



**Namaste**  
Technologies

**NAMASTE TECHNOLOGIES INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the quarter ended February 28, 2019

# NAMASTE TECHNOLOGIES INC.

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# NAMASTE TECHNOLOGIES INC.

Management's Discussion and Analysis



For the quarter ended February 28, 2019

(Expressed in Canadian dollars unless stated otherwise)

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This “Management’s Discussion and Analysis” (“MD&A”) for Namaste Technologies Inc. (the “Company”) and its subsidiaries (together referred to as, the “Group” or “Namaste”) dated May 31, 2019 should be read in conjunction with the Company’s unaudited interim consolidated financial statements and related notes for the quarter ended February 28, 2019 and its audited consolidated financial statements (“last annual financial statements”) and MD&A for the period ended November 30, 2018 which are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). This MD&A includes information available to, and is dated May 31, 2019. All amounts are presented in Canadian dollars, unless otherwise noted.

## FORWARD LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with Namaste’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 “Financial Risks and Risk management”.

Specifically, this MD&A includes, but is not limited to, forward-looking statements regarding management’s goal of creating shareholder value, the ability to fund future operating costs, the timing for future research and development of the Company’s current and future technologies, 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.

# NAMASTE TECHNOLOGIES INC.

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## OVERVIEW OF NAMASTE

The Company is an entity formed under the British Columbia Business Corporations Act and is a reporting issuer in British Columbia, Alberta and Ontario, listed on the TSX Venture Exchange under the trading symbol "N". The Company's registered office is 2300 - 550 Burrard Street, Vancouver, British Columbia, V6C 2B5, Canada.

Namaste powers the ultimate online customer experience for medicinal cannabis and related products. Beginning with NamasteMD.com, the Group's integrated telemedicine application, Namaste connects medical clients with health care practitioners to more readily issue and renew cannabis prescriptions online. Featuring the first Canadian Medical Sales-Only License, the Group's own Cannmart.com is 'everything cannabis store' offering clients a large variety of strains to fill their prescription needs. Namaste's unique artificial intelligence (AI) engine incorporated in its platforms and related Uppy App, completes our ecosystem by identifying the right product and pairing to address specific medical cannabis requirements. Namaste also provides vaporizers and accessories across several platforms. Namaste's global technology addresses local needs in a burgeoning cannabis industry requiring smart solutions.

## SEGMENT INFORMATION

The Company reports its results in six operating segments: Namaste Bahamas & Dollinger US<sup>1</sup> (together referred to as, "Namaste Vapes"), Australian Vaporizers, CannMart Inc. and CannMart Labs Inc. (together referred to as, "CannMart"), Namaste MD, Findify<sup>2</sup> and Corporate & Other.

*Namaste Vapes and Australian Vaporizers* - These are the Company's global e-commerce businesses that sell hardware, including vaporizers, glassware and related accessories.

*CannMart* - CannMart Inc. is a wholly-owned subsidiary of the Company licensed under Canada's Access to Cannabis for Medical Purposes Regulations. It is focused on providing medical cannabis patients with access to high quality cannabis products.

*Namaste MD* - Namaste MD is a Health Canada compliant telemedicine application, providing an integrated patient portal with remote access to healthcare practitioners for the purpose of acquiring prescriptions for medical cannabis.

*Findify* - Findify is an e-commerce machine learning application with over 1200 customers in more than 60 countries around the world. Findify has developed a unique machine learning core, that leverages user behaviour, to personalise online experiences in real-time. Findify is an official Shopify Plus Technology Partner, recognised as a "Best-In-Class Solution" for modern, rapidly growing e-Commerce businesses.

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<sup>1</sup> The operating results of Dollinger US are included up to December 31, 2017, the date when the Company disposed of subsidiary.

<sup>2</sup> The operating results of the Findify segment are included starting from May 18, 2018, the date of acquisition.

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(Expressed in Canadian dollars unless stated otherwise)

## OVERALL PERFORMANCE

The following table summarises the Group's results of operations for the periods indicated (in Canadian dollars except where otherwise indicated):

	Three months ended February 28, 2019	Three months ended February 28, 2018
Revenue	\$ 4,593,457	5,633,830
Gross profit	\$ 987,126	1,793,985
Gross margin	21%	32%
Selling, general and administration expenses	\$ 11,782,742	5,464,318
Net loss attributable to owners of the Company	\$ (10,269,60)	(3,342,672)
Net loss per share (basic and diluted)	(0.03)	(0.01)
<b>Non-IFRS measure</b>		
Adjusted EBITDA	\$ (5,087,559)	(1,536,562)

### ***Revenue***

Revenue for the quarter ended February 28, 2019 was \$4.6 million, compared to \$5.6 million in the comparable quarter in the prior year. The decrease of \$1.3 million was in Namaste Vapes as a result of the divestiture of the U.S. business in December 2017. This decrease was offset by Findify and Namaste MD as these segments were either not yet incorporated or were not yet acquired in the same quarter last year.

### ***Gross margin***

Gross margin for the quarter ended February 28, 2019 was 21%, compared to 32% in the comparable quarter in the prior year. The decrease was due primarily to a lower price mark-up on the vapes business.

### ***Selling, general and administration expenses***

Selling, general and administration expenses for the quarter ended February 28, 2019 was \$11.8 million, compared to \$5.5 million in the comparable quarter in the prior year. The increase was due primarily to higher salaries, higher marketing and IT expenditures to support future growth opportunities as well as an increase in depreciation and amortisation expense, and other non-recurring expenses incurred in connection with the work initiated by the Special Committee of the Board of Directors (the "Special Committee").

### ***Net loss attributable to owners of the Company***

Net loss attributable to owners of the Company for the quarter ended February 28, 2019 was \$10.3 million, compared to \$3.3 million in the comparable quarter in the prior year. The increase was primarily driven by higher selling, general and administration expenses and lower gross margin.

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## ***Adjusted EBITDA***

Adjusted EBITDA (see “Non-IFRS Financial Measures” section) for the quarter ended February 28, 2019 was a loss of \$5.0 million, compared to a loss of \$1.5 million in the comparable quarter in the prior year. The increase in adjusted EBITDA was primarily driven by higher selling, general and administration expenses and lower gross margin.

## **KEY DEVELOPMENTS**

- (a) On December 17, 2018, the Company entered into a share purchase agreement to acquire common shares in Pineapple Express Delivery Inc. (“Pineapple Express”) and an affiliated entity, representing an additional 34% equity in exchange for such number of common shares of Namaste having an aggregate value of approximately \$3.1 million. The transaction closed on March 13, 2019 with Namaste now owning 49% of the issued and outstanding common shares of Pineapple Express.
- (b) On March 6, 2019 the Company entered into a share purchase agreement to acquire 49% of the issued and outstanding shares of Calgary, AB-based Choklat Inc. for \$1.75 million in cash consideration.
- (c) On March 18, 2019 the Company announced the appointment of Baker Tilly WM LLP (“Baker Tilly”) as its auditor. This followed Namaste’s prior announcement on March 5, 2019, that PricewaterhouseCoopers, LLP resigned as auditor of the Company.
- (d) On April 2, 2019, the British Columbia Securities Commission, accepted the Company’s application for, and granted, a management cease trade order (the “MCTO”). The application for the MCTO was made by the Company due to a delay in the filing of its audited annual financial statements for fiscal 2018, the accompanying management’s discussions and analysis and the related CEO and CFO certifications (collectively, the “Annual Filings”) by the filing deadline of April 1, 2019.
- (e) On April 25, 2019, the Company appointed Kenneth Jones to the Board of Directors and chair of the Audit Committee.
- (f) On May 24, 2019, the Company appointed Andy Wilczynski to the Board of Directors and the Audit Committee.

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## RESULTS OF OPERATIONS

The following section provides details of the Group's financial performance for the quarter ended February 28, 2019 compared to the quarter ended February 28, 2018.

### *Revenue*

The following table presents the Group's external revenue by operating segment for each of the periods indicated:

	Namaste Vapes	Australian Vaporizers	CannMart	Namaste MD	Findify	Total
Quarter ended February 28, 2019	\$ 3,039,725	1,057,801	145,052	85,143	265,736	4,593,457
Quarter ended February 28, 2018	4,362,667	1,106,995	164,168	-	-	5,633,830
Change	\$ (1,322,942)	(49,194)	(19,116)	85,143	265,736	(1,040,373)

### Namaste Vapes

Namaste Vapes revenue in the quarter ended February 28, 2019 was \$3.0 million, compared to \$4.3 million in the comparable quarter in the prior year. The decrease of \$1.3 million was due primarily to a decrease in the U.S. business revenue as a result of the disposal of the U.S. business in December 2017.

### Australian Vaporizers

Australian Vaporizers revenue in the quarter ended February 28, 2019 was \$1.0 million, compared to \$1.1 million in the comparable quarter in the prior year. The decrease of 4% was due primarily to a weakening of the Australian dollar against the Canadian dollar.

### CannMart

CannMart revenue decreased by \$0.02 million or 12% in the quarter ended February 28, 2019 compared to the quarter ended February 28, 2018. Revenue generated in the quarter ended February 28, 2019 relates primarily to cannabis sales whereas revenue in the comparable quarter in the prior year relates to hardware sales to a licensed cannabis producer.

### Findify and Namaste MD

Revenue generated in the quarter ended February 28, 2019 by Findify and Namaste MD was \$0.3 million and \$0.1 million, respectively. There was no revenue for the comparable period in prior year for these entities as they are newly acquired or incorporated subsidiaries subsequent to the quarter ended February 2018.

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The following table presents the Group's external revenue based on the location of customers for each of the periods indicated:

	Three months ended February 28, 2019	Three months ended February 28, 2018	Change, \$	Change, %
Australia	\$ 1,087,507	1,234,429	(146,922)	(12%)
United Kingdom	1,073,731	1,346,193	(272,462)	(20%)
Canada	726,395	678,815	47,580	7%
Brazil	628,507	380,879	247,628	65%
Germany	242,024	287,878	(45,854)	(16%)
France	143,011	34,319	108,692	317%
Ireland	141,798	94,160	47,638	51%
United States of America	141,809	1,140,217	(998,408)	(88%)
New Zealand	119,624	71,714	47,910	67%
Other	289,051	365,226	(76,175)	(21%)
	\$ 4,593,457	5,633,830	(1,040,373)	(18%)

Majority of the revenue was generated by several key markets. For the quarter ended February 28, 2019, the top five revenue earning countries generated 82% (2018: 85%) of the total revenue.

### ***Gross profit***

Cost of sales include expenditures relating to products sold, which includes shipping fees, import duties, storage costs, handling charges and insurance. Namaste uses the weighted average method to track and cost inventory items. Inventory consists of hardware, including vaporizers, vaporizer accessories, and cannabis. Inventory consists solely of goods currently available for sale and does not include any unfinished goods or work-in-progress.

Gross profit for the quarter ended February 28, 2019 was \$1.0 million, compared to \$1.8 million in the quarter ended February 28, 2018. The decrease was due primarily to a lower price mark-up on hardware inventory sold.



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### *Selling, general and administration expenses*

The following table presents the Group's selling, general and administration expenses by type of expense for each of the periods indicated:

	Three months ended February 28, 2019	Three months ended February 28, 2018	Change, \$	Change, %
	\$	\$		
Selling and distribution expenses	2,655,269	1,723,398	931,871	54%
General and administration expenses	8,091,428	3,471,249	4,620,179	133%
Other expenses	1,036,045	269,671	766,374	284%

#### Selling and distribution expenses

Selling and distribution expenses include advertising and promotion costs, patient prescription costs and consulting fees.

Advertising and promotion costs consist of online search services as well as costs associated with online promotional and social media tools utilised by Namaste to generate sales. These costs further represent Namaste's significant investment into search engine optimisation and its ongoing customer acquisition strategy. Patient prescription costs includes but are not limited to nurse practitioner and patient coordinators costs. Consulting expenses relate to compensation amounts paid to various companies and individuals for marketing, fulfillment and distribution services, customer service activities, e-commerce product development, back-office e-commerce support and sales commissions.

Selling and distribution expenses for the quarter ended February 28, 2019 increased by \$0.9 million compared to the same period in 2018. This increase was primarily due to an increase in online search services and promotional costs by \$0.7 million and an increase in consulting fees by \$0.2 million to support sales growth.

#### General and administration expenses

General and administration expenses consist of salaries and benefits, share-based compensation costs, legal and professional fees, bank and credit card fees, filing fees, insurance expense, rent expense and other general office expense.

General and administration expenses for the quarter ended February 28, 2019 increased by \$4.6 million compared to the same period in 2018. This increase was due primarily to an increase in salaries by \$1.3 million, and the \$3.2 million incurred for the work initiated by the Special Committee.

#### Other expenses

Other expenses include depreciation and amortisation, foreign exchange gains or losses and acquisition costs incurred in connection with the new businesses acquired.

Other expenses for the quarter ended February 28, 2019 increased by \$0.8 million compared to the same period in 2018. This change was driven by an increase in depreciation and amortisation of \$0.4 million and an increase in foreign exchange loss of \$0.4 million. The increase in depreciation and amortisation was mainly related to the intellectual properties and customer lists acquired as part of the Findify acquisition.

# NAMASTE TECHNOLOGIES INC.

## Management's Discussion and Analysis



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### SUMMARY OF QUARTERLY RESULTS

Namaste's quarterly unaudited interim consolidated financial statements have been prepared in accordance with IFRS. The following quarterly information is presented on the same basis as the annual financial statements and should be read in conjunction with the statements and the accompanying notes.

	May 2017 - Restated	August 2017	November 2017 - Restated	February 2018	May 2018	August 2018	November 2018	February 2019
Revenue	\$ 3,091,205	3,895,915	4,931,110	5,633,830	4,062,221	3,934,150	5,234,082	4,593,457
Gross profit (loss)	\$ 665,186	(301,053)	1,579,533	1,793,985	873,105	930,886	949,088	987,126
Gross margin	22%	(8%)	32%	32%	22%	24%	18%	21%
Net loss	\$ (3,322,885)	(11,378,603)	(3,103,601)	(3,342,672)	(8,097,146)	(8,689,720)	(18,384,292)	(10,278,036)
Net loss per share (basic and diluted)	\$ (0.02)	(0.06)	(0.02)	(0.01)	(0.03)	(0.03)	(0.06)	(0.03)
Total assets	\$ 24,822,785	13,924,370	22,735,617	67,105,025	77,957,330	71,075,238	116,989,959	110,680,055

The Company, in general, has higher revenue in the months of November due to sales generated on Black Friday and Cyber Monday. Gross margins for individual quarters are mostly consistent to the same quarters in the previous year with the exception of the quarter ended August 2017 being at a negative gross margin due to an inventory write-down provision of \$0.6 million recorded in August 2017. The gross margin for the quarters ended November 2018 and February 2019 was lower compared to the same quarters in the prior year as a result of higher freight costs and/or lower price mark-up of hardware inventory sold.

The increase in net loss during the quarter ended August 2017 was primarily due to impairment of goodwill and intangible assets in the amount of \$9.2 million. The higher net loss in the quarters ended May 2018, August 2018 and November 2018 was due primarily to non-cash share-based compensation expense of \$4.0 million, \$4.1 million and \$9.8 million, respectively. The higher net loss in the quarter ended February 2019 was due primarily to non-cash share-based compensation expense, salaries and professional and legal fees incurred in connection with the work initiated by the Special Committee.

Total assets increase in various quarters was directly linked to increase in cash and cash equivalents balance which was the result of cash raised from various private placements and bough-deal financings within the respective quarter.

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## LIQUIDITY AND CAPITAL RESOURCES

### (a) Overview

Namaste's objectives on managing its liquidity and capital resources are to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans while maintaining healthy liquidity reserves and access to capital for at least the next twelve months. Although the Company has been operating in a loss position for the last few years, it has sufficient cash on hand to manage its short-term and long-term objectives.

### (b) Liquidity

As at February 28, 2019, Namaste had a cash balance of \$ 69.2 million and a working capital less cash and cash equivalents of \$ 5.5 million. Working capital consists of current assets less current liabilities. As at February 28, 2019, the Company has sufficient capital resources to satisfy its near term and long-term financial obligations as well as growth initiatives.

The table below sets out the cash and cash equivalents and working capital position of the Group as at February 28, 2019 and November 30, 2018:

	2019	2018
Cash and cash equivalents	\$ 69,265,952	78,210,706
Working capital excluding cash and cash equivalents	5,016,667	2,648,157

Decrease in cash and cash equivalents of \$8.9 million was due primarily to cash flow used in operation.

Increase in working capital excluding cash and cash equivalents of \$2.4 million was due primarily to an increase in inventories of \$1.2 million, an increase in prepaid expenses and other assets of \$0.5 million, and a decrease in accounts payable and accrued liabilities of \$0.9 million.

### (c) Cash flows

The table below sets forth Namaste's cash flows for the quarter ended February 28, 2019 and February 28, 2018:

	2019	2018
Cash used in operating activities	\$ (10,596,103)	(790,749)
Cash used in investing activities	(1,482,698)	(835,727)
Cash provided by financing activities	3,133,214	44,599,142
	\$ (8,945,587)	42,972,666

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## **Operating activities**

For the quarter ended February 28, 2019, cash used in operating activities was \$10.6 million, compared to \$0.8 million in the quarter ended February 28, 2018. The increase in outflow of \$9.8 million was due primarily to increase in selling, general and administration expenses of \$6.0 million, increase in changes in non-cash working capital of \$3.0 million and decrease in gross profit of \$0.8 million.

## **Investing activities**

For the quarter ended February 28, 2019, cash used in investing activities was \$1.5 million, compared to \$0.8 million in the quarter ended February 28, 2018. This increase in outflow was primarily due to higher purchases of intangible assets of \$1.0 million, equity investments of \$0.2 million, offset by a decrease in property and equipment of \$0.5 million.

## **Financing activities**

For the quarter ended February 28, 2019, a decrease in cash generated from financing activities of \$3.1 million, compared to \$44.6 million in the quarter ended February 28, 2018 was due primarily to the cash generated from February 2018 bought deal financing of \$40.2 million, offset by shares issuance costs of \$3.5 million, and a decrease in proceeds from exercise of warrants and options of \$4.3 million.

## **(d) Capital resources**

The Company is authorised to issue an unlimited number of common shares and an unlimited number of preferred shares. The Company has 318,942,517 common shares that are issued and fully paid as of February 28, 2019.

During the quarter ended February 28, 2019, the Company issued 10.4 million common shares on exercise of various share purchase warrants and share purchase options for total gross proceeds of \$3.6 million.

## **USE OF PROCEEDS FROM BOUGHT-DEALS**

On February 27, 2018, the Company completed the February 2018 offering. The intended use of the net offering proceeds (inclusive of the net over-allotment proceeds) was \$16.5 million for CannMart inventories and supplies, \$9.9 million on expanding the customer base, \$3.3 million on e-commerce upgrades, and \$8.1 million for general working capital purposes.

On October 25, 2018, the Company completed the October 2018 offering. The intended use of the net offering proceeds of \$48.5 million was for CannMart and Cannmart Labs inventories and supplies purchases, personnel, facility operations and securities in the amount of \$17.0 million, on completion of the integration of Findify across our e-commerce platforms of \$10.0 million, on expanding Namaste MD's customer base of \$5.0 million, on upgrading and redesigning its e-commerce distribution websites and its enterprise resources planning system of 6.0 million, and \$10.5 million for general working capital purposes.

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As at the date of this MD&A, the Company has deployed the February and October 2018 offering proceeds as follows: \$3.8 million for CannMart and CannMart Labs inventories and supplies purchases, personnel, facility operations and securities; \$1.6 million on expanding the customer base; \$3.2 million on e-commerce upgrades and enterprise resource planning system implementation; and \$29.6 million for general working capital purposes. The remaining net proceeds from the February and October 2018 offering are expected to be used in the next 12 months.

### OFF-BALANCE SHEET ARRANGEMENTS

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

Less than one year	\$	307,580
Between one and five years		438,079
	\$	745,659

### RELATED PARTY TRANSACTIONS

Related parties include directors, key management personnel, and entities controlled or directed by key management.

Related party balances as at February 28, 2019 and as at November 30, 2018, and transactions for the three months period ended February 28, 2019 and 2018, respectively, were as follows:

	2019	2018
<b><i>Related party balances</i></b>		
Accounts receivable (i)	\$ 14,690	18,173
Accounts payable and accrued liabilities (i)	(290,215)	(305,968)
<b><i>Related party transactions</i></b>		
Stock options	-	170,000
Payment processing services (ii)	14,028	77,231
Consulting fees (iii)	47,775	43,938
IT support services (iv)	663,456	89,230
Marketing services (v)	1,392,706	412,720
Technology support income (vi)	(14,690)	-
Key management personnel compensation (vii)	358,122	430,000

(i) Balances with related parties are non-interest bearing, unsecured and due on demand.

(ii) Up to February 3, 2019, the Company utilises payment processing services from Dollinger Enterprises Europe Ltd., a company controlled by the former Chief Executive Officer. The amount outstanding against these services as at February 28, 2019 was \$nil (2018: \$14,138).

(iii) The Company received e-commerce support services in the amount of \$47,775 from the consulting companies controlled by a former Board Member of the Company. The amount outstanding against

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these services as at February 28, 2019 was \$20,674 (2018: \$nil).

- (iv) The Company outsourced substantially all of its technology and IT support services to an entity controlled by a member of key management personnel. There was no outstanding balance against these services as at February 28, 2019 and November 30, 2018.
- (v) The Company outsourced substantially all of its marketing and related services to an entity that is controlled by a member of key management personnel. The amount outstanding against these services as at February 28, 2019 was \$269,541 (2018: \$25,810).
- (vi) The Company received technology support income from an entity, the Company believes is related by virtue of the influence of a former Board Member over the entity under applicable accounting standards. The amount outstanding against these services as at February 28, 2019 was \$14,690 (2018: \$14,910).
- (vii) The key management personnel compensation includes salaries, benefits and incentives.

## FINANCIAL INSTRUMENTS

The following table provides the fair value of each category of financial assets and financial liabilities as at February 28, 2019 and as at November 30, 2018. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Following is the summary of the financial instruments as at February 28, 2019 and November 30, 2018:

	Financial assets at FVOCI	Financial assets at amortised cost	Financial assets FVTPL	Financial liabilities at amortised cost	Total
<b>2019</b>					
<i>Financial assets</i>					
Cash and cash equivalents	\$ -	69,265,952	-	-	69,265,952
Accounts receivable	-	1,643,724	-	-	1,643,724
Investments	4,084,904	-	105,064	-	4,189,968
Long-term deposits	-	43,276	-	-	43,276
	\$ 4,084,904	70,952,952	105,064	-	75,142,920
<i>Financial liabilities</i>					
Accounts payable and accrued liabilities	\$ -	-	-	(5,522,405)	(5,522,405)
Loan payable	-	-	-	(34,680)	(34,680)
	\$ -	-	-	(5,557,085)	(5,557,085)
<b>2018</b>					
<i>Financial assets</i>					
Cash and cash equivalents	\$ -	78,210,706	-	-	78,210,706
Accounts receivable	-	1,627,781	-	-	1,627,781
Investments	3,671,889	-	80,700	-	3,752,589
Long-term deposits	-	15,826	-	-	15,826
	\$ 3,671,889	79,854,313	80,700	-	83,606,902

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

Non-derivative financial assets comprise cash and cash equivalents, accounts receivable, long-term deposits and equity investments.

Cash and cash equivalents, accounts receivable and long-term deposits are classified as financial assets at amortised cost and are subsequently measured at amortised cost using the effective interest method, less impairment losses, if any.

The Company's investments in equity securities are classified as financial assets at FVOCI and are measured at fair value with mark-to-market gains and losses recognised in OCI and accumulated in the investment revaluation reserve within the equity.

Accounts payable and accrued liabilities and loans payable are classified as financial liabilities at amortised cost. Subsequent to initial recognition, all financial liabilities included in accounts payable and accrued liabilities, are measured at amortised cost using the effective interest method.

Derivative financial assets comprise share purchase options and share purchase warrants and are measured at FVTPL.

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

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

The following table summarises the financial assets measured at fair value based on various level of inputs:

	Level 1	Level 2	Level 3	Total
Equity investments	\$ 1,496,485	1,200,000	1,388,419	4,084,904
Derivatives	-	104,064	1,000	105,064
	\$ 1,496,485	1,304,064	1,389,419	4,189,968

During the quarter ended February 28, 2019, unrealised gain on changes in fair value of derivatives recognised in other income was \$0.02 million. The gross unrealised gain on changes in fair value of equity investments recognised in OCI was \$0.06 million.

During the quarter ended February 28, 2019, there were no transfer between the levels of the fair value hierarchy.

# NAMASTE TECHNOLOGIES INC.

Management's Discussion and Analysis



For the quarter ended February 28, 2019

(Expressed in Canadian dollars unless otherwise stated)

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## **FINANCIAL RISKS AND RISK MANAGEMENT**

The Company's exposure to significant risks include, but are not limited to currency risk, interest rate risk, credit risk, price risk and liquidity risk. For a complete discussion of the risks, refer to the Company's unaudited interim consolidated financial statements for the quarter ended February 28, 2019.

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The critical accounting estimates and judgements are disclosed in note 2(e) of the audited consolidated financial statements for the period ended November 30, 2018.

## **CHANGES IN ACCOUNTING POLICIES**

The changes in accounting policies and standards, interpretations and amendments not yet effective are disclosed in note 3 of the unaudited interim consolidated financial statements for the period ended February 28, 2019.

## **NON-IFRS FINANCIAL MEASURES**

Management evaluates the Group's performance using a variety of measures, including "Net loss before income tax, depreciation and amortisation" and "Adjusted EBITDA". The non-IFRS measures discussed below should not be considered as an alternative to or to be more meaningful than revenue or net loss. These measures do not have a standardised meaning prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with IFRS.

The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company.

Management uses these and other non-IFRS financial measures to exclude the impact of certain expenses and income that must be recognised under IFRS when analysing consolidated underlying operating performance, as the excluded items are not necessarily reflective of the Group's underlying operating performance and make comparisons of underlying financial performance between periods difficult. From time to time, the Group may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.



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The following table reconciles net loss to Adjusted EBITDA for the periods presented:

	Three months ended February 28, 2019	Three months ended February 28, 2018
Net loss	\$ (10,278,036)	(3,342,672)
Current income tax expenses (i)	9,802	29,013
Deferred income tax recovery (i)	(103,095)	(70,369)
Depreciation and amortisation (i)	666,212	248,389
Share-based compensation (i)	1,403,536	1,864,100
Special investigation costs (ii)	3,268,476	-
Other income (iii)	(424,287)	(286,305)
Foreign exchange loss (iv)	369,833	21,282
Adjusted EBITDA	\$ (5,087,559)	(1,536,562)

- (i) Current and deferred income taxes, depreciation and amortisation and share-based compensation were excluded from the Adjusted EBITDA calculation as they do not represent cash expenditures.
- (ii) Non-recurring costs related to work initiated by the Special Committee were excluded from Adjusted EBITDA calculation.
- (iii) Other income consisting of gain on disposal of subsidiary, interest income, unrealised gain on derivatives and other miscellaneous non-recurring income were excluded from Adjusted EBITDA calculation.
- (iv) Foreign exchange loss is excluded from Adjusted EBITDA calculation.

### ADDITIONAL INFORMATION

Additional information regarding the Company, including the Company's Annual Information Form, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).