

Nutritional High International Inc.

Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2016 and 2015

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The unaudited condensed interim consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the date of the statement of financial position. 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. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited condensed interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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

“Jim Frazier”, Director and CEO
Jim Frazier

“Amy Stephenson ”, CFO
Amy Stephenson

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the management. The unaudited condensed interim consolidated financial statements for three months ended October 31, 2016 and 2015 have not been reviewed by the Company’s auditors.

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

	October 31, 2016	July 31, 2016
	\$	\$
Assets		(Audited)
Current		
Cash	1,498,562	111,786
HST receivable (Note 5)	25,829	46,950
Prepays (Note 19)	89,327	127,247
Property deposit	6,702	13,132
	1,620,420	299,115
Non-current assets		
Investment property (Note 7)	1,487,930	1,405,813
Note receivable from joint venture (Note 20)	40,206	-
Investment in joint venture (Note 20)	370,336	-
Amounts due from Palo Verde LLC (Note 6)	824,514	592,998
License (Note 19)	146,693	201,652
Capital Assets (Note 8)	172,877	186,871
	4,662,976	2,686,449
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 9 and 10)	347,566	1,029,164
Promissory note payable (Note 11)	709,821	702,493
	1,057,387	1,731,657
Non-current liabilities		
Convertible debentures (Note 16)	-	271,821
Promissory note payable (Note 11)	-	302,506
Derivative liability (Note 16)	-	4,960
	-	2,310,944
Shareholders' Equity		
Share Capital (Note 12)	7,366,267	4,068,429
Shares to be issued	15,000	63,390
Reserve for share based payments (Note 13)	717,636	371,252
Reserve for warrants (Note 12 and 14)	506,096	778,658
Reserve for foreign currency translation	(18,104)	(9,672)
Equity component of convertible debentures	-	167,260
Accumulated deficit	(4,966,556)	(5,049,062)
Non-controlling interest (Note 15)	(14,750)	(14,750)
	3,605,589	375,505
	4,662,976	2,686,449

Nature of Operations and Going concern (Note 1)

Licensing and Royalty Agreement (Note 19) Subsequent Events (Note 23)

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.
Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Three months ended October 31, 2016	Three months ended October 31, 2015
	\$	\$
Revenue		
Sales (Note 4)	37,150	-
Cost of sales (Note 4)	(26,455)	-
Gross Profit	10,695	-
Interest income	31,022	4,367
Rental income	127,883	125,687
	169,600	130,054
Expenses		
Management and consulting fees (Note 10)	216,425	196,666
Professional fees (Note 10)	91,357	24,717
Office and general	145,329	72,052
Foreign exchange gain/loss	(27,776)	-
Share based payments (Note 13)	417,884	45,000
Change in fair value of derivative liability (Note 16)	(70,338)	(38,171)
Finance costs (Note 16)	32,375	30,451
Amortization (Note 7 & 19)	70,158	10,084
Allowance for amounts receivable (Note 6)	36,070	-
Gain on sale of subsidiaries to joint venture (Note 20)	(824,390)	-
Net income (loss)	82,506	(210,745)
Other Comprehensive income (loss)		
Exchange differences on translating foreign operations	(8,432)	(54)
Net income and comprehensive income	74,074	(210,691)
Net income attributable to non-controlling interest	-	153
Net income attributable to parent company	82,506	(210,898)
	82,506	(210,745)
Net income and comprehensive loss attributable to non-controlling interest	-	153
Net income and comprehensive loss attributable to parent company	74,074	(210,844)
	74,074	(210,691)
Weighted average number of shares outstanding		
- Basic and diluted	167,378,092	120,415,828
Loss per share		
- Basic and diluted	0.0005	(0.002)

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

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 Exchange	Shares to be issued	Accumulated Deficit	Attributable to owners of Parent	Non-controlling interest	Total	
	Note	Number of shares										Amount
Balance at July 31, 2015		119,369,381	\$ 2,719,740	\$ 314,000	\$ 566,399	\$ (15,285)	\$ -	\$ (2,740,442)	\$ 844,412	\$ (14,073)	\$ 830,339	
Shares issued on exercise of warrants (Note 11)		8,000	439						400		400	
Shares to be issued							50,000		50,000		50,000	
Issued for non-cash consideration:												
Issued for services (Note 11)		456,668	22,833						22,833		22,833	
Issued for license and royalty fees (Note 11 and 19)		692,431	51,932						51,932		51,932	
Issued for conversion of debentures (Note 11 and 14)		3,000,000	180,000						180,000		180,000	
Share based payments				45,000					45,000		45,000	
Exchange gain on translating foreign operation						(54)			(54)		(54)	
Net loss for the year								(210,898)	(210,898)	153	(210,745)	
Balance at October 31, 2015		123,526,480	2,974,944	359,000	566,399	(15,339)	50,000	(2,951,340)	983,625	(13,920)	969,705	
Private placements (Note 11)		5,000,000	188,000	-	62,000	-	-	-	250,000	-	250,000	
Shares issued on exercise of warrants (Note 11)		2,760,000	146,702	-	(12,741)	-	-	-	134,000	-	134,000	
Warrants issued pursuant to debenture agreement (Note 13)		-	-	-	-	-	13,390	-	13,390	-	13,390	
Shares to be issued		-	-	-	-	-	-	-	-	-	-	
Issued for non-cash consideration:												
Issued for services (Note 11)		250,000	12,501	-	-	-	-	-	12,501	-	12,501	
Issued for license and royalty fees (Note 11 and 19)		5,000,000	200,000	-	-	-	-	-	200,000	-	200,000	
Issued for conversion of debentures (Note 11 and 14)		2,833,334	420,062	-	-	134,000	-	-	554,062	-	554,062	
Issued for debt settlements (Note 11)		2,822,700	127,022	-	-	-	-	-	127,022	-	127,022	
Share based payments		-	-	-	12,252	-	-	-	12,252	-	12,252	
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	
Warrants issued pursuant to promissory note (Note 10)		-	-	-	-	-	-	-	-	-	-	
Warrants exercised (Note 11)		-	-	-	-	-	-	-	-	-	-	
Share issue costs (Note 11)		-	(802)	-	-	-	-	-	(802)	-	(802)	
Exchange gain on translating foreign operation		-	-	-	-	5,667	-	-	5,667	-	5,667	
Net loss for the year		-	-	-	-	-	-	(2,097,722)	(2,097,722)	(830)	(2,098,552)	
Balance at July 31, 2016		142,192,514	\$ 4,068,429	167,260	371,252	778,658	(9,672)	63,390	(5,049,062)	390,255	(14,750)	375,505
Private placements (Note 11)		22,878,540	620,749	-	-	180,000	-	-	800,749	-	800,749	
Shares issued on exercise of warrants (Note 11)		20,395,247	1,998,517	-	-	(560,562)	-	-	1,437,955	-	1,437,955	
Shares issued on exercise of options (Note 11)		1,740,000	200,300	-	(33,500)	-	-	-	166,800	-	166,800	
Warrants issued pursuant to debenture agreement (Note 13)		2,934,830	110,185	-	-	-	-	-	110,185	-	110,185	
Shares to be issued		-	-	-	-	-	-	-	-	-	-	
Issued for non-cash consideration:												
Issued for services (Note 11)		-	-	-	-	-	15,000	-	15,000	-	15,000	
Issued for license and royalty fees (Note 11 and 19)		-	-	-	-	-	-	-	-	-	-	
Issued for conversion of debentures (Note 11 and 14)		-	-	-	-	-	-	-	-	-	-	
Issued for debt settlements (Note 11)		8,870,844	373,542	-	-	70,000	(63,390)	-	380,152	-	380,152	
Share based payments		-	-	-	379,884	38,000	-	-	417,884	-	417,884	
Warrants issued pursuant to promissory note (Note 10)		-	-	-	-	-	-	-	-	-	-	
Conversion component of convertible debenture		-	-	(167,260)	-	-	-	-	(167,260)	-	(167,260)	
Share issue costs (Note 11)		-	(5,456)	-	-	-	-	-	(5,456)	-	(5,456)	
Exchange gain on translating foreign operation		-	-	-	-	-	(8,432)	-	(8,432)	-	(8,432)	
Net loss for the period		-	-	-	-	-	-	82,506	82,506	-	82,506	
Balance at October 31, 2016		199,011,975	\$ 7,366,267	\$ -	717,636	\$ 506,096	(18,104)	\$ 15,000	(4,966,556)	\$ 3,620,339	(14,750)	\$ 3,605,589

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 three months ended October 31,	2016	2015
	\$	\$
OPERATING ACTIVITIES		
Net income	82,506	(210,745)
Item not affecting cash:		
Amortization	67,251	10,084
Interest accretion	-	12,303
Shares issued for services	-	22,833
Share based payments (<i>Note 13</i>)	346,384	45,000
Change in the fair value of derivative liability	(4,960)	(38,171)
Net change in non-cash working capital:		
HST receivables and other receivables	21,121	85,405
Prepays	37,920	91,327
Amounts due from Palo Verde LLC (<i>Note 6</i>)	(231,516)	(115,280)
Accounts payable and accrued liabilities	(681,598)	149,671
Cash Flow Used in Operating Activities	(362,892)	52,427
INVESTING ACTIVITIES		
Amounts due from Palo Verde LLC (<i>Note 6</i>)	-	(13,161)
Investment in joint venture (<i>Note 20</i>)	(370,336)	-
Note receivable from joint venture (<i>Note 20</i>)	(40,206)	-
Purchase of other non-current assets	(174,983)	-
Property deposits	6,431	(6,581)
Cash flow from Investing Activities	(579,094)	(19,742)
FINANCING ACTIVITIES		
Issuance of share capital, net of share issue costs (<i>Note 12</i>)	3,025,276	400
Promissory note payable	(264,493)	-
Convertible debentures issued, net of issue costs (<i>Note 16</i>)	(469,766)	-
Shares to be issued	(48,390)	50,000
Cash flow from Financing Activities	2,242,627	50,400
Net increase (decrease) in cash	1,300,641	83,085
Effects of exchange rate changes on cash	86,135	483
Cash at beginning of year	111,786	19,567
Cash at end of year	1,498,562	103,135

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

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

1. Nature of Operations and Going Concern

Nutritional High International Inc. ("Nutritional High" or "the Company" or "NHII"), formerly Sonoma Capital Inc. is the parent company of 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 Medicinals (Maryland) Inc. ("NHMMI"), Nutritional Traditions Inc. ("NTI"), NH Medicinal (Minnesota) Inc., and Eglinton Medicinal Advisory Ltd ("EMAL"). The Company has a joint venture with an Illinois investor group, in which the Company owns 50% interests in NH Medical Dispensaries Inc. ("NHMDI"), and 50% interests in Small's Mill Holdings Inc. ("SMHI"). The Company's objective is to take advantage of the changing regulation governing the marijuana industry in the United States and Canada. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company is listed on the Canadian Securities Exchange (CSE) under symbol "EAT". The Company is also listed on the OTCQB Marketplace under US symbol: SPLIF.

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

The consolidated financial statements were approved by the Board of Directors on December 29, 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, other than rental income and interest income, limited revenue from its joint venture in Illinois through NHMDI, but not yet realized any profit from its operations (note 20). As such, there is uncertainty with respect to the Company's ability to continue as a going concern, dependent upon such events as financing, increase 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 October 31, 2016, the Company had a working capital (deficiency) of \$563,033 (July 31, 2016 – deficiency \$1,432,542), had not yet achieved profitable operations, has accumulated losses of \$4,966,556 (July 31, 2016 - \$5,049,062) and expects to incur further losses in the development of its business, all of which describes the material uncertainties that cast significant doubt upon the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned business operations, meet its ongoing levels of corporate overhead and discharge its liabilities and commitments as they come due. There is no assurance that the Company will successfully raise this financing. These unaudited condensed interim 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 condensed consolidated interim financial statements have been prepared in conformity with IAS 34 *Interim Financial Reporting* on the basis of International Financial Reporting Standards and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended July 31, 2016.

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

2. Basis of Presentation (continued)

2.2 Basis of presentation

The unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

2.3 Basis of consolidation

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

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

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

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

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

2.4 New accounting policies adopted

Revenue recognition

(a) Sales

Sales are recognized at the point-of-sale. Sales include revenues from customers through the Company's joint venture investment in The Clinic Effingham (note 20). Revenue consists of medical marijuana related products and non-marijuana related merchandises. Medical marijuana related products include marijuana-infused edibles and hemp-infused products and non-marijuana related products include apparels and accessories.

Cost of sales consists of cost of finished goods inventory sold during the period.

(b) Interest income

Interest income and expenses are reported on an accrual basis using the effective interest method.

(c) Rental income

The Company reported rental income from its property in Colorado over its leased term on an accrual basis.

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

2. Basis of Presentation (continued)

Joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investment in a joint venture are accounted for using the equity method and are initially recognized at cost. The entire carrying amount of the investment is tested for impairment annually.

2.5 New and revised standards and interpretations to be adopted in the future

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

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

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

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

- IFRS 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

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

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

derived from contracts with customers, and providing users of financial statements with more informative, relevant disclosure.

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

- **IAS 28 (Revised) Investment in Associates and Joint Ventures (Amendment)**

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 (Revised). The amendments address an inconsistency between the requirement in IFRS 10 and IAS 28 in dealing with the sale or contribution of a subsidiary by an investor to an associate or joint venture. The amendments require sales or contributions of assets that constitute a business to be accounted for in accordance with the requirements of IFRS 10 (i.e. full gain or loss recognition). All other sales or contributions of assets would be accounted for in accordance with the requirements of IAS 28 (i.e. gain or loss recognition limited to the extent of the unrelated investors' interests in the associate or joint venture).

These amendments should be applied prospectively for annual periods beginning on the after January 1, 2016, with early application permitted.

3. 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, and valuation of warrants and shares issued during private placements and measurement of derivative liability.

The most significant judgments relate to recognition of deferred tax assets and liabilities, assessment of functional currency, determination of derivative liability of convertible debt and determination of the joint arrangement as a joint operation or joint venture.

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

4. Sales

The Company recorded sales from the joint venture (Note 20), The Clinic Effingham. During the three month period ended October 31, 2016, sales was \$37,150 (2015 - \$Nil), cost of sales was \$26,455 (2015 - \$Nil), resulting in gross profit of \$10,695 (2015 - \$Nil) and profit margin of 29%.

5. HST receivable

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

6. Amounts due from Palo Verde LLC

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

	October 31, 2016	July 31, 2016
	\$	\$
Rental income receivable ⁽ⁱ⁾	824,285	674,872
Loan receivable ⁽ⁱⁱ⁾	227,156	140,999
Interest receivable	109,144	77,127
	1,160,584	892,998
Impairment on amounts receivable ⁽ⁱⁱⁱ⁾	(336,070)	(300,000)
Balance October 31, 2016	824,514	592,998

(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. As at October 31, 2016, the accrued interest on rental income receivable was \$77,918 (USD \$58,135) (July 31, 2016 – \$54,316 (USD \$41,650))

(ii) Revolving line of credit to Palo Verde LLC, of which \$227,156 (USD \$169,481) (July 31, 2016 – \$140,999 (USD \$108,120)) and accrued interest of \$31,226 (USD \$23,298) (July 31, 2016 – \$22,811(USD \$17,492)) was receivable as at October 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 \$36,070 was recorded in the period end October 31, 2016, and \$300,000 in year end 2016 on account of the uncertainties surrounding recoverability of the loan and rents receivable in respect of timing and unexpected financing delays.

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

7. Investment property

	Land	Building	Total
	\$	\$	\$
Balance at July 31, 2015	163,500	994,080	1,157,580
Additions	58,384	691,907	750,291
Impairment	(51,415)	(337,042)	(428,457)
Effect of movement in exchange rates	(300)	(5,417)	(5,717)
Balance at July 31, 2016	170,169	1,303,528	1,473,697
Additions	-	-	-
Derecognized on joint venture date	(5,878)	(41,051)	(46,929)
Effect of movement in exchange rates	9,005	132,196	141,201
Balance at October 31, 2016	173,296	1,394,673	1,567,969
<u>Accumulated Amortization</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
	\$	\$	\$
Balance at July 31, 2015	-	27,998	27,998
Amortization for the year	-	39,219	39,219
Effect of movement in exchange rates	-	667	667
Balance at July 31, 2016	-	67,884	67,884
Amortization for the year	-	10,186	10,186
Effect of movement in exchange rates	-	1,969	1,969
Balance at October 31, 2016	-	80,039	80,039
<u>Carrying Amounts</u>	<u>Land</u>	<u>Building</u>	<u>Total</u>
	\$	\$	\$
Balance at July 31, 2015	163,500	966,082	1,129,582
Balance at July 31, 2016	170,169	1,235,644	1,405,813
Balance at October 31, 2016	173,296	1,314,634	1,487,930

The investment property is located in Pueblo West, Colorado, United States. The fair value of the investment property as at October 31, 2016 and July 31, 2016 approximates the carrying value. The direct operating expenses arising from investment property that generated rental income were \$4,769 (USD \$3,636) for the period ended October 31, 2016.

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

8. Capital Assets

	Furniture and Equipment	Computer	Leasehold Improvement	Total
	\$	\$	\$	\$
<u>Cost</u>				
Balance at July 31, 2015	-	-	-	-
Additions	80,854	10,917	96,679	188,450
Balance at July 31, 2016	80,854	10,917	96,679	188,450
Additions	91,884	9,943	69,219	171,046
Derecognized on joint venture date		(21,163)	(286,627)	(307,789)
Effect of movement in exchange rates	2,245	303	120,729	123,276
Balance at October 31, 2016	174,983	-	-	174,983
<u>Accumulated Amortization</u>				
	Furniture and Equipment	Computer	Leasehold Improvement	Total
	\$	\$	\$	\$
Balance at July 31, 2015	-	-	-	-
Additions	337	538	704	1,579
Balance at July 31, 2016	337	538	704	1,579
Additions	1,413	1,720	1,783	4,915
Derecognized on joint venture date	-	(2,273)	(2,505)	(4,778)
Effect of movement in exchange rates	355	15	18	390
Balance at October 31, 2016	2,105	-	-	2,105
<u>Carrying Amounts</u>				
	Furniture and Equipment	Computer	Leasehold Improvement	Total
	\$	\$	\$	\$
Balance at July 31, 2015	-	-	-	-
Balance at July 31, 2016	80,517	10,379	95,975	186,871
Balance at October 31, 2016	172,877	-	-	172,877

9. Accounts Payable and Accrued Liabilities

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

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

	October 31, 2016	July 31, 2016
	\$	\$
Less than 30 days	53,450	224,152
31 – 90 days	9,470	119,621
Over 90 days	284,646	537,191
Total trade payables	347,566	880,964
Accrued liabilities	-	148,200
Total accounts payable and accrued liabilities	347,566	1,029,164

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

10. 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 three month period ended October 31, 2016, the Company incurred professional fees of \$18,000 (2015 - \$18,000) from Branson Corporate Services, a company in which a company with a related director has a 49% interest.

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

For the three month period ended October 31, 2016, the Company incurred professional fees of \$27,842 (2015 - \$9,646) from Fogler Rubinoff, LLP, a law firm in which a director of the company is a partner.

Total key management compensation paid to the Chief Executive Officer, the Chief Operating Officer, the VP Product Development, and a Director amounted to \$72,583 (2015 - \$64,510) for the three month period ended October 31, 2016. In addition, 2,250,000 stock options were issued to directors and officers during the period.

These expenses have been measured at their exchange amount, being the amounts negotiated and agreed to by the parties to the transactions. As at October 31, 2016, \$165,428 (July 31, 2016 - \$186,588) is included in accounts payable and accrued liabilities.

For the three month period ended October 31, 2016, the Company incurred interest of \$3,228 (2015 - \$4,537) under the subordinate convertible debenture (Note 16b). As at October 31, 2016 accrued interest owed to directors and officers were \$nil.

The company has no convertible debentures outstanding with the directors of the company (Note 15b).

11. 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 USD \$250,000. The mortgage has a 15-year amortization period, bearing an interest at the rate of 6%, payable USD \$2,110 monthly including interest and be due in two years from the date of issuance as a balloon payment (Note 6).

On April 19, 2016, the Company entered into a refinancing arrangement of its Pueblo, Colorado property in the amount of US\$800,000 in form of a loan note. Under the terms of the refinancing, the lender has provided an initial advance of \$756,840 (US\$600,000) on April 26, 2016 (note 23). 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 for six months if minimum monthly revenue at the Pueblo, Colorado property reached USD \$200,000. There is a further option to extend the term for an additional six months at an increased rate of 18.5% and an extension fee equals to 10% of the outstanding amount. Pursuant to the refinancing arrangement, the Company also issued 3,333,334 warrants valued at \$29,000 (Note 14).

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

11. Promissory Notes Payable (continued)

	October 31, 2016	July 31, 2016
	\$	\$
Opening balance	-	-
Advance	1,106,990	1,106,990
Financing costs	(94,360)	(94,360)
Repayments	(11,489)	(22,009)
Derecognized on the joint venture date	(322,079)	-
Effect of movement in exchange rates	30,759	14,378
	709,821	1,004,999
Current	709,821	702,493
Long-term	-	302,506

12. Share Capital

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

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.

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

12. Share Capital (continued)

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 has issued 2,822,700 shares to settle \$141,135.00 of debt, where the fair value of shares was determined based on the share price at the date of issuance.

On January 31, 2016, the Company completed a non-brokered private placement of 800,000 units at \$0.05 per unit for gross proceeds of \$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.

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 US\$0.05 (C\$0.065) 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.

On September 9, 2016, the Company completed a private placement consisting of 17,212,250 units at a price of \$0.035 per unit for aggregate gross proceeds of \$1,201,358. Each unit is comprised of one common share of the company and one half common share warrant. Each whole warrant entitles the holder thereof to purchase one Common Share at a price of \$0.05 per Common Share for a period of 18 months after the Closing Date.

On September 12, 2016, the Company completed a debt settlement in the amount of \$443,542 in exchange for 8,870,843 units ("DS Unit") at a price of \$0.05 per DS Unit. Each DS unit is comprised of one Common Share and one half Common Share purchase warrant ("DS Warrant"). Each whole DS Warrant entitles the holder thereof purchase one Common Share at price of \$0.07 per Common Share for a period of 18 months after the Closing Date. 6,665,174 DS Units were issued to non-arm' length parties to settle the debts in the amount of \$333,258.

On October 6, 2016, senior convertible debenture of \$150,000 together with interest owing of \$26,112 were converted to 2,934,830 common shares at the price of \$0.06 per share.

During first quarter of year 2017, 240,000 options were exercised at \$0.07 per share, 1,500,000 options were exercised at \$0.10 per share, 2,300,600 warrants were exercised at \$0.05 per share, 3,750,000 warrants were exercised at \$0.06 per share, 1,128,010 warrants were exercised at \$0.07 per share, and 3,126,637 warrants were exercised at \$0.10 per share for a total of 22,135,247 common shares issued for aggregate proceeds of \$1,604,754.

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

13. Reserve for Share Based Payments

The Company established a stock option plan to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. Options vest immediately, unless otherwise stated, and expire on the fifth anniversary from the date of issue unless otherwise specified. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the total issued and outstanding Common shares, which was 19,901,198 at October 31, 2016.

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

	Number of Options	Amount
Balance, July 31, 2015	11,000,000	314,000
Granted	4,340,000	69,202
Expired	(4,100,000)	(11,950)
Balance, July 31, 2016	11,240,000	\$ 371,252
Granted	3,120,000	379,884
Exercised	(1,740,000)	(33,500)
Expired	(650,000)	-
Balance – October 31, 2016	11,970,000	\$ 717,636

- a) On October 17, 2016, the company granted 170,000 stock options to Soar Financial Partners, a provider of Investor Relations and Public Relations services to purchase common shares of the Company at the exercise price of \$0.135 exercisable from time to time up not after October 17, 2018
- b) On October 17, 2016, the company granted 500,000 stock options to Boom Capital Partners Inc, a provider of Investor Relations and Public Relations services, and 2,450,000 stock options to the Company's Directors, officers, and Consultant to purchase common shares of the Company at the exercise price of \$0.135 exercisable from time to time for a period of five years from the date of issuance.
- c) 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.
- d) 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.
- e) 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.
- f) On July 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

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.

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

13. Reserve for Share Based Payments (continued)

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

	October 17, 2016	October 17, 2016	Total
Number of options	170,000	2,950,000	
Share price	\$0.135	\$0.135	
Risk-free interest rate	0.56%	0.68%	
Expected life of options	2 years	5 years	
Expected volatility	92%	156%	
Expected dividend yield	0%	0%	
Fair value	\$10,000	\$338,000	\$348,000

The estimated fair value of share based compensation during the year 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	\$0.070	\$0.070	
Risk-free interest rate	0.81%	0.49%	0.89%	0.50%	
Expected life of options	5 years	5 years	5 years	2 years	
Expected volatility	202%	201%	255%	151%	
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:

	March 18, 2015	April 1, 2015	June 10, 2015	Total
Number of options	6,950,000	250,000	400,000	
Share price	\$0.050	\$0.095	\$0.080	
Risk-free interest rate	0.75%	0.98%	0.95%	
Expected life of options	5 years	5 years	5 years	
Expected volatility	100%	209%	209%	
Expected dividend yield	0%	0%	0%	
Fair value	\$199,000	\$23,000	\$31,000	\$253,000

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.

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

13. Reserve for Share Based Payments (continued)

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	2,500,000	\$0.07	4.47	30,000
\$0.075	350,000	\$0.075	4.14	87,500
\$0.10	6,000,000	\$0.10	3.21	6,000,000
\$0.135	3,120,000	\$0.135	4.80	3,120,000
\$0.075 - \$0.10	11,970,000	\$0.10	3.92	8,615,000

14. Reserve for Warrants

The following table are warrants activities for the period ended October 31, 2016:

	Number of Warrants (#)	Amount (\$)
Balance July 31, 2015	34,082,806	566,399
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)
Balance July 31, 2016	31,270,772	778,658
Warrants pursuant to private placement	1,166,269	184,000
Underlying warrants from IPO compensation options issued	1,166,300	34,000
Warrants issued pursuant to promissory note	4,435,422	70,000
Warrants expired	(440,000)	-
Warrants exercised	(20,395,247)	(560,562)
Balance – October 31, 2016	27,704,516	506,096

During the period ended October 31, 2016, the Company issued warrants to purchase common shares, valued at \$288,000 using the Black-Scholes option pricing model using the following assumptions:

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

14. Reserve for Warrants (continued)

	August 26, 2016	September 09, 2016	September 09, 2016	September 12, 2016	October 11, 2016	Total
Number of warrants	5,716,289	5,722,980	133,143	4,435,422	1,150,300	
Share price	\$0.032	\$0.053	\$0.053	\$0.050	\$0.099	
Risk-free interest rate	0.68%	0.59%	0.59%	0.59%	0.68%	
Expected life of warrants	1.5 years	1.5 years	1.5 years	1.5 years	0.43 years	
Expected volatility	88%	88%	88%	88%	25%	
Expected dividend yield	0%	0%	0%	0%	0%	
Valued at	\$50,000	\$130,000	\$4,000	\$70,000	\$34,000	\$288,000

During the year 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 02, 2015	December 02, 2015	December 21, 2015	January 31, 2016	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	\$0.030	
Risk-free interest rate	0.63%	0.63%	0.70%	0.63%	0.56%	
Expected life of warrants	2.5 years	2.5 years	2 years	1.5 years	1.5 Year	
Expected volatility	118%	118%	189%	118%	85%	
Expected dividend yield	0%	0%	0%	0%	0%	
Valued at	\$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 \$462,000 using the Black-Scholes option pricing model using the following assumptions:

	March 13, 2015	March 18, 2015	March 30, 2015	Total
Number of warrants	18,854,800	650,000	6,000	
Share price	\$0.050	\$0.130	\$0.110	
Risk-free interest rate	0.49%	0.49%	0.49%	
Expected life of warrants	2 years	2 years	2 years	
Expected volatility	100%	209%	209%	
Expected dividend yield	0%	0%	0%	
Valued at	\$426,000	\$35,000	\$1,000	\$462,000

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

Date of Issue	No. of warrants	Exercise Price (\$)	Expiry Date
March 16, 2015	5,185,990	0.07	March 16, 2017
March 16, 2015	100,200	0.05	March 16, 2017
December 2, 2015	1,500,000	0.07	June 2, 2018
December 2, 2015	8,000	0.05	June 2, 2018
January 31, 2016	400,000	0.07	July 31, 2017
April 14, 2016	3,333,334	0.06	October 14, 2017
August 26, 2016	5,716,289	0.05	February 26, 2018
August 26, 2016	22,857	0.035	February 26, 2018
September 9, 2016	5,722,980	0.05	March 9, 2018
September 9, 2016	133,143	0.035	March 9, 2018
September 12, 2016	4,435,422	0.07	March 12, 2018
October 11, 2016	1,146,300	0.07	March 16, 2017
	<u>27,704,516</u>		

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 Warrants exercise price of \$0.05 per Common Share remains unchanged.

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

15. Non-controlling Interest

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company's consolidated financial statements. The 49% interest attributable to a minority shareholder is then presented as "non-controlling interest" within shareholders' equity on the consolidated statement of financial position. Net loss and comprehensive loss is allocated between the Company's 51% ownership and non-controlling 49% ownership interest. The Company recorded \$Nil (2016- \$8,920) of the subsidiary's net loss and comprehensive loss related to the non-controlling interest during the period ended October 31, 2016.

16. Convertible Debentures

- a. 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:
 - (i) 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.

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 debenture 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 has 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 Warrants. 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 October 06, 2016, \$26,112 is recorded as accrued interest in accounts payable and accrued liability.

- (ii) 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.

On October 6, 2016, \$150,000 of convertible debentures and \$26,112 accrued interest were converted into 2,934,830 common shares at \$0.06 per share (Note 11).

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

16. Convertible Debentures (continued)

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

A fair value adjustment gain on the convertible debentures as at October 06, 2016, of \$65,905 has been transferred to the capital stock at conversion. The balance of senior convertible debenture debentures is \$Nil as at October 31, 2016. The interest and accretion expense in the amount of \$1,819 and \$3,228 are recorded as a finance cost for the period ended October 31, 2016.

- b. On April 4, 2016, the Company through its subsidiary 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 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:
- (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 of the IDFPR convertible into 200 shares at \$500 per NHMDI shares;
 - Upon rejection of the IDFPR convertible into an unsecured promissory note issue by NHMDI 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 instrument, 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 the convertible debenture and \$167,260 is included in equity component of convertible debentures.

In September 2016, the Illinois invest investor group has funded up to USD \$300,000 of the expenses and working capital required to complete and launch the Dispensary under joint-venture agreement. Accordingly, as of September 2016, the investor group and NHII each owns 50% interest in NHMD, and 50% interest in SMHI. The NHMD clinic has been operating as The Clinic Effingham ("TCE") since September 20, 2016 (Note 20).

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

17. Management of Capital

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended October 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, loss on acquisition of non-controlling interest and deficit, which as at October 31, 2016 totaled \$3,551,810.

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

18. Financial Instruments

Fair Value of Financial Instruments

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

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

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

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

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

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

18. Financial Instruments

Fair Value of Financial Instruments (continued)

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 and rent receivable (Note 5). The Company has no significant concentration of credit risk arising from operations. Cash is held with a reputable Canadian chartered bank which is closely monitored by

management. The Board of Directors meets on a quarterly basis to review and assess the risk profile of the loan. Management believes that the credit risk concentration with respect to financial instruments included in cash, amounts due from Palo Verde LLC and other receivable is not material for the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2016, the Company had current assets of \$1,620,420 (July 31, 2016 - \$299,115) and current liabilities of \$1,057,387 (July 31, 2016 - \$1,731,657). 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 October 31, 2016, working capital (deficiency) of the Company is \$563,033 (July 31, 2016 – deficiency of \$1,432,542).

Foreign currency exchange risk

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

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by \$2,992 (\$2,992) 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 \$1,775 (\$1,775) as a result of the Company's exposure to interest rate fluctuations.

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

19. Licensing and Royalty Agreement

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

Under the terms of the agreement, the Company is to issue 3,333,334 common shares (Note 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 minimums (US\$200,000 for the 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 payments 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 period ended October 31, 2016, \$41,626 of the license was amortized. The company has \$146,693 unamortized license and \$36,666 prepaid expenses for the advance on royalty pertaining to the first two years of the five-year license and royalty agreement.

20. Investment in a Joint Venture

The Company has a joint venture with an Illinois investor group, ILDISP LLC, in which the Company owns 50% interests in NH Medical Dispensaries Inc. ("NHMDI"), and 50% interests in Small's Mill Holdings Inc. ("SMHI"). (Note 16)

The following table summarized the financial information of NHMDI:

<u>(a) Statement of Financial Position</u>	October 31, 2016	July 31, 2016
	US\$	US\$
Cash and cash equivalents	65,552	-
Property, plant and equipment	141,815	-
Total Assets (100%)	207,367	-
Account payable	52,086	-
Promissory note -- NHII	24,343	-
Promissory note – ILDISP	50,000	-
Total Equity	80,938	-
Total Liabilities and equity (100%)	207,367	-
 <u>(b) Statement of Loss and Comprehensive Loss</u>		
Net loss and comprehensive loss (100%)	(47,198)	-

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

20. Investment in a Joint Venture (continued)

The following table summarized the financial information of SMHI:

(a) <u>Statement of Financial Position</u>	October 31, 2016 US\$	July 31, 2016 US\$
Cash and cash equivalents	389	-
Property, plant and equipment	130,147	-
Total Assets (100%)	130,536	-
Account payable	27,703	-
Promissory note -- NHII	4,219	-
Property mortgage	240,304	-
Total Equity	(141,690)	-
Total Liabilities and equity (100%)	130,536	-
(b) <u>Statement of Loss and Comprehensive Loss</u>		
Net loss and comprehensive loss (100%)	(4,219)	-

21. Commitments

The Company is committed to annual rental payments of US\$49,133 for the 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 US\$ 51,590. As at October 31, 2016, the anticipated lease payments in USD in each of the next five years are as follows:

2017	\$ 36,850
2018	49,133
2019	49,133
2020	49,133
2021	49,133
Total	\$ 233,382

22. 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.

23. Subsequent events

Subsequent to the quarter ended October 31, 2016, the Company has the following activities:

- a. 2,253,020 warrants exercisable at \$0.07, and 8,000 warrants exercisable at \$0.05 were exercised for a total proceed of \$158,111.

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

23. Subsequent events (continued)

- b. 1,450,000 options exercisable at \$0.10 per share, 200,000 options exercisable at \$0.135 per share, 42,500 options exercisable at \$0.13 per share were exercised for a total proceed of \$177,525.
- c. On November 17, 2016, the Company closed the acquisition of a 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.
- d. On November 24, 2016, the Company has completed the final tranche of the non-brokered private placement, consisting of 36,636,221 Units at a price of \$0.15 per Unit to raise aggregate gross proceeds of \$5,495,433. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- e. On November 29, 2016, 315,000 options were granted pursuant to the Company's Stock Option Plan to four arms length consultants. The options are exercisable into Common Shares of the Company at a price of \$0.30 per Common share for a period of two years from the date of issuance.
- f. On December 16, 2016, further to the terms of the promissory note (Note 11) and upon completion of Phase 1 together with a third-party inspection of the property at Pueblo, Colorado, the Company received an additional advance of US\$200,000 for the completion of Phase II.