

**Nutritional High International Inc.**

**Consolidated Financial Statements**

**For the years ended July 31, 2016 and 2015**

## **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING**

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

The 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 consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

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.

“Jim Frazier”, Director and CEO

“Amy Stephenson”, CFO

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Nutritional High International Inc.

We have audited the accompanying consolidated financial statements of Nutritional High International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2016 and July 31, 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended July 31, 2016 and July 31, 2015 and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nutritional High International Inc. and its subsidiaries, as at July 31, 2016 and July 31, 2015, and its financial performance and its cash flows for the years ended July 31, 2016 and July 31, 2015 in accordance with International Financial Reporting Standards.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes the material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

# *Collins Barrow Toronto LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Canada  
November 28, 2016

**Nutritional High International Inc.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

As at July 31,	2016	2015
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 111,786	\$ 19,567
HST receivable (Note 4)	46,950	121,572
Other receivable	-	9,459
Prepays (Note 19)	127,247	238,115
Property deposit	13,132	-
	<b>299,115</b>	<b>388,713</b>
<b>Non-current assets</b>		
Investment property (Note 6)	1,405,813	1,129,582
Amounts due from Palo Verde LLC (Note 5)	592,998	197,842
License (Note 19)	201,652	249,780
Capital assets (Note 7)	186,871	-
Property deposit	-	6,671
	<b>\$ 2,686,449</b>	<b>\$1,972,588</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Notes 8 and 9)	\$ 1,029,164	\$ 272,274
Promissory notes payable (Note 10)	702,493	-
	<b>1,731,657</b>	<b>272,276</b>
<b>Non-current liabilities</b>		
Promissory notes payable (Note 10)	302,506	-
Convertible debentures (Note 15)	271,821	539,910
Derivative liability (Note 15)	4,960	330,065
	<b>2,310,944</b>	<b>1,142,249</b>
<b>Shareholders' Equity</b>		
Share capital (Note 11)	4,068,429	2,719,740
Shares to be issued	63,390	-
Reserve for share based payments (Note 12)	371,252	314,000
Reserve for warrants (Note 11 and 13)	778,658	566,399
Reserve for foreign currency translation	(9,672)	(15,285)
Equity component of convertible debentures	167,260	-
Accumulated deficit	(5,049,062)	(2,740,442)
Non-controlling interest (Note 14)	(14,750)	(14,073)
	<b>375,505</b>	<b>830,339</b>
	<b>\$ 2,686,449</b>	<b>\$1,972,588</b>

*Nature of Operations and Going Concern (Note 1)*  
*Commitments (Note 20)*  
*Subsequent Events (Note 22)*

Approved on behalf of the Board:

"Adam Szweras"

Director

"David Posner"

Director

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

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

	For the Year Ended July 31, 2016	For the Year Ended July 31, 2015
<b>Revenue</b>		
Interest	\$ 72,953	8,492
Rental income (Note 5)	515,324	202,270
Consulting income	20,000	-
	\$ 608,277	\$ 210,762
<b>Expenses</b>		
Management and consulting fees (Note 9)	\$ 961,252	\$ 753,432
Professional fees (Note 9)	290,642	468,809
Office and general administrative	460,002	480,167
Loss (gain) on foreign exchange	29,462	(185,778)
Share based payments (Note 12 and 13)	191,252	286,000
Change in fair value of derivative liability (Note 15)	(42,340)	277,753
Finance costs	171,196	73,216
Amortization	250,445	25,523
Allowance for amounts receivable (Note 5)	200,000	100,000
Loss (gain) on settlement of debts	(22,794)	-
Impairment on investment property	428,457	-
<b>Net income (loss)</b>	<b>(2,309,297)</b>	<b>(2,068,360)</b>
<b>Other Comprehensive income (loss)</b>		
<i>Items that may be reclassified subsequently to net income/loss</i>		
Exchange differences on translating foreign operations	5,613	(15,285)
<b>Net loss and comprehensive loss</b>	<b>\$ (2,303,684)</b>	<b>\$ (2,083,645)</b>
<b>Net loss attributable to non-controlling interest (Note 14)</b>	<b>\$ (677)</b>	<b>\$ (9,073)</b>
<b>Net loss attributable to parent company</b>	<b>(2,308,620)</b>	<b>(2,059,287)</b>
	<b>\$ (2,309,297)</b>	<b>\$ (2,068,360)</b>
<b>Net loss and comprehensive loss attributable to non-controlling interest (Note 14)</b>	<b>\$ (677)</b>	<b>\$ (9,073)</b>
<b>Net loss and comprehensive loss attributable to parent company</b>	<b>(2,303,007)</b>	<b>(2,074,572)</b>
	<b>\$ (2,303,684)</b>	<b>\$ (2,083,645)</b>
<b>Weighted average number of shares outstanding</b>		
- <b>Basic and diluted (Note 3.2)</b>	<b>133,212,627</b>	<b>91,731,676</b>
<b>Loss per share</b>		
- <b>Basic and diluted (Note 3.2)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>

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

	Share Capital		Equity Component of Convertible Debentures	Reserve for Share based payments	Reserve for Warrants	Reserve for Foreign Currency Translation	Shares to be issued	Accumulated Deficit	Attributable to owners of Parent	Non-controlling interest	Total
	Note	Number of shares									
<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>\$ (681,155)</b>	<b>\$ 475,327</b>	<b>\$ -</b>	<b>\$ 475,327</b>
Private placements (Note 11)		4,000,000	12,000	-	-	84,000	-	-	96,000	-	96,000
Finders warrants issued in connection with private placement (Note 11)		-	-	-	-	4,000	-	-	4,000	-	4,000
Initial public offering (Note 11)		32,900,000	1,218,000	-	-	363,000	-	-	1,581,000	-	1,581,000
Compensation warrants issued in connection with initial public offering (Note 13)		-	-	-	-	64,000	-	-	64,000	-	64,000
Shares issued on exercise of warrants (Note 11)		5,044,638	322,952	-	-	(48,601)	-	-	274,351	-	274,351
Issued for non-cash consideration:											
Issued for success fee (Note 9 & 11)		700,000	16,000	-	-	19,000	-	-	35,000	-	35,000
Issued for extension fee (Note 10 & 15)		600,000	14,000	-	-	16,000	-	-	30,000	-	30,000
Issued for services (Note 11)		811,111	57,500	-	-	-	-	-	57,500	-	57,500
Issued for license and royalty fees (Note 11 and 19)		3,333,334	250,000	-	-	-	-	-	250,000	-	250,000
Issued for acquisition of non-controlling interest (Note 11 & 14)		66,667	5,000	-	-	-	-	-	5,000	(5,000)	-
Share based payments (Note 12)		-	-	-	286,000	-	-	-	286,000	-	286,000
Share issue costs (Note 11)		-	(239,194)	-	-	-	-	-	(239,194)	-	(239,194)
Exchange loss on translating foreign currency translation		-	-	-	-	-	(15,285)	-	(15,285)	-	(15,285)
Net loss for the year		-	-	-	-	-	-	(2,059,287)	(2,059,287)	(9,073)	(2,068,360)
<b>Balance at July 31, 2015</b>		<b>119,369,381</b>	<b>\$ 2,719,740</b>	<b>\$ -</b>	<b>\$ 314,000</b>	<b>\$ 566,399</b>	<b>\$ (15,285)</b>	<b>\$ (2,740,442)</b>	<b>\$ 844,412</b>	<b>\$ (14,073)</b>	<b>\$ 830,339</b>
Private placements (Note 11)		5,000,000	188,000	-	-	62,000	-	-	250,000	-	250,000
Shares issued on exercise of warrants (Note 11)		2,768,000	147,141	-	-	(12,741)	-	-	134,400	-	134,400
Shares to be issued		-	-	-	-	-	63,390	-	63,390	-	63,390
Issued for non-cash consideration:											
Issued for services (Note 11)		706,668	35,334	-	-	-	-	-	35,334	-	35,334
Issued for license and royalty fees (Note 11 and 19)		5,692,431	251,932	-	-	-	-	-	251,932	-	251,932
Units issued for conversion of debentures (Note 11 and 15)		5,833,334	600,062	-	-	134,000	-	-	734,062	-	734,062
Issued for debt settlements (Note 11)		2,822,700	127,022	-	-	-	-	-	127,022	-	127,022
Share based payments		-	-	-	57,252	-	-	-	57,252	-	57,252
Warrants issued pursuant to promissory note (Note 10)		-	-	-	-	29,000	-	-	29,000	-	29,000
Conversion component of convertible debenture		-	-	167,260	-	-	-	-	167,260	-	167,260
Share issue costs (Note 11)		-	(802)	-	-	-	-	-	(802)	-	(802)
Exchange gain on translating foreign operation		-	-	-	-	-	5,613	-	5,613	-	5,613
Net loss for the year		-	-	-	-	-	-	(2,308,620)	(2,308,620)	(677)	(2,309,297)
<b>Balance at July 31, 2016</b>		<b>142,192,514</b>	<b>\$ 4,068,429</b>	<b>\$ 167,260</b>	<b>\$ 371,252</b>	<b>\$ 778,658</b>	<b>\$ (9,672)</b>	<b>\$ (5,049,062)</b>	<b>\$ 390,255</b>	<b>\$ (14,750)</b>	<b>\$ 375,505</b>

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

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

	For the Year Ended July 31, 2016	For the Year Ended July 31, 2015
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ (2,309,297)	\$ (2,068,360)
Item not affecting cash:		
Amortization	250,445	25,523
Interest accretion	37,927	22,222
Shares issued for services	35,334	122,500
Impairment of investment property	428,457	-
Interest paid	-	(46,157)
Share based payments (Note 11)	191,252	286,000
Allowance for amounts receivable (Note 5)	200,000	100,000
Change in the fair value of derivative liability	(42,340)	277,753
Net change in non-cash working capital and other items:		
HST receivables and other receivables	84,081	(107,284)
Prepays	150,868	(175,668)
Amounts due from Palo Verde LLC (Note 5)	(647,410)	(191,674)
Accounts payable and accrued liabilities	949,956	159,557
Cash Flow Used in Operating Activities	(670,727)	(1,595,567)
<b>INVESTING ACTIVITIES</b>		
Amounts due from Palo Verde LLC (Note 5)	52,258	(60,335)
Property deposit (Note 7)	(6,461)	(5,962)
Purchase of investment property (Note 6)	(750,291)	(977,744)
Purchase of capital assets	(188,450)	-
Cash Flow Used Investing Activities	(892,944)	(1,044,041)
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital, net of share issue costs (Note 11)	249,198	1,680,157
Shares issued on warrant exercise	134,400	-
Issuance of promissory notes	1,041,630	-
Repayment of promissory notes	(22,009)	-
Settlement of convertible debt	(127,000)	-
Convertible debentures issued, net of issue costs (Note 15)	291,427	543,000
Shares to be issued	63,390	-
Cash Flow Provided by Financing Activities	1,631,036	2,223,157
<b>Net increase (decrease) in cash</b>	<b>\$ 67,365</b>	<b>\$ (416,451)</b>
<b>Effects of exchange rate changes on cash</b>	<b>24,854</b>	<b>(181,047)</b>
<b>Cash at beginning of year</b>	<b>19,567</b>	<b>617,066</b>
<b>Cash at end of year</b>	<b>\$ 111,786</b>	<b>\$ 19,567</b>
Share based payments (Note 12)		
Conversion of convertible debt (Note 15)		
Modification of warrants (Note 13)		

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



**Nutritional High International Inc.**  
**Notes to the consolidated Financial Statements**  
**For the year ended July 31, 2016 and July 31, 2015**  
**(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") is the parent company of NHII Holdings Ltd. formerly Nutritional High Ltd. ("NHHL"), NH Real Estate Holdings Ltd ("NHREH"), NH Properties Inc ("NHPI"), Nutritional High (Colorado) Inc. ("NHCI"), NHC Edibles LLC ("NHC"), NH Medical Dispensaries Inc. ("NHMDI"), NH Medicinals (Maryland) Inc. ("NHMMI"), Small's Mill Holdings Inc. ("SMHI"), Nutritional Traditions Inc. ("NTI"), NH Medicinal (Minnesota) Inc., and Eglinton Medicinal Advisory Ltd ("EMAL"). 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 on July 19, 2004 under the Canada Business Corporations Act.

The consolidated financial statements were approved by the Board of Directors on November 28, 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 the balance is uncollected and included in Amounts due from Palo Verde LLC as at July 31, 2016. Collection is dependent on commencement of operations at the facility leased by Palo Verde LLC. The Company has not yet realized any revenue from its non-rental 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. 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 July 31, 2016, the Company had a working capital (deficiency) of \$(1,432,542) (July 31, 2015 - \$116,437), had not yet achieved profitable operations, has accumulated losses of \$5,049,062 (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 may 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 as they come due. There is no assurance that the Company will successfully raise this financing. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern, which could be material.

## **2. Basis of Presentation**

### **2.1 Statement of compliance**

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended July 31, 2016.

**Nutritional High International Inc.**  
**Notes to the consolidated Financial Statements**  
**For the year ended July 31, 2016 and July 31, 2015**  
**(expressed in Canadian Dollars)**

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

**2.2 Basis of presentation**

The 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 consolidated financial statements include the accounts of Nutritional High International Inc. and its wholly-owned subsidiaries disclosed in Note 1 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.

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

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

At the date of authorization of these 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 that may have a material impact on the Company's financial statements:

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 consolidated Financial Statements**  
**For the year ended July 31, 2016 and July 31, 2015**  
**(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, 2017 that may have a material impact on the Company's financial statements:

In January 2016, the IASB issued the disclosure initiative amendments to IAS 7, statement of Cash Flow. The amendment will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes.

In January 2016, IAS 12, Income Taxes, was amended to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

- Pronouncements effective for annual periods beginning on or after January 1, 2018 that may have a material impact on the Company's financial statements:

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.

IFRS 15, Revenue from contracts with customers will replace the existing standards for revenue recognition. IFRS 15 established a framework for the recognition and measurement of revenues derived from contracts with customers, and providing users of financial statements with more informative, relevant disclosure.

In June 2016, the IASB issued amendments to IFRS 2, Share-based Payments, in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice in three main areas, including the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

**Nutritional High International Inc.**  
**Notes to the consolidated Financial Statements**  
**For the year ended July 31, 2016 and July 31, 2015**  
**(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, 2019 that may have a material impact on the Company's financial statements:

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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

**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 equity instrument. 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 the date goods are received.

***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.

**Nutritional High International Inc.**  
**Notes to the consolidated Financial Statements**  
**For the year ended July 31, 2016 and July 31, 2015**  
**(expressed in Canadian Dollars)**

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

#### **3.1 Share based payments (Continued)**

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.

#### **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 years ended July 31, 2016 and July 31, 2015.

#### **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.

##### ***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

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

**3.3 Taxation (continued)**

- 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 the statement of comprehensive loss. The Company's cash is classified as FVTPL.

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 July 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.

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

#### **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, promissory notes payable 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 July 31, 2016, the Company has a convertible debenture including a conversion feature that is a derivative liability at FVTPL, and another convertible debenture including a conversion feature classified as equity.

#### **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 there is impairment for amounts due from Palo Verde LLC as at July 31, 2016 (Note 5).

#### **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 net loss and comprehensive 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.

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

**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 Intangibles (License)**

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 assets are considered finite. Useful lives are reviewed annually and intangibles are subject to impairment testing (3.14 Impairment of non-financial assets). The license term (Note 19) has commenced on October 2015, with the minimum payable in cash or shares at the Company's option.

**3.11 Investment property**

Investment property earns rental income and is not held 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. Summary of Significant Accounting Policies (continued)**

#### **3.12 Capital assets**

Capital assets are carried at cost less any residual value, accumulated depreciation and impairment losses. Cost includes the acquisition costs or construction costs, as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When capital assets include significant components with different useful lives, they are recorded and amortized separately. Depreciation is computed using the straight-line method based on the estimated useful life of the assets. The residual value, useful life and depreciation methods are reviewed at the end of each reporting period. Such a review takes into consideration the nature of the asset, the intended use and impact of technological changes. Where parts of an item of capital assets have different useful lives, they are accounted for as separate items of capital assets. Subsequent costs are included in the asset carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Leasehold improvements	Straight-line over the lease term (5 years)
Furniture and equipment	20% Declining balance
Computer and software	33% Declining balance

#### **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 with finite lives 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 non-financial assets, 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.

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

#### **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.

#### **3.15 Share capital**

In situations where the Company issues units, the value of warrants is bifurcated and is included in 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 Company has a convertible debenture containing an embedded derivative liability, which has been designated as a financial liability at fair value through profit and loss. The Company revalues the convertible debenture derivative liability using option pricing models at each reporting period. The Company has another convertible debenture in which the conversion feature is classified as equity.

#### **3.17 Foreign currency translation**

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 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., Nutritional Traditions Inc.), NH Real Estate, NH Properties and NH Medical Dispensaries is the US dollar.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency 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)**

**3.17 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.

**3.18 Significant accounting judgments and estimates**

The preparation of these 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, valuation of warrants and shares issued during private placements and to settle debt and services, valuation of impaired investment properties, measurement of derivative liability and the bifurcation of the convertible debt.

The most significant judgments relate to recognition of deferred tax assets and liabilities, determination of property as held for sale, assessment of functional currency and determination of embedded derivative liability or equity of the conversion options of convertible debt.

**4. HST receivable**

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

**5. 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).

	2016	2015
Rental income receivable <sup>(i)</sup>	\$ 674,872	\$ 183,000
Loan receivable <sup>(ii)</sup>	140,999	105,424
Interest receivable	77,127	9,418
	<b>892,998</b>	297,842
Impairment on amounts receivable <sup>(iii)</sup>	<b>(300,000)</b>	(100,000)
Balance July 31	<b>\$ 592,998</b>	\$ 197,842

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**5. Amounts due from Palo Verde LLC (continued)**

- (i) Rental income receivable is on the investment property in Colorado. Rent is deferred until 30 days after commencement of production of marijuana products by the tenant, and accrues interest at 12% per annum. At year-end, the accrued interest on rental income receivable was \$54,316 (USD \$41,650) (July 31, 2015 – 1,823 (USD \$1,394)).
- (ii) Revolving line of credit of USD \$150,000 to Palo Verde LLC, of which \$140,999 (USD \$108,120) (July 31, 2015 – \$105,425 (USD \$80,600)) and accrued interest of \$22,811 (USD \$17,492) (July 31, 2015 – \$7,478 (USD \$5,717)) was receivable as at July 31, 2016. Advances through a promissory note are unsecured; bear interest at 12% per annum which are due on September 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. On September 1, 2016 amounts due under the note were deferred until February 28, 2017.
- (iii) An allowance was recorded in 2016 and 2015 on account of the uncertainties surrounding recoverability of the loan and rents receivable in respect of timing and unexpected financing delays.

**6. Investment property**

	Land	Building	Total
<u>Cost</u>			
<b>Balance at July 31, 2014</b>	\$ -	\$ -	\$ -
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	58,384	691,907	750,291
Effect of movement in exchange rates	(300)	(5,417)	(5,717)
<b>Balance at July 31, 2016</b>	<b>221,584</b>	<b>1,680,570</b>	<b>1,902,154</b>
<u>Accumulated Amortization and Impairment</u>			
<b>Balance at July 31, 2014</b>	\$ -	\$ -	\$ -
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>	-	27,998	27,998
Amortization for the year	-	39,219	39,219
Impairment	51,424	377,042	428,457
Effect of movement in exchange rates	-	667	667
<b>Balance at July 31, 2016</b>	<b>51,424</b>	<b>444,926</b>	<b>496,341</b>
<u>Carrying Amounts</u>			
<b>Balance at July 31, 2014</b>	\$ -	\$ -	\$ -
<b>Balance at July 31, 2015</b>	163,500	966,082	1,129,582
<b>Balance at July 31, 2016</b>	<b>170,160</b>	<b>1,235,644</b>	<b>1,405,813</b>

The investment properties are located in Pueblo West, Colorado, United States and in Lawrenceville, Illinois, United States.

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**6. Investment property (continued)**

The fair value of the Pueblo West investment property as at July 31, 2016 and July 31, 2015 continues to approximate the carrying value. The direct operating expenses arising from investment property that generated rental income were \$32,965 (USD \$24,972) for the period ended July 31, 2016.

Future minimum lease payments receivable on the investment property are as follows:

Less than 1 year	<b>\$ 508,599</b>
1- 2 years	<b>337,436</b>
	<b>\$ 846,035</b>

The Lawrenceville property was purchased with the intention of being used to open a dispensary in Illinois. The Company has located another property for the dispensary site, and thus the Lawrenceville property is being marketed for sale, but sale may not be highly probable at this time. The Company identified this as an impairment indicator, and an impairment loss of \$428,457 was recorded to reduce the carrying value of the property to fair value less costs to sell of \$169,147. The fair value measurement is classified as level 3 in the fair value hierarchy.

**7. Capital Assets**

	Furniture and Equipment	Computer	Leasehold Improvements	Total
<u>Cost</u>				
<b>Balance at July 31, 2015</b>	\$ -	\$ -	\$ -	\$ -
Additions	80,854	10,917	96,679	188,450
<b>Balance at July 31, 2016</b>	<b>80,854</b>	<b>10,917</b>	<b>96,679</b>	<b>188,450</b>
<u>Accumulated Amortization</u>				
<b>Balance at July 31, 2015</b>	\$ -	\$ -	\$ -	\$ -
Additions	337	538	704	1,579
<b>Balance at July 31, 2016</b>	<b>337</b>	<b>538</b>	<b>704</b>	<b>1,579</b>
<u>Carrying Amounts</u>				
<b>Balance at July 31, 2015</b>	\$ -	\$ -	\$ -	\$ -
<b>Balance at July 31, 2016</b>	<b>80,517</b>	<b>10,379</b>	<b>95,975</b>	<b>186,871</b>

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**8. 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:

	2016	2015
Less than 30 days	\$ 224,152	\$ 97,370
31 – 90 days	119,621	174,904
Over 90 days	537,191	-
<b>Total trade payables</b>	<b>880,964</b>	<b>272,274</b>
<b>Accrued liabilities</b>	<b>148,200</b>	<b>-</b>
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 1,029,164</b>	<b>\$ 272,274</b>

**9. 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 year ended July 31, 2016, the Company incurred professional fees of \$74,100 (2015 - \$98,000) from Branson Corporate Services, a company in which a company with a related director has a 49% interest.

For the year ended July 31, 2016, the Company incurred consulting fees of \$248,000 (2015 - \$227,000) from FMI Capital Advisory Inc. (formerly Foundation Opportunities Inc.), a company with a related director.

For the year ended July 31, 2016, the Company incurred professional fees of \$81,537 (2015 - \$354,007) from Fogler Rubinoff, LLP, a law firm in which a director of the company is a partner.

Total key management compensation paid to the Chairman, Chief Executive Officer, the Chief Operating Officer, the VP Product Development, and a Director amounted to \$264,816 (2015 - \$172,829) for the year ended July 31, 2016. In addition, 4,100,000 stock options valued at \$44,197 (2015 - \$Nil) were issued to directors and officers during the period.

These expenses have been measured at the amounts negotiated and agreed to by the parties to the transactions. As at July 31, 2016, \$186,588 (July 31, 2015 - \$85,463) is included in accounts payable and accrued liabilities.

For the twelve-month period ended July 31, 2016, the Company incurred interest expense of \$18,049 (2015 - \$8,136) under the subordinate convertible debenture (Note 15). As at July 31, 2016, accrued interest owed to directors and officers were \$22,884 (2015 - \$33,926)

During the year, the Corporate Secretary and the Chairman each loaned the Company \$15,000 (a total of \$30,000) to assist with cash flow needs. These loans were non-interest bearing and were repaid within three months.

The Company also has convertible debentures outstanding with directors of the company (Note 15b).

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**10. Promissory Notes 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 \$350,150 (USD \$250,000). The mortgage has a 15-year amortization period, bearing 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 (Note 6).

On April 19, 2016, the Company entered into a financing arrangement of its Pueblo, Colorado property in the amount of USD \$800,000 in the form of a loan note. Under the terms of the refinancing, the lender has provided an initial advance of \$756,840 (USD \$600,000) on April 26, 2016. The loan has a twelve-month term, bears interest at 13% per annum payable monthly with the principal due in full on April 26, 2017. There is an option to extend the term of the loan by six months if minimum monthly revenues of USD \$200,000 are achieved at the Pueblo, Colorado location. There is an option to extend the term an additional six months with an increased interest rate of 18.5% if an extension fee of 10% of the outstanding loan is paid. Pursuant to the refinancing arrangement, the Company also issued 3,333,334 warrants valued at \$29,000 (Note 11).

	July 31, 2016	July 31, 2015
Opening balance	\$ -	\$ -
Advances	1,106,990	-
Financing costs	(94,360)	-
Repayments	(22,009)	-
Effect of movement in exchange rates	14,378	-
	1,004,999	-
Current	702,493	-
Long-term	\$ 302,506	-

**11. 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 9), 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 12. 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.

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**11. Share Capital (continued)**

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

On March 18, 2015, the Company paid an extension fee of \$30,000 by issuing an aggregate of 600,000 units consisting of one common share 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 15).

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.

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.

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.

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.

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.

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 14.

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.



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**11. Share Capital (continued)**

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.

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 18.

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 \$0.05.

On October 23, 2015, a holder of the convertible debentures (Note 15) converted \$306,976 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 15) converted \$173,141 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 \$0.05.

On November 12, 2015, a holder of the convertible debentures (Note 15) converted \$119,945 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 \$0.05.

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 28, 2016, the Company issued 2,822,700 shares to settle \$141,135 of debt, where the fair value of shares was determined based on the share price at the date of issuance. A gain of \$14,113 was recognized as a result of this debt settlement.

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 \$40,000. 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.

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**11. Share Capital (continued)**

On March 18, 2016, pursuant to the amendment of the exclusive licensing agreement with Purple Haze Properties, the Company issued 5,000,000 common shares at \$0.065 (USD \$0.05) per share.

On March 22, 2016, 160,000 shares were issued at \$0.025 per share pursuant to exercising of broker warrants.

On June 9, 2016, 250,000 shares were issued at \$0.05 per share for gross proceeds of \$12,500 as per consulting service agreement with a German company, Deutsche Gesellschaft Fur Wertpapieranalyse GMBH. The fair value of shares was determined based on the value of the services received.

**12. 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 14,219,251 at July 31, 2016.

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

	Number of Options	Amount
<b>Balance, July 31, 2014</b>	<b>2,800,000</b>	<b>\$ 28,000</b>
Granted	8,400,000	286,000
Expired	(200,000)	-
<b>Balance, July 31, 2015</b>	<b>11,000,000</b>	<b>314,000</b>
Granted	4,340,000	69,202
Expired	(4,100,000)	(11,950)
<b>Balance – July 31, 2016</b>	<b>11,240,000</b>	<b>\$ 371,252</b>

During the period ended July 31, 2016, the Company granted the following options:

- a) On September 16, 2015, the Company granted 1,100,000 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, vesting quarterly over 3 years.
- b) On December 21, 2015, the Company granted 500,000 stock options to a director and 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, vesting quarterly over 3 years.
- c) On April 21, 2016, the Company granted 2,500,000 stock options to an officer to purchase common shares of the Company at the exercise price of \$0.07 exercisable until 60 months from date of issuance, vesting every 6 months over 3 years.
- d) On June 14, 2016, the company granted 240,000 stock options to a consultant, Cor Capital Inc as per resolution to purchase common shares of the Company at the exercise price of \$0.07 exercisable from time to time up but not after June 14, 2018. As the fair value of services received cannot be estimated reliably, the option value has been measured using the Black-Scholes option pricing model.

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

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 July 31, 2016 was determined using the Black-Scholes option pricing model with the following assumptions:

	September 16, 2015	December 21, 2015	April 21, 2016	June 14, 2016	Total
Number of options	1,100,000	500,000	2,500,000	240,000	
Share price	\$0.030	\$0.045	\$0.030	\$0.040	
Risk-free interest rate	0.87%	0.85%	0.82%	0.60%	
Expected life of options	5 years	5 years	5 years	2 years	
Expected volatility	192%	189%	187%	110%	
Expected dividend yield	0%	0%	0%	0%	
Fair value	\$31,000	\$22,000	\$71,000	\$4,000	\$128,000

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, 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
\$0.07	2,740,000	\$0.02	4.48	240,000
\$0.08	350,000	\$0.00	4.39	58,333
\$0.10	8,150,000	\$0.07	3.47	8,150,000
<b>\$0.075 - \$0.10</b>	<b>11,240,000</b>	<b>\$0.09</b>	<b>3.75</b>	<b>8,448,333</b>

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**13. Reserve for Warrants**

The following table reflects the continuity of warrants for the period ended July 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	5,966,638	88,000
Warrants pursuant to IPO	16,450,000	363,000
Compensation warrants	2,410,800	64,000
Warrants issued for success and extension fees	650,000	35,000
Warrants exercised	(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	2,508,000	62,000
Warrants pursuant to debenture agreement	3,750,000	134,000
Warrants issued pursuant to promissory note	3,333,334	29,000
Warrants expired	(9,795,368)	-
Warrants exercised	(2,608,000)	(12,741)
<b>Balance – July 31, 2016</b>	<b>31,270,772</b>	<b>778,658</b>

During the period ended July 31, 2016, the Company issued warrants to purchase common shares, valued at \$225,000 using the Black-Scholes option pricing model using the following assumptions:

	December 2, 2015	December 2, 2015	December 21, 2015	January 31, 2015	April 14, 2016	Total
Number of warrants	2,100,000	16,000	3,750,000	400,000	3,333,334	
Share price	\$0.055	\$0.055	\$0.045	\$0.040	\$0.035	
Risk-free interest rate	0.63%	0.63%	0.70%	0.63%	0.56%	
Expected life of options	1.5	1.5	2	1.5	1.5	
Expected volatility	118%	118%	189%	118%	85%	
Expected dividend yield	0%	0%	0%	0%	0%	
Fair value	\$55,000	\$1,000	\$134,000	\$6,000	\$29,000	\$225,000

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:

	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

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

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

Date of Issue	No. of warrants	Exercise Price (\$)	Expiry Date
May 16, 2014	2,550,000	0.05	May 16, 2017
October 31, 2014	1,016,638	0.10	October 31, 2016
March 16, 2015	15,800,000	0.07	March 16, 2017
March 16, 2015	2,392,800	0.05	March 16, 2017
December 2, 2015	2,028,000	0.07	June 2, 2017
December 21, 2015	3,750,000	0.06	December 21, 2017
January 31, 2016	400,000	0.07	July 31, 2017
April 14, 2016	3,333,334	0.06	October 14, 2017
	31,270,772		

On December 21, 2015, the company 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 expired on March 27, 2016. The modification of warrants did not result in a material increase in fair value on the date of modification.

**14. 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 \$677 (2015- \$9,073) of the subsidiary's net loss and comprehensive loss related to the non-controlling interest during the year ended July 31, 2016.

**15. Convertible Debentures**

- (i) 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 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 common shares at the offering price.

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**15. Convertible Debentures (Continued)**

On October 23, 2015, \$180,000 of the convertible debentures were converted into 3,000,000 common shares (Note 11). On November 5, 2015, \$100,000 of the convertible debentures were converted into 1,666,667 common shares (Note 11). On November 12, 2015, \$70,000 of the convertible debentures were converted into 1,166,667 common shares (Note 11).

On December 21, 2015, the Company entered into an amending agreement with the holder of Senior Convertible Debenture ("Holder") to provide for the pre-payment. 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 warrants were valued at \$134,000 on issuance. The remaining \$100,000 of convertible debt was pre-paid in full on April 27, 2016.

- 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. As at July 31, 2016, the entire \$150,000 convertible debenture was outstanding.

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.

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 July 31, 2016, \$22,884 is recorded as accrued interest in accounts payable and accrued liabilities.

A fair value adjustment gain on the convertible debentures for the period ended July 31, 2016, of \$42,340 (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 \$33,921 and \$64,532 are recorded as a finance cost.

- (ii) On April 4, 2016, the Company through its subsidiaries SMHI and NHMDI entered into a restated letter agreement whereby the Company agreed to a work plan and earn-in with ILDISP, LLC (the "Purchaser") whereby the Purchaser shall fund up to \$391,230 (US\$300,000) (the "Initial Funding") of the expenses necessary to complete the Company's dispensary in Illinois acceptable and approved by the Illinois Department of Financial and Professional Regulation ("IDFPR") and fund the first four months of working capital to earn a 50% joint-venture in the dispensary. For the Initial Funding of US\$300,000, the Purchaser shall receive from the Company:

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**15. Convertible Debentures (continued)**

- (i) An unsecured no interest promissory note in the amount of \$200,000;
- (ii) An unsecured convertible note in the amount of \$100,000:
  - Upon approval by the IDFPR convertible into 200 shares at \$500 per SMHI and NHMDI shares;
  - Upon rejection by the IDFPR convertible into an unsecured promissory note issued by NHMDI and SMHI with a maturity of six (6) years with no interest for the first four (4) years and 5% per annum thereafter.

The promissory note and convertible note have been evaluated as one financial instrument, as both were issued to the same lender, as part of the same financing agreement. The conversion feature can be settled by exchanging a fixed amount for cash for a fixed number of equity instruments, and as such, is classified as equity component of convertible debt. The debt was bifurcated between its debt and equity components on the date of issuance. The Company has calculated the initial fair value of the liability component using an effective interest rate of 20%, and the residual balance was applied to the equity component. As of July 31, 2016, total contribution from the Purchaser was \$291,427, of which \$124,167 is included in convertible debentures and \$167,260 is included in equity component of convertible debentures.

**16. 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 July 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, reserve for foreign currency translation, non-controlling interest, equity component of convertible debentures, shares to be issued and accumulated deficit, which as at July 31, 2016 totaled \$375,505.

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.

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## **17. 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, promissory notes, 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.

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 including rent receivable (Note 5). Collection of the amounts due from Palo Verde LLC is contingent on the success of Palo Verde LLC's operation, which have not yet commenced. The Company has no significant concentration of credit risk arising from operations. Cash is held with a reputable Canadian credit union 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. Management has considered the credit risk concentration with respect to amounts due from Palo Verde LLC, and has provisioned for the balance accordingly.



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**17. Financial Instruments (continued)**

**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 July 31, 2016, the Company had current assets of \$299,115 (July 31, 2015 - \$388,713) and current liabilities of \$1,731,657 (July 31, 2015 - \$272,276). All of the Company's financial liabilities and receivables, excluding a loan receivable (Note 5), have contractual maturities of less than 90 days and are subject to normal trade terms. As at July 31, 2016, working capital (deficiency) of the Company is \$(1,432,542) (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 \$26,958 (July 31, 2015 - \$1,493) 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 \$170 (July 31, 2015 - \$1,100) as a result of the Company's exposure to interest rate fluctuations.

**18. Income Taxes**

**Provision for income taxes**

No deferred tax asset has been recognized because of the uncertainty as to the utilization of the losses for income tax purposes. The Company has accumulated losses for Canadian and US income tax purposes expiring as follows:

2034	\$ 293,827
2035	2,048,860
2036	1,923,761

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**18. Income Taxes (continued)**

The Company has share issue costs of \$192,126 available for deduction against future Canadian taxable income over the next four years.

	2016	2015
Loss before income taxes	\$ (2,309,297)	\$ (2,068,360)
Tax rate	26.5%	26.5%
Calculated income tax recovery	(611,694)	(548,115)
Non-deductible expense and other	90,866	24,152
Non-deductible listing expense	8,936	5,889
Change in deferred taxes not recognized	512,162	518,074
Income tax expense	\$ -	\$ -

**Provision for income taxes**

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	2016	2015
Deferred income tax assets		
Non-capital loss carry forwards	\$ 1,130,609	\$ 620,812
Issue costs	(7,793)	(14,409)
Investment property	(14,788)	(10,537)
	1,108,028	595,866
Less: Deferred taxes not recognized	(1,108,028)	(595,866)
	\$ -	\$ -

**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 issued 3,333,334 common shares (Note 10) 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 commences the earlier of the first product sale or October 1, 2015, with minimum (US \$200,000 for first year of license and US \$50,000 for first year of royalty) payable in cash or shares at the Company's option.

On March 7, 2016, the Company signed an addendum agreement with Purple Haze Properties LLC to allow for the 2016 payment of Nutritional High stock to occur on date of addendum. The Company issued 5,000,000 shares valued at USD \$200,000, of which \$160,000 pertains to license and \$40,000 pertains to prepaid royalty for the period from October 1, 2016 to September 30, 2017.

During the year, \$208,130 of the license was amortized. As at July 31, 2016, the company has \$201,652 unamortized license and \$50,408 prepaid expense for the advance on royalty pertaining to the first two years of the five-year license and royalty agreement.

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**20. Commitments**

The Company is committed to annual rental payments of USD \$49,133 for use of premises under a lease agreement, which expires June 30, 2021. There is an option to extend the lease for an additional five years at an annual rate of USD \$51,590. As at July 31, 2016, the anticipated lease payments in USD in each of the next five years are as follows:

2017	\$ 49,133
2018	49,133
2019	49,133
2020	49,133
2021	45,039
<hr/>	
Total	\$ 241,571

**21. 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. As at July 31, 2016, \$1,592,685 of non-current assets were held and \$587,938 of revenue was earned in US subsidiaries.

**22. Subsequent events**

- a. On August 15, 2016, the application for Medical Cannabis Processor Licence in Maryland was rejected, and the refund of deposit of property purchase USD\$5,000 was received on October 14, 2016. On October 19, 2016, NH Medicinals (Maryland) Inc was formally dissolved.
- b. On August 24, 2016, 250,000 options exercisable at \$0.10 were forfeited. The options were fully vested at the time of forfeiture.
- c. On August 26, 2016, 11,432,580 units were issued in the first tranche of a private placement, at \$0.035 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.05 for 18 months, with acceleration clause. In connection with the private placement, 22,857 compensation warrants were issued, exercisable at \$0.035 for 18 months.
- d. On September 1, 2016, the Company amended the revolving loan agreement due from Palo Verde LLC to extend the maturity date to February 28, 2017.
- e. On September 9, 2016, 11,445,960 units were issued in the second tranche of a private placement, at \$0.035 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.05 for 18 months, with acceleration clause. In connection with the private placement, 133,143 compensation warrants were issued, exercisable at \$0.035 for 18 months.
- f. On September 12, 2016, the Company entered into debt settlement agreements to settle \$615,809 of outstanding accounts payable, of which \$443,542 was settled with 8,870,844 units at a deemed price of \$0.05 per unit, and an additional \$172,267 was settled in cash. Each unit includes one common share and one half of a warrant with an exercise price of \$0.07 for 18 months from closing.
- g. Between October 5, 2016 and October 14, 2016, 6,168,330 warrants were exercised at \$0.07 per share, 2,500,000 warrants were exercised for \$0.06 per share and 1,176,520 warrants were exercised for \$0.05 per share, for a total of 9,994,850 common shares issued.

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**22. Subsequent events (continued)**

- h. On October 6, 2016, \$176,090 of convertible debt was converted into 2,934,830 of common shares, at \$0.06 per share.
- i. On October 7, 2016, 150,000 options were exercised at \$0.10 per share for a total of 150,000 common shares.
- j. Between October 11, 2016 and October 14, 2016, 584,260 warrants were issued, exercisable at \$0.07 per share for 5 months.
- k. On October 14, 2016, 100,000 warrants were exercised for \$0.07 per share for 100,000 common shares.
- l. Between October 17, 2016 and November 3, 2016, 3,126,637 warrants were exercised at \$0.10 per share, 5,049,680 warrants were exercised at \$0.07 per share, 1,250,000 warrants were exercised at \$0.06 per share, and 1,124,080 warrants were exercised at \$0.05 per share for a total of 10,550,397 common shares issued.
- m. Between October 17, 2016 and October 27, 2016, 562,040 warrants were issued, exercisable at \$0.07 per share for 5 months.
- n. On October 17, 2016, 3,120,000 options were issued for the price of \$0.135 per share, exercisable from time to time up but not after October 17, 2021.
- o. Between October 17, 2016 and November 7, 2016, 1,450,000 options were exercised at \$0.10 per share, 240,000 options were exercised at \$0.07 per share for a total of 1,690,000 common shares issued.
- p. On October 23, 2016, 400,000 options were cancelled for the price of \$0.10 per share.
- q. On November 8, 2016, 7,658,710 units were issued in the first tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- r. Between November 7, 2016 and November 8, 2016, 600,000 warrants were exercised for \$0.07 per share for 600,000 common shares.
- s. On November 10, 2016, 8,000 warrants were exercised at \$0.05 per share, 4,000 warrants were exercised at \$0.07 per share for a total of 12,000 common shares.
- t. On November 11, 2016, 330,500 warrants were exercised for \$0.07 per share for 330,500 common shares.
- u. Between November 14, 2016 and November 15, 2016, 1,0314,260 warrants were exercised for \$0.07 per share for 1,034,260 common shares.
- v. On November 17, 2016, the company closed the acquisition of 40% interest in Aura Health Corp. As part of the acquisition the company has advanced in the amount of US\$ 120,000 in a form of a short-term loan.
- w. On November 18, 2016, 26,915,880 units were issued in the second tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- x. On November 22, 2016, 84,260 warrants were exercised at \$0.07 per share for 84,260 common shares.
- y. On November 24, 2016, 2,061,631 units were issued in the third tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- z. On November 25, 2016, 150,000 options were exercised for 150,000 common shares at \$0.10 per share.