansion of sales channels internationally.

Sneaky Pete is a leading source of information for cannabis consumers that has generated hundreds of thousands of YouTube views. Sneaky Pete's professional quality reviews focus on the latest vaporizer products and are often a first place of reference for product consumers. Sneaky Pete's videos drive traffic to Sneaky Pete's online store as well as affiliate traffic to Namaste. Under the partnership, Namaste manages all credit card processing, logistics and inventory fulfillment. SPV Enterprises is compensated based on Namaste's drop shipping price platform. Namaste utilizes its e-commerce resources to enhance video rankings and conversion rates for Sneaky Pete's YouTube channel and retail store.

VaporTownUSA.com is an existing online retail site for vaporizers and accessories. Namaste will manage sales, customer service and logistics for VaportownUSA.com and net profits are shared between VaporTownUSA.com management and Namaste equally. Through this relationship, Namaste will expand VaporTownUSA's product offering and increase sales by utilizing search engine optimization and inbound marketing techniques.

On October 11, 2016 the Company signed agreements with manufacturers PAX Labs ("PAX") and Firefly Vapor ("Firefly") to sell their products in North America and over 20 countries internationally. Namaste is the only company in the world to receive international rights from these companies.

On November 3, 2016 the Company secured new agreements with manufacturers of indoor growing equipment. These product lines will be added to Namaste's e-commerce portals and complements the Company's existing portfolio of vaporizers, pipes, papers and other accessories. This new product portfolio also represents a further monetization of Namaste's customer list of approximately 250 thousand names.

On November 16, 2016 the Company entered an exclusive distribution agreement with Pharmacor Technologies Inc. ("Pharmacor") for the international sale of the Inhalater line of vaporizers and accessories. The technology is patent pending for all industrialized countries. The Inhalater S6 will retail for approximately \$300.

## **Revenue**

The Company's revenue for the three months ending November 30, 2016 was \$2,087,188 (2015 – \$ 1,175,341) an increase of 77.6% as compared to the three months ending November 30, 2015. The period under review includes approximately six weeks of URT1 revenues.

Revenue is net of discounts and refunds. During the period under review total refunds were \$247,330. Refunds for products sold through the VaporSeller site were \$161,578, pre-dominantly because of out of stock orders.

During the period under review discounts were \$64,627, mainly because of discounts offered on Namaste sites.

The change of business model to growing organic traffic through search engine optimization has started to yield tangible results. This is attributable to management's transition from advertising using broadly based search engines into lower customer acquisition cost methods including the generation of specialized digital leads through search engine optimization. Based on this transition, management anticipates revenue to steadily increase as the Company invests in further expanding its established e-commerce platform, enters into wholesale arrangements and commercializes proprietary products.

**Selected operating data e-Commerce: Sept - Nov 2016**

|              | traffic          | conversion   | basket price | orders        | gross revenues   |
|--------------|------------------|--------------|--------------|---------------|------------------|
| Namaste      | 173,629          | 1.89%        | \$ 191       | 3,280         | \$ 830,503       |
| VaporSeller  | 558,238          | 1.47%        | \$ 76        | 8,186         | \$ 828,114       |
| URT1         | 490,345          | 0.93%        | \$ 84        | 4,560         | \$ 381,397       |
| GreenVapes   | 11,909           | 2.77%        | \$ 242       | 330           | \$ 80,014        |
| <b>Total</b> | <b>1,234,121</b> | <b>1.33%</b> | <b>130</b>   | <b>16,357</b> | <b>2,120,028</b> |

The Company's e-Commerce sites generated approximately 88% of gross revenues and generated traffic of 1,234,121 visitors during the three months ending November 30, 2016. The average achieved conversion ratio was 1.33% with an average basket price of \$130 and 16,357 orders were received during the period under review. As a result of Black Friday e-Commerce revenues increased 25% in the month of November in 2016 as compared to the month of October in 2016 on a like for like basis.

Namaste generated traffic of 173,629 visitors during the period under review. Its sites converted traffic at a conversion ratio of 1.89%. Namaste achieved an average basket price of \$253 and shipped 3,280 orders during the period under review. Gross revenues were \$830,503.

**Namaste**

|           | traffic        | conversion   | basket price  | orders       | gross revenues    |
|-----------|----------------|--------------|---------------|--------------|-------------------|
| Sep-16    | 49,155         | 1.79%        | \$ 300        | 880          | \$ 264,332        |
| Oct-16    | 52,731         | 1.94%        | \$ 214        | 1,023        | \$ 219,414        |
| Nov-16    | 71,743         | 1.92%        | \$ 252        | 1,377        | \$ 346,757        |
| <b>Q1</b> | <b>173,629</b> | <b>1.89%</b> | <b>\$ 253</b> | <b>3,280</b> | <b>\$ 830,503</b> |

VaporSeller generated traffic of 558,238 visitors during the period under review. Its sites converted traffic at a conversion ratio of 1.47%. VaporSeller achieved an average basket price of \$101 and shipped 8,186 orders during the period under review. Gross revenues were \$828,114. The Company has agreed to purchase the earn-out obligation with Haze Industries, Inc. which brings the VaporSeller website under control of Namaste. This will help to increase traffic and the conversion ratio.

**VaporSeller**

|           | traffic        | conversion   | basket price  | orders       | gross revenues    |
|-----------|----------------|--------------|---------------|--------------|-------------------|
| Sep-16    | 179,711        | 1.46%        | \$ 103        | 2,631        | \$ 272,242        |
| Oct-16    | 177,681        | 1.49%        | \$ 102        | 2,650        | \$ 270,693        |
| Nov-16    | 200,846        | 1.45%        | \$ 98         | 2,905        | \$ 285,179        |
| <b>Q1</b> | <b>558,238</b> | <b>1.47%</b> | <b>\$ 101</b> | <b>8,186</b> | <b>\$ 828,114</b> |

URT1 is consolidated since October 17, 2016. The two sites, EveryoneDoesit.com and EveryoneDoesit.UK generated traffic of 490,345 visitors during the period under review. Its sites converted traffic at a conversion ratio of 0.93%. URT1 achieved an average basket price of \$84 and shipped 4,560 orders during the period under review. Gross revenues were \$381,397.

**URT1**

|           | traffic        | conversion   | basket price | orders       | gross revenues    |
|-----------|----------------|--------------|--------------|--------------|-------------------|
| Sep-16    |                |              |              |              |                   |
| Oct-16    | 152,735        | 0.93%        | \$ 83        | 1,420        | \$ 118,488        |
| Nov-16    | 337,610        | 0.93%        | \$ 84        | 3,140        | \$ 262,909        |
| <b>Q1</b> | <b>490,345</b> | <b>0.93%</b> | <b>\$ 84</b> | <b>4,560</b> | <b>\$ 381,397</b> |

GreenVapes generated traffic of 11,909 visitors during the period under review. Its sites converted traffic at a conversion ratio of 2.77%. GreenVapes achieved an average basket price of \$242 and shipped 330 orders during the period under review. Gross revenues were \$80,014.

| <b>GreenVapes</b> |                |                   |                     |               |                       |               |
|-------------------|----------------|-------------------|---------------------|---------------|-----------------------|---------------|
|                   | <b>traffic</b> | <b>conversion</b> | <b>basket price</b> | <b>orders</b> | <b>gross revenues</b> |               |
| Sep-16            | 4,317          | 2.57%             | \$ 210              | 111           | \$                    | 23,273        |
| Oct-16            | 3,994          | 2.73%             | \$ 233              | 109           | \$                    | 25,390        |
| Nov-16            | 3,598          | 3.06%             | \$ 285              | 110           | \$                    | 31,351        |
| <b>Q1</b>         | <b>11,909</b>  | <b>2.77%</b>      | <b>\$ 242</b>       | <b>330</b>    | <b>\$</b>             | <b>80,014</b> |

The majority of revenue was generated by several key markets, including the U.S., the United Kingdom, New Zealand and Brazil, which accounted for 81.2% of total revenue. As a result of the acquisitions of VaporSeller and URT1 the U.S. has become the largest market and generated 43.7% of revenue.

#### **Revenues by country**

| <b>Country</b>           | <b>Three months ended</b> |                                    |
|--------------------------|---------------------------|------------------------------------|
|                          | <b>November 30, 2016</b>  | <b>Percentage of total revenue</b> |
| United States of America | 912,011                   | 43.7%                              |
| United Kingdom           | 547,281                   | 26.2%                              |
| New Zealand              | 134,168                   | 6.4%                               |
| Brazil                   | 101,923                   | 4.9%                               |
| Canada                   | 80,238                    | 3.8%                               |
| Australia                | 78,884                    | 3.8%                               |
| Ireland                  | 35,505                    | 1.7%                               |
| Italy                    | 23,803                    | 1.1%                               |
| Germany                  | 23,437                    | 1.1%                               |
| Israel                   | 22,236                    | 1.1%                               |
| Sweden                   | 21,178                    | 1.0%                               |
| Spain                    | 13,854                    | 0.7%                               |
| Denmark                  | 10,691                    | 0.5%                               |
| Other                    | 81,978                    | 3.9%                               |
| <b>Total</b>             | <b>2,087,188</b>          | <b>100.0%</b>                      |

#### **Cost of Sales**

Cost of sales includes all expenditures to purchase the product and ship products to warehouse locations. This includes the purchase price less import duties, shipment fees to warehouses and customers, storage and insurance. The Company uses the weighted average method to track and cost inventory items. The inventory consists of vaporizers, vaporizer accessories, and therapeutic herbs. The inventory consists solely of goods currently available for sale and does not include any unfinished goods or work-in-progress.

The Company's cost of sales for the three months ending November 30, 2016 were \$1,404,172 (2015 – \$787,008), which resulted in a gross profit of \$683,016 (2015 – \$388,333). As a percentage of sales the gross margin was 32.7% compared to 33.0% in the comparable quarter. Gross margins showed an improvement during the period under review between September and November. Gross profits increased 88% as compared to the fourth quarter in 2016. The gross margin generated by the Company is due to the mark-up of products sold to retail customers compared to the cost of securing the products from wholesale distributors and manufactures. In addition are costs related to freight to and between warehouses. Management expects that the gross margin will improve as VaporSeller and URT1 migrate

to the Linnworks platform for purchasing and inventory management and the product-mix of URT1 includes higher margin glassware.

## Operating Expenses

The table below sets forth operating expenses for the three months ending November 30, 2016.

### Operating expenses

|                              | <i>For the three months ended</i> |                              |
|------------------------------|-----------------------------------|------------------------------|
|                              | <i>November 30,<br/>2016</i>      | <i>November 30,<br/>2015</i> |
| Advertising and promotion    | 216,891                           | 114,636                      |
| Consulting fees              | 318,943                           | 98,998                       |
| Salaries                     | 216,969                           | 65,874                       |
| Share -based compensation    | 51,764                            | -                            |
| Bank and credit card fees    | 121,325                           | 44,181                       |
| Professional fees            | 317,458                           | 18,514                       |
| Communications               | 13,279                            | 10,817                       |
| General and administrative   | 134,433                           | 6,730                        |
| Rent and rental services     | 11,796                            | 15,044                       |
| Shipping                     | 96,176                            | 25,498                       |
| Travel and vehicles          | 15,430                            | 20,099                       |
| Foreign exchange loss (gain) | 19,652                            | 93,586                       |
| Investor relations           | 45,971                            | -                            |
| <b>Total</b>                 | <b>1,580,087</b>                  | <b>513,977</b>               |

Operating costs were \$1,580,087 (2015 - \$513,977). This increase in operating costs includes non-cash and currency expenses of \$71,416. These costs relate to share based compensation and foreign exchange movements in the Company's source currencies including the British Pound and Euro. In addition were non-recurring legal expenses of \$175,000 related to the URT1 acquisition and financing. After adjusting for these numbers, management estimates total operating costs of \$1,333,671 for the period.

At the time of the acquisition of URT1 post-merger integration charges were estimated at \$233,000 for the period from October 17, 2016 until March 1, 2017. The integration of URT1 has occurred faster than expected and post-merger integration charges in relation to the acquisition of URT1 are estimated at \$72,000. This includes the closure of two warehouses ahead of schedule and a much quicker than expected staff reorganization. More URT1 staff and consultants were taken on by Namaste than previously anticipated. The integration of technology related expenses is on schedule.

Advertising and promotion expenses for the three months ending November 30, 2016 were \$216,891 (2015 – \$114,636). These expenditures relate to online search services as well as other online promotional and social media tools utilized by the Company to generate sales. These costs further represent the Company's significant investment into search engine optimization and its ongoing customer acquisition strategy. During the period, the Company reduced advertising spending with select search engine providers and focused on search engine optimization to generate organic revenue streams.

Consulting fees for the three months ending November 30, 2016 were \$318,943 (2015 – \$98,998). These expenditures relate to compensation amounts paid to various companies and individuals for marketing and distribution services, customer service activities, and product development and research. At the end of November 2016 the Company had service agreements with 35 consultants, either directly or through the Company's e-commerce marketing partner ORH, Access Fulfillment and service provider Aspen India.

Salaries for the three months ending November 30, 2016 were \$216,969 (2015 – \$65,874). These expenditures relate to management and administrative salaries in support of the operations of the Company, managing fulfillment and procurement, and general operating activities. At the end of November 2016 the Company employed 20 full time staff in its operations.

Stock-based compensation for the three months ending November 30, 2016 was \$51,764 (2015 – \$0). These expenditures relate to share and option based compensation to officers, directors, employees and consultants of the Company.

Bank and credit card fees for the three months ending November 30, 2016 were \$121,325 (2015 – \$44,181). These expenditures include service and transaction fees to PayPal, Amex and commercial banks for processing incoming and outgoing orders from customers, suppliers and service providers, foreign transaction fees, and other bank service charges. They also include charge-backs.

Professional fees for the three months ending November 30, 2016 were \$317,458 (2015 – \$18,514). These expenditures relate to legal, accounting, book keeping and transfer agent.

Communication expenses for the three months ending November 30, 2016 were \$13,279 (2015 – \$10,817). These expenditures relate to phone, internet and computer expenses.

General and administrative expenses for the three months ending November 30, 2016 were \$134,433 (2015 – \$6,730). These expenditures relate to office supplies, licensing fees and other operating expenses.

Rent and rental services for the three months ending November 30, 2016 were \$36,039 (2015 – \$41,503). These expenditures relate to the Company's share of costs associated with the leasing of office space, janitorial services and utilities.

Travel and vehicles for the three months ending November 30, 2016 were \$15,430 (2015 – \$20,099). These expenditures relate to costs associated with airfare, meals, fuel and other travel and vehicle related expenses.

Foreign exchange losses for the three months ending November 30, 2016 were \$19,652 (2015 – \$93,586) due to the conversion of the operations at the average exchange rate for the period.

Investor relations expenses for the three months ending November 30, 2016 were \$45,971 (2015 – \$0). These expenditures relate to costs associated with attracting public market investors to the Company.

## Summary of quarterly results

### Quarterly Statement of Profit & Loss

|  | Feb-15     | May-15     | Aug-15     | For the three months ended |            |            |             |            |
|--|------------|------------|------------|----------------------------|------------|------------|-------------|------------|
|  |            |            |            | Nov-15                     | Feb-16     | May-16     | Aug-16      | Nov-16     |
| Sales  | 1,270,197  | 1,087,256  | 1,096,856  | 1,175,341                  | 698,331    | 738,199    | 877,031     | 2,087,188  |
| COGS   | 669,186    | 627,429    | 219,898    | 787,008                    | 381,871    | 384,838    | 514,097     | 1,404,172  |
| Gross profit   | 601,011    | 459,827    | 876,958    | 388,333                    | 316,460    | 353,361    | 362,934     | 683,016    |
| Operating expenses   | 622,620    | 363,250    | 381,209    | 513,977                    | 889,422    | 716,855    | 1,467,026   | 1,580,087  |
| Other income   | -          | -          | -          | -                          | 125,137    | -          | 113,279     | -          |
| Provision for tax  | (12,487)   | -          | 219,863    | 238,416                    | (238,416)  | -          | -           | -          |
| Net income (loss)  | (9,122)    | 96,577     | 275,886    | (364,060)                  | (209,409)  | (363,494)  | (990,813)   | (897,072)  |
| Total net comprehensive income (loss)                                  | (8,673)    | 128,636    | 231,540    | (325,661)                  | (206,145)  | (372,907)  | (1,283,307) | (842,679)  |
| Net income (loss) per share, basic & diluted:                          | (0.000)    | 0.003      | 0.008      | (0.010)                    | (0.004)    | (0.006)    | (0.015)     | (0.009)    |
| Weighted average number of outstanding common shares, basic & diluted: | 36,218,202 | 36,218,202 | 36,218,202 | 36,334,374                 | 49,637,051 | 59,514,836 | 64,537,844  | 94,456,479 |

The Company's quarterly consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as are issued by the International Accounting Standards Board (IASB) and are reported in Canadian dollars. The following quarterly information is

presented on the same basis as the consolidated financial statements and should be read in conjunction with the statements and the accompanying notes.

### Recent developments and subsequent events

The Company signed a non-binding letter of intent with Australian Vaporizers PTY Ltd to acquire certain assets of the company. Australian Vaporizers reported revenue for the year ending June 30, 2016 of AU\$4,464,102 and a gross profit of AU\$2,000,787 with a gross margin of 44.8%.

On January 16, 2017 the Company agreed with Haze Industries, Inc. to purchase the undiscounted earn-out value of approximately US\$1.5 million and bring the VaporSeller website under the control of Namaste. Namaste will settle the remaining earn-out obligation of approximately US\$1.3 million by making an initial payment of US\$285,000 and monthly payments of US\$8,000 for 12-months. Namaste will also issue Haze the initial tranche of 1,700,000 common shares of the Company pursuant to the Asset Purchase Agreement. Namaste's SEO team will be able to increase traffic and conversion rates and reduce refunds currently affecting VaporSeller's revenue once the site is under its control.

### Liquidity

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund operating and organic growth requirements.

As at November 30, 2016, the Company had cash of \$510,870. Working capital for the Company consists of current assets less current liabilities. As at November 30, 2016, the Company has sufficient capital resources to satisfy its near term financial obligations.

The table below sets forth the cash and working capital position of the Company as at November 30, 2016.

#### Cash and working capital position

|                                | <i>As at<br/>November 30, 2016</i> |
|--------------------------------|------------------------------------|
| Cash                           | 510,870                            |
| Working capital excluding cash | 1,572,934                          |

The table below sets forth the Company's cash flows for the three months ending November 30, 2016.

#### Cash flow

| <b>Cash provided by:</b> | <i>For the three months ended</i> |                              |
|--------------------------|-----------------------------------|------------------------------|
|                          | <i>November 30,<br/>2016</i>      | <i>November 30,<br/>2015</i> |
| Operating activities     | (2,100,174)                       | (23,055)                     |
| Investing activities     | (700,530)                         | -                            |
| Finance activities       | 3,197,909                         | 11,571                       |

- **Cash provided by operating activities**

The cash utilized by operating activities of \$2,100,174 was due to the loss from operations of \$845,308 after adjustments for non-cash transactions including options granted for services in the amount of \$51,764 and a \$1,254,866 increase in working capital. The majority of the increase in current assets consisted of deposits on inventory.

- **Cash provided by investing activities**

The Company's cash provided by investing activities of \$700,530 for the three months ending November 30, 2016 consisted of the acquisition of URT1.

- **Cash provided by financing activities**

The Company's cash provided by financing activities for the three months ending November 30 2016 consisted of equity and loans payable of \$3,197,909.

## **Financing**

During the first quarter ending February 29, 2016, the Company secured \$1,213,975 of equity capital (before deduction for transaction financing expenses) pursuant to the completion of its three-cornered amalgamation with Next Gen. Prior to the closing of the transaction with Next Gen, the Company funded operations without any equity financing.

Pursuant to the terms of the transaction between the Dollinger Canada and Next Gen, Next Gen issued 3.6 million subscription receipts at a price of \$0.10 per subscription receipt for a total of gross proceeds of \$360,000. Each subscription receipt automatically converted, for no additional consideration, into 3.6 million units of the Company upon the closing of the transaction with Next Gen, which occurred on February 26, 2016. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.15 per common share for a period of two years from closing of the private placements.

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

In the fourth quarter ending August 31, 2016, the Company closed a non-brokered private placement by issuing 8,087,454 million units of the Company for gross proceeds of \$970,476. Each Unit consists of one common share of the Company and one common share purchase warrant at an exercise price of \$0.18 for a period of 2-years.

In the fourth quarter ending August 31, 2016 the Company also closed a non-brokered private placement by issuing 250,000 units of the Company for gross proceeds of \$30,000. Each unit consists of one common share of the Company and one common share purchase warrant at an exercise price of \$0.18 for a period of two years.

In the first quarter ending November 30, 2016 the Company closed a non-brokered private placement by issuing 1,075,000 units of the Company for gross proceeds of \$129,000. Each unit consists of one common share of the Company and one common share purchase warrant at an exercise price of \$0.18 for a period of two years.

In the first quarter ending November 30, 2016 the Company closed a non-brokered private placement by issuing 25,000,000 units of the Company for gross proceeds of \$3,000,000. Each unit consists of one common share of the Company and one half of one common share purchase warrant at an exercise price of \$0.20 for a period of two years. In relation to the private placement the Company issued 1,318,822 broker warrants at an exercise price of \$0.12 for a period of two years.

In the first quarter ending November 30, 2016 the Company issued 2,666,667 common shares of the Company at a price of \$0.12 in relation to the conversion of a convertible loan note. The proceeds of the convertible were \$400,000.

In the first quarter ending November 30, 2016 the Company issued 13,773,933 common shares of the Company to URT1 at a price of \$0.12 in relation to and asset purchase agreement (APA) of URT1's assets.

In the three months ending November 30, 2016 the Company issued 5,530,000 options with an exercise price of \$0.35 for a period of five years and vesting on a quarterly basis to key staff.

### Capitalization

| Date         | Shares             | Price    | Gross proceeds      | Source                   |
|--------------|--------------------|----------|---------------------|--------------------------|
| Sep-15       | 36,218,202         | \$ -     | \$ -                | Vendors                  |
| Dec-15       | 3,600,000          | \$ 0.076 | \$ 271,800          | Private placement        |
| Dec-15       | 11,386,330         | \$ 0.075 | \$ 853,975          | Private placement        |
| Feb-16       | 8,310,301          | \$ -     | \$ -                | Shell                    |
| Jul-16       | 8,087,464          | \$ 0.120 | \$ 970,496          | Private placement        |
| Aug-16       | 250,000            | \$ 0.120 | \$ 30,000           | Private placement        |
| Sep-16       | 100,000            | \$ -     | \$ -                | Bonus shares             |
| Sep-16       | 825,000            | \$ 0.120 | \$ 99,000           | Private placement        |
| Oct-16       | 37,777             | \$ -     | \$ -                | Interest                 |
| Oct-16       | 2,666,666          | \$ 0.150 | \$ 400,000          | Loan conversion          |
| Oct-16       | 24,999,927         | \$ 0.120 | \$ 2,999,991        | Private placement        |
| Oct-15       | 750,000            | \$ 0.150 | \$ 112,500          | Options exercise         |
| Oct-16       | 100,000            | \$ 0.200 | \$ 20,000           | Options exercise         |
| Oct-16       | 50,000             | \$ 0.150 | \$ 7,500            | Warrants exercise        |
| Nov-16       | 13,771,932         | \$ -     | \$ -                | Asset purchase agreement |
| Nov-16       | 550,000            | \$ 0.200 | \$ 110,000          | Options exercise         |
| Nov-16       | 545,999            | \$ 0.075 | \$ 40,950           | Warrants exercise        |
| Nov-16       | 116,666            | \$ 0.150 | \$ 17,500           | Warrants exercise        |
| <b>Total</b> | <b>112,366,264</b> |          | <b>\$ 5,933,711</b> |                          |

### Capital activities

The Company's capital is composed of debt and shareholders' equity. The Company utilizes cash flow from operations and equity investment to support development and continued operations and to meet liabilities and commitments as they come due. Specifically, the Company has working capital excluding cash of \$1,572,934 as at November 30, 2016.

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

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's capital structure is managed in conjunction with the capital structure and financial needs of the day-to-day operations.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is appropriate. As at November 30, 2016, the Company is not subject to any externally imposed capital requirements.

The Company's principal capital needs are for funds to expand its market presence, design and develop propriety products, and general working capital requirements to support growth. Since formation of the Company, these capital needs have been funding internally-generated cash flows and the periodic use of credit facilities.

## Related party transactions

The Company had an outstanding amount due to and from related parties that are non-interest bearing, unsecured, and receivable within the upcoming fiscal year. At November 30, 2016 related party balances were \$114,745 due from related parties. There were no balances outstanding due to related parties.

Share-based compensation awarded to key management was \$22,800 and \$119,290 of cash based compensation excluding cash bonus payments during the period. Key management includes the Company's senior officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

## Commitments

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

| <b>Commitments</b> |                  |
|--------------------|------------------|
| <b>Year</b>        | <b>Amount \$</b> |
| 2017               | 781,499          |
| 2018               | 1,188,274        |
| 2019               | 730,194          |
| 2020               | 99,436           |
| 2021               | -                |

## Off-balance sheet arrangements

The Company does not have any off-balance sheet arrangements.

## Seasonality

The Company does not consider its business to be seasonal with the exception for Black Friday and Cyber Monday sales.

## Inflation and changing prices

Neither inflation nor changing prices for the three months ending November 30, 2106 had a material impact on operations of the Company.

## Financial instruments

All financial assets and financial liabilities are initially recognized at fair value. The fair value of financial instruments are measured using inputs which are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

The Company has designated the following classifications:

- Cash – Held-for-trading

- Accounts receivable – Loans and receivables
- Due from related parties – Loans and receivables
- Accounts payable and accrued liabilities – Other liabilities
- Due to shareholder – Other liabilities
- Loan payable – Other liabilities
- All are recognized as Level One measurements.

As at the end of the period under review, both the carrying and fair value amounts of all of the Company's financial instruments are approximately equivalent due to their short term nature.

Risk exposures as it relates to financial instruments:

- **Credit risk**

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

- **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying its financial obligations. The Company manages its liquidity risk by forecasting its operations and anticipating its operating and investing activities. During the period under review the Company had current assets of \$2,172,213 excluding liquid assets compared to current liabilities of \$599,279. All amounts in current liabilities are due within one year.

- **Market risk**

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

- **Interest rate risk**

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

- **Foreign currency risk**

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

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

- ***Other price risk***

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

### **Risk factors related to the Company's business**

There are risks relating to the business carried on by the Company which prospective investors should carefully consider before deciding whether to purchase shares of the Company. The Company will face a number of challenges in the development of its business. Due to the nature of the Company's business and present stage of the business, the Company may be subject to significant risks. Readers should carefully consider all such risks.

The common shares of the Company should be considered highly speculative due to the nature of the Issuer's business and the present stage of its development. In evaluating the Company and an investment in its common shares, investors should carefully consider, in addition to the other information contained in this listing statement, the following risk factors. These risk factors are not a definitive list of all risk factors associated with an investment in the Issuer or in connection with the Issuer's operations.

- ***The success of the Company's new and existing products and services is uncertain.***

The Company has committed, and expect to continue to commit, significant resources and capital to develop and market existing product and service enhancements and new products and services. These products and services are relatively untested, and the Company cannot assure you that we will achieve market acceptance for these products and services, or other new products and services that we may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business of manufacturing and distributing vaporizers and accessories. In addition, new products, services and enhancements may pose a variety of technical challenges and require us to attract additional qualified employees. The failure to successfully develop and market these new products, services or enhancements or to hire qualified employees could seriously harm our business, financial condition and results of operations.

- ***The business is dependent upon continued market acceptance by consumers.***

The Company is substantially dependent on continued market acceptance of our vaporizer products by consumers. Although we believe that the use of vaporizers is gaining international acceptance, the Company cannot predict the future growth rate and size of this market.

- ***Generating foreign sales will result in additional costs and expenses and may expose us to a variety of risks.***

The Company sells products in a significant number of markets that require us to incur additional costs and expenses. Furthermore, our entry into foreign jurisdictions may expose the Company to various risks, which differ in each jurisdiction, and any of such risks may have a material adverse effect on our business, financial condition and results of operations. Such risks include the degree

of competition, fluctuations in currency exchange rates, difficulty and costs relating to compliance with different commercial, legal, regulatory and tax regimes and political and economic instability.

- ***The Company may not be able to establish sustainable relationships with large wholesalers or manufacturers.***

The Company believes the best way to develop brand and product recognition and increase sales volume is to establish relationships with large retailers and manufacturers. The Company currently have established relationships with several large wholesalers and manufacturers and in connection therewith we have agreed to carry and offer their products for sale. The Company may not be able to sustain these relationships or establish other relationships with wholesalers or manufacturers or, even if we do so, sustain such other relationships. The Company's inability to develop and sustain relationships with large wholesalers or manufacturers will impede the ability to develop brand and product recognition and increase sales volume, which will have a material adverse effect on our business, results of operations and financial condition.

- ***The Company may not be able to adapt to trends in our industry.***

The Company may not be able to adapt as the vaporizer industry and customer demand evolves, whether attributable to regulatory constraints or requirements, a lack of financial resources or our failure to respond in a timely and/or effective manner to new technologies, customer preferences, changing market conditions or new developments in our industry. Any of the failures to adapt for the reasons cited herein or otherwise could make our products obsolete and would have a material adverse effect on our business, financial condition and results of operations.

- ***The Company relies on Chinese manufacturers to produce our products.***

The Company's manufacturers are based in China. Certain Chinese factories and the products they export have recently been the source of safety concerns and recalls, which is generally attributed to lax regulatory, quality control and safety standards. Should Chinese factories continue to draw public criticism for exporting unsafe products, whether those products relate to the Company's products or not, the Company may be adversely affected by the stigma associated with Chinese production, which could have a material adverse effect on the business, results of operations and financial condition.

- ***The Company may be unable to promote and maintain brands.***

The Company believes that establishing and maintaining the brand identities of products is a critical aspect of attracting and expanding a large customer base. Promotion and enhancement of brands will depend largely on success in continuing to provide high quality products. If customers and end users do not perceive the Company's products to be of high quality, or if the Company introduces new products or enters into new business ventures that are not favorably received by customers and end users, the Company will risk diluting brand identities and decreasing their attractiveness to existing and potential customers.

Moreover, in order to attract and retain customers and to promote and maintain brand equity in response to competitive pressures, the Company may have to increase substantially financial commitment to creating and maintaining a distinct brand loyalty among customers. If the Company incurs significant expenses in an attempt to promote and maintain brands, the business, results of operations and financial condition could be adversely affected.

- ***The Company expects that new products and/or brands we develop will expose the Company to risks that may be difficult to identify until such products and/or brands are commercially available.***

The Company is currently developing, and in the future will continue to develop, new products and brands, the risks of which will be difficult to ascertain until these products and/or brands are

commercially available. For example, the Company is developing new formulations, packaging and distribution channels. Any negative events or results that may arise as the Company develops new products or brands may adversely affect the business, financial condition and results of operations.

- ***Internet security poses a risk to e-commerce sales.***

At present, the Company generates a portion of sales through e-commerce sales on websites. The Company manages websites and an e-commerce platform internally and as a result any compromise of the security or misappropriation of proprietary information could have a material adverse effect on the business, financial condition and results of operations. The Company relies on encryption and authentication technology licensed from third parties to provide the security and authentication necessary to effect secure Internet transmission of confidential information, such as credit and other proprietary information. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the technology used by us to protect client transaction data. Anyone who is able to circumvent our security measures could misappropriate proprietary information or cause material interruptions in our operations. The Company may be required to expend significant capital and other resources to protect against security breaches or to minimize problems caused by security breaches. To the extent that the Company's activities or the activities of others involve the storage and transmission of proprietary information, security breaches could damage our reputation and expose us to a risk of loss and/or litigation. Our security measures may not prevent security breaches. Our failure to prevent these security breaches may result in consumer distrust and may adversely affect our business, results of operations and financial condition.

- ***The Company's results of operations could be adversely affected by currency exchange rates and currency devaluations.***

The Company's functional currency is the U.S. dollar; substantially all purchases and sales are currently generated in U.S. dollars. Fluctuations in exchange rates between respective currencies could result in higher production and supply costs which would have a material adverse effect on our results of operations if the Company is not willing or able to pass those costs on to customers.

- ***If the Company is able to expand operations, the Company may be unable to successfully manage future growth.***

If the Company is able to expand operations in the United States and in other countries where the Company believes products will be successful, as planned, the Company may experience periods of rapid growth, which will require additional resources. Any such growth could place increased strain on the management, operational, financial and other resources, and the Company will need to train, motivate, and manage employees, as well as attract management, sales, finance and accounting, international, technical, and other professionals. In addition, the Company will need to expand the scope of its infrastructure and physical resources. Any failure to expand these areas and implement appropriate procedures and controls in an efficient manner and at a pace consistent with business objectives could have a material adverse effect on the business and results of operations.

- ***If the Company experiences product recalls, the Company may incur significant and unexpected costs and the business reputation could be adversely affected.***

The Company may be exposed to product recalls and adverse public relations if its products are alleged to cause illness or injury, or if the Company is alleged to have violated governmental regulations. A product recall could result in substantial and unexpected expenditures and harm to the Company's reputation, which could have a material adverse effect on the business, results of operations and financial condition. In addition, a product recall may require significant management time and attention and may adversely impact on the value of brands. Product recalls

may lead to greater scrutiny by federal or state regulatory agencies and increased litigation, which could have a material adverse effect on the business, results of operations and financial condition.

- ***Product exchanges, returns and warranty claims may adversely affect the business.***

If the Company is unable to maintain an acceptable degree of quality control of its products, the Company will incur costs associated with the exchange and return of the products as well as servicing its customers for warranty claims. Any of the foregoing on a significant scale may have a material adverse effect on the business, results of operations and financial condition.

- ***The business may expose the Company to product liability claims for damages resulting from the design or manufacture of its products. Product liability claims, whether or not, the Company is ultimately held liable for them, could have a material adverse effect on the business and results of operations.***

The Company may be subject to product liability claims if any of the Company's products are alleged to be defective or cause harmful effects. Product liability claims or other claims related to our products, regardless of their outcome, could require us to spend significant time and money in litigation, divert management time and attention, require the Company to pay significant damages, harm our reputation or hinder acceptance of our products. Any successful product liability claim may prevent the Company from obtaining adequate product liability insurance in the future on commercially desirable or reasonable terms.

- ***The Company depends upon key personnel, the loss of which could seriously harm our business.***

Operating performance is substantially dependent on the continued services of executive officers and key employees, Sean Dollinger, Chief Executive Officer, and Kory Philip van den Berg, Chief Financial Officer. The unexpected loss of the services of Mr. Dollinger, or Mr. van den Berg could have a material adverse effect on the business, operations, financial condition and operating results, as well as the value of common shares.

- ***The Company will require additional capital to finance operations in the future, but that capital may not be available when it is needed and could be dilutive to existing shareholders.***

The Company will require additional capital for future operations. The Company plans to finance anticipated ongoing expenses and capital requirements with funds generated from the following sources:

- i. cash provided by operating activities;
- ii. available cash and cash investments; and
- iii. capital raised through debt and equity offerings.

The ability to raise additional capital will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside the Company's control, and on the Company's financial performance. Accordingly, the Company cannot assure you that it will be able to successfully raise additional capital at all or on terms that are acceptable to the Company. If the Company cannot raise additional capital when needed, it may have a material adverse effect on its liquidity, financial condition, results of operations and prospects. Furthermore, if the Company raises capital by issuing shares, the holdings of existing shareholders will be diluted and the market price of common shares could decline.

If the Company raises capital by issuing debt securities, such debt securities would rank senior to common share upon our bankruptcy or liquidation. If the Company raises capital by issuing equity

securities, they may be senior to common shares for the purposes of dividend and liquidating distributions, which may adversely affect the market price of common shares. Finally, upon dissolution or liquidation, holders of debt securities and preferred shares and lenders with respect to other borrowings will receive a distribution of available assets prior to the holders of our common shares. Risks Related to Government Regulation

- ***Changes in laws, regulations and other requirements could adversely affect the business, results of operations or financial condition.***

The business, results of operations or financial condition could be adversely affected by new or future legal requirements imposed by legislative or regulatory initiatives, including, but not limited to, those relating to health care, public health and welfare and environmental matters. At present, it is not clear if vaporizers, which omit no smoke or noxious odors, are subject to such restrictions. If vaporizers are subject to restrictions on smoking in public and other places, the business, operating results and financial condition could be materially and adversely affected. New legislation or regulations may result in increased costs directly for compliance or indirectly to the extent such requirements increase the prices of goods and services because of increased costs or reduced availability. The Company cannot predict whether such legislative or regulatory initiatives will result in significant changes to existing laws and regulations and/or whether any changes in such laws or regulations will have a material adverse effect on the business, results of operations or financial condition.

- ***Risks Related to the Company's Common Shares***

The market price of the Company's common shares could be very extremely volatile and could be subject to further significant fluctuations due to changes in sentiment in the market regarding operations or business prospects, among other factors.

Among the factors that could affect the share price are:

- i. actual or anticipated fluctuations in our quarterly financial and operating results and operating results that vary from the expectations of management or of securities analysts and investors
- ii. failure to meet the expectations of the investment community and changes in investment community;
- iii. recommendations or estimates of future operating results;
- iv. announcements of strategic developments, acquisitions, dispositions, financings, product developments and other materials events by the Company or competitors;
- v. regulatory and legislative developments;
- vi. litigation;
- vii. general market conditions;
- viii. other domestic and international macroeconomic factors unrelated to the Company's performance; and
- ix. additions or departures of key personnel.

- ***Sales by shareholders of a substantial number of common shares in the public market could adversely affect the market price of common shares.***

A substantial portion of total outstanding common shares may be sold into the market. Such sales could cause the market price of common shares to drop, even if the business is doing well. Such sales may include sales by officers and directors of the Company. Furthermore, the market price of common shares could decline as a result of the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to sell equity securities in the future at a time and price that the Company deems appropriate.

- ***The Company does not expect to pay any cash dividends in the foreseeable future.***

The Company intends to retain future earnings, if any, in order to reinvest in the development and growth of the Company business and, therefore, do not intend to pay cash dividends on common shares for the foreseeable future. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on financial condition, results of operations, capital requirements, and such other factors as the Board of Directors deems relevant. Accordingly, investors may need to sell their shares to realize a return on their investment, and they may not be able to sell such shares at or above the price paid for them.

- ***The Company can sell additional common shares without consulting shareholders and without offering common shares to existing shareholders, which would result in dilution of existing shareholders' interests and could depress the price.***

The Articles of Incorporation authorize an unlimited number of common shares. Although the Board of Directors intends to utilize its reasonable business judgment to fulfill its fiduciary obligations to existing shareholders in connection with any future issuance of common shares, the future issuance of additional common shares or preferred shares convertible into common shares would cause immediate, and potentially substantial, dilution to existing shareholders, which could also have a material effect on the market value of the common shares.