

Nutritional High International Inc.

Condensed Interim Consolidated Financial Statements

(Unaudited)

For the six months ended January 31, 2017 and 2016

(in Canadian Dollars)

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The 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 condensed interim 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 condensed interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the 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 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 condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the management. The condensed interim consolidated financial statements for six months ended January 31, 2017 and 2016 have not been reviewed by the Company’s auditors.

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

	Notes	January 31, 2017 \$	July 31, 2016 \$
Assets			
(unaudited)			
Current			
Cash		5,840,865	111,786
Accounts receivable	4	58,233	46,950
Prepays	19	89,732	127,247
Deposits	6	146,676	13,132
		6,135,506	299,115
Non-current assets			
Investment properties	7	1,490,318	1,405,813
Investments	20	639,826	-
Amounts due from Palo Verde LLC	5	980,362	592,998
Licenses	19	106,693	201,652
Capital Assets	8	373,297	186,871
		9,726,002	2,686,449
Liabilities			
Current			
Accounts payable and accrued liabilities	9 & 10	167,168	1,029,164
Promissory note payable	11	1,012,584	702,493
		1,179,752	1,731,657
Non-current liabilities			
Convertible debentures	16	-	302,506
Promissory note payable	11	-	271,821
Derivative liability	16	-	4,960
		1,179,752	2,310,944
Shareholders' Equity			
Share capital	12	11,649,365	4,068,429
Shares to be issued	10	37,500	63,390
Reserve for share based payments	13	776,618	371,252
Reserve for warrants	12 & 14	1,798,401	778,658
Reserve for foreign currency translation		(23,229)	(9,672)
Equity component of convertible debentures	16	-	167,260
Non-controlling interest	15	(14,750)	(14,750)
Accumulated Deficit		(5,677,655)	(5,049,062)
		8,546,250	375,505
		9,726,002	2,686,449

Nature of Operations and Going concern (Note 1)
Commitments (Note 21)
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 condensed interim consolidated financial statements

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

	Note	Three months ended		Six months ended	
		January 31, 2017	January 31, 2016	January 31, 2017	January 31, 2016
		\$	\$	\$	\$
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue					
Interest		42,652	19,812	73,674	30,015
Rental income		129,907	133,856	257,790	259,543
		172,559	153,668	331,464	289,558
Expenses					
Management and consulting fees	10	200,120	352,358	416,545	549,024
Professional fees	10	61,727	51,908	145,156	76,625
Office and general		21,243	(266)	132,049	71,786
Share based payments	13	136,321	15,000	554,205	34,000
Amortization	7, 8 & 19	53,583	23,014	123,741	37,261
Allowance for amounts receivable	5	144,738	65,000	180,808	110,000
Net Loss before the undernoted		(445,173)	(353,346)	(1,221,040)	(589,138)
Foreign exchange loss		(36,453)	-	(8,675)	-
Change in fair value of derivative liability	16	(202,995)	81,902	(132,657)	(11,288)
Finance costs	16	(94,099)	(19,784)	(126,474)	(52,204)
Gain on share for debt settlement	12 & 16	132,657	-	132,657	-
Gain on de-consolidation	16 & 20	-	-	824,390	-
Loss from investments	20	(65,036)	-	(96,794)	-
Net Loss		(711,099)	(291,228)	(628,593)	(652,630)
Other comprehensive loss					
Exchange differences on translating foreign operations		(5,125)	(8,946)	(13,557)	(8,892)
Net loss and comprehensive loss		(716,224)	(300,174)	(642,150)	(661,522)
Net loss attributable to non-controlling interest	15	-	-	-	153
Net loss attributable to parent company		(711,099)	(291,228)	(628,593)	(652,783)
		(711,099)	(291,228)	(628,593)	(652,630)
Net loss and comprehensive loss attributable to non-controlling interest	15	-	-	-	153
Net loss and comprehensive loss attributable to parent company		(716,224)	(300,174)	(642,150)	(661,675)
		(716,224)	(300,174)	(642,150)	(661,522)
Weighted average number of shares outstanding					
Basic and diluted		220,274,416	131,276,498	196,709,213	125,846,162
Loss per share					
Basic and diluted		\$ (0.003)	\$ (0.002)	\$ (0.003)	\$ (0.005)

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

Nutritional High International Inc.
Condensed Interim 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									
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
Private placements (Note 12)		5,000,000	137,000	-	113,000	-	-	-	250,000	-	250,000
Shares issued on exercise of warrants (Note 12)		2,608,000	143,179	-	-	(12,779)	-	-	130,400	-	130,400
Warrants issued pursuant to debenture agreement (Note 14)		-	(138,000)	-	-	138,000	11,250	-	11,250	-	11,250
Issued for non-cash consideration:											
Issued for services (Note 12)		456,668	22,833	-	-	-	-	-	22,833	-	22,833
Issued for license and royalty fees (Note 12 and 20)		692,431	51,932	-	-	-	-	-	51,932	-	51,932
Issued for conversion of debentures (Note 12 and 15)		5,833,334	600,062	-	-	-	-	-	600,062	-	600,062
Issued for debt settlements (Note 12)		2,822,700	141,135	-	-	-	-	-	141,135	-	141,135
Share based payments		-	-	34,000	-	-	-	-	34,000	-	34,000
Share issue costs (Note 12)		-	(795)	-	-	-	-	-	(795)	-	(795)
Exchange gain on translating foreign operation		-	-	-	-	(8,892)	-	-	(8,892)	-	(8,892)
Net loss for the period		-	-	-	-	-	-	(652,783)	(652,783)	153	(652,630)
Balance at January 31, 2016		136,782,514	\$ 3,677,086	348,000	804,620	(24,177)	11,250	(3,393,225)	1,423,554	(13,920)	1,409,634
Private placements		-	51,000	-	(51,000)	-	-	-	-	-	-
Finders warrants issued in connection with private placement		160,000	3,962	-	38	-	-	-	4,000	-	4,000
Share to be issued		-	138,000	-	(138,000)	-	52,140	-	52,140	-	52,140
Issued for non-cash consideration:											
Issued for services		250,000	12,501	-	-	-	-	-	12,501	-	12,501
Issued for license and royalty fees		5,000,000	200,000	-	-	-	-	-	200,000	-	200,000
Units issued for conversion of debentures		-	-	-	134,000	-	-	-	134,000	-	134,000
Issued for debt settlements		-	(14,113)	-	-	-	-	-	(14,113)	-	(14,113)
Issued for acquisition of non-controlling interest		-	-	-	-	-	-	-	-	-	-
Share based payments		-	-	23,252	-	-	-	-	23,252	-	23,252
Warrants issued pursuant to promissory note (Note 11)		-	-	-	29,000	-	-	-	29,000	-	29,000
Conversion component of convertible debenture		-	-	167,260	-	-	-	-	167,260	-	167,260
Share issue costs		-	(7)	-	-	-	-	-	(7)	-	(7)
Exchange loss on translating foreign currency translation		-	-	-	-	14,505	-	-	14,505	-	14,505
Net loss for the period		-	-	-	-	-	-	(1,655,837)	(1,655,837)	(830)	(1,656,667)
Balance at July 31, 2016		142,192,514	4,068,429	167,260	371,252	(9,672)	63,390	(5,049,062)	390,255	(14,750)	375,505
Private placements (Note 12)		59,348,095	5,149,710	-	59,348,095	1,605,423	-	-	6,755,133	-	6,755,133
Shares issued on exercise of warrants (Note 12)		26,027,338	2,426,378	-	-	(646,758)	-	-	1,779,620	-	1,779,620
Shares issued on exercise of options (Note 12)		3,532,500	506,664	-	(148,839)	-	-	-	357,825	-	357,825
Shares issued pursuant to debenture agreement (Note 12)		2,934,830	313,707	-	-	-	-	-	313,707	-	313,707
Shares to be issued (Note 10)		-	-	-	-	-	37,500	-	37,500	-	37,500
Issued for non-cash consideration:											
Issued for debt settlements (Note 12)		8,870,844	249,402	-	-	61,078	(63,390)	-	247,090	-	247,090
Share based payments		-	-	-	554,205	-	-	-	554,205	-	554,205
Conversion component of convertible debenture		-	-	(167,260)	-	-	-	-	(167,260)	-	(167,260)
Share issue costs (Note 12)		-	(1,064,925)	-	-	-	-	-	(1,064,925)	-	(1,064,925)
Exchange gain on translating foreign operation		-	-	-	-	(13,557)	-	-	(13,557)	-	(13,557)
Net loss for the period		-	-	-	-	-	-	(628,593)	(628,593)	-	(628,593)
Balance at January 31, 2017		242,906,121	11,649,365	-	776,618	(23,229)	37,500	(5,677,655)	8,561,000	(14,750)	8,546,250

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

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

For the six months ended January 31	Notes	2016 \$	2015 \$
OPERATING ACTIVITIES			
Net Loss		(628,593)	(652,630)
Items not affecting cash			
Loss from investments	20	96,794	-
Gain on de-consolidation	16 & 20	(824,390)	-
Gain on share for debt settlement	12 & 16	(132,657)	
Amortization	7, 8 & 19	123,741	37,261
Interest accretion and finance cost		78,144	22,025
Shares issued for services	13	7,500	22,833
Share based payments	13	554,205	34,000
Allowance for amounts receivable		180,808	110,000
Change in the fair value of derivative liability		132,657	11,288
Net change in non-cash working capital:			
Accounts receivable		(11,283)	64,611
Prepays		37,515	115,564
Inventory		-	(26,600)
Amounts due from Palo Verde LLC	5	(419,857)	(303,193)
Accounts payable and accrued liabilities	9	(418,454)	467,869
Cash Flow Used in Operating Activities		(1,223,870)	(96,972)
INVESTING ACTIVITIES			
Amounts due from Palo Verde LLC	5	(147,507)	(37,009)
Deposits		(133,544)	(6,724)
Purchase of investment properties	7	(275,241)	(509,202)
Purchase of capital assets	8	(380,740)	-
Investments	20	(323,929)	-
Cash Flow Used in Investing Activities		(1,260,961)	(552,935)
FINANCING ACTIVITIES			
Issuance of share capital, net of share issue costs	12	5,708,304	380,605
Promissory note payable	11	266,760	347,735
Share issued on warrants exercised	14	1,779,620	-
Share issued on options exercised	13	357,825	-
Shares to be issued		-	11,250
Cash Flow From Financing Activities		8,112,509	739,590
Net increase in cash		5,627,678	89,683
Effects of exchange rate changes on cash		101,401	(91,017)
Cash at beginning of period		111,786	19,567
Cash at end of period		5,840,865	18,233

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

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended January 31, 2017 and 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 a publicly traded company incorporated in Canada on July 19, 2004 under the Canada Business Corporations Act. The Company is listed on the Canadian Securities Exchange (CSE) under the symbol “EAT”, on the OTCQB Marketplace under US the symbol “SPLIF” and on the Frankfurt Stock Exchange (FRANKFURT) under the symbol “2NU”. The Company is focused on developing, manufacturing and distributing products and recognized brands in the hemp and marijuana-infused products industries, including edibles and oil extractions for nutritional, medical and adult recreation use in the United States. The Company works exclusively through licensed facilities in jurisdictions where such activity is permitted and regulated by US state law. The address of the Company’s registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1.

The condensed interim consolidated financial statements for the six months ended January 31, 2017 were approved by the Board of Directors on March 31, 2017.

The Company has earned rental income but the balance is uncollected and included in Amounts due from Palo Verde LLC as at January 31, 2017. Collection is dependent on commencement of operations at the facility leased by Palo Verde LLC. As such, there is uncertainty with respect to the Company’s ability to continue as a going concern, dependent upon such events as financing, achieving sustainable operations 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 January 31, 2017, the Company had a working capital of \$4,955,753 (July 31, 2016 – deficiency \$1,432,542), had not yet achieved profitable operations, has accumulated losses of \$5,607,196 (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* (“IAS 34”) on the basis of International Financial Reporting Standards (“IFRS”) 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.

2.2 Basis of measurement

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended January 31, 2017 and 2016
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2. Basis of Presentation (continued)

2.3 Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company, its subsidiaries and entities controlled by the Company.

The Company's subsidiaries and investments in affiliates are listed below:

Subsidiary/Affiliate	% ownership		Accounting method
	January 31, 2017	July 31, 2016	
NHII Holdings Ltd. ("NHHL"), formerly Nutritional High Ltd.	100%	100%	Consolidation
NHC IP Holdings Corp. ("NHCIP"), formerly NH Real Estate Holdings Ltd.**	100%	100%	Consolidation
Nutritional High (Colorado) Inc. ("NHCI")	100%	100%	Consolidation
NH Properties Inc. ("NHPI")	100%	100%	Consolidation
NH Medicinals (Maryland) Inc. ("NHMMI") *	-	100%	Consolidation
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
NH Medicinal (Minnesota) Inc. ("NHMM")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medical Dispensaries LLC ("NHMDI")	50%	100%	Equity
Small's Mill Holdings Inc. ("SMHI")	50%	100%	Equity
Aura Health Corp. ("Aura")	24%	-	Equity

* NHMMI was dissolved in October 2016.

** Name changed effective March 15, 2017.

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 profit or loss attributable to non-controlling interest is shown as a component of profit or loss for the year in the statement of loss and comprehensive loss.

The functional currency of the Company, NHII Holdings Ltd., NHC IP Holdings Corp. and Eglinton Medical Advisory Ltd. is the Canadian dollar, which is also the presentation currency of the condensed interim consolidated financial statements. The functional currency of US subsidiaries: Nutritional High (Colorado) Inc., NH Properties Inc., NH Medicinals (Maryland) Inc., NHC Edibles LLC, NH Medicinal (Minnesota) Inc., Nutritional IP Holdings LLC, Nutritional High (Oregon) LLC, Nutritional Traditions Inc., NH Property Holdco LLC is the US dollar.

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

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the six months ended January 31, 2017 and 2016
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2. Basis of Presentation (continued)

2.4 New accounting policy adopted

- IAS 28, Investments in associates and joint ventures. Investments in associates are accounted for using the equity method based on the Company's ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the associate's net income or losses after the date of investment, additional contributions made and dividends received. Investments are written down when there has been a significant or prolonged decline in fair value.

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, 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.
- IAS 12, Income Taxes was amended in January 2016 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 estimate for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary difference. 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. 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 derived from contracts with customers, and providing users of financial statements with more informative, relevant disclosure. The Company has not yet assessed the impact of this new standard.

Nutritional High International Inc.
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2. Basis of Presentation (continued)

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

- 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 has not yet assessed the impact of this new standard.

3. Significant accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to recoverability of loan receivable and rent receivable (Note 5), valuation of deferred income tax amounts, gain on de-consolidation of NHMDI and SMHI 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, share-based payments, warrants, determination of derivative liability of convertible debt, loss of control of NHMDI and SMHI and determination of the joint arrangement as a joint operation or joint venture.

4. Accounts Receivable

The Company's accounts receivable consists of harmonized sales tax ("HST") receivable and other receivable. The breakdown of the accounts receivable balance is as follows:

	January 31, 2017	July 31, 2016
	\$	\$
HST recoverable	51,160	46,950
Other receivable	7,073	-
Balance	58,233	46,950

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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).

	January 31, 2017	July 31, 2016
	\$	\$
Rental income receivable ⁽ⁱ⁾	1,021,789	674,872
Other receivable	93,056	-
Revolving loan receivable ⁽ⁱⁱ⁾	195,450	140,999
Interest receivable	150,067	77,127
	1,460,362	892,998
Impairment on amounts receivable ⁽ⁱⁱⁱ⁾	(480,000)	(300,000)
Balance	980,362	592,998

- (i) Rental income receivable is generated from 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 January 31, 2017, the accrued interest on rental income receivable was \$113,086 (USD \$86,789) (July 31, 2016 – \$54,316 (USD \$41,650))
- (ii) Revolving loan to Palo Verde LLC, of which \$195,450 (USD \$150,000) (July 31, 2016 – \$140,999 (USD \$108,120)) and accrued interest of \$36,981 (USD \$28,381) (July 31, 2016 – \$22,811(USD \$17,492)) was receivable as at January 31, 2017. Advances through a promissory note are unsecured; bear interest at 12% per annum which were due on September 30, 2016. Palo Verde has extended 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. On February 28, 2017, the revolving loan was further extended and some terms were amended (Note 22).
- (iii) An allowance was recorded for January 31, 2017 and July 31, 2016 on account of the uncertainties surrounding recoverability of the loan and rental income receivable in respect of timing and unexpected financing delays.

6. Deposits

	January 31, 2017	July 31, 2016
	\$	\$
Property deposits	15,636	13,132
License deposit ⁽ⁱ⁾	131,040	-
Balance	146,676	13,132

- (i) On January 26, 2017, the Company advanced \$131,040 (US\$100,000) as a deposit in escrow to acquire provisional producer and processor licenses in Henderson, Nevada (Note 19).

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7. Investment properties

<u>Cost</u>	Land	Building	Total
	\$	\$	\$
Balance at July 31, 2015	163,500	994,080	1,157,580
Additions	58,384	691,907	750,291
Effect of movement in exchange rates	(300)	(5,417)	(5,717)
Balance at July 31, 2016	221,584	1,680,570	1,902,154
Additions	-	275,241	275,241
Derecognized (Note 20)	(5,878)	(168,558)	(174,436)
Effect of movement in exchange rates	4,351	(730)	3,621
Balance at January 31, 2017	220,057	1,786,523	2,006,580

Accumulated Amortization and
Accumulated impairment

	Land	Building	Total
	\$	\$	\$
Balance at July 31, 2015	-	27,998	27,998
Amortization for the year	-	39,219	39,219
Impairment	51,424	377,042	428,466
Effect of movement in exchange rates	-	658	658
Balance at July 31, 2016	51,424	444,917	496,341
Amortization for the period	-	20,260	20,260
Effect of movement in exchange rates	-	(349)	(349)
Balance at January 31, 2017	51,424	464,838	516,262

Carrying Amounts

	Land	Building	Total
	\$	\$	\$
Balance at July 31, 2015	163,500	966,082	1,129,582
Balance at July 31, 2016	170,160	1,235,653	1,405,813
Balance at January 31, 2017	168,633	1,321,685	1,490,318

The investment properties are located in Pueblo West, Colorado, United States, and in Lawrenceville, Illinois, United States (up to September 17, 2016 (Note 20)). The fair value of the Pueblo West investment property as at January 31, 2017 and July 31, 2016 continue to approximate the carrying value.

The Lawrenceville property was purchased by the Company, through its subsidiary, SMHI, with the intension of bring 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 the sale was assessed as not highly probable as at July 31, 2016. 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 in 2016. On September 17, 2016, ILDISP LLC earned 50% interest in SMHI (Note 20) and the Company lost control on SMHI. As a result, the Lawrenceville property was de-consolidated (Note 20).

On January 24, 2017, the Company entered into an agreement to acquire a real estate property to which the Henderson licenses (Note 19) are attached to. The purchase price for the acquisition is US\$1.6 million (Note 22).

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7. Investment properties (continued)

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

	\$
Less than 1 year	508,170
1-2 years	235,290
	743,460

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	300,731	10,790	69,219	380,740
Derecognized (Note 20)	-	(21,163)	(159,119)	(180,282)
Effect of movement in exchange rates	(3,851)	303	(6,779)	(10,327)
Balance at January 31, 2017	377,73434	847	-	378,581

	Furniture and Equipment	Computer	Leasehold Improvement	Total
	\$	\$	\$	\$
<u>Accumulated Amortization</u>				
Balance at July 31, 2015	-	-	-	-
Additions	337	538	704	1,579
Balance at July 31, 2016	337	538	704	1,579
Additions	4,973	1,767	1,783	8,522
Derecognized (Note 20)	-	(2,273)	(2,505)	(4,778)
Effect of movement in exchange rates	(72)	15	18	(39)
Balance at January 31, 2017	5,238	47	-	5,284

	Furniture and Equipment	Computer	Leasehold Improvement	Total
	\$	\$	\$	\$
<u>Carrying Amounts</u>				
Balance at July 31, 2015	-	-	-	-
Balance at July 31, 2016	80,517	10,379	95,975	186,871
Balance at January 31, 2017	372,496	800	-	373,297

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9. Accounts Payable and Accrued Liabilities

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

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

	January 31, 2017	July 31, 2016
	\$	\$
Less than 30 days	40,048	224,152
31 – 90 days	1,821	119,621
Over 90 days	94,457	537,191
Total trade payables	136,326	880,964
Accrued liabilities	30,842	148,200
Balance	167,168	1,029,164

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 six months ended January 31, 2017, the Company incurred professional fees of \$47,300 (2016 - \$36,000) from Branson Corporate Services, a company in which a company with a related director has a 49% interest.

For the six months ended January 31, 2017, the Company incurred consulting fees of \$96,000 (2016 - \$96,000) from FMI Capital Advisory Inc., a company with a related director.

For the six months ended January 31, 2017, the Company incurred professional fees of \$126,383 (2016 - \$16,089) from Fogler Rubinoff, LLP, a law firm in which a director of the company is a partner.

Total key management compensation paid to the management and directors amounted to \$145,136 (2016 - \$137,713) for the six months ended January 31, 2017. In addition, 2,250,000 stock options were issued to directors and officers during the period.

As at January 31, 2017, \$10,731 (2016 - \$337,704) is included in accounts payable and accrued liabilities and \$37,500 (2016 - \$Nil) is included in shares to be issued.

For the six months ended January 31, 2017, the Company incurred interest of \$3,228 (2016 - \$13,909) under the subordinate convertible debenture (Note 16).

See also Note 12.

11. Promissory Note Payable

On November 4, 2015, the vendor of the Lawrenceville property in Illinois (Note 7) where the Company's dispensary was to be located provided a buyer take-back mortgage in the amount of 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 due in two years from the date of issuance as a balloon payment. On September 17, 2016, ILDISP LLC earned 50% interest in SMHI (Note 20) and the Company lost control on SMHI. As a result, the promissory note payable was de-consolidated (Note 20).

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11. Promissory Notes Payable (continued)

On April 19, 2016, the Company entered into a refinancing arrangement of its Pueblo, Colorado property in the amount of US\$800,000 in the form of a loan note. Under the terms of the refinancing, the lender provided an initial advance of \$756,840 (US\$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 for six months if minimum monthly revenue at the Pueblo, Colorado property reached US\$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). On December 1, 2016, the lender provided an additional advance of \$266,760 (US\$200,000).

	January 31, 2017	July 31, 2016
	\$	\$
Opening balance	1,004,999	-
Advances	266,760	1,106,990
Deferred financing costs	-	(128,034)
Deferred financing amortization	64,544	33,674
Repayments	(11,489)	(22,009)
Derecognized on the joint venture	(322,079)	-
Effect of movement in exchange rates	9,849	14,378
	1,012,584	1,004,999
Current	1,012,584	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 19.

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 23, 2015, a holder of the convertible debentures (Note 16) 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 16) 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 12, 2015, a holder of the convertible debentures (Note 16) converted \$119,945 in convertible debentures into 1,166,667 common shares of the Company at a share price of \$0.06 per share.

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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. 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.

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 (US\$ 0.05) per share.

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 service provided.

On August 26, 2016, 11,432,580 units were issued in the first tranche of a private placement at \$0.035 per unit for an aggregate gross proceeds of \$400,140. Each unit comprised of one common share and one half of a warrant with an exercise price of \$0.05 for 18 months from closing. In connection with the private placement, the Company paid transaction cost of \$5,460 and issued 22,857 finder's units. Each finder's unit is exercisable at \$0.035 for 18 months from closing and each finder's unit comprised of one common share and one half of a warrant with an exercise price of \$0.05 expiring 18 months from closing.

On September 9, 2016, the Company completed the second and final private placement consisting of 11,445,960 units at a price of \$0.035 per unit for an aggregate gross proceeds of \$400,609. Each unit comprised of one common share and one half of a warrant with an exercise price of \$0.05 for 18 months. In connection with the private placement, the Company incurred \$12,591 of transaction and commission costs and issued 133,143 finder's warrants. Each warrant is exercisable at \$0.035 for 18 months after closing.

On September 12, 2016, the Company issued 8,870,844 units to settle \$443,542 of debt at a deemed price of \$0.05 per unit. Each unit is comprised of one common share and one half common share purchase warrant. Each warrant entitles the holder to purchase one common share at price of \$0.07 per common Share for a period of 18 months after the closing date. A total of 6,665,174 units were issued to non-arm' length parties to settle the debts in the amount of \$333,258. A gain of \$132,657 is recognized as a result of this debt settlement.

On October 6, 2016, subordinate convertible debenture of \$150,000 together with interest owing of \$26,090 were converted to 2,934,830 common shares at the price of \$0.06 per share (Note 16).

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12. Share Capital (continued)

On November 8, 2016, the Company completed the first tranche of the non-brokered private placement, consisting of 7,658,710 units at a price of \$0.15 per unit for an aggregate gross proceeds of \$1,148,807. Each unit consists of one common share of the Company and one-half one common share purchase warrant. Each Warrant entitles the holder to purchase a Common Share at \$0.22 per share for a period of 18 months from closing. In connection with the private placement, the Company incurred \$113,996 of transaction and commission costs and issued 552,884 finder's units. Each finder's unit is exercisable at \$0.15 for 24 months and each finder's unit comprised of one common share and one half of a warrant with an exercise price of \$0.22 expiring 24 months from closing.

On November 18, 2016, the Company completed the second tranche of the non-brokered private placement, consisting of 25,615,880 units at a price of \$0.15 per unit for an aggregate gross proceeds of \$3,842,382. Each unit consists of one common share of the Company and one-half one common share purchase warrant. Each Warrant entitles the holder to purchase a Common Share at \$0.22 per share for a period of 18 months from closing. In connection with the private placement, the Company incurred \$379,277 of transaction and commission costs and issued 1,933,462 finder's units. Each finder's unit is exercisable at \$0.15 for 24 months and each finder's unit comprised of one common share and one half of a warrant with an exercise price of \$0.22 expiring 24 months from closing.

On November 24, 2016, the Company completed the final tranche of the non-brokered private placement, consisting of 3,194,965 units at a price of \$0.15 per unit for an aggregate gross proceeds of \$479,245. Each unit consists of one common share of the Company and one-half one common share purchase warrant. Each Warrant entitles the holder to purchase a Common Share at \$0.22 per share for a period of 18 months from closing. In connection with the private placement, the Company incurred \$51,555 of transaction and commission costs and issued 285,270 finder's units. Each finder's unit is exercisable at \$0.15 for 24 months and each finder's unit comprised of one common share and one half of a warrant with an exercise price of \$0.22 expiring 24 months from closing.

During the six months ended January 31, 2017, 26,027,338 warrants were exercised ranging in price from \$0.05 to \$0.10 and 3,532,500 options ranging in price from \$0.07 to \$0.135 for a total gross proceeds of \$2,137,445.

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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 24,290,612 at January 31, 2017.

The following table reflects the continuity of options for the six months ended January 31, 2017:

	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	3,435,000		554,205
Exercised	(3,532,500)		(148,839)
Forfeited	(650,000)		-
Balance, January 31, 2017	10,492,500	\$	776,618

- a) 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.
- 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 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 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 estimate reliably, the option value has been measured by the Black-Scholes option pricing model.
- e) On October 14, 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 \$0.13 exercisable from time to time up to October 14, 2018.
- f) 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.
- g) On November 29, 2016, the Company granted 315,000 stock options to four arm's length consultants. The options are exercisable into Common Share of the Company at a price of \$0.30 per Common Share for a period of two years from the date of issuance.

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13. Reserve for Share Based Payments (continued)

The estimated fair value of share based compensation during the six months ended January 31, 2017 was determined using the Black-Scholes option pricing model with the following assumptions:

	October 14, 2016	October 17, 2016	November 29, 2016	Total
Number of options	170,000	2,950,000	315,000	
Risk-free interest rate	0.61%	0.74%	0.67%	
Expected life of options	2 years	5 years	2 years	
Expected volatility	111%	165%	93%	
Expected dividend yield	0%	0%	0%	
Fair value	\$14,000	\$444,000	\$44,000	\$502,000

During the six months ended January 31, 2017, the Company recorded an additional \$52,205 to share-based payments which represents options granted in prior year that were vested during the period.

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	
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

Option pricing models require the input of highly subjective assumptions and changes in the input assumptions can materially affect the fair value estimated. Expected volatility is based on the historical volatility of the Company and other companies that the Company considers comparable that have trading and volatility history prior to the Company becoming public. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero coupon government of Canada bonds with a remaining term equal to the expected life of the options,

As at January 31, 2017, the following stock options were outstanding:

Expiry Date	Exercise Price	Number of Options	Exercisable
October 14, 2018	\$0.130	127,500	127,500
November 29, 2018	\$0.300	315,000	315,000
July 7, 2019	\$0.100	1,600,000	1,600,000
March 18, 2020	\$0.100	2,300,000	2,300,000
April 1, 2020	\$0.100	250,000	250,000
June 10, 2020	\$0.100	400,000	400,000
December 21, 2020	\$0.075	350,000	116,667
April 21, 2021	\$0.070	2,500,000	833,333
October 17, 2021	\$0.135	2,650,000	2,650,000
		10,492,500	8,592,500

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13. Reserve for Share Based Payments (continued)

As at January 31, 2017, the weighted average exercise price of the stock options was \$0.11 (2016 - \$ 0.09) and the weighted average remaining contractual life of the stock options was 3.66 years (2016 – 3.75 years). For the six months ended, January 31, 2017, the weighted average exercise price of the stock options exercised was \$0.10.

14. Reserve for Warrants

The following table reflects the continuity of warrants for the six months ended January 31, 2017:

	Number of Warrants	Amount
Balance, July 31, 2015	34,082,806	\$ 566,399
Warrants pursuant to private placement	2,596,000	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	(9,635,368)	-
Warrants exercised	(2,768,000)	(12,741)
Balance, July 31, 2016	31,358,772	\$ 778,658
Warrants pursuant to private placements (Note 12)	32,605,664	1,508,423
Warrants issued through exercise of finder's units	1,150,300	97,000
Warrants issued pursuant to debt settlement (Note 12)	4,435,422	61,078
Warrants expired	(440,000)	-
Warrants exercised	(26,027,338)	(646,758)
Balance, January 31, 2017	43,082,820	\$ 1,798,401

During the six months ended January 31, 2017, the Company issued warrants to purchase common shares, valued at \$1,720,423 (net of issue costs) using the Black-Scholes option pricing model using the following assumptions:

	November 08, 2016	November 18, 2016	November 18, 2016	November 24, 2016	November 24, 2016	Total	
Number of warrants	552,884	12,807,940	1,933,462	1,597,483	285,270		
Risk-free interest rate	0.58%	0.67%	0.63%	0.68%	0.68%		
Expected life	2.0 years	1.5 years	2.0 years	1.5 Year	2.0 years		
Expected volatility	90%	98%	108%	103%	108%		
Expected dividend yield	0%	0%	0%	0%	0%		
Valued at	\$128,000	\$397,515	\$476,000	\$49,000	\$60,000	\$1,110,515	
	October 14, 2016	October 17, 2016	October 19, 2016	October 21, 2016	October 27, 2016	November 08, 2016	Total
Number of warrants	50,000	465,680	4,000	8,100	84,260	3,829,355	
Risk-free interest rate	0.61%	0.61%	0.56%	0.52%	0.58%	0.58%	
Expected life	0.43 years	0.43 years	0.42 years	0.42 years	0.42 years	1.5 years	
Expected volatility	101%	101%	105%	106%	107%	90%	
Expected dividend yield	0%	0%	0%	0%	0%	0%	
Valued at	\$4,000	\$43,000	\$1,000	\$1,000	\$13,000	\$120,908	\$182,908
	August 26, 2016	August 26, 2016	September 09, 2016	September 09, 2016	September 12, 2016	October 11, 2016	Total
Number of warrants	5,716,290	22,857	5,722,980	133,143	4,435,422	534,260	
Risk-free interest rate	0.59%	0.59%	0.58%	0.58%	0.58%	0.59%	
Expected life	1.5 years	1.5 years	1.5 years	1.5 years	1.5 years	0.43 years	
Expected volatility	101%	101%	103%	103%	103%	101%	
Expected dividend yield	0%	0%	0%	0%	0%	0%	
Valued at	\$93,000	\$0	\$179,000	\$5,000	\$61,078	\$35,000	\$373,078

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14. Reserve for Warrants (continued)

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 2, 2015	December 2, 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	
Risk-free interest rate	0.63%	0.63%	0.70%	0.63%	0.56%	
Expected life	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

As at January 31, 2017, the following warrants were outstanding:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Number of Warrants</u>
March 16, 2017	\$0.070	3,313,771
March 16, 2017	\$0.050	100,200
March 18, 2017	\$0.070	350,000
June 2, 2017	\$0.070	1,169,500
August 31, 2017	\$0.070	400,000
October 14, 2017	\$0.060	3,333,334
February 26, 2018	\$0.050	4,823,790
February 26, 2018	\$0.350	22,857
March 9, 2018	\$0.050	3,994,409
March 9, 2018	\$0.035	133,143
March 12, 2018	\$0.070	4,435,422
May 8, 2018	\$0.220	3,829,355
November 8, 2018	\$0.150	552,884
May 18, 2018	\$0.220	12,807,940
November 18, 2018	\$0.150	1,933,462
May 24, 2018	\$0.220	1,597,483
November 24, 2018	\$0.150	285,270
		43,082,820

As at January 31, 2017, the weighted average exercise price of the warrants was \$0.13 (2016 - \$ 0.07) and the weighted average remaining contractual life of the warrants was 1.08 years (2016 – 3.75 years).

On December 21, 2015, the company amended the exercise period of its share purchase warrants issued on June 27, 2014 from 18 months to 21 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.

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15. Non-controlling Interest

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company's condensed interim consolidated financial statements. The 49% interest attributable to a minority shareholder is presented as "non-controlling interest" within shareholders' equity on the condensed consolidated statements of financial position. Net loss and comprehensive loss is allocated between the Company's 51% ownership and non-controlling 49% ownership interest. For the six months ended January 31, 2017, the Company recorded \$Nil (2016 - \$153) of the subsidiary's net loss and comprehensive loss related to the non-controlling interest.

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

On December 21, 2015, the Company has entered into an amending agreement with the holder of Senior Convertible Debenture to provide for the pre-payment. The Company has agreed to issue 3,750,000 Common share purchase 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 warrants were valued at \$134,000 on issuance. The remaining \$100,000 of convertible debt was pre-paid in full on April 27, 2016.

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16. Convertible Debentures (continued)

- (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 \$26,090 accrued interest were converted into 2,934,830 common shares at \$0.06 per share (Note 12).

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: \$0.02 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 January 31, 2017, \$Nil (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 six months ended January 31, 2017, of \$70,338 (2016 – loss of \$11,288) has been reflected in the condensed interim consolidated statement of comprehensive loss as change in the fair value of the derivative liabilities. The interest and accretion expense in the amount of \$5,047 (2016- \$13,909) are recorded as a finance cost for the six months ended January 31, 2017.

- b. On April 4, 2016, the Company through its wholly-owned subsidiaries, NHMDI and SMHI, 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 50% interest in each NHMDI and SMHI. 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 US\$200,000;
- (ii) An unsecured convertible note in the amount of US\$100,000:
- Upon approval of the IDFPR of the Purchaser's application with respect to its interests in NHMDI ("Purchaser IDFPR Application"), convertible into 100 shares at US\$500 per NHMDI shares and 100 shares at US\$500 per SMHI shares;
 - Upon rejection of the Purchaser IDFPR Application, 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.

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16. Convertible Debentures (continued)

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.

On September 17, 2016, the Purchaser's contribution reached US\$300,000, the total Initial Funding agreed upon, and the Purchaser IDFP Application was approved. Consequently, the convertible note was converted into 100 NHMDI shares and 100 SMHI, which represent 50% interest in each of NHMDI and SMHI (Note 20).

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 six months ended January 31, 2017. 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, shares to be issued reserve for warrants, reserve for share based payments, reserve for foreign currency translation, equity component of convertible debentures, non-controlling interest, and deficit, which as at January 31, 2017 totaled \$8,546,250.

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

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

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, accounts receivable and amounts due from Palo Verde LLC including rental income 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 in full-fledged. 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. Accounts receivable consists mostly of harmonized sales tax due from the Canadian government. 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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18. Financial Instruments

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2017, the Company had working capital of \$4,955,754 (2016 – deficiency of \$1,432,542), current assets of \$6,135,506 (2016 - \$299,115) and current liabilities of \$1,179,752 (2016 - \$1,731,657). All of the Company's financial liabilities and receivables, excluding Amounts due from Palo Verde LLC (Note 5), have contractual maturities of less than 90 days and are subject to normal trade terms.

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 \$8,196 (2016 - \$26,958) as a result of the Company's exposure to currency exchange rate fluctuations.

Interest rate risk

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

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

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

An increase (decrease) of 25 basis points would have impacted net loss by \$2,531 (2016 - \$170) as a result of the Company's exposure to interest rate fluctuations.

19. Licensing and Royalty Agreements

Purple Haze

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

Under the terms of the agreement, the Company is to issue 3,333,334 common shares (Note 12) valued at USD\$250,000 to pay for the annual exclusivity fee (US\$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 US\$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.

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19. Licensing and Royalty Agreement (continued)

Purple Haze (continued)

On March 7, 2016, the Company signed an addendum agreement with Purple Haze Properties LLC to allow for the 2016 payments of the Company's stock to occur on date of addendum. The Company issued 5,000,000 shares valued at \$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 six months ended January 31, 2017, \$94,959 of the license was amortized. The company has \$106,693 (2016 - \$201,652) of unamortized license and \$26,666 (2016 - \$50,408) prepaid expenses for the advance on royalty pertaining to the first two years of the five-year license and royalty agreement.

Henderson

On January 24, 2017, the Company entered into definitive agreements to acquire provisional producer and processor licenses ("Henderson licenses") in Henderson, Nevada. As consideration for the acquisition of the Licenses, the Company shall pay US\$1,000,000, US\$800,000 of which is payable in cash, and US\$200,000 of which, at the vendor's option, is payable in cash or by the issuance of 1,176,470 common shares of the Company at a deemed price of US\$0.17 per common share. As at January 31, 2017, the Company has advanced US\$100,000 as a deposit in escrow which is included in Deposits (Note 6) on the condensed interim statements of financial position.

Dab Stick

On January 30, 2017, the Company entered into an IP assignment and option agreement to acquire a dispenser for viscous liquid substances (the "Dab Stick") and the technology and the intellectual property and rights for the purpose of allowing the Company to make, have made, use, sell and market products using such technology and intellectual property rights.

As consideration, the Company shall issue common shares to the vendors as follows:

- (i) Upon confirmation, to the Company's satisfaction, that the Dab Stick product satisfactorily functions for its intended purpose. The Company shall issue an aggregate of 444,445 common shares at a deemed price of \$0.225 per share;
- (ii) Upon the commercial sale at fair market value of the first 100 Dab Stick products, an aggregate of \$100,000 worth of common shares;
- (iii) Upon the commercial sale at fair market value of the next 500 Dab Stick products, an aggregate of \$100,000 worth of common shares;
- (iv) Upon the grant of a patent by the United States Patent and Trademark Office ("USPTO") for a provisional patent application filed in October 2016, an aggregate of \$200,000 worth of common shares. Should the vendors fail to advance the application which results in application going abandoned, the \$200,000 worth of common shares shall become due on the date of abandonment.

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20. Investments

NHMDI and SMHI

On August 23, 2016, the Company announced that the Company has received all required registration information and that NHMDI is licensed to operate the Clinic Effingham dispensary in Effingham, Illinois (“TCE”). TCE commenced its operations in September 2016.

On September 17, 2016, ILDISP LLC (the “Purchaser”) satisfied all the conditions to earn 50% interest in the Company’s subsidiaries, NHMDI and SMHI, as per the restated letter agreement dated April 4, 2016 (Note 16). Consequently, effective September 17, 2016, the Company lost control of NHMDI and SMHI and recorded a gain on deconsolidation of \$824,390.

The Company and the Purchaser have agreed that working capital requirements shall be funded 50% by the Company and 50% by the Purchaser. Subsequent to September 17, 2016, the Company advanced a total of \$172,914 to NHMDI and SMHI.

During the six months ended January 31, 2017, the Company recorded loss from NHMDI and SMHI of \$52,019 (2016 - \$Nil).

The following table summarized the financial information of NHMDI and SMHI as at January 31, 2017:

	NHMDI	SMHI
	\$	\$
Cash	162,631	-
Current assets	11,144	24,547
Non-current assets	221,643	168,396
Current liabilities	139,945	99,094
Non-current liabilities	311,605	377,495
Revenue for the period	368,469	-
Loss for the period	85,030	19,008

Aura

On November 14, 2016, Aura Health Corp. issued a promissory note of US\$120,000 to the Company, bearing interest at 12% per annum, maturing 24 months from the date of issue (“Maturity date”). At the option of the Company, on or after November 14, 2017 and prior to the Maturity date, the promissory note together with accrued and unpaid interest shall be convertible into Aura’s units at the conversion price of \$0.05. Each Aura’s unit comprised of one Aura’s common share and one-half of Aura’s warrant exercisable, until the earlier of 5 years from the date of issuance or 2 years from the date of listing of Aura’s shares on the CSE, into one Aura’s common share at the exercise price of \$0.075.

As consideration for the promissory note, Aura issued 4,000,000 common shares to the Company, representing 40% ownership interest in Aura. In December 2016, Aura closed a private placement which diluted the Company’s ownership to 24%.

Aura is engaged in the development and acquisition of medical marijuana certification clinics in the United States. The medical health clinics test prospective patients and issue medical-use certificates to qualified patients in the United States. Aura Health Corp. was incorporated on November 08, 2016 under the laws of the Province of Ontario, Canada.

During the six months ended January 31, 2017, the Company recorded loss from Aura of \$44,775 (2016 - \$Nil).

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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 January 31, 2017, the anticipated lease payments in USD in each of the next five years are as follows:

2017	\$ 32,009
2018	64,020
2019	64,020
2020	64,020
2021	58,686
Balance	\$ 304,096

22. Subsequent events

- Subsequent to January 31, 2017, the Company incorporated the following US subsidiaries: NH (Oregon) Properties LLC, NH (Pennsylvania) LLC, Growco Nevada Inc., NH Nevada LLC, NH Operations LLC, NH Processing (Nevada) Inc., and NH Properties (Nevada) LLC.
- On February 8, 2017, 850,000 options were granted to a consultant as part of service fee. The options are exercisable into common shares of the Company at a price of \$0.205 per Common share for a period of two years from the date of issuance
- On February 16, 2017, 500,000 options were granted to a consulting company as part of service fee. The options are exercisable into common shares of the Company at a price of \$0.20 per Common share for a period of two years from the date of issuance.
- On February 17, 2017, the Company placed an additional US\$900,000 in escrow in relation to the acquisition of provisional producer and processor licenses (“Henderson licenses”) in Henderson, Nevada (Note 19) and advanced a refundable deposit of US\$160,000 to acquire a real estate property to which the Henderson licenses are attached to (Note 7).
- On February 22, 2017, the Company and Lakeside Minerals Inc. (“Lakeside”) entered into a Letter of Intent whereby Lakeside will build medical and adult use cannabis cultivation facilities (“Proposed Transaction”).

As a part of the Proposed Transaction, Lakeside will enter into the following arrangements with the Company:

- (i) Nutritional High will assign to Lakeside its right to acquire a Provisional Marijuana Cultivation License issued by the Nevada Division of Public and Behavioral Health (the "Nevada Cultivation License") for a cash payment of US\$500,000; and
- (ii) Lakeside will form a joint venture company with Nutritional High for the purposes of acquiring and holding a real property located in Henderson, Nevada (“Henderson Property”) to be licensed for the operation of a medical marijuana cultivation facility (the “Nevada JV”);
- (iii) Nutritional High will lease to Lakeside land and a building in Pueblo, Colorado (“Pueblo Facility”) which qualify for marijuana cultivation. Lakeside will sublease the Pueblo Facility to Palo Verde, LLC (“Palo Verde”), a party which has applied to renew a Cultivation License in Colorado respecting the Pueblo Facility.

The Company is under the contract to purchase the Nevada Cultivation License, from a third party (“Vendor”) located in Nevada for US\$500,000. The Vendor acquired the Nevada Cultivation License it in a competitive process and has not yet generated revenue.

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22. Subsequent events (continued)

- On February 28, 2017, the revolving loan to Palo Verde LLC (Note 5) was extended to May 31, 2018 ("Maturity Date") and the revolving loan commitment was increased from US\$150,000 to US\$375,000. In addition, the interest on the revolving loan will accrue until Maturity Date and a 1% renewal fee shall be added to the principal amount as a consideration for extending the loan.
- In March 2017, the Company entered into an agreement to purchase a real estate property and advanced US\$100,000 as deposit.
- In March 2017, the Company entered into an agreement to purchase a real estate property and advanced US\$20,000 as a deposit.
- On March 17, the Company sold the Lawrenceville property back to its original vendors by paying a consideration of \$80,000, of which 50% was covered by ILDISP, in lieu of forgiving the outstanding seller take-back mortgage.
- On March 24, 2017, the Company closed an acquisition of a real estate property in The City of La Pine located in Deschutes County, Oregon for US\$399,000.