

**Nutritional High International Inc.**

**Unaudited Condensed Interim Consolidated Financial Statements**

**For the three and six months ended January 31, 2016 and 2015**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited condensed interim consolidated financial statements of Nutritional High International Inc., are the responsibility of the management and Board of Directors of the Company.

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the consolidated statement of financial position date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"David Posner", Director and CEO  
David Posner

"AI Quong", CFO  
AI Quong

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### NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim condensed consolidated statements for the three and six month periods ended January 31, 2016 and 2015 have not been reviewed by the Company's auditors.

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**Nutritional High International Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Financial**  
**Position**

(Expressed in Canadian Dollars)

	January 31, 2016	July 31, 2015
<b>Assets</b>		(audited)
<b>Current</b>		
Cash	\$ 18,233	\$ 19,567
HST receivable (Note 4)	66,420	121,572
Other receivable	-	9,459
Prepays (Note 19)	122,549	238,115
Inventory (Note 5)	26,600	-
	<b>233,802</b>	<b>388,713</b>
<b>Non-current assets</b>		
Amounts due from Palo Verde LLC (Note 6)	430,444	197,842
Prepaid license (Note 19)	233,128	249,780
Investment property (Note 7)	1,697,289	1,129,582
Property deposits (Note 8)	14,006	6,671
	<b>\$ 2,608,669</b>	<b>\$1,972,588</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Notes 9 and 11)	\$ 548,074	\$ 272,274
Promissory note payable (Note 10)	13,716	-
	<b>561,790</b>	<b>272,274</b>
<b>Non-current liabilities</b>		
Convertible debentures (Note 16)	211,935	539,910
Derivative liability (Note 16)	91,291	330,065
Promissory note payable, net of current portion (Note 10)	334,019	-
	<b>1,199,035</b>	<b>1,142,249</b>
<b>Shareholders' Equity</b>		
<b>Share Capital</b> (Note 12)	<b>3,677,086</b>	<b>2,719,740</b>
<b>Shares to be issued</b>	<b>11,250</b>	<b>-</b>
<b>Reserve for share based payments</b> (Note 13)	<b>348,000</b>	<b>314,000</b>
<b>Reserve for warrants</b> (Note 12 and 14)	<b>804,620</b>	<b>566,399</b>
<b>Reserve for foreign currency translation</b>	<b>(24,177)</b>	<b>(15,285)</b>
<b>Non-controlling interest</b> (Note 15)	<b>(8,920)</b>	<b>(9,073)</b>
<b>Loss on acquisition of non-controlling interest</b> (Note 15)	<b>(5,000)</b>	<b>(5,000)</b>
<b>Accumulated deficit</b>	<b>(3,393,225)</b>	<b>(2,740,442)</b>
	<b>1,409,634</b>	<b>830,339</b>
	<b>\$ 2,608,669</b>	<b>\$1,972,588</b>

*Nature of Operations and Going concern (Note 1)*  
*Licensing and Royalty Agreement (Note 19)*  
*Subsequent Events (Note 21)*

Approved on behalf of the Board:

"Adam Szweras" Director                      "David Posner" Director

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements*

**Nutritional High International Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian Dollars)

	Three months ended January 31, 2016	Three months ended January 31, 2015	Six months ended January 31, 2016	Six months ended January 31, 2015
<b>Administrative expenses</b>				
Management and consulting fees (Note 11)	352,358	104,270	549,024	258,220
Professional fees (Note 11)	51,908	193,967	76,625	372,040
Office and general	(266)	68,261	71,786	116,060
Share based payments (Note 13)	15,000	-	34,000	4,000
<b>Other expenses</b>				
Change in fair value of derivative liability (Note 16)	(81,902)	-	11,288	-
Finance costs (Note 16)	19,784	-	52,204	-
Amortization (Note 7 and 19)	23,014	7,150	37,261	7,150
<b>Total expenses</b>	<b>(379,896)</b>	<b>(373,648)</b>	<b>(832,188)</b>	<b>(757,470)</b>
<b>Other income (Expense)</b>				
Rental income (Note 6)	133,856	32,519	259,543	32,519
Interest	19,812	1,284	30,015	2,379
Allowance for amounts receivable (Note 6)	(65,000)	-	(110,000)	-
<b>Net loss</b>	<b>(291,228)</b>	<b>(339,845)</b>	<b>(652,630)</b>	<b>(722,572)</b>
<b>Other Comprehensive loss</b>				
Item that may be reclassified subsequently to net income/loss				
Exchange differences on translating foreign operations	(8,946)	(27,806)	(8,892)	(30,085)
<b>Net loss and comprehensive loss</b>	<b>\$ (300,174)</b>	<b>\$ (367,651)</b>	<b>\$ (661,522)</b>	<b>\$ (752,657)</b>
<b>Net loss attributable to non-controlling interest (Note 15)</b>	<b>\$ -</b>	<b>\$ (3,695)</b>	<b>\$ 153</b>	<b>\$ (4,754)</b>
<b>Net loss attributable to parent company</b>	<b>(291,228)</b>	<b>(336,150)</b>	<b>(652,783)</b>	<b>(717,818)</b>
	<b>\$ (291,228)</b>	<b>\$ (339,845)</b>	<b>\$ (652,630)</b>	<b>\$ (722,572)</b>
<b>Net loss and comprehensive loss attributable to non-controlling interest (Note 15)</b>	<b>\$ -</b>	<b>\$ (3,695)</b>	<b>\$ 153</b>	<b>\$ (4,760)</b>
<b>Net loss and comprehensive loss attributable to parent company</b>	<b>(300,174)</b>	<b>(363,956)</b>	<b>(661,675)</b>	<b>(747,897)</b>
	<b>\$ (300,174)</b>	<b>\$ (367,651)</b>	<b>\$ (661,522)</b>	<b>\$ (752,657)</b>
<b>Weighted average number of shares outstanding</b>				
- basic and diluted (Note 3.2)	131,276,498	79,480,270	125,846,162	76,196,951
<b>Loss per share</b>				
- basic and diluted (Note 3.2)	<b>\$ (0.002)</b>	<b>\$ (0.004)</b>	<b>\$ (0.005)</b>	<b>\$ (0.009)</b>

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements*

**Nutritional High International Inc.**  
**Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
(Expressed in Canadian Dollars)

	Share Capital		Loss on acquisition of non-controlling interest	Reserve for Share based payments	Reserve for Warrants	Reserve for Foreign Exchange	Shares to be issued	Accumulated Deficit	Attributable to owners of Parent	Non-controlling interest	Total
	Number of shares	Amount									
<b>Balance at July 31, 2014</b>	<b>71,913,631</b>	<b>\$ 1,063,482</b>	<b>\$ -</b>	<b>\$ 28,000</b>	<b>\$ 65,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (681,155)</b>	<b>\$ 475,327</b>	<b>\$ -</b>	<b>\$ 475,327</b>
Private placements (Note 12)	4,000,000	100,000	-	-	-	-	-	-	100,000	-	100,000
Finders warrants issued in connection with private placements (Note 12)	-	(24,000)	-	-	24,000	-	-	-	-	-	-
Shares issued on exercise of warrants	3,566,638	195,799	-	-	(17,467)	-	-	-	178,332	-	178,332
Share based payments	-	-	-	4,000	-	-	-	-	4,000	-	4,000
Share issue costs	-	(10,219)	-	-	-	-	-	-	(10,219)	-	(10,219)
Exchange gain on translating foreign operations	-	-	-	-	-	(30,079)	-	-	(30,079)	(6)	(30,085)
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	(717,818)	(717,818)	(4,754)	(722,572)
<b>Balance at January 31, 2015</b>	<b>79,480,269</b>	<b>\$ 1,325,062</b>	<b>\$ -</b>	<b>\$ 32,000</b>	<b>\$ 71,533</b>	<b>\$ (30,079)</b>	<b>\$ -</b>	<b>\$ (1,398,973)</b>	<b>\$ (457)</b>	<b>\$ (4,760)</b>	<b>\$ (5,217)</b>
Initial public offering (Note 12)	32,900,000	1,282,000	-	-	363,000	-	-	-	1,645,000	-	1,645,000
Compensation warrants issued in connection with initial public offering (Note 12)	-	(63,000)	-	-	63,000	-	-	-	-	-	-
Warrants issued in connection to early and regular exercise of warrants (Note 14)	-	(71,000)	-	-	71,000	-	-	-	-	-	-
Shares issued on exercise of warrants (Note 12)	1,478,000	133,153	-	-	(37,134)	-	-	-	96,019	-	96,019
Issued for non-cash consideration:											
Issued for success fee (Note 11 and 12)	700,000	16,000	-	-	19,000	-	-	-	35,000	-	35,000
Issued for extension fee (Note 12 and 16)	600,000	14,000	-	-	16,000	-	-	-	30,000	-	30,000
Issued for services (Note 12)	811,111	57,500	-	-	-	-	-	-	57,500	-	57,500
Issued for license and royalty fees (Note 12 and 19)	3,333,334	250,000	-	-	-	-	-	-	250,000	-	250,000
Issued for acquisition of non-controlling interest (Note 12 and 15)	66,667	5,000	(5,000)	-	-	-	-	-	-	-	-
Share based payments	-	-	-	282,000	-	-	-	-	282,000	-	282,000
Share issue costs	-	(228,975)	-	-	-	-	-	-	(228,975)	-	(228,975)
Exchange gain on translating foreign operation	-	-	-	-	-	14,794	-	-	14,794	-	14,794
Net loss and comprehensive loss for the period	-	-	-	-	-	-	-	(1,341,469)	(1,341,469)	(4,313)	(1,345,782)
<b>Balance at July 31, 2015</b>	<b>119,369,381</b>	<b>\$ 2,719,740</b>	<b>\$ (5,000)</b>	<b>\$ 314,000</b>	<b>\$ 566,399</b>	<b>\$ (15,285)</b>	<b>\$ -</b>	<b>\$ (2,740,442)</b>	<b>\$ 839,412</b>	<b>\$ (9,073)</b>	<b>\$ 830,339</b>
Private placements (Note 12)	5,000,000	137,000	-	-	113,000	-	-	-	250,000	-	250,000
Shares issued on exercise of warrants (Note 12)	2,608,000	143,179	-	-	(12,779)	-	-	-	130,400	-	130,400
Warrants issued pursuant to debenture agreement (Note 14)	-	(138,000)	-	-	138,000	-	-	-	-	-	-
Shares to be issued	-	-	-	-	-	-	11,250	-	11,250	-	11,250
Issued for non-cash consideration:											
Issued for services (Note 12)	456,668	22,833	-	-	-	-	-	-	22,833	-	22,833
Issued for license and royalty fees (Note 12 and 19)	692,431	51,932	-	-	-	-	-	-	51,932	-	51,932
Issued for conversion of debentures (Note 12 and 16)	5,833,334	600,062	-	-	-	-	-	-	600,062	-	600,062
Issued for debt settlements (Note 12)	2,822,700	141,135	-	-	-	-	-	-	141,135	-	141,135
Share based payments	-	-	-	34,000	-	-	-	-	34,000	-	34,000
Share issue costs	-	(795)	-	-	-	-	-	-	(795)	-	(795)
Exchange gain on translating foreign operation	-	-	-	-	-	(8,892)	-	-	(8,892)	-	(8,892)
Net loss for the period	-	-	-	-	-	-	-	(652,783)	(652,783)	153	(652,630)
<b>Balance at January 31, 2016</b>	<b>136,782,514</b>	<b>\$ 3,677,086</b>	<b>\$ (5,000)</b>	<b>\$ 348,000</b>	<b>\$ 804,620</b>	<b>\$ (24,177)</b>	<b>\$ 11,250</b>	<b>\$ (3,393,225)</b>	<b>\$ 1,418,554</b>	<b>\$ (8,920)</b>	<b>\$ 1,409,634</b>

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements*

**Nutritional High International Inc.**  
**Unaudited Condensed Interim Consolidated Statement of Cash Flows**  
(Expressed in Canadian Dollars)

<b>For the six months ended January 31</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (652,630)	\$ (722,572)
Item not affecting cash:		
Amortization	37,261	7,150
Interest accretion	22,025	1,954
Shares issued for services	22,833	-
Share based payments <i>(Note 13)</i>	34,000	4,000
Allowances for amounts receivable <i>(Note 6)</i>	110,000	-
Change in the fair value of derivative liability	11,288	-
Net change in non-cash working capital:		
HST receivables and other receivables	64,611	(33,329)
Prepays	115,564	(19,533)
Inventory	(26,600)	-
Amounts due from Palo Verde LLC <i>(Note 6)</i>	(303,193)	(2,151)
Accounts payable and accrued liabilities	467,869	419,661
Cash Flow From (Used) in Operating Activities	<b>(96,972)</b>	<b>(344,820)</b>
<b>INVESTING ACTIVITIES</b>		
Amounts due from Palo Verde LLC <i>(Note 6)</i>	<b>(37,009)</b>	-
Purchase of investment property	<b>(509,202)</b>	(1,003,719)
Property deposits <i>(Note 8)</i>	<b>(6,724)</b>	16,398
Cash Flow Used in Investing Activities	<b>(552,935)</b>	<b>(987,321)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital, net of share issue costs <i>(Note 12)</i>	<b>380,605</b>	168,113
Promissory note payable <i>(Note 10)</i>	<b>347,735</b>	-
Loan payable	-	15,000
Convertible debentures issued, net of issue costs <i>(Note 16)</i>	-	591,000
Shares to be issued	<b>11,250</b>	-
Cash Flow From Financing Activities	<b>739,590</b>	<b>774,113</b>
<b>Net increase (decrease) in cash</b>	<b>\$ 89,683</b>	<b>\$ (558,028)</b>
<b>Effects of exchange rate changes on cash</b>	<b>(91,017)</b>	<b>(36,524)</b>
<b>Cash at beginning of period</b>	<b>19,567</b>	<b>617,066</b>
<b>Cash at end of period</b>	<b>\$ 18,233</b>	<b>\$ 22,514</b>

*The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements*

**Nutritional High International Inc.**  
**Notes to the unaudited condensed interim consolidated Financial Statements**  
**For the three and six month period ended January 31, 2016**  
**(expressed in Canadian Dollars)**

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## **1. Nature of Operations and Going Concern**

Nutritional High International Inc. (“Nutritional High” or “the Company” or “NHII”), formerly Sonoma Capital Inc. is the parent company of Nutritional High Ltd., Nutritional High (Colorado) Inc., NHC Edibles LLC, NH Medicinal Dispensaries Inc., NH Medicinal (Minnesota) Inc., Eglinton Medicinal Advisory Ltd., NH Medicinals (Maryland) Inc., Small’s Mill Holdings Inc., and Nutritional Traditions Inc. The Company’s objective is to take advantage of the changing regulation governing the marijuana industry in the United States and Canada. The address of the Company’s registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company is listed on the Canadian Securities Exchange (CSE) under symbol “EAT”. The Company is also listed on the OTCQB Marketplace under US symbol: SPLIF.

The Company was incorporated under the name “Sonoma Capital Inc.” on July 19, 2004 under the Canada Business Corporations Act.

The condensed interim consolidated financial statements were approved by the Board of Directors on March 31, 2016.

The Company is in the process of developing brands, trademark applications, and packaging for a confectionery line. The Company is also developing a licensing/franchising system to work with licensed marijuana edibles manufacturers and in this regard, is negotiating with parties who are licensed or seeking a manufacturing license.

The Company has earned rental income but not yet realized any revenue from its operations and will not be able to do so until a license/franchise arrangement is negotiated with licensed parties. As such, there is uncertainty with respect to the Company’s ability to continue as a going concern, dependent upon such events as financing, entering into agreements with licensed parties, commencement of sales and market demand conditions. There is no assurance that any prospective project in the medical marijuana industry will be successfully initiated or completed. As is common with development stage companies, the Company is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs.

At January 31, 2016 the Company had working capital (deficiency) of \$(327,988) (July 31, 2015 - \$116,439), had not yet achieved profitable operations, has accumulated losses of \$3,393,225 (July 31, 2015 - \$2,740,442) and expects to incur further losses in the development of its business, all of which describes the material uncertainties that cast significant doubt upon the Company’s ability to continue as a going concern. The Company will require additional financing in order to conduct its planned business operations, meet its ongoing levels of corporate overhead and discharge its liabilities and commitments (Note 19) as they come due. There is no assurance that the Company will successfully raise this financing.

## **2. Basis of Presentation**

### **2.1 Statement of compliance**

The condensed consolidated interim financial statements have been prepared in conformity with IAS 34 *Interim Financial Reporting* on the basis of International Financial Reporting Standards and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended July 31, 2015.

**Nutritional High International Inc.**  
**Notes to the unaudited condensed interim consolidated Financial Statements**  
**For the three and six month period ended January 31, 2016**  
**(expressed in Canadian Dollars)**

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**2. Basis of Presentation (continued)**

**2.2 Basis of presentation**

The unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

**2.3 Basis of consolidation**

The unaudited condensed interim consolidated financial statements include the accounts of Nutritional High International Inc. and its wholly-owned subsidiaries Nutritional High Ltd., Nutritional High (Colorado), Inc., NHC Edibles, LLC, NH Medicinal (Minnesota) Inc., NH Medicinals (Maryland) Inc., Small's Mill Holdings Inc., and Nutritional Traditions Inc. with jurisdiction in US, and 51% owned subsidiary Eglinton Medicinal Advisory Ltd.

The subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Non-controlling interest is shown as a component of equity on the statement of financial position and the share of the loss attributable to non-controlling interest is shown as a component of loss for the year in the statement of loss and comprehensive loss.

The functional currency of the Company, Nutritional High Ltd. and Eglinton Medical Advisory Ltd. is the Canadian dollar, which is the presentation currency of the unaudited condensed interim consolidated financial statements. The functional currency of US subsidiaries (Nutritional High (Colorado), Inc, NHC Edibles, LLC, NH Medicinal (Minnesota), Inc., NH Medicinals (Maryland) Inc., Small's Mill Holdings Inc., and Nutritional Traditions Inc.) is the US dollar.

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the unaudited condensed interim consolidated financial statements.

**2.4 New and revised standards and interpretations to be adopted in the future**

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- Pronouncements effective for annual periods beginning on or after January 1, 2016

IAS 1 Presentation of Financial Statements Amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets Amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.



**Nutritional High International Inc.**  
**Notes to the unaudited condensed interim consolidated Financial Statements**  
**For the three and six month period ended January 31, 2016**  
**(expressed in Canadian Dollars)**

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**2. Basis of Presentation (continued)**

**2.4 New and revised standards and interpretations to be adopted in the future (continued)**

- Pronouncements effective for annual periods beginning on or after January 1, 2018

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. The new standard will replace IAS 39, Financial instruments: recognition and measurement. The final amendments made in the new version include guidance for the classification and measurement of financial assets and a third measurement category for financial assets, fair value through other comprehensive income. The standard also contains a new expected loss impairment model for debt instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. Early adoption is permitted. Restatement of prior periods in relation to the classification and measurement, including impairment, is not required. The Company has not yet assessed the impact of this new standard.

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is currently evaluating the impact of the standard on the Company's financial statements.

**3. Summary of Significant Accounting Policies**

**3.1 Share based payments**

***Share based payment transactions***

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share based payment transactions, whereby they render services as consideration for equity instruments ("equity settled transactions").

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically measured, they are measured at fair value of the share based payment. The fair value of the share based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

**Nutritional High International Inc.**  
**Notes to the unaudited condensed interim consolidated Financial Statements**  
**For the three and six month period ended January 31, 2016**  
**(expressed in Canadian Dollars)**

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**3. Summary of Significant Accounting Policies (continued)**

***Equity settled transactions***

The costs of equity settled transactions with employees are measured by reference to the fair value of the equity instrument at the date on which they are granted.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative cost is recognized for equity settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share based payment reserve.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. The dilutive effect of outstanding options is reflected as additional dilution in the computation of loss per share.

**3.2 Loss per share**

Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the weighted average number of common and potential common shares outstanding during the period. In order to determine diluted loss per share, it is assumed that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the period ended January 31, 2016.

**3.3 Taxation**

***Current income tax***

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

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**3. Summary of Significant Accounting Policies (continued)**

***Deferred income tax***

Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive loss.

**3.4 Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

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**3. Summary of Significant Accounting Policies (continued)**

**3.4 Financial assets (continued)**

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest rate method. The Company's amounts due from Palo Verde LLC and other receivables except for HST receivable are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At January 31, 2016, the Company has not classified any financial assets as available for sale.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

**3.5 Financial liabilities**

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities, and convertible debentures are classified as other financial liabilities.

Financial liabilities classified at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL. Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified at FVTPL are recognized through the statement of comprehensive loss. At January 31, 2016, the Company has classified the conversion feature of the convertible debentures as financial liabilities at FVTPL.

**3.6 Impairment of financial assets**

The Company assesses at each date of the statement of financial position whether a financial asset is impaired. Management has concluded that additional impairment for amounts due from Palo Verde LLC are recognized as at January 31, 2016 (Note 6).

**Assets carried at amortized cost**

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

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### **3. Summary of Significant Accounting Policies (continued)**

#### **Available-for-sale**

If an available for sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available for sale are not recognized in profit or loss.

#### **3.7 Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **3.8 Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### **3.9 Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### **The Company as lessor**

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

#### **3.10 Inventory**

Inventory is valued at the lower of cost or net realisable value. Cost is calculated based on a first-in, first-out basis. Cost includes the acquisition cost in USD converted at the date of purchase and costs directly attributable to bringing the asset to the location and condition necessary for distribution to customers. Net realisable value is the estimated selling price, in the ordinary course of business, less appropriate selling and distribution expenses.

When inventory is sold, the carrying amount of the inventory is recognised as an expense in cost of goods sold in the period in which the related revenue is recognised.

#### **3.11 Intangibles**

Intangibles arise on the purchase of a license, which is accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these

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**3. Summary of Significant Accounting Policies (continued)**

**3.11 Intangibles (continued)**

assets are considered finite. Useful lives are reviewed annually and intangibles are subject to impairment testing.

**3.12 Investment property**

Investment property earns rental income and is not for sale in the ordinary course of business, is not used in the production or supply of goods or services or for administrative purposes. Investment property is carried at historical cost less any accumulated depreciation and impairment losses.

Amortization is computed using the declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period. Amortization is provided at rates as follows:

Building	4% Declining balance
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**3.13 Impairment of non-financial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss and the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount.

**3.14 Share issuance costs**

Costs incurred in connection with the issuance of share capital are netted against the proceeds received net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

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### **3. Summary of Significant Accounting Policies (continued)**

#### **3.15 Share capital**

In situations where the Company issues units, the value of warrants is bifurcated and is included as the separate reserve of the Company's equity.

#### **3.16 Convertible debentures**

The proceeds received on issue of the Company's convertible debentures have been recorded as a liability on the consolidated statement of financial position. The convertible debentures contain an embedded derivative. The Company has designated the derivative as a financial liability at fair value through profit or loss. The Company revalues the convertible debenture derivative liability using recent arm's length market transactions and option pricing models at each reporting period.

#### **3.17 Significant accounting judgments and estimates**

The preparation of these unaudited condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to recoverability of loan receivable and rent receivable (Note 5), valuation of deferred income tax amounts, and valuation of warrants and shares issued during private placements and measurement of derivative liability.

The most significant judgments relate to recognition of deferred tax assets and liabilities, assessment of functional currency and determination of derivative liability of convertible debt.

#### **3.18 Foreign currency translation**

Monetary assets and liabilities denominated in currencies other than Canadian dollars are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date. Non-monetary assets and liabilities are translated at the historical rates. Revenues and expenses are translated at the transaction exchange rate. Foreign currency gains and losses resulting from translation are reflected in net comprehensive loss for the period.

The assets and liabilities of entities with a functional currency that differs from the presentation currency are translated to the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the financial period end;
- Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, income and expenses are translated at the rate on the dates of the transactions);
- Equity transactions are translated using the exchange rate at the date of the transaction; and
- All resulting exchange differences are recognized as a separate component of equity as reserve for foreign exchange.

When a foreign operation is disposed of, the relevant amount in the reserve for foreign exchange in other comprehensive income is transferred to profit or loss as part of the profit or loss on disposal.

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**3. Summary of Significant Accounting Policies (continued)**

**3.18 Foreign currency translation (continued)**

On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, and which in substance, is considered to form part of the net investment in the foreign operation, are recognized in the reserve for foreign exchange.

**4. HST receivable**

HST consists of harmonized sales tax ("HST") due from the Canadian government.

**5. Inventory**

Inventory consists of gel caps, pushcaps and labels. All inventories are valued at the lower of cost and net realizable value.

**6. Amounts due from Palo Verde LLC**

The Company has lent Palo Verde LLC ("Palo") monies pursuant to a credit agreement and has leased property to Palo pursuant to two lease agreements, as disclosed below. The Company intends on entering into a branding arrangement with Palo in respect of its licensing arrangement (note 19).

	<b>January 31, 2016</b>	<b>July 31, 2015</b>
Rental income receivable <sup>(i)</sup>	<b>\$ 451,694</b>	\$ 183,000
Loan receivable <sup>(ii)</sup>	<b>151,433</b>	105,424
Interest receivable	<b>37,317</b>	9,418
	<b>640,444</b>	297,842
Impairment on amounts receivable <sup>(iii)</sup>	<b>(210,000)</b>	(100,000)
	<b>\$ 430,444</b>	\$ 197,842

(i) Rental income receivable is on the investment property in Colorado. Rent is deferred for the first 6, 9 and 9 months of the three respective leases, two leases commencing January 1, 2015 and the third on September 1, 2015 and accrues interest at 12% per annum to be paid no later than June 30, 2017 and September 30, 2017.

(ii) Revolving line of credit of USD \$150,000 to Palo Verde LLC, of which \$151,433 (USD \$108,120) (July 31, 2015 – USD \$80,600) and accrued interest of \$37,317 (USD \$26,644) (July 31, 2015 – USD \$5,717) was receivable as at January 31, 2016. Advances through a promissory note are unsecured; bear interest at 12% per annum which are due on September 30, 2016. Accrued interest is payable in three monthly installments on September 30, 2016, October 31, 2016 and November 30, 2016. Palo Verde may extend the maturity date for up to an additional four successive one-year terms for a total of five years, but no later than July 22, 2020 for a fee equal to 1% of the outstanding revolving credit loan.



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**6. Amounts due from Palo Verde LLC**

(iii) An allowance was recorded in July 31, 2015 on account of the uncertainties surrounding recoverability of the loan and rents receivable in respect of timing and unexpected financing delays. An additional allowance of \$110,000 was recorded in January 31, 2016.

**7. Investment property**

	Land	Building	Total
<u>Cost</u>			
Balance at July 31, 2014	\$ -	\$ -	\$ -
Additions	141,200	858,496	999,696
Effect of movement in exchange rates	22,300	135,584	157,884
<b>Balance at July 31, 2015</b>	<b>163,500</b>	<b>994,080</b>	<b>1,157,580</b>
Additions	<b>62,479</b>	<b>446,723</b>	<b>509,202</b>
Effect of movement in exchange rates	<b>11,575</b>	<b>70,376</b>	<b>81,951</b>
<b>Balance at January 31, 2016</b>	<b>237,554</b>	<b>1,511,179</b>	<b>1,748,733</b>
<u>Accumulated Amortization</u>			
Balance at July 31, 2014	-	-	-
Amortization for the year	-	25,523	25,523
Effect of movement in exchange rates	-	2,475	2,475
<b>Balance at July 31, 2015</b>	<b>-</b>	<b>27,998</b>	<b>27,998</b>
Amortization for the period	-	<b>20,609</b>	<b>20,609</b>
Effect of movement in exchange rates	-	<b>2,837</b>	<b>2,837</b>
<b>Balance at January 31, 2016</b>	<b>-</b>	<b>51,444</b>	<b>51,444</b>
<u>Carrying Amounts</u>			
Balance at July 31, 2014	-	-	-
Balance at July 31, 2015	163,500	966,082	1,129,582
<b>Balance at January 31, 2016</b>	<b>\$ 237,554</b>	<b>\$ 1,459,735</b>	<b>\$ 1,697,289</b>

The fair value of the investment property as at January 31, 2016 and July 31, 2015 approximates the carrying value as the investment properties were acquired during the year ended July 31, 2015 and period ended January 31, 2016. The direct operating expenses arising from investment property that generated rental income were USD \$85,622 for the period ended January 31, 2016.

**8. Property Deposits**

The Company through its owned subsidiary NH Medicinal (Minnesota) Inc. made a refundable deposit of \$7,003 (USD \$5,000) on the purchase of the commercial property located in Oregon, USA, with a remaining commitment of USD \$394,000 upon closing. The settlement date is to be within 30 days after the Company receives a processors license.

The Company through its subsidiary NH Medicinals (Minnesota) Inc. made a refundable deposit of \$7,003 (USD \$5,000) on the purchase of the commercial property located in Maryland, USA. The acquisition price for the property is USD \$350,000. The settlement date is to be within 45 days after the Company receives Stage 1 license approval, but in no event, later than 365 days after the execution date of this contract.

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**9. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases relating to regular business activities and amounts payable for financing activities. The usual credit period taken for purchases is between 30 to 90 days.

The following is an aged analysis of accounts payable and accrued liabilities:

	<b>January 31, 2016</b>	July 31, 2015
Less than 1 month	<b>\$ 154,400</b>	\$ 97,370
Over 1 month	<b>393,674</b>	174,904
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 548,074</b>	<b>\$ 272,274</b>

**10. Promissory Note Payable**

On November 4, 2015, the vendor of the real estate property in Illinois where the Company's dispensary will be located provided a buyer take-back mortgage in the amount of USD \$250,000. The mortgage has a 15 year amortization period, bearing an interest at the rate of 6%, payable USD \$2,110 monthly including interest and be due in two years from the date of issuance as a balloon payment.

	<b>January 31, 2016</b>	July 31, 2015
Opening balance	<b>\$ -</b>	\$ -
Advance	<b>350,150</b>	-
Repayments	<b>(2,415)</b>	-
	<b>347,735</b>	-
Current	<b>13,716</b>	-
Long-term	<b>\$ 334,019</b>	\$ -

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## **11. Related Parties and Key Management**

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

For the six month period ended January 31, 2016, the Company incurred professional fees of \$36,000 (2015 - \$26,000) from Branson Corporate Services, a company in which a company with a related director has a 49% interest.

For the six month period ended January 31, 2016, the Company incurred consulting fees of \$96,000 (2015 - \$48,000) from FMI Capital Advisory Inc. (formerly Foundation Opportunities Inc.), a company with a related director.

For the six month period ended January 31, 2016, the Company incurred professional fees of \$16,089 (2015 - \$276,771) from Fogler Rubinoff, LLP, a law firm in which a director of the company is a partner.

Total key management compensation paid to the Chief Executive Officer, the Chief Operating Officer, the VP Product Development, and a Director amounted to \$137,713 (2015 - \$86,629) for the six month period ended January 31, 2016.

These expenses have been measured at their exchange amount, being the amounts negotiated and agreed to by the parties to the transactions. As at January 31, 2016, \$337,704 (July 31, 2015 - \$85,463) is included in accounts payable and accrued liabilities.

## **12. Share Capital**

The Company is authorized to issue an unlimited number of common shares without par value.

On October 8, 2014, the Company closed a subscription for 4,000,000 units at \$0.025 per unit for gross proceeds of \$100,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.05 per share until the earlier of 36 months from the date of issuance or 18 months following the date of a business combination between the Company and a public company pursuant to a reverse take-over, merger, amalgamation, take-over bid, insider bid, reorganization, joint venture, sale or exchange of assets or similar transaction or IPO. In connection with the subscription, the Company paid a finder's fee of \$8,000 and issued an aggregate of 320,000 finder's warrants (Note 11), exercisable into one common share at a price of \$0.025 per share until 18 months from the closing date.

On October 31, 2014, 3,566,638 warrants were exercised at \$0.05 per warrant for gross proceeds of \$178,332. An additional \$17,467 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share purchase warrants have been amended to include an early exercise provision of an additional warrant exercisable into one common share at a price of \$0.10 per share until 24 months from the date of issuance. As a result of the amendment, an additional 3,566,638 warrants were issued, as described in Note 14. The terms of any unexercised Company warrants outstanding at October 31, 2014 remain unchanged.

On March 13, 2015, 32,900,000 units at \$0.05 per unit were issued for gross proceeds of \$1,645,000 pursuant to the IPO. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share until 24 months from the date of issuance.

On March 13, 2015, the Company issued 2,404,800 compensation options under a warrant indenture valued at \$63,000 based on the services provided. Each option is exercisable at \$0.05 per unit, and comprised of one common share and one half of one share purchase warrant, exercisable into one additional common share at a price of \$0.07 per share until 24 months from the date of issuance.

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## 12. Share Capital (continued)

On March 18, 2015, the Company paid an extension fee of \$30,000 by issuing an aggregate of 600,000 units and one half of one share purchase warrant, exercisable into one common share at a price of \$0.07 per share until 24 months from the date of issuance (Note 16).

On March 18, 2015, the Company paid a going public success fee of \$35,000 by issuing an aggregate of 700,000 units and one half of one share purchase warrant, exercisable into one common share at a price of \$0.07 per share until 24 months from the date of issuance to FMI Capital Advisory (formerly Foundation Opportunities Inc.), a company with a related director.

On March 26, 2015, 400,000 warrants were exercised for gross proceeds of \$28,000. An additional \$8,827 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.11.

On March 27, 2015, 400,000 warrants were exercised for gross proceeds of \$28,000. An additional \$8,827 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.11.

On March 30, 2015, 12,000 compensation options under the warrant indenture were exercised for \$600 for 12,000 common shares and 6,000 share purchase warrants, exercisable at a price of \$0.07 per share until March 16, 2017. An additional \$314 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On April 7, 2015, 160,000 warrants were exercised for \$4,000 for 160,000 common shares and 80,000 share purchase warrants, exercisable at a price of \$0.05 per share until April 8, 2016. An additional \$2,000 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.095.

On April 8, 2015, 6,000 warrants were exercised for gross proceeds of \$420. An additional \$132 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.095.

On April 20, 2015, 500,000 warrants were exercised for gross proceeds of \$35,000. An additional \$11,034 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.10.

On June 5, 2015, the Company issued 3,333,334 shares valued at \$250,000 to satisfy the initial licensing and royalty commitment as described in Note 19.

On June 6, 2015, the Company issued 66,667 shares valued at \$5,000 in exchange for 2% interest in NH Medicinal Dispensaries Inc. as described in Note 15.

On June 7, 2015, the Company issued 700,000 shares valued at \$52,500 as compensation for services where the fair value of shares was determined based on the value of services received.

On July 31, 2015, the Company issued 111,111 shares valued at \$5,000 as compensation for services where the fair value of shares was determined based on the value of services received.

Cash costs in connection with the transactions amounted to \$239,194.

On August 20, 2015, the Company issued 692,431 shares valued at \$51,932 as the final instalment on its initial licensing obligations, as described in Note 19.

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## **12. Share Capital (continued)**

On September 7, 2015, the Company issued 406,668 shares valued at \$20,333 as compensation for services where the fair value of shares was determined based on the value of services received.

On October 5, 2015, 8,000 warrants were exercised for gross proceeds of \$400. An additional \$39 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.06.

On October 23, 2015, a holder of the convertible debentures (Note 16) converted \$180,000 in convertible debentures into 3,000,000 common shares of the Company at a share price of \$0.06 per share.

On October 26, 2015, the Company issued 50,000 shares valued at \$2,500 as compensation for services where the fair value of shares was determined based on the value of services received.

On November 5, 2015, a holder of the convertible debentures (Note 16) converted \$100,000 in convertible debentures into 1,666,667 common shares of the Company at a share price of \$0.06 per share.

On November 5, 2015, 1,600,000 warrants were exercised for gross proceeds of \$80,000. The share price on the date of exercise was \$0.06.

On November 12, 2015, a holder of the convertible debentures (Note 16) converted \$70,000 in convertible debentures into 1,166,667 common shares of the Company at a share price of \$0.06 per share.

On November 17, 2015, 1,000,000 warrants were exercised for gross proceeds of \$50,000. The share price on the date of exercise was \$0.06.

On December 2, 2015, the Company completed a non-brokered private placement of 4,200,000 units at \$0.05 per unit for gross proceeds of \$210,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share for a period of 18 months from the date of issuance.

On January 31, 2016, the Company completed a non-brokered private placement of 800,000 units at \$0.05 per unit for gross proceeds of \$400,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share for a period of 18 months from the date of issuance.

## **13. Reserve for Share Based Payments**

The Company established a stock option plan to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. Options vest immediately, unless otherwise stated, and expire on the fifth anniversary from the date of issue unless otherwise specified. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the total issued and outstanding Common shares, which was 13,678,251 at January 31, 2016.

The following table reflects the continuity of options for the period ended January 31, 2016:

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**13. Reserve for Share Based Payments (continued)**

	Number of Options	Amount
<b>Balance – July 31, 2014</b>	2,800,000	\$ 28,000
Granted	8,400,000	286,000
Expired	(200,000)	-
<b>Balance – July 31, 2015</b>	<b>11,000,000</b>	<b>314,000</b>
<b>Granted</b>	<b>1,600,000</b>	<b>34,000</b>
<b>Expired</b>	<b>(1,300,000)</b>	<b>-</b>
<b>Balance – January 31, 2016</b>	<b>11,300,000</b>	<b>\$ 348,000</b>

During the period ended January 31, 2016, the Company granted 1,600,000 stock options to an officer to purchase common shares of the Company at the exercise price of \$0.075 exercisable until 60 months from the date of issuance, for a stock option expense of \$17,000. These stock options are vesting quarterly in equal amounts over 3 years. A stock option expense of \$17,000 was recorded in relation to the vesting of the options issued through July 31.

During the year ended July 31, 2015, the Company granted 8,400,000 stock options to certain officers, directors, consultants and advisory board members to purchase common shares of the Company at the exercise price of \$0.10 exercisable until 60 months from the date of issuance.

Vesting periods on the options granted during the year ended July 31, 2015 are as follows: 7,050,000 stock options vested immediately upon issuance, 300,000 stock options issued on March 18, 2015, 50% of which vested immediately and the remaining 50% vest monthly over 6 months, 2,000,000 stock options issued on March 18, 2015, which vest in stages over a minimum of 12 months with no more than ¼ of options vesting any three month period, and the remaining vest quarterly over next 24 months.

The estimated fair value of share based compensation during the period ended January 31, 2016 was determined using the Black-Scholes option pricing model with the following assumptions:

	September 16, 2015	December 21, 2015	Total
Number of options	1,100,000	500,000	
Share price	\$0.030	\$0.045	
Risk-free interest rate	0.81%	0.49%	
Expected life of options	5 years	5 years	
Expected volatility	202%	201%	
Expected dividend yield	0%	0%	
Fair value	\$32,000	\$22,000	\$54,000

The estimated fair value of share based compensation during the year ended July 31, 2015 was determined using the Black-Scholes option pricing model with the following assumptions:

	October 10, 2014	March 18, 2015	April 1, 2015	April 6, 2015	June 10, 2015	July 22, 2015	Total
Number of options	400,000	6,950,000	250,000	150,000	400,000	250,000	
Share price	\$0.025	\$0.050	\$0.095	\$0.110	\$0.080	\$0.050	
Risk-free interest rate	1.56%	0.75%	0.98%	0.98%	0.95%	0.83%	
Expected life of options	5 years	5 years	5 years	5 years	5 years	5 years	
Expected volatility	100%	100%	209%	209%	209%	209%	
Expected dividend yield	0%	0%	0%	0%	0%	0%	
Fair value	\$5,000	\$199,000	\$23,000	\$16,000	\$31,000	\$12,000	\$286,000

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimated,

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**13. Reserve for Share Based Payments (continued)**

and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Expected volatility is based on comparable companies.

The weighted average remaining contractual life for outstanding options is as follows:

Exercise Price	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Number of Options - exercisable
\$0.075	1,600,000	\$ 0.075	4.69	91,667
\$0.10	9,700,000	\$ 0.10	3.98	9,300,000
<b>\$0.010 - \$0.075</b>	<b>11,300,000</b>	<b>\$ 0.096</b>	<b>4.08</b>	<b>9,391,667</b>

**14. Reserve for Warrants**

The following table reflects the continuity of warrants for the period ended January 31, 2016:

	Number of Warrants	Amount
<b>Balance – July 31, 2014</b>	<b>13,650,006</b>	<b>\$ 65,000</b>
Warrants pursuant to private placement and option agreement (Note 12)	5,966,638	88,000
Warrants pursuant to IPO (Note 12)	16,450,000	363,000
Compensation warrants (Note 12)	2,410,800	64,000
Warrants issued for success and extension fees (Note 12)	650,000	35,000
Warrants exercised (Note 12)	(5,044,638)	(48,601)
<b>Balance – July 31, 2015</b>	<b>34,082,806</b>	<b>566,399</b>
Warrants pursuant to private placement (Note 12)	2,516,000	113,000
Warrants pursuant to debenture agreement (Note 16)	3,750,000	138,000
Warrants exercised (Note 12)	(2,608,000)	(12,779)
<b>Balance – January 31, 2016</b>	<b>37,740,806</b>	<b>\$ 804,620</b>

During the period ended January 31, 2016, the Company issued warrants to purchase common shares, valued at \$251,000 using the Black-Scholes option pricing model using the following assumptions:

	December 02, 2015	December 02, 2015	December 21, 2015	January 31, 2016	Total
Number of warrants	2,100,000	16,000	3,750,000	400,000	
Share price	\$0.055	\$0.055	\$0.045	\$0.040	
Risk-free interest rate	0.61%	0.61%	0.49%	0.43%	
Expected life of warrants	2.5 years	2.5 years	2 years	1.5 years	
Expected volatility	201%	201%	201%	199%	
Expected dividend yield	0%	0%	0%	0%	
Valued at	\$101,000	\$1,000	\$138,000	\$11,000	\$251,000

During the year ended July 31, 2015, the Company issued warrants to purchase common shares, valued at \$550,000 using the Black-Scholes option pricing model using the following assumptions:

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**14. Reserve for Warrants (continued)**

	October 8, 2014	October 31, 2014	March 13, 2015	March 18, 2015	March 30, 2015	April 7, 2015	Total
Number of warrants	2,320,000	3,566,638	18,854,800	650,000	6,000	80,000	
Share price	\$0.025	\$0.100	\$0.050	\$0.130	\$0.110	\$0.100	
Risk-free interest rate	1.05%	1.04%	0.49%	0.49%	0.49%	0.67%	
Expected life of warrants	1.5 years	2 years	2 years	2 years	2 years	2 years	
Expected volatility	100%	100%	100%	209%	209%	209%	
Expected dividend yield	0%	0%	0%	0%	0%	0%	
Valued at	\$18,000	\$64,000	\$426,000	\$35,000	\$1,000	\$6,000	\$550,000

Warrants to purchase common shares carry exercise prices and terms to maturity at January 31, 2016 as follows:

<b>Date of Issue</b>	<b>No. of warrants</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
October 8, 2014	2,000,000	0.050	April 7, 2016
October 8, 2014	160,000	0.025	April 7, 2016
June 27, 2014	150,000	0.100	June 26, 2016
October 31, 2014	3,566,638	0.100	October 31, 2016
May 16, 2014	4,936,789	0.050	March 27, 2016
May 30, 2014	1,082,399	0.050	March 27, 2016
June 20, 2014	1,306,180	0.050	March 27, 2016
March 13, 2015	15,800,000	0.070	March 12, 2017
March 13, 2015	2,392,800	0.050	March 12, 2017
April 7, 2015	80,000	0.050	April 6, 2017
December 2, 2015	2,100,000	0.070	June 2, 2018
December 2, 2015	16,000	0.050	June 2, 2018
December 21, 2015	3,750,000	0.060	December 21, 2017
January 31, 2016	400,000	0.070	July 31, 2017
	<u>37,740,806</u>		

On December 21, 2015, the company has amended the exercise period of its share purchase warrants issued on June 27, 2014 from eighteen months to twenty one months. 5,563,348 Series I Warrants with expiry date of December 27, 2015 will now expire on March 27, 2016. The Warrants exercise price of \$0.05 per Common Share remains unchanged.

**15. Non-controlling Interest**

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company's consolidated financial statements. The 49% interest attributable to a minority shareholder is then presented as "non-controlling interest" within shareholders' equity on the consolidated statement of financial position. Net loss and comprehensive loss is allocated between the Company's 51% ownership and non-controlling 49% ownership interest. The Company recorded \$153 of the subsidiary's net loss and comprehensive loss related to the non-controlling interest during the six month period ended January 31, 2016.

**16. Convertible Debentures**

On November 17, 2014, the Company closed its non-brokered private placement of secured convertible debentures for total gross proceeds of \$600,000 as follows:

- a. Senior convertible debenture of \$450,000, bearing interest at 12%, maturing in 24 months from



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**16. Convertible Debentures (continued)**

date of issue, and secured by a first ranking general security interest over all assets of the Company. The senior convertible debenture is convertible into common shares of the Company at any time prior to the maturity date at a price equal to a 20% premium to the price at which the Company completes its going public transaction or \$0.06 per Company share ("Conversion Price"). If the Company fails to complete the going public transaction on or before January 31, 2015, the Conversion Price will be reduced to \$0.05 per Company share. If the Company completes the going public transaction on or before January 31, 2015, but less than \$1,000,000 is raised, the Conversion Price will be equal to the price at which the Company completes the going public transaction ("Conversion Price Adjustment") and the Company will issue to the holder 450,000 Company shares immediately prior to closing the going public transition. On January 19, 2015, an amendment was made to the agreement to extend the going public date from January 31, 2015 to March 16, 2015, in consideration for \$30,000, convertible into units at the offering price. On October 23, 2015, \$180,000 of the debentures were converted into 3,000,000 common shares (Note 12). On November 5, 2015, an additional \$100,000 of the debentures was converted into 1,666,667 common shares (Note 12). On November 12, 2015, an additional \$70,000 of the debentures was converted into 1,166,667 common shares (Note 12). The amount of the debenture remaining is \$100,000.

- b. Subordinate convertible debenture of \$150,000, bearing interest at 12%, maturing in 24 months from date of issue, and secured by a general security interest over all assets of the Company, subordinate to the senior convertible debenture. The group of lenders is comprised of directors of the Company. The subordinate convertible debenture carries the same Conversion Prices and Conversion Price Adjustment as the senior convertible debenture described above. On January 19, 2015, an amendment was made to the agreement to extend the going public date from January 31, 2015 to March 16, 2015.

The debentures are classified as a liability at amortized cost for the host component and its embedded derivative was classified at fair value through profit and loss as the conversion feature of debentures failed equity classification. The fair value of the derivative was calculated using the Black-Scholes model with the following assumptions: (November 17, 2014 and July 31, 2015: share price: \$.02 and \$.045; risk free interest rate: 1%; expected life: 2 and 1.3 years; expected volatility 100% and 209%; dividend yield 0%). The assumptions used in the Black-Scholes model are based on management's estimate of the rates that are reflective for the Company. Changes in these estimates could result in significant changes in the fair value of the derivative. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 5.22% discount rate.

A fair value adjustment loss on the convertible debentures for the period ended January 31, 2016, of \$11,288 (July 31, 2015: \$277,753) has been reflected in the consolidated statement of comprehensive loss as a change in the fair value of the derivative liability. The fair value of the derivative liability at the inception was \$52,312. The interest and accretion expense in the amount of \$25,677 and \$22,025 are recorded as a finance cost.

On December 21, 2015, the Company has entered into an amending agreement with the holder of Senior Convertible Debenture ("Holder") to provide for the prepayment. The Company has agreed to issue 3,750,000 Common Share purchase warrants ("Warrants") to the holder of the Secured Convertible Debenture immediately, and pay a fee in the amount of \$27,000 if the Company elects to proceed with pre-payment. Each Warrant entitles the Holder to purchase one Common Share at an exercise price of \$0.06 per Common Share for a period of two years from the date of the Warrant.

The debt issue costs in the amount of \$30,000 were recorded against the debentures liability and amortized using the effective interest method. As at January 31, 2016, \$13,909 is recorded as accrued interest in accounts payable and accrued liabilities.

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## **17. Management of Capital**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended January 31, 2016. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of share capital, reserve for warrants, share based payments and deficit, which as at January 31, 2016 totaled \$1,447,731.

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements, initial public offering and issuance of convertible debentures. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

## **18. Financial Instruments**

### **Fair Value of Financial Instruments**

The fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

- Level 1      quoted prices in active markets for identical assets or liabilities;
- Level 2      inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
- Level 3      inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Company designated its cash as fair value through profit and loss, which is measured at fair value and is classified as Level 1. The Company designated its derivative liability from convertible debentures as fair value through profit and loss which is measured at fair value and classified as level 2.

The carrying value of the Company's other receivable, amounts due from Palo Verde LLC and accounts payable and accrued liabilities and convertible debentures (except for derivative liability which is recorded at fair value) approximate their fair value due to the relatively short periods to maturity of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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## **18. Financial Instruments**

### **Fair Value of Financial Instruments (continued)**

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

#### **Credit risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts due from Palo Verde LLC and rent receivable (Note 6). The Company has no significant concentration of credit risk arising from operations. Cash is held with a reputable Canadian chartered bank which is closely monitored by management. The Board of Directors meets on a quarterly basis to review and assess the risk profile of the loan. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivable is not material for the Company.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2016, the Company had current assets of \$233,802 (July 31, 2015 - \$388,713) and current liabilities of \$561,790 (July 31, 2015 - \$272,274). All of the Company's financial liabilities and receivables, excluding a loan receivable (Note 6), have contractual maturities of less than 90 days and are subject to normal trade terms. As at January 31, 2016, working capital (deficiency) of the Company is \$(327,988) (July 31, 2015 - \$116,439).

#### **Foreign currency exchange risk**

The Company conducts a portion of its purchases in US dollars which results in the foreign currency exchange risk. The Company does not consider its exposure to foreign currency exchange risk to be material.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by \$2,491 (\$2,491) as a result of the Company's exposure to currency exchange rate fluctuations.

#### **Interest rate risk**

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with fixed interest rates.

The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt.

Net earnings are sensitive to the impact of a change in interest rates on the average balance of interest bearing financial liabilities during the year.

An increase (decrease) of 25 basis points would have impacted net loss by \$2,595 (\$2,595) as a result of the Company's exposure to interest rate fluctuations.

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**19. Licensing and Royalty Agreement**

On June 5, 2015, the Company entered into the agreement with Purple Haze Properties LLC for the exclusive right to manufacture and distribute marijuana and hemp oil-infused products, and non-exclusive rights to manufacture and distribute certain apparel and accessories in the United States and Canada.

Under the terms of the agreement, the Company is to issue 3,333,334 common shares (Note 12) valued at USD\$250,000 to pay for the annual exclusivity fee (USD \$200,000) for the first out of five years and royalties USD \$50,000 which was due on signing the agreement. The agreement provides for annual exclusivity fees and royalties of no less than USD \$1,000,000 over five years with an additional renewal option for an additional five years. The agreement term commenced on October 1, 2015, with minimums payable in cash or shares at the Company's option.

**20. Segment Information**

The Company has one reportable segment which is Marijuana-Infused Products. The segment reflects the basis on which management measures performance and makes decisions regarding the allocation of resources.

**21. Subsequent events**

On January 6, 2016, the Company entered into an equity purchase agreement ("EPA") with Kodiak Capital Group LLC ("Kodiak"), pursuant to which Kodiak has agreed to purchase up to USD \$1 million of Nutritional High's common shares. A Form F-1 Registration Statement was filed with the United States Securities Commission ("SEC") as a condition of the \$1 million financing. On March 11, 2016, the Company responded to the first round of SEC comments, which is subject to further SEC review.

On February 6, 2016, the Company was granted conditional approval by the Illinois Department of Financial and Professional Regulation to establish the Lawrenceville, Illinois Dispensary.

On February 11, 2016, the Company entered into a joint venture agreement with an Illinois investor group to build and operate the planned Lawrenceville dispensary. Under the terms of the joint venture agreement, the investor group will fund up to USD \$300,000 for expenses and working capital, and provide a guarantee for half of the USD \$250,000 Lawrenceville mortgage, in exchange for a 50% interest in NH Medicinals Dispensaries Inc., the wholly owned subsidiary which holds the conditional approval to operate the dispensary, and a 50% interest in Small's Mill Holdings Inc., the wholly owned subsidiary which holds the Company's interest in the real estate property located in Lawrenceville, Illinois. The joint venture agreement is subject to a final agreement that would be subject to all requisite regulatory approvals from the relevant government authorities.

On March 18, 2016, the Company amended the terms of its agreement with Purple Haze Properties LLC to provide for early payment of the 2016 exclusivity fee and advance royalty in exchange for 5,000,000 Common shares of the Company at an effective price of USD \$0.05 per share rather than the market price as originally agreed.