UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended February 28, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-55418

KUSH BOTTLES, INC.

(Name of small business issuer as specified in its charter)

Nevada	**46-5268202**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1800 Newport Circle, Santa Ana, CA 92705
(Address of Principal Executive Offices) (Zip Code)

(714) 243-4311
(Registrant's telephone number, including area code)

N/A
Former name, former address, and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐		Accelerated filer	☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)		Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 64,188,474 shares outstanding as of April 3, 2018.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of management and information currently available to management. In some cases, you can identify forward-looking statements by words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or the negative of these words or other comparable terminology.

The identification in this report of factors that may affect our future performance and the accuracy of forward-looking statements is meant to be illustrative and by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Factors that could cause our actual results to differ materially from those expressed or implied by forward-looking statements include, but are not limited to:

- Trends affecting our financial condition, results of operations or future prospects;
- Our business and growth strategies;
- Our financing plans and forecasts;
- The factors that we expect to contribute to our success and our ability to be successful in the future;
- Our business model and strategy for realizing positive results as sales increase;
- Competition, including our ability to respond to such competition and its expectations regarding continued competition in the market in which we compete;
- Our ability to meet our projected operating expenditures and the costs associated with development of new projects;
- Our ability to pay dividends or to pay any specific rate of dividends, if declared;
- The impact of new accounting pronouncements on our financial statements;
- That our cash flows from operating activities will be sufficient to meet our operating expenditures;
- Our market risk exposure and efforts to minimize risk;
- Development opportunities and our ability to successfully take advantage of such opportunities;
- Regulations, including anticipated taxes, tax credits or tax refunds expected;
- The outcome of various tax audits and assessments, including appeals thereof, timing of resolution of such audits, our estimates as to the amount of taxes that will ultimately be owed and the impact of these audits on our financial statements;
- Our overall outlook including all statements under *Management's Discussion and Analysis of Financial Condition and Results of Operations;*
- That estimates and assumptions made in the preparation of financial statements in conformity with US GAAP may differ from actual results; and
- Our expectations as to future financial performance, cash and expense levels and liquidity sources.

Any forward-looking statements in this Quarterly Report on Form 10-Q reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q, Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 and our other filings with the SEC. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "we," "us" and "our" refer to Kush Bottles, Inc., and its subsidiaries.

KUSH BOTTLES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED FEBRUARY 28, 2018
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PART I - FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

KUSH BOTTLES, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

	February 28, 2018	August 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	$ 7,059,922	$ 916,984
Accounts receivable, net of allowance	3,896,196	1,695,303
Prepaid expenses and other current assets	4,204,253	1,625,689
Inventory	7,259,369	3,754,171
Total Current Assets	22,419,740	7,992,147
Goodwill	34,247,344	34,247,344
Intangible assets, net	3,363,536	3,730,287
Deposits	191,423	50,235
Deferred tax asset	30,081	30,081
Property and equipment, net	1,077,160	931,763
TOTAL ASSETS	$ 61,329,284	$ 46,981,857
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 3,161,169	$ 1,039,889
Accrued expenses and other current liabilities	1,184,240	993,186
Contingent cash consideration	1,650,000	1,820,000
Notes payable – current portion	354,613	689,450
Line of credit – current portion	742,504	—
Total Current Liabilities	7,092,526	4,542,525
LONG-TERM DEBT		
Deferred tax liability	1,151,536	1,424,173
Notes payable	27,447	34,513
TOTAL LIABILITIES	8,271,509	6,001,211
COMMITMENTS and CONTINGENCIES	—	—
STOCKHOLDERS' EQUITY		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.001 par value, 265,000,000 shares authorized, 63,624,114 and 58,607,066 shares issued and outstanding, respectively	63,624	58,607
Additional paid-in capital	54,397,094	41,529,283
Stock Payables	30,000	—
Accumulated deficit	(1,432,943)	(607,244)
Total Stockholders' Equity	53,057,775	40,980,646
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 61,329,284	$ 46,981,857

See accompanying notes to the unaudited condensed consolidated financial statements

KUSH BOTTLES, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended February 28,		For the Six Months Ended February 28,	
	2018	**2017**	**2018**	**2017**
REVENUE	$ 10,361,376	$ 2,970,332	$ 19,208,491	$ 5,442,593
COST OF GOODS SOLD	7,450,732	1,913,270	13,612,854	3,549,789
GROSS PROFIT	2,910,644	1,057,062	5,595,637	1,892,804
OPERATING EXPENSES				
Depreciation	205,757	10,174	407,572	19,478
Stock compensation expense	1,026,928	147,564	1,408,671	262,808
Selling, general and administrative	2,557,929	894,870	4,507,921	1,741,921
Total Operating Expenses	3,790,614	1,052,608	6,324,164	2,024,207
INCOME (LOSS) FROM OPERATIONS	(879,970)	4,454	(728,527)	(131,403)
OTHER INCOME (EXPENSES)				
Other expense	—	—	—	(23,944)
Interest expense	(28,581)	(835)	(30,994)	(1,869)
Total Other Income (Expenses)	(28,581)	(835)	(30,994)	(25,813)
INCOME (LOSS) BEFORE INCOME TAXES	(908,551)	3,619	(759,521)	(157,216)
PROVISION FOR INCOME TAXES	11,763	—	66,178	—
NET INCOME (LOSS)	$ (920,314)	$ 3,619	$ (825,699)	$ (157,216)
BASIC INCOME (LOSS) PER SHARE	$ (0.01)	$ 0.00	$ (0.01)	$ (0.00)
DILUTED INCOME (LOSS) PER SHARE	$ (0.01)	$ 0.00	$ (0.01)	$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	62,155,608	49,104,742	60,614,074	49,245,364
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED	62,155,608	50,540,603	60,614,074	49,245,364

See accompanying notes to the unaudited condensed consolidated financial statements

KUSH BOTTLES, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	For the Six Months Ended February 28,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (825,699)	$ (157,216)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	407,571	19,478
Depreciation cost of goods sold	82,739	53,618
Stock compensation expense	1,408,671	262,808
Changes in operating assets and liabilities		
Accounts receivable	(2,200,893)	(287,043)
Provision for deferred taxes	(272,637)	
Prepaids	(2,647,357)	17,946
Inventory	(3,505,198)	(768,349)
Accounts payable	2,070,118	385,756
Accrued expenses and other current liabilities	49,866	(43,648)
Net cash used in operating activities	(5,432,819)	(516,650)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of web domain	(9,321)	—
Purchase of property and equipment	(259,635)	(660,922)
Net cash used in investing activities	(268,956)	(660,922)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of car loan	(8,508)	—
Earn out payable	(170,000)	—
Proceeds from note payable	-	24,785
Repayment of note payable	(333,395)	(9,980)
Proceeds from line of credit	742,504	—
Proceeds from sale of stock	11,614,112	2,968,923
Net cash provided by financing activities	11,844,713	2,983,728
NET INCREASE (DECREASE) IN CASH	6,142,938	1,806,156
CASH AT BEGINNING OF PERIOD	916,984	1,027,003
CASH AT END OF PERIOD	$ 7,059,922	$ 2,833,159
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest	$ 30,994	$ 1,869
Income taxes	$ 66,178	$ —
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Services prepaid for in common stock	$ 102,800	$ —
Shares issued for accounts payable	$ 159,983	$ —

See accompanying notes to the condensed consolidated financial statements

NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Kush Bottles, Inc. ("the Company") was incorporated in the state of Nevada on February 26, 2014.

Kush Bottles, Inc. ("the Company") was incorporated in the state of Nevada on February 26, 2014. The Company provides customizable packaging products, materials and supplies for the cannabis industry. Representative examples of the Company's products include pop-top bottles, vaporizer cartridges and accessories, exit/barrier bags, tubes, and other small-sized containers. The Company's wholly owned subsidiary Kim International Corporation (KIM), a California corporation, was originally incorporated as Hy Gro Economics Corporation ("Hy Gro") on December 2, 2010. On October 30, 2012, Hy Gro amended its articles of incorporation to reflect a name change to KIM International Corporation (KIM). On March 4, 2014, the shareholders of KIM exchanged all 10,000 of their common shares for 32,400,000 common shares of Kush Bottles, Inc. The operations of KIM became the operations of Kush after the share exchange and accordingly the transaction is accounted for as a recapitalization of KIM whereby the historical financial statements of KIM are presented as the historical financial statements of the combined entity. KIM was the acquiring entity in accordance with ASC 805, Business Combinations. The accumulated losses of KIM were carried forward after the completion of the share exchange. Operations prior to the share exchange were those of KIM.

Acquisition of CMP Wellness, LLC

On May 1, 2017, the Company entered into an agreement of merger agreement with Lancer West Enterprises, Inc. a California corporation, Walnut Ventures, a California corporation, Jason Manasse, an individual, and Theodore Nicols, an individual, pursuant to which each of Lancer West Enterprises, Inc. and Walnut Ventures were merged with and into Merger Sub, with Merger Sub as the surviving corporation, resulting in the Company's indirect acquisition of CMP Wellness, LLC, a California limited liability company, which prior to the merger, was owned 100% by Lancer West Enterprises, Inc. and Walnut Ventures. CMP Wellness, LLC is a distributor of vaporizers, cartridges and accessories.

The acquisition was accounted for using the acquisition method of accounting in accordance with ASC 805, Business Combinations. The purchase price payable to Jason Manasse and Theodore Nicols at the closing of the merger in exchange for consummating the merger was comprised of an aggregate of $1,500,000 in cash, unsecured promissory notes in the aggregate principal amount of approximately $770,820, having a one-year maturity, and an aggregate of 7,800,000 restricted shares of the Company's common stock. The purchase price is subject to customary post-closing adjustments with respect to confirmation of the levels of working capital and cash held by CMP Wellness, LLC as of the closing. During the one-year period following the closing, Jason Manasse and Theodore Nicols may become entitled to receive up to an additional approximately $1,905,000 in cash, in the aggregate, and approximately 4,740,960 shares of common stock of the Company, in the aggregate, based on the future performance of CMP Wellness, LLC (See Note 2).

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements and related notes include the activity of the Company and its wholly owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. All intercompany balances and transactions have been eliminated. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The Company's operating results for the three and six months period ended February 28, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ended August 31, 2018, or for any other period. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the fiscal year ended August 31, 2017. The condensed consolidated balance sheet as of August 31, 2017 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP. There have been no changes to the Company's significant accounting policies described in its Annual Report on Form 10-K for the fiscal year ended August 31, 2017 that have had a material impact on our condensed consolidated financial statements and related notes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period.

Significant estimates relied upon in preparing these unaudited condensed consolidated financial statements include revenue recognition, accounts receivable reserves, inventory and related reserves, valuations and purchase price allocations related to business combinations, expected future cash flows used to evaluate the recoverability of long-lived assets, estimated fair values of long-lived assets used to record impairment charges related to intangible assets and goodwill, amortization periods, accrued expenses, stock-based compensation, contingent liabilities and recoverability of the Company’s net deferred tax assets and any related valuation allowance.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. Changes in estimates are recorded in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management’s estimates.

The Company is subject to a number of risks similar to those of other companies of similar size and having a focus of serving the cannabis industry, including, the development stage of certain products, competition, limited number of suppliers, integration of acquisitions, substantial indebtedness, government regulations, protection of proprietary rights, and dependence on key individuals.

Segments

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who is the chief executive officer, in deciding how to allocate resources and assessing performance. Over the past few years, the Company has completed a number of acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in the cannabis industry. While the Company has offerings in multiple geographic locations for its products for the cannabis industry, including as a result of the Company's acquisitions, the Company’s business operates in one operating segment because the majority of the Company's offerings operate similarly, and the Company’s chief operating decision maker evaluates the Company’s financial information and resources and assesses the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the unaudited condensed consolidated financial statements.

Cash and Cash Equivalents

The Company considers cash and cash equivalents to consist of cash on hand and investments having an original maturity of 90 days or less that are readily convertible into cash. The Company invests its cash and cash equivalents with financial institutions with highly rated credit and monitors the amount on deposit at the financial institution. As of February 28, 2018, and August 31, 2017, the Company had $7,059,922 and $916,984 respectively.

Accounts Receivable

Trade accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis, thus trade receivables do not bear interest. Trade accounts receivables are periodically evaluated for collectability based on past credit history and their current financial condition. The Company’s allowance for doubtful accounts was $65,308 and $25,000 as of February 28, 2018 and August 31, 2017, respectively.

Inventory

Inventories are stated at the lower of cost or net realizable value using the first-in first out (FIFO) method. The Company's inventory consists of finished goods of $7,259,369 and $3,754,171 as of February 28, 2018 and August 31, 2017, respectively.

Property and Equipment

Property and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the shorter of estimated useful life of the asset or the lease term, after the asset is placed in service. The estimated useful lives of the property and equipment are generally as follows: computer software acquired for internal use, three to seven years; computer equipment, two to three years; leasehold improvements, three to life of lease; and furniture and equipment, one to 7 years. Gains and losses from the retirement or disposition of property and equipment are included in operations in the period incurred. Maintenance and repairs are expensed as incurred.

Fair Value of Financial Instruments

The fair value of certain of the Company's financial instruments, including cash and cash equivalents, receivables, other current assets, accounts payable, accrued compensation and employee benefits, other accrued liabilities and notes payable, approximate their carrying amounts because of the short-term maturity of these instruments.

Concentration of Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, and accounts receivable. Collateral is not required for accounts receivable. The Company maintains an allowance for its doubtful accounts receivable. This allowance is based upon historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with delinquent accounts. Receivables are written-off and charged against its recorded allowance when the Company has exhausted collection efforts without success. The Company's losses related to collection of trade receivables have consistently been within management's expectations. Due to these factors, no additional credit risk beyond amounts provided for collection losses, which the Company reevaluates on a monthly basis based on specific review of receivable aging and the period that any receivables are beyond the standard payment terms, is believed by management to be probable in the Company's accounts receivable.

Although, the Company is directly affected by the overall financial condition of the cannabis industry, management does not believe significant credit risk exists as of February 28, 2018. The Company generally has not experienced any material losses related to receivables from individual customers or groups of customers. The Company maintains an allowance for doubtful accounts based on accounts past due according to contractual terms and historical collection experience. Actual losses when incurred are charged to the allowance.

The Company purchases products from a small number of suppliers. A change in or loss of these suppliers could cause a delay in filling customer orders and a possible loss of sales, which would adversely affect results of operations; however, management believes that suitable replacement suppliers could be obtained in such an event.

Intangible Assets acquired through Business Combinations

Intangible assets, domain name, trademarks and non-compete agreements that are deemed to have a definite life are amortized over their estimated useful lives and intangible assets with an indefinite life are assessed for impairment at least annually. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization.

Impairment Assessment

The Company evaluates intangible assets and long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. This includes but is not limited to significant adverse changes in business climate, market conditions, or other events that indicate an asset's carrying amount may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset to the future undiscounted cash flows the asset is expected to generate. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of these assets, the carrying amount of such assets is reduced to fair value. The Company evaluates and tests the recoverability of its goodwill for impairment at least annually during its fourth quarter of each fiscal year or more often if and when circumstances indicate that goodwill may not be recoverable. There was no impairment of intangible assets, long-lived assets or goodwill during the six months ended February 28, 2018 and for the fiscal year ended August 31, 2017.

Valuation of Business Combinations and Acquisition of Intangible Assets

The Company records intangible assets acquired in business combinations and acquisitions of intangible assets under the purchase method of accounting. The Company accounts for acquisitions in accordance with FASB ASC Topic 805, *Business Combinations*. Amounts paid for each acquisition are allocated to the assets acquired and liabilities assumed based on their fair values at the dates of acquisition. The Company then allocates the purchase price in excess of the fair value of the net tangible assets acquired to identifiable intangible assets, including purchased intangibles based on detailed valuations that use information and assumptions provided by management. The Company allocates any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill.

The Company uses the income approach, the relief from royalty method (both a market and income method), and the with and without method to determine the fair values of its purchased intangible assets. The Company uses the probability-weighted expected return method (an income approach) to determine the appropriate amount of contingent consideration to include in the purchase price for an acquisition. The Company bases its revenue assumptions on estimates of relevant market sizes, expected market growth rates, expected industry trends and expected product introductions by competitors. In arriving at the value. The Company bases the discount rate used to arrive at a present value as of the date of acquisition on the time value of money and cannabis industry investment risk factors. For the intangible assets acquired, the Company used risk-adjusted discount rates ranging from 19% to 26% to discount its projected cash flows. The Company believes that the estimated purchased intangible asset amounts so determined represent the fair value at the date of acquisition and do not exceed the amount a third party would pay for the projects.

The Company also used the income approach (probably weighted cash flow), as described above, to determine the estimated fair value of certain identifiable intangibles assets including domain names and tradenames. Domain names represent established relationships with customers, which provides a ready channel for the sale of additional products and services. Tradenames represent acquired product names that the Company intends to continue to utilize. The Company used the with and without method to ascertain the fair value of the non-competition agreement.

Goodwill and Intangible Assets

Goodwill and intangible assets that have indefinite useful lives are not amortized but are evaluated for impairment annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company records intangible assets at historical cost. The Company amortizes its intangible assets that have finite lives using either the straight-line method or based on estimated future cash flows to approximate the pattern in which the economic benefit of the asset will be utilized. Amortization is recorded over the estimated useful lives ranging from four to six years. The Company reviews intangible assets subject to amortization quarterly to determine if any adverse conditions exist or a change in circumstances has occurred that would indicate impairment or a change in the remaining useful life. Conditions that would indicate impairment and trigger a more frequent impairment assessment include, but are not limited to, a significant adverse change in legal factors or business climate that could affect the value of an asset, or an adverse action or assessment by a regulator. If the carrying value of an asset exceeds its undiscounted cash flows, the Company will write-down the carrying value of the intangible asset to its fair value in the period identified. The Company generally calculates fair value as the present value of estimated future cash flows to be generated by the asset using a risk-adjusted discount rate. If the estimate of an intangible asset's remaining useful life is changed, the Company will amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

Consistent with prior years, the Company conducted its annual impairment test of goodwill during the fourth quarter of fiscal 2017. The estimate of fair value requires significant judgment. Any loss resulting from an impairment test would be reflected in operating income in the Company's unaudited condensed consolidated statements of income. The annual impairment testing process is subjective and requires judgment at many points throughout the analysis. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets not previously recorded.

Business Combinations

The Company uses its best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's condensed consolidated statements of operations.

Earnings (Loss) Per Share

The Company computes earnings per share under Accounting Standards Codification subtopic 260-10, "Earnings per Share" ("ASC 260-10"). Basic net income (loss) per common share is computed by dividing net loss by the weighted average number of shares of common stock. Diluted net loss per share is computed using the weighted average number of common and common stock equivalent shares outstanding during the period.

Basic earnings per share are computed by dividing net earnings by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are computed by dividing net earnings by the sum of (a) the weighted average number of shares of common stock outstanding during the period and (b) the potentially dilutive securities outstanding during the period. Stock options are potentially dilutive securities; and the number of dilutive options is computed using the treasury stock method. The effect of the contingent equity consideration relating to the acquisition of CMP is also factored into the calculation of dilutive securities.

The following table sets forth the calculation of basic and diluted earnings per share:

	Three months ended		**Six months ended**	
	February 28, 2018	**February 28, 2017**	**February 28, 2018**	**February 28, 2017**
Net income (loss)	$ (920,314)	$ 3,619	$ (825,699)	$ (157,216)
Weighted average common shares outstanding for basic EPS	62,155,608	49,104,742	60,614,074	49,245,364
Net effect of dilutive options	—	1,435,861	—	—
Net effect of contingent equity consideration	—	—	—	—
Weighted average common shares outstanding for diluted EPS	62,155,608	50,540,603	60,614,074	49,245,364
Basic earnings (loss) per share	$ (0.01)	$ 0.00	$ (0.01)	$ (0.00)
Diluted earnings (loss) per share	$ (0.01)	$ 0.00	$ (0.01)	$ (0.00)

Comprehensive Income (loss)

Comprehensive income (loss) is the change in the Company's equity (net assets) during each period from transactions and other events and circumstances from non-owner sources. During the quarters ended February 28, 2018 and 2017, the Company had no elements of comprehensive income or loss.

Revenue Recognition

It is the Company's policy that revenues from product sales is recognized in accordance with ASC 605 "Revenue Recognition". Four basic criteria must be met before revenue can be recognized; (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding fixed nature in selling prices of the products delivered and the collectability of those amounts. The Company has not implemented any specific rebate programs. Provisions for discounts to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. During the three month period ended February 28, 2018 and 2017, the Company had no provisions for sales discounts of $0 and $19,457, respectively. The Company has not established a formal customer incentive program, but considers and accommodates discounts to certain customers on a case by case basis, including by way of example, for volume shipping or for certain new customers with orders over a specific discretionary dollar threshold. The Company classifies the reimbursement by customers of shipping and handling costs as revenue and the associated cost as cost of revenue.

As of February 28, 2018 and 2017, the Company had a refund allowance of nil, respectively. Consistent with ASC 605-15-25-1, the Company considers factors such as historical return of products, estimated remaining shelf life, price changes from competitors, and introductions of competing products in establishing a refund allowance. The Company recognizes revenues when and title to products transfers to the customer (which generally occurs at the time shipment is made), the sales price is fixed or determinable, and collectability is reasonably assured. The Company defers any revenue for which the product was not delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

Warranty Costs

The Company has not had any historical warranty related expenditures and so does not record a reserve for warranty costs.

Share-based Compensation

The Company account for its stock based award in accordance with Accounting Standards Codification subtopic 718-10, "Compensation", which requires fair value measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including restricted stock awards. The Company estimates the fair value of stock using the stock price on the date of the approval of the award. The fair value is then expensed over the requisite service periods of the awards, which is generally the vesting period and the related amount is recognized in the consolidated statements of operations.

Advertising

The Company conducts advertising for the promotion of its products and services. In accordance with ASC Topic 720-35-25, advertising costs are charged to operations when incurred.

Income Taxes

The Company accounts for income taxes in accordance with accounting guidance now codified as FASB ASC 740, "Income Taxes," which requires that the Company recognize deferred tax liabilities and assets based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit (expense) results from the change in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all deferred tax assets will not be realized.

The Company applies the provisions of ASC 740, "Accounting for Uncertainty in Income Taxes". The ASC prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The ASC provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions (tax contingencies). The first step evaluates the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the Company will sustain the position on audit, including resolution of related appeals or litigation processes. The second step measures the tax benefit as the largest amount more than 50% likely of being realized upon ultimate settlement. The Company did not identify any material uncertain tax positions on returns that have been filed or that will be filed. The Company did not recognize any interest or penalties for unrecognized tax benefits during the six months ended February 28, 2018 and the fiscal year ended August 31, 2017, nor were any interest or penalties accrued as of February 28, 2018 and August 31, 2017.

Fair Value of Financial Instruments

The Company adopted ASC 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under this standard certain assets and liabilities must be measured at fair value, and disclosures are required for items measured at fair value.

The Company currently does not have non-financial assets or non-financial liabilities that are required to be measured at fair value on a recurring basis. The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. The fair value of the Company's cash is based on quoted prices and therefore classified as Level 1.

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 - Unobservable inputs that reflect management's assumptions about the assumptions that market participants would use in pricing the asset or liability.

Application of Valuation Hierarchy

Financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following is a description of the valuation methodology used to measure fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The Company has a contingent consideration liability of $1,650,000 which consists of contingent cash consideration of $1,650,000 resulting from the acquisition of CMP (Note 2). The contingent consideration liability is calculated based on the weighted average probability of meeting certain milestones. This liability is remeasured at each reporting period. The Company had no other financial assets or liabilities that are measured at fair value on a recurring basis as of February 28, 2018.

The following table summarizes, for assets or liabilities measured at fair value, the respective fair value and the classification by level of input within the fair value hierarchy:

		Fair Value Measurement at Reporting Date Using		
Description	**February 28, 2018**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Contingent consideration liability	$ 1,650,000	$ —	$ —	$ 1,650,000

The Company classifies its contingent consideration liability within Level 3 as the valuation inputs are based on quoted market prices and market observable data. During the year ended August 31, 2017, the Company recognized a change in the fair value of its contingent consideration liability of $169,625, which increased liability from $1,735,375 to $1,905,000. A payment of $85,000 was made towards this liability during the year ended August 31, 2017, resulting in a net liability of $1,820,000. During the six months ended February, a payment of $170,000 was made towards this liability, resulting in a net liability of $1,650,000. During the three months ended February 28, 2018, the Company did not recognize any change in the fair value of its contingent consideration liability of $1,650,000.

Recently Issued Accounting Pronouncements

On December 22, 2017 the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the TCJA). SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but for which they are able to determine a reasonable estimate, it must record a provisional amount in the financial statements. Provisional treatment is proper in light of anticipated additional guidance from various taxing authorities, the SEC, the FASB, and even the Joint Committee on Taxation. If a company cannot determine a provisional amount to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA. The Company is still in the process of estimating the tax impact and is expected to apply this guidance at year end.

In September 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-13, *"Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments."* The amendments in ASU No. 2017-13 amends the early adoption date option for certain companies related to the adoption of ASU No. 2014-09 and ASU No. 2016-02. The Company may still adopt using the public company adoption guidance in the related ASUs, as amended. The effective date is the same as the effective date and transition requirements for the amendments for ASU 2014-09 and ASU 2016-02.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate the adoption of ASU 2017-04 will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. This guidance will be effective for the Company in the first fiscal quarter of 2018 on a prospective basis, and early adoption is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements.

In August, 2016, the FASB issued Accounting Standards Update No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)* ("ASU 2016-15"). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under ASC Topic 230, *Statement of Cash Flows.* The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The Company has not yet completed the analysis of how adopting this guidance will affect its consolidated financial statements.

In May 2016, accounting guidance was issued to clarify the not yet effective revenue recognition guidance issued in May 2014. This additional guidance does not change the core principle of the revenue recognition guidance issued in May 2014, rather, it provides clarification of accounting for collections of sales taxes as well as recognition of revenue (i) associated with contract modifications, (ii) for noncash consideration, and (iii) based on the collectability of the consideration from the customer. The guidance also specifies when a contract should be considered "completed" for purposes of applying the transition guidance. The effective date and transition requirements for this guidance are the same as the effective date and transition requirements for the guidance previously issued in 2014, which is effective for interim and annual periods beginning on or after December 15, 2017. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company's management currently anticipates adopting the standard using the modified retrospective method. While management is still in the process of completing the analysis on the impact this guidance will have on the Company's consolidated financial statements, related disclosures, and its internal controls over financial reporting. The Company has not yet determined whether the impact that this new guidance will be material to its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The amendments in this update change existing guidance related to accounting for employee share-based payments affecting the income tax consequences of awards, classification of awards as equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the potential impact of the adoption of this standard

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the consolidated balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the potential impact of the adoption of this standard.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update revise the accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. The amendments are effective for annual reporting periods after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of this standard.

Other Accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 2 – ACQUISITION OF CMP WELLNESS, LLC

On May 1, 2017 ("Merger Date"), the Company and KBCMP, Inc., a Delaware corporation and newly formed wholly-owned subsidiary of the Company ("Merger Sub"), entered into an Agreement of Merger (the "Merger Agreement") with Lancer West Enterprises, Inc. a California corporation and Walnut Ventures, a California corporation, pursuant to which each of Lancer West Enterprises, Inc. and Walnut Ventures were merged with and into Merger Sub, with Merger Sub as the surviving corporation, resulting in the Company's indirect acquisition of CMP Wellness, LLC ("CMP"), a California limited liability company, which prior to the merger, was owned 100% by Lancer West Enterprises, Inc. and Walnut Ventures. Membership interest in CMP was the sole and only asset of Lancer West Enterprises, Inc. and Walnut Ventures. As a result, CMP became a wholly-owned subsidiary of the Company. CMP is a distributor of vaporizers, cartridges and accessories. The Company's Directors believed the acquisition of CMP and the product offerings of CMP leveraged the Company's existing product development program and provided the Company with the possibility of generating near term revenue and operating cash flow, as well as establishing a commercial platform whereby other cannabis industry-support products may be accessed in the future. Going forward, the existing product offering and other product licensing opportunities, will be the basis of the Company's long-term product portfolio.

The acquisition consideration consisted of a cash payment of $1,500,000, unsecured promissory notes in the aggregate principal amount of approximately $770,820, having a one-year maturity, and an aggregate of 7,800,000 restricted shares of the Company's common stock (equal to 12% of the Company's common stock outstanding as of February 28, 2018). During the one-year period following the closing, the two sellers of CMP may become entitled to receive up to an additional $1,905,000 in cash, in the aggregate, and 4,740,960 shares of common stock of the Company, in the aggregate, based on the gross profit generated by CMP product line for the period from May 1, 2017 to April 30, 2018. Per the terms of the Merger Agreement, post-closing adjustments to CMP's working capital is directly offset to the unsecured promissory notes payable. Management has estimated that the post-closing working capital adjustments amounted to $104,032, which management estimates will result in a decrease of the unsecured promissory notes payable from $770,820 to $666,788. In accordance with ASC 805, management has evaluated the estimated fair value of the contingent consideration based a probability-weighted assessment of the occurrence of CMP reaching certain gross profit earnout targets. The Company initially recorded a contingent liability for the contingent cash consideration of $1,735,375 and recorded contingent equity consideration of $10,763,760. Based on information obtained during the fourth fiscal quarter, the Company revised its estimate of the contingent cash consideration from $1,735,375 to $1,905,000, and its estimate of the contingent equity consideration from $10,763,760 to $11,852,400. A payment of $85,000 was made towards this liability during the year ended August 31, 2017, resulting in a net liability of $1,820,000. During the six months ended February, a payment of $170,000 was made towards this liability, resulting in a net liability of $1,650,000. During the three months ended February 28, 2018, the Company did not recognize any change in the fair value of its contingent consideration liability of $1,650,000.

CMP's assets acquired and liabilities assumed are recorded at their acquisition-date fair values. As part of the purchase price allocation, all intangible assets that were a part of the acquisition were identified and valued. It was determined that only non-competition agreements and trade name had separately identifiable values. Trade name represents the CMP product names that the Company intends to continue to use. The deferred income tax liability relates to the tax effect of acquired identifiable intangible assets as such amounts are not deductible for tax purposes. For the acquisition discussed above, goodwill represents the excess of the purchase price over the net identifiable tangible and intangible assets acquired. The Company determined that the acquisition of CMP resulted in the recognition of goodwill primarily because of synergies unique to the Company and the strength of its acquired workforce.

The results of operations of CMP were consolidated beginning on the date of the merger. Acquisition-related transaction costs are not included as a component of consideration transferred, but are accounted for as an expense in the period in which the costs are incurred. Any excess of the acquisition consideration over the fair value of tangible and intangible assets acquired and liabilities assumed is allocated to goodwill. The amount of contingent consideration was recorded at its estimated fair value as of the acquisition date. The subsequent accounting for contingent consideration depends on whether the contingent consideration is classified as a liability or equity. The portion of contingent consideration classified as equity is not remeasured in subsequent accounting periods. However, contingent consideration classified as a liability is remeasured to its fair value at the end of each reporting period and the change in fair value is reflected in income or expense during that period. Any changes within the measurement period resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recorded at the acquisition date.

The equity consideration received by CMP members was calculated based on the negotiated price per share of common stock of the Company of $2.50, which approximated the quoted market price on the acquisition date. The contingent equity consideration (number of common shares) was also calculated based on the negotiated price per share of common stock of the Company of $2.50, which approximated the quoted market price. The total preliminary acquisition consideration used in preparing the consolidated financial statements is as follows:

Acquisition Consideration:

	May 1, 2017 (As initially reported)	Measurement Period Adjustments (1)	August 31, 2017 (As adjusted)
Cash	$ 1,500,000	$ —	$ 1,500,000
Fair value of common shares issued to CMP members	19,500,000	—	19,500,000
Promissory notes	660,216	6,572	666,788
Estimated fair value contingent cash consideration	1,735,375	169,625	1,905,000
Estimated fair value contingent equity consideration	10,763,760	1,088,640	11,852,400
Total estimated acquisition consideration	$ 34,159,351	$ 1,264,837	$ 35,424,188

(1) As of August 31, 2017, the Company revised its estimate of the contingent cash consideration from $1,735,375 to $1,905,000, and the Company revised its estimate of the contingent equity consideration from $10,763,760 to $11,852,400, to reflect the increased probability of the sellers of CMP reaching the maximum earnouts available. An additional post-closing adjustment of $6,572 was recorded, which resulted in an increase of the promissory notes from $660,216 to $666,788. The balance of the note payable at February 28, 2018 reflects principal payments of $333,395 made to the sellers of CMP. The balance of the contingent cash consideration $1,650,000 as of February 28, 2018, reflects a decrease of $255,000 due to cash payments made to the sellers of CMP.

NOTE 3 – CONCENTRATIONS OF RISK

Supplier Concentrations

The Company purchases inventory from various suppliers and manufacturers. For the six months ended February 28, 2018 and 2017, two vendors, Transpring and Shenzhen Buddy Technology Co. Ltd., accounted for approximately 40% and 7%, respectively, of total inventory purchases.

Customer Concentrations

During the six months ended February 28, 2018 there was one customer which represented over 10% of the Company's revenues there were no such customers for the same period ended February 28, 2017. As of February 28, 2018, there were two customers who represented 22% of accounts receivable. As of February 28, 2017, there was one customer that accounted for over 10% of accounts receivable.

NOTE 4 – RELATED-PARTY TRANSACTIONS

The Company leases its California and Colorado facilities from related parties. During the six months ended February 28, 2018 and 2017, the Company made rent payments of $107,360 and $101,400, respectively, to these related parties.

NOTE 5 – PROPERTY AND EQUIPMENT

The major classes of fixed assets consist of the following as of February 28, 2018 and August 31, 2017:

	February 28, 2018	August 31, 2017
Machinery and equipment	$ 900,739	$ 886,608
Vehicles	144,845	144,845
Office Equipment	163,373	118,387
Leasehold improvements	272,064	71,545
	1,481,021	1,221,385
Accumulated Depreciation	(403,861)	(289,622)
	$ 1,077,160	$ 931,763

Depreciation expense was $114,239 and $73,096 for the six months ended February 28, 2018 and 2017, respectively. Of the $114,239 of depreciation expense, $31,449 is included in depreciation and amortization expense and $82,740 is included in cost of goods sold on the consolidated statements of operations.

NOTE 6 – INTANGIBLE ASSETS

On May 3, 2017, pursuant to an Asset Purchase Agreement between the Company and RUB Acquisition, LLC (“Seller”), the Company acquired the domain name and inventory for $150,000 in cash and 200,000 shares of restricted common stock having a fair value of $466,000. During the one-year period following the closing, the Seller may become entitled to receive up to an additional $100,000 in cash and 400,000 shares of common stock of the Company if certain contingent milestones are achieved. The Company accounted for the contingent consideration based upon a probability-weighted assessment of the occurrence of triggering events outlined in the asset purchase agreement. The Company initially recorded a preliminary contingent liability for the contingent cash consideration of $50,000 and recorded contingent equity consideration of $466,000. As of August 31, 2017, management determined that the probability of the Seller receiving the contingent earnout payments was remote. As a result and pursuant to guidance in ASC Topic 360-10-30-1 and Topic 450-20-25-2, the Company reduced the basis of the intangible asset by $516,000 to reflect these change of events. The fair value of the equity consideration issued at closing and the fair value of the contingent equity consideration was based on the closing price of the Company’s stock on May 3, 2017, which was $2.33.

The total acquisition consideration used in preparing the consolidated financial statements is as follows:

Asset Acquisition Consideration:	
Cash	$ 150,000
Fair value of common shares issued to seller	466,000
Total estimated acquisition consideration	$ 616,000

The following table summarizes the allocation of the fair values of the assets acquired:

Inventory	$ 26,716
Finite-lived intangible assets:	
Domain name	589,284
Net assets acquired	616,000
Total fair value of consideration	$ 616,000

As a result of the acquisition of CMP Wellness, LLC, on May 1, 2017, the Company identified an intangible asset of $2,600,000 relating to the CMP trade name acquired and $800,000 relating to non-compete agreement.

Intangible assets consist of the following:

			As of February 28, 2018		As of August 31, 2017	
Acquisition	**Description**	**Weighted Average Estimated Useful Life**	**Gross Carrying Value**	**Accumulated Amortization**	**Gross Carrying Value**	**Accumulated Amortization**
Roll-Uh-Bowl	Domain name	5 years	$ 598,605	$ (107,291)	$ 589,284	$ (47,886)
CMP Wellness, LLC	Trade name	6 years	2,600,000	(361,111)	2,600,000	(144,444)
	Non-compete agreement	4 years	800,000	(116,667)	800,000	(66,667)
			$ 3,363,536	$ (635,069)	$ 3,989,284	$ (258,997)

The Company operates as one reporting segment. The Company determined that the web domain has an estimated useful life of five (5) years. The Company determined that the trade name has an estimated useful life of six (6) years and the non-compete has an estimated useful life of four (4) years. Amortization expense related to domain name, trade name and non-competition agreement is classified as a component of amortization of acquired intangible assets in the accompanying consolidated statement of operations. Accordingly, amortization expense of $376,072 was recorded for the six months ended February 28, 2018.

NOTE 7 – ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

	February 28, 2018	August 31, 2017
Customer deposits	$ 581,689	$ 319,492
Accrued compensation	290,964	245,975
Income tax payable	1,774	219,082
Credit card liabilities	92,382	142,157
Deferred rent	25,301	25,881
Sales tax payable	20,130	17,182
Other accrued expenses	172,000	23,417
	$ 1,184,240	$ 993,186

NOTE 8 – NOTES PAYABLE

As partial consideration for the acquisition of CMP, the Company issued the sellers unsecured promissory notes totaling $770,820. Management has estimated that the post-closing working capital adjustments amounted to $104,032, which resulted in a decrease of the unsecured promissory notes payable from $770,820 to $666,788. The promissory notes mature on May 1, 2018 and bear interest at an annual rate of 1.15%. The notes and accrued and unpaid interest are payable in quarterly installments beginning August 1, 2017. As of February 28, 2018, management has accrued for $1,438 of interest on the promissory notes, which is included in accrued expenses and other current liabilities. The principal balance of $333,394 is recognized in the current portion of notes payable in the consolidated balance sheet as of February 28, 2018. Principal payments of $333,395 were made during the six months ended February 28, 2018.

Automobile Contracts Payable

The Company has entered into purchase contracts for its vehicles. The loans are secured by the vehicles and bear interest at an average interest rate of approximately 6% per annum. Future principal payments on these automobile contracts payable is summarized in the table below:

February 28, 2018	Principal Due
2018	$ 14,153
2019	19,310
2020	11,815
2021	3,388
	$ 48,666

NOTE 9 – LOAN AGREEMENT

On November 16, 2017, the Company and KIM as borrowers, and all of the Company's other subsidiaries, as credit parties, entered into a Loan and Security Agreement (the "Loan Agreement") with Gerber Finance Inc., as lender ("Gerber"), effective as of November 6, 2017. The Loan Agreement provides a secured revolving credit facility (the "Revolving Line") in an aggregate principal amount of up to $2.0 million at any time outstanding (subsequently increased to $4.0 million), of which $742,504 including accrued interest was outstanding on February 28, 2018. Under the original terms of the Loan Agreement, the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding cannot exceed up to 85% of the Company's eligible receivables minus reserves. Under the terms of the Loan Agreement, the Company may also request letters of credit from Gerber. The proceeds of the loans under the Loan Agreement will be used for working capital and general corporate purposes. The Revolving Line has a maturity date of November 6, 2019. Borrowings under the Revolving Line accrues interest at a rate based on the prime rate as customarily defined, plus a margin of 3.0%. On March 8, 2018, the Company and KIM entered into an amendment to the Loan Agreement with Gerber. Pursuant to this amendment, the aggregate principal amount of the Revolving Line at any time outstanding was increased to $4.0 million and the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding cannot exceed the lesser of (i) 40% of the value of certain inventory and (ii) 50% of certain accounts receivable.

NOTE 10 – STOCKHOLDERS' EQUITY

Preferred Stock

The authorized preferred stock is 10,000,000 shares with a par value of $0.001. As of February 28, 2018, and August 31, 2017, the Company has no shares of preferred stock issued or outstanding.

Common Stock

The authorized common stock is 265,000,000 shares with a par value of $0.001. As of February 28, 2018, and August 31, 2017, 63,624,114 and 58,607,066 shares were issued and outstanding, respectively.

During the six months ended February 28, 2018, the Company sold 4,626,296 shares of its common stock to investors in exchange for cash of $11,387,005. For the same period ended February 28, 2017 the Company sold 1,726,266 shares of its common stock to investors in exchange for cash of $2,939,923.

During the six months ended February 28, 2018, the Company received $30,000 from an investor but the shares were not issued as of February 28, 2018.

Share-based Compensation

The Company recorded stock compensation expense of $1,408,671 and $262,808 for the six month periods ended February 28 2018 and 2017, respectively, in connection with the issuance of shares of common stock and options to purchase common stock.

During the six month period ended February 28, 2018, the Company issued 56,624 shares of common stock to consultants in exchange for $162,829 of services, of which $128,822 was service rendered and $34,007 of prepaid services.

During the six month period ended February 28, 2018, the Company entered into a separation agreement dated as of January 12, 2018 with one employee. The Company issued 100,000 restricted common shares as part of the separation agreement to this employee, which valued at $667,000 and was recorded as share-based compensation as of February 28, 2018.

Stock Options

The Company's 2016 Stock Incentive Plan (the Plan) was adopted on February 9, 2016. The Plan permits the grant of share options and shares to its employees and directors for up to 5,000,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on three years of continuous service and have 10-year contractual terms.

The Company estimates the fair value of share-based compensation utilizing the Black-Scholes option pricing model, which is dependent upon several variables such as the expected option term, expected volatility of the Company's stock price over the expected option term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of stock options granted to employees and directors which are subject to ASC Topic 718 requirements. These amounts are estimates and thus may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants. The Company recognizes compensation on a straight-line basis over the requisite service period for each award. The following table summarizes the assumptions the Company utilized to record compensation expense for stock options granted during the six months ended February 28, 2018 and 2017:

	February 28, 2018	**February 28, 2017**
Expected term (years)	1-4	1-4
Expected volatility	60%	60%
Weighted-average volatility	60%	60%
Risk-free interest rate	1.44%-2.37%	0.85%-1.57%
Dividend yield	0%	0%
Expected forfeiture rate	33%	33%

The expected life is computed using the simplified method, which is the average of the vesting term and the contractual term. The expected volatility is based on management's analysis of historical volatility for comparable companies. The risk-free interest rate is based on the U.S. Treasury yields with terms equivalent to the expected term of the related option at the time of the grant. While the Company believes these estimates are reasonable, the compensation expense recorded would increase if the expected life was increased, a higher expected volatility was used, or if the expected dividend yield increased.

During the six months ended February 28, 2018 and 2017, the Company issued 1,517,500 and 865,000 stock options, respectively, pursuant to the Company’s 2016 Stock Incentive Plan. A summary of the Company’s stock option activity during the six month period ended February 28, 2018 is presented below:

	No. of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance Outstanding, August 31, 2017	5,275,500	$ 1.73	8.0 years	$ 917,610
Granted	1,517,500	$ 3.50	9.9 years	—
Exercised	255,734	$ 1.23	—	—
Forfeited	1,534,167	$ 2.62	—	—
Balance Outstanding, February 28, 2018	5,003,009	$ 2.52	8.6 years	11,178,632
Exercisable, February 28, 2018	2,096,861	$ 1.03	7.6 years	4,242,215

The weighted-average grant-date fair value of options granted during the six months ended February 28, 2018 and 2017, was $3.50 and $0.81, respectively. The weighted-average grant-date fair value of options forfeited during the six months ended February 28, 2018 was $2.62.

During the six months ended February 28, 2018, the Company issued 234,128 shares of common stock pursuant to exercises of stock options and received cash of $197,107.

A summary of the status of the Company’s non-vested options as of August 31, 2017, and changes during the six month period ended February 28, 2018, is presented below:

	No. of Options	Weighted Average Grant-Date Fair Value
Nonvested at August 31, 2017	3,679,972	$ 1,878,144
Granted	1,517,500	5,313,270
Exercised	(255,734)	(311,370)
Vested	(501,333)	(115,435)
Forfeited	(1,534,167)	(69,300)
Nonvested at February 28, 2018	2,906,238	$ 8,088,830

As of February 28, 2018, there was $8,088,830 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 7.6 years. The total fair value of shares vested during the six month period February 28, 2018 is $115,435. This amount is included in stock compensation expense on the consolidated statements of operations.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Lease

The Company's corporate head-quarters and primary distribution center is located in Santa Ana, California. In July 2017, the Company entered into a facility lease in Garden Grove, California. The Garden Grove facility lease expires on August 1, 2022 and requires escalating monthly payments that range between $24,480 and $28,379. As part of the acquisition of CMP on May 1, 2017, the Company assumed the lease for CMP's facility located in Lawndale, California. The lease expires in January 2019, and requires escalating monthly payments that range between $4,031 and $4,143. On April 1, 2016, the Company entered into a sublease agreement for a facility located in Woodinville, Washington. The lease commenced on July 15, 2016 and expires on January 31, 2020, and requires escalating monthly payments that range between $14,985 and $16,022. Effective April 10, 2015, the Company assumed the facility lease in Denver, Colorado, which is the headquarters of operations for its wholly-owned subsidiary, Dank. On September 1, 2016, the Colorado facility lease was amended to include additional office space. The lease runs through March 31, 2020 and requires escalating monthly payments, ranging between $4,800 and $7,300. During the six months ended February 28, 2018 and 2017, the Company recognized $346,317 and $189,338, respectively, of rental expense, related to its office, retail and warehouse space. The increase is the result of the addition of the CMP Wellness facility as well as expenses related to the Company's new headquarters in Garden Grove, CA.

Minimum future commitments under non-cancelable operating leases and other obligations were as follows:

Year ended August 31,	
2018	306,856
2019	601,102
2020	444,420
2021	322,604
2022	332,278
	$ 2,007,260

CMP Wellness

During the one-year period following the acquisition of CMP (see Note 2) the two sellers of the business may become entitled to receive up to an additional $1,650,000 in cash and 4,740,960 shares of common stock of the Company. The liability is based on the gross profit generated by CMP product line for the period from May 1, 2017 to April 30, 2018 as outlined in the acquisition agreement.

Other Commitments

In the ordinary course of business, the Company may enter into contractual purchase obligations and other agreements that are legally binding and specify certain minimum payment terms. The Company had no such agreements as of February 28, 2018.

Litigation

The Company may be subject to legal proceedings and claims which arise in the ordinary course of its business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters should not have a material adverse effect on its financial position, results of operations or liquidity. The Company had no pending legal proceedings or claims as of February 28, 2018.

NOTE 12 – SUBSEQUENT EVENTS

On March 8, 2018, the Company and KIM entered into an amendment to the Loan and Security Agreement with Gerber. Pursuant to this amendment, the aggregate principal amount of the Revolving Line at any time outstanding was increased to $4.0 million and the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding cannot exceed the lesser of (i) 40% of the value of certain inventory and (ii) 50% of certain accounts receivable .

Subsequent to February 28, 2018 and through April 3, 2018, the Company issued 564,360 shares related to stock sold to investors for $2,480,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Concerning Forward-Looking Statements

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and related notes included in this report. This report contains "forward-looking statements." The statements contained in this report that are not historic in nature, particularly those that utilize terminology such as "may," "will," "should," "expects," "anticipates," "estimates," "believes," or "plans" or comparable terminology are forward-looking statements based on current expectations and assumptions.

Various risks and uncertainties could cause actual results to differ materially from those expressed in forward-looking statements. The forward-looking events discussed in this report, the documents to which we refer you and other statements made from time to time by us or our representatives, may not occur, and actual events and results may differ materially and are subject to risks, uncertainties, and assumptions about us. For these statements, we claim the protection of the "bespeaks caution" doctrine. All forward-looking statements in this document are based on information currently available to us as of the date of this report, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results to differ materially from any future results, performance, or achievements expressed or implied by such forward-looking statements.

Overview

We provide customizable packaging products, materials and supplies for the cannabis industry. Representative examples of our products include pop-top bottles, vaporizer cartridges and accessories, exit/barrier bags, tubes, and other small-sized containers. We sell our solutions predominantly to businesses operating in jurisdictions that have some form of cannabis legalization. These businesses include medical and recreational dispensaries, large and small scale processors, and packaging re-distributors.

We believe that we have created one of the largest product libraries in the cannabis industry, allowing us to be a comprehensive solutions provider to our customers. Our extensive knowledge of the regulatory environment applicable to the cannabis industry allows us to quickly adapt to our customers' packaging requirements. We maintain the flexibility to enter the markets of decriminalized regions by establishing re-distributor partnerships or opening new facilities. We also have the flexibility to introduce new products and services to our vast customer network. We have no supplier purchase commitments and no take or pay arrangements. In addition to these factors, we believe that we offer competitive pricing, prompt deliveries, and excellent customer service. We expect continued growth as we take measures to expand into new markets, invest in our systems and personnel, forge strategic alliances and invest in our own molds and intellectual property.

Acquisitions

On May 1, 2017 ("Merger Date"), the Company and KBCMP, Inc., a Delaware corporation and newly formed wholly-owned subsidiary of the Company ("Merger Sub"), entered into an Agreement of Merger (the "Merger Agreement") with Lancer West Enterprises, Inc., a California corporation and Walnut Ventures, a California corporation, pursuant to which each of Lancer West Enterprises, Inc. and Walnut Ventures were merged with and into Merger Sub, with Merger Sub as the surviving corporation, resulting in our indirect acquisition of CMP Wellness, LLC ("CMP"), a California limited liability company. Prior to the merger, CMP was owned 100% by Lancer West Enterprises, Inc. and Walnut Ventures. Membership interest in CMP was the sole asset of Lancer West Enterprises, Inc. and Walnut Ventures. As a result, CMP became our wholly-owned subsidiary. CMP is a distributor of vaporizers, cartridges and accessories. Our Board of Directors believed the acquisition of CMP and the product offerings of CMP leveraged our existing product development program and provided us with the possibility of generating near term revenue and operating cash flow, as well as establishing a commercial platform whereby other cannabis industry-support products may be accessed in the future. Going forward, the existing product offering and other product licensing opportunities will be the basis of our long-term product portfolio. The operational results discussed below include the activity of CMP during the three and six months ended February 28, 2018.

The purchase price for CMP consisted of an aggregate of $1,500,000 in cash, unsecured promissory notes in the aggregate principal amount of approximately $770,820 having a one-year maturity, and an aggregate of 7,800,000 restricted shares of the Company's common stock. The purchase price is subject to customary post-closing adjustments with respect to confirmation of the levels of working capital and cash held by CMP as of the closing. During the one-year period following the closing, the former owners of CMP may become entitled to receive up to an additional approximately $1,650,000 in cash, in the aggregate, and approximately 4,740,960 shares of our common stock, in the aggregate, based on the future performance of CMP.

In May 2017, we acquired intellectual property, domain name, and inventory relating to RUB. The purchase price for the intellectual property and inventory was $150,000 in cash and 200,000 shares of our common stock having an estimated fair value of $466,000. The $150,000 was paid out of existing cash. We are amortizing the cost of the domain name over six years.

Results of Operations – Comparison for the three month periods ended February 28, 2018 and 2017

Revenue

For the three months ended February 28, 2018, our revenue increased to $10,361,376, compared to $2,970,332 for the comparable period in 2017, which represents an increase of $7,391,044 or 249%. The Company experienced solid organic growth across all markets, namely in California following the adoption of adult use cannabis sales from January 1st, 2018. In addition, vaping product related sales remained strong as this sector of the cannabis industry continues to perform well. In addition, the Company witnessed strong growth of its custom branded product and printed business as customers seek differentiated brand building solutions in line with regulatory requirements.

Gross Profit

Gross profit for the three months ended February 28, 2018 was $2,910,644, or 28% of revenue, compared to $1,057,062, or 36% of revenue, for the three months ended February 28, 2017. The decrease in gross margin percentage is primarily attributable to increased freight cost and the mix of products sold, driven by vaporizers and cartridges sales that carry lower margins than the rest of the product portfolio.

Operating Expenses

Our operating expenses for the three months ended February 28, 2018 increased to $3,790,614, or 37% of total revenue, from $1,052,608, or 35% of total revenue, for the comparable period in 2017. The increase is due to the expansion of the business, primarily attributed to increased personnel cost, insurance, professional and facility expenses. The Company will continue to make significant investments in infrastructure and supply chain to scale efficiently.

Operating Results

Operating results for the three months ended February 28, 2018 was a loss of $879,970 compared to net profit of $4,454, for the comparable period in 2017.

Interest and Other Income (Expense), Net

Interest and Other Income (Expense), net during the three months ended February 28, 2018 was expense of $(33,407), as compared to an expense of $835 for the comparable period of 2017. The increase is attributed interest expense related to the recently established credit line.

Income Tax Provision

The provision for income taxes was $11,763 for the three month period ended February 28, 2018 and $0 for the three month period ended February 28, 2017.

Net Results

Our net result for the three months ended February 28, 2018 was a loss of $920,314 or $0.01 per share, compared to a net profit of $3,619 or $0.00 per share, for the comparable period in 2017.

Results of Operations – Comparison for the six month periods ended February 28, 2018 and 2017

Revenue

For the six months ended February 28, 2018, our revenue increased to $19,208,491, compared to $5,442,593 for the comparable period in 2017, which represents an increase of $13,765,898 or 253%. The Company experienced solid organic growth across all markets, namely in California following the adoption of adult use cannabis sales from January 1st, 2018. In addition, vaping product related sales remained strong as this sector of the cannabis industry continues to perform well. In addition, the Company witnessed strong growth of its custom branded product and printed business as customers seek differentiated brand building solutions in line with regulatory requirements.

Gross Profit

Gross profit for the six months ended February 28, 2018 was $5,595,639, or 29% of revenue, compared to $1,892,804 or 35% of revenue, for the six months ended February 28, 2017. The decrease in gross margin percentage is primarily attributable to the mix of products sold, driven by vaporizers and cartridges sales that carry lower margins than the rest of the product portfolio.

Operating Expenses

Our operating expenses for the six months ended February 28, 2018 increased to $6,324,166, or 33% of total revenue, from $2,024,207, or 37% of total revenue, for the comparable period in 2017. The increase is due to the expansion of the business, primarily attributed to increased personnel cost, insurance, professional and facility expenses. The Company will continue to make significant investments in infrastructure and supply chain to scale efficiently.

Operating Results

Operating results for the six months ended February 28, 2018 was a loss of $728,527 compared to net loss of $131,403, for the comparable period in 2017.

Interest and Other Income (Expense), Net

Interest and Other Income (Expense), net during the six months ended February 28, 2018 was expense of $30,994, as compared to an expense of $25,813 for the comparable period of 2017. The increase is attributed interest expense related to the recently established credit line.

Income Tax Provision

The provision for income taxes was $66,178 for the six month period ended February 28, 2018 and $0 for the six month period ended February 28, 2017.

Net Results

Our net result for the six months ended February 28, 2018 was a loss of $825,699 or $0.01 per share, compared to a net loss of $157,216 or $0.00 per share, for the comparable period in 2017.

Liquidity and Capital Resources

At February 28, 2018, we had cash of $7,059,932 and a working capital surplus of $15,327,214 compared to cash of $916,984 and working capital of $3,449,622 as of August 31, 2017. Working capital increased by $11,875,465 or 344%. The increase is due to cash from the sale of our common stock in private placements and inventory.

Cash Flows from Operating Activities

For the six months period ended February 28, 2018, net cash used in operating activities was $5,432,819 compared to $516,650 in net cash used in operating activities for the comparable period in 2017. The change is primarily attributed to an increase in inventory, including related prepayments and accounts receivable.

Cash Flows from Investing Activities

Net cash used in investing activities decreased from $660,922 to $268,956 for the six month period ended February 28, 2018 due to the Company purchased less assets compared to the same period of 2017.

Cash Flows from Financing Activities

Net cash provided by financing activities decreased from $2,983,723 to $11,844,713 for the six month period ended February 28, 2017 and February 28, 2018, respectively. The decrease is primarily attributed to the decrease of cash received from sale of shares of the Company's common stock in private placements compared to the six month period ended February 28, 2017.

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, working capital balances, and capital structure to meet the short-term and long-term obligations of our business while seeking to maintain liquidity and financial flexibility.

As of February 28, 2018, we have historically funded our operations primarily through the issuance of equity. We had net loss of $825,699, for the six months ended February 28, 2018 and had an accumulated deficit of $1,432,943 as of February 28, 2018. For the six months ended February 28, 2017, we had net income of $157,216, and an accumulated deficit of $833,924 as of February 28, 2017.

We believe that income generated from operations are adequate to fund existing obligations and introduce new products for at least the next twelve months. We may elect to raise additional funds, through debt or equity financings, for the purposes of expanding current operations, making capital acquisitions, or consummating strategic transactions. Additional equity or debt financing may not be available when needed, on terms favorable to us or at all.

Off-Balance Sheet Arrangements

We do not currently have, and did not have during the periods presented, any off-balance sheet arrangements, as defined under SEC rules.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of the condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, accounts receivable reserves, inventory and related reserves, valuations and purchase price allocations related to business combinations, expected cash flows used to evaluate the recoverability of long-lived assets, estimated fair values of long-lived assets used to record impairment charges related to intangible assets and goodwill, amortization periods, accrued expenses, stock-based compensation, contingent liabilities, and recoverability of our net deferred tax assets and any related valuation allowance. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We do not use derivative financial instruments in our investment portfolio and have no foreign exchange contracts. Our financial instruments consist of cash and cash equivalents. We consider investments that, when purchased, have a remaining maturity of ninety (90) days or less to be cash equivalents. We do not believe that a notional or hypothetical 10% change in interest rate percentages would have a material impact on the fair value of our investment portfolio or our interest income.

Item 4. Controls and Procedures

Management's Evaluation of our Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we are responsible for conducting an evaluation of the effectiveness of the design and operation of our internal controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the fiscal quarter covered by this report. Disclosure controls and procedures means that the material information required to be included in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to our company, including any consolidating subsidiaries, and was made known to us by others within those entities, particularly during the period when this report was being prepared. Based on this evaluation, our principal executive officer and principal financial officer concluded as of the evaluation date that our disclosure controls and procedures were not effective as of February 28, 2018.

The material weaknesses that existed on August 31, 2017 are described in Part II, Item 9A – Controls and Procedures in our most recent Annual Report on Form 10-K, filed on November 29, 2017. Due to a lack of financial resources and size, we are not able to take any action to immediately remediate these material weaknesses. We will implement further controls as circumstances, cash flow, and working capital permit. Notwithstanding the assessment that our disclosure controls and procedures were not effective and that there were material weaknesses as identified in this report, we believe that our financial statements fairly present our financial position, results of operations and cash flows for the periods covered thereby in all material respects.

We have taken steps to enhance our internal control over financial reporting and plan to take additional steps to remediate the material weaknesses. Specifically:

(i) We appointed additional independent members with public company board experience to our board of directors, such that our board of directors is now composed of a majority of independent directors;

(ii) On March 9, 2018, our board of directors formed an Audit Committee composed entirely of independent directors that will, among other things, assist the board of directors in its oversight of the integrity of our financial statements and our financing reporting processes and systems of internal control;

(iii) We have adopted a Code of Business Conduct and Ethics and a whistleblower policy;

(iv) We added staff to our finance team, and outsourced to third party the assessment of certain complex transactions under US GAAP; and

(v) On January 2018, we hired a controller with public company experience

We believe that the measures described above will strengthen our internal control over financial reporting. We expect that our efforts, including design, implementation and testing will continue throughout fiscal year 2018.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with our evaluation we conducted of the effectiveness of our internal control over financial reporting as of February 28, 2018, that occurred during our second fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

To the best of the Company's knowledge and belief, no material legal proceedings are currently pending or threatened.

Item 1A. Risk Factors.

Item 1A of Part I of our Annual Report on Form 10-K for the year ended August 31, 2017, filed with the SEC on November 28, 2017 and Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended November 30, 2017, filed with the SEC on January 16, 2018, contain risk factors identified by the Company. To our knowledge, there have been no material changes to the risk factors we previously disclosed. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business. To our knowledge and except to the extent additional factual information disclosed in this Quarterly Report on Form 10-Q relates to such risk factors, there have been no material changes in the risk factors described in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended August 31, 2017 and Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended November 30, 2017.

Item 2. Unregistered Sales of Equity Securities.

During the six months ended February 28, 2018, the Company sold 4,626,296 shares of its common stock to investors in exchange for cash of $11,387,005. For the same period ended February 28, 2017 the Company sold 1,726,266 shares of its common stock to investors in exchange for cash of $2,939,923.

During the six months ended February 28, 2018, the Company received $30,000 from an investor but the shares were not issued as of February 28, 2018.

Subsequent to February 28, 2018 and through the date of this filing, we granted 6,803 unregistered shares of Company common stock for services pursuant to contracts, with an aggregate fair market value of $20,749, and we sold 564,360 shares of our common stock to investors in exchange for gross proceeds of $2,480,000.

These securities were issued without registration under the Securities Act in reliance on registration exemptions contained in Section 4(a)(2) of the Securities Act and Regulation D as transactions by an issuer not involving any public offering. The recipients of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. The sales of these securities were made without general solicitation or advertising.

Item 3. Default Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable to our Company.

Item 5. Other Information.

On March 8, 2018, we and Kim International Corporation entered into an amendment to the Loan and Security Agreement with Gerber Finance Inc. Pursuant to the amendment, the aggregate principal amount of our secured revolving credit facility with Gerber at any time outstanding was increased to $4.0 million and the principal amount of loans, plus the face amount of any outstanding letters of credit, at any time outstanding cannot exceed the lesser of (i) 40% of the value of certain inventory and (ii) 50% of certain accounts receivable.

Item 6. Exhibits

The following exhibits are filed as part of this Current Report on Form 10-Q. Where such filing is made by incorporation by reference to a previously filed document, such document is identified.

Exhibit Number	Description of Exhibit
10.1#(1)	Separation Agreement dated as of January 12, 2018 by and between Kush Bottles, Inc. and Ben Wu.
10.2(1)	Consulting Agreement dated as of January 19, 2018 by and between Kush Bottles, Inc. and Ben Wu.
10.3*	First Amendment to Loan and Security Agreement dated as of March 8, 2018 by and among Gerber Finance Inc., Kush Bottles, Inc. and Kim International Corporation.
31.1*	Certification of principal executive officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of principal financial and accounting officer pursuant to Rules 13a-15(e) and 15d-15(e), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of principal financial and accounting officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Previously filed as an exhibit to the Company's Current Report on Form 8-K (filed January 19, 2018) and incorporated by reference thereto.

* Filed herewith.

** This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

\# Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		KUSH BOTTLES, INC.
Date: April 12, 2018	By:	/s/ Nicholas Kovacevich Nicholas Kovacevich Chairman and Chief Executive Officer
Date: April 12, 2018	By:	/s/ James McCormick James McCormick Chief Financial Officer and Chief Operating Officer

Exhibit 10.3

Gerber Finance Inc.

488 Madison Avenue
New York, New York 10022

March 8, 2018

FIRST AMENDMENT TO LOAN AND SEC!JRITY A9REEMENT

First Amendment dated March 8, 2018 to Loan and Security Agreement dated as of November 6, 2017 (this "Amendment") is entered into among Kush Bottles Inc., Kim International Corporation ("Borrowers") and Gerber Finance Inc. ("Lender").

BACKGROUND

Borrowers and Lender are parties to a Loan and Security Agreement dated as of November 6, 2017 (as amended, modified, restated or supplemented from time to time, the "Loan Agreement") pursuant to which Lender provides financial accommodations to Borrower.

Borrower and Lender have agreed to amend the Loan Agreement on the terms and conditions hereafter set forth.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrower by Lender, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Amendment to Loan Agreement. Subject to satisfaction of the conditions precedent set forth in Section 3 below, the Loan Agreement is hereby amended as follows:

(a) The following defined terms in Section 1.1 are replaced in their entirety to read as below:

"Inventory Availability" means the amount of Revolving Credit Advances against Eligible Inventory Lender may from time to time make available to Borrowers up to the lesser of (a) forty percent (40%) of the value of Borrowers' Eligible Inventory (calculated on the basis of the lower of cost or market, on a first in first out basis) or (b) fifty percent (50%) of Accounts Receivable Availability.

"Maximum Revolving Amount" means FOUR MILLION DOLLARS ($4,000,000).

2. Conditions of Effectiveness. This Amendment shall become effective upon satisfaction of the following conditions precedent, each in a manner and pursuant to agreement form and substances satisfactory to Lender:

(a) Lender shall have received this Amendment duly executed on behalf of Borrower;

(b) Lender shall have received the Note Attached to this Amendment as Exhibit A duly executed on behalf of Borrower; and

(c) Lender shall have received a fee in the amount of $22,250.00 which may be charged to Borrower's loan account as a Revolving Credit Advance.

3. Representations and Warranties. Borrower hereby represents and warrants as follows:

(a) This Amendment and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of Borrower and are enforceable against Borrower in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment, Borrower hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby and agree that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Amendment.

(d) Borrower has no defense, counterclaim or offset with respect to the Loan Agreement.

4. Effect on the Loan Agreement.

(e) Upon the effectiveness of Section 2 hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

(f) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(g) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of Agent or Lenders, nor constitute a waiver of any provision of the Loan Agreement, or any other Credit Documents.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective duly authorized officers as of the date first above written.

KUSH BOTTLES INC.

By: /s/ James McCormick
Name: James McCormick
Title: COO and CFO
Date: 3/19/2018

KIM INTERNATIONAL CORPORATION

By: /s/ James McCormick
Name: James McCormick
Title: CFO and COO
Date: 3/19/2018

GERBER FINANCE INC.

By: /s/ Jennifer Palmer
Name: Jennifer Palmer
Title: President
Date: 3/29/2018

EXHIBIT A

AMENDED AND RESTATED PROMISSORY NOTE

$4,000,000.00 March 8, 2018

This Amended and Restated Promissory Note (this "Note") is executed and delivered under and pursuant to the terms of that certain Loan and Security Agreement dated as of November 6, 2018 (as amended, modified, supplemented or restated from time to time, the "Loan Agreement") by and among Kush Bottles Inc., a Nevada corporation, and Kim International Corporation, a California corporation ("Borrower", individually, "Initial Borrower" and, collectively, if more than one, the "Initial Borrowers"), and together with each other Person which, on or subsequent to the Closing Date, agrees in writing to become a "Borrower" under the Loan Agreement, herein called, individually, a "Borrower" and, collectively, the "Borrowers," and pending the inclusion by written agreement of any other such Person, besides each Initial Borrower, as a "Borrower" hereunder, all references herein to "Borrowers," "each Borrower," the "applicable Borrower," "such Borrower" or any similar variations thereof (whether singular or plural) shall all mean and refer to the Initial Borrower or each one of them collectively) and Gerber Finance Inc. ("Lender"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement.

FOR VALUE RECEIVED, Borrowers, jointly and severally, promise to pay to the order of Lender at its offices located at 488 Madison Avenue, New York, New York 10022 or at such other place as the holder hereof may from time to time designate to Borrower in writing:

(A) the principal sum of FOUR MILLION AND 00/100 DOLLARS ($4,000,000.00), or if different from such amount, the unpaid principal balance of Loans as may be due and owing from time to time under the Loan Agreement, payable in accordance with the provisions of the Loan Agreement, subject to acceleration upon the occurrence of an Event of Default under the Loan Agreement, or earlier termination of the Loan Agreement pursuant to the terms thereof; and

(B) interest on the principal amount of this Note from time to time outstanding, payable at the applicable interest rate in accordance with the provisions of the Loan Agreement. Upon and after the occurrence of an Event of Default, and during the continuation thereof, interest shall be payable at the applicable Default Rate. In no event, however, shall interest hereunder exceed the maximum interest rate permitted by law.

This Note is the Note referred to in the Loan Agreement and is secured, inter alia, by the liens granted pursuant to the Loan Agreement and the other Credit Documents, is entitled to the benefits of the Loan Agreement and the other Credit Documents, and is subject to all of the agreements, terms and conditions therein contained.

This Note may be voluntarily prepaid, in whole or in part, on the terms and conditions set forth in the Loan Agreement.

If an Event of Default under Section 12.1(f) of the Loan Agreement shall occur, then this Note shall immediately become due and payable, without notice, together with attorneys' fees if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof. If any other Event of Default shall occur under the Loan Agreement or any of the other Credit Documents which is not cured within any applicable grace period, then this Note may, as provided in the Loan Agreement, be declared to be immediately due and payable, without notice, together with attorneys' fees, if the collection hereof is placed in the hands of an attorney to obtain or enforce payment hereof.

This Note shall be governed by and construed in accordance with the laws of the State of New York.

To the fullest extent permitted by applicable law, each Borrower waives: (a) presentment, demand and protest, and notice of presentment, dishonor, intent to accelerate, acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all of the Obligations, the Loan Agreement, this Note or any other Credit Documents; (b) all rights to notice and a hearing prior to Lender's taking possession or control of, or to Lender's replevy, attachment or levy upon, the Collateral or any bond or security that might be required by any court prior to allowing Lender to exercise any of its remedies; and (c) the benefit of all valuation, appraisal and exemption laws.

Each Borrower acknowledges that this Note is executed as part of a commercial transaction and that the proceeds of this Note will not be used for any personal or consumer purpose.

Each Borrower agrees to pay to Lender all fees and expenses described in the Loan Agreement and the other Credit Documents.

KUSH BOTTLES INC.

By: /s/ James McCormick
Name: James McCormick
Title: CFO

KIM INTERNATIONAL CORPORATION

By: /s/ James McCormick
Name: James McCormick
Title: CFO

Exhibit 31.1

Certification

I, Nicholas Kovacevich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kush Bottles, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 12, 2018

/s/ Nicholas Kovacevich
Nicholas Kovacevich
Chairman and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

Certification

I, Jim McCormick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Kush Bottles, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 12, 2018

/s/ Jim McCormick
Jim McCormick
Chief Financial Officer and Chief Operating Officer
(principal accounting and financial officer)

Exhibit 32.1

CERTIFICATION OF PERIODIC FINANCIAL REPORT
PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned officer of Kush Bottles, Inc. (the “Company”) hereby certifies to his knowledge that the Company’s Quarterly Report on Form 10-Q for the three months ended February 28, 2018 (the “Report”) to which this certification is being furnished as an exhibit, as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K (“Item 601(b)(32)”) promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: April 12, 2018

/s/ Nicholas Kovacevich
Nicholas Kovacevich
Chairman and Chief Executive Officer
(principal executive officer)

Exhibit 32.2

CERTIFICATION OF PERIODIC FINANCIAL REPORT
PURSUANT TO 18 U.S.C. SECTION 1350

The undersigned officer of Kush Bottles, Inc. (the “Company”) hereby certifies to his knowledge that the Company’s Quarterly Report on Form 10-Q for the three months ended February 28, 2018 (the “Report”) to which this certification is being furnished as an exhibit, as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350 and Item 601(b)(32) of Regulation S-K (“Item 601(b)(32)”) promulgated under the Securities Act of 1933, as amended (the “Securities Act”), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: April 12, 2018

/s/ Jim McCormick
Jim McCormick
Chief Financial Officer and Chief Operating Officer
(principal financial and accounting officer)