



Nutritional High International Inc.

Condensed interim consolidated Financial Statements
For the three months ended October 31, 2017 and October 31, 2016

(Unaudited, expressed in Canadian Dollars, unless otherwise noted)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed an audit or review of these condensed consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants.

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

	Notes	October 31, 2017 \$	July 31, 2017 \$
(Audited)			
Assets			
Current			
Cash		1,177,223	1,924,736
Accounts receivable	4, 17	189,968	90,479
Prepays		154,461	121,928
Deposits	5	1,521,374	1,822,810
Investments	7	840	840
		3,043,866	3,960,793
Non-current assets			
Debenture receivable	6	100,000	100,000
Amounts due from Palo Verde LLC	8	244,731	459,172
Investment properties	9	1,436,699	1,424,099
Investments in associate and joint ventures	10	599,163	931,484
Intangible assets	11	43,751	43,751
Capital assets	12	1,267,505	1,211,282
		6,735,715	8,130,581
Liabilities			
Current			
Accounts payable and accrued liabilities	17	670,547	585,693
Promissory note payable	13	971,402	907,698
Finance lease	14	75,921	75,921
		1,717,870	1,569,312
Non-current liabilities			
Finance lease	14	74,784	87,413
Promissory note payable	13	450,456	420,042
		2,243,110	2,076,767
Shareholders' Equity			
Share capital	16	12,218,693	12,218,693
Shares to be issued	19	52,500	52,500
Reserve for share based payments	17	1,472,364	1,357,328
Reserve for warrants	18	2,447,639	2,447,639
Reserve for foreign currency translation		13,606	47,541
Non-controlling interest	20	(14,750)	(14,750)
Accumulated deficit		(11,697,447)	(10,055,137)
		4,492,605	6,053,814
		6,735,715	8,130,581

Nature of Operations and Going concern (Note 1)
Commitments (Note 24)
Subsequent Events (Note 26)

Approved on behalf of the Board:

"Adam Szweras" Director

"Andres Tinajero" Director

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

Nutritional High International Inc.
Condensed Interim Consolidated Statements of Income (Loss) and
Comprehensive Income (Loss)
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Note	2017 \$	2016 \$
Revenue			
Lease	8	241,782	127,883
Interest	8	66,319	31,022
		308,101	158,905
Expenses			
Management and consulting fees	19	249,993	216,425
Professional fees	19	124,167	91,357
General and administration		128,370	145,329
Acquisition and project evaluation costs		135,606	-
Share based payments	17	115,036	417,884
Amortization	9,12	61,720	70,158
Allowance for amounts due from Palo Verde LLC	8	866,123	36,070
Loss from Operations		(1,372,914)	(818,318)
Foreign exchange gain		176,751	27,776
Change in fair value of derivative liability	15	-	70,338
Finance costs	13	(93,941)	(32,375)
Impairment of a joint venture	10	340,300	-
Net gain from deconsolidation of subsidiaries and gain and loss from investments in associate and joint ventures	10	(11,906)	835,085
Net income (loss)		(1,642,310)	82,506
Other comprehensive loss			
<i>Items that may be subsequently reclassified to earnings:</i>			
Exchange differences on translating foreign operations		(33,935)	(8,432)
Net income (loss) and comprehensive loss		(1,676,245)	74,074
Net income (loss) attributable to non-controlling interest	20	-	-
Net income (loss) attributable to parent company		(1,642,310)	82,506
		(1,642,310)	82,506
Net income (loss) loss and comprehensive income (loss) attributable to non-controlling interest		-	-
Net income (loss) and comprehensive income (loss) attributable to parent company		(1,676,245)	74,074
		(1,676,245)	74,074
Weighted average number of shares outstanding			
Basic and diluted		251,200,400	167,378,092
Loss per share			
Basic and diluted		\$(0.0065)	\$0.0005

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
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

	Share Capital	Shares to be issued	Reserve for Share based payments	Reserve for Warrants	Reserve for foreign currency translation	Equity Component of Convertible Debentures	Accumulated Deficit	Attributable to owners of parent	Non-controlling interest	Total
Balance at July 31, 2016	\$ 4,068,429	\$ 63,390	\$ 371,252	\$ 778,658	\$ (9,672)	\$ 167,260	\$ (5,049,062)	\$ 390,255	\$ (14,750)	\$ 375,505
Private placements net of share issue costs (Note 16)	615,294	-	-	180,000	-	-	-	795,294	-	795,294
Shares issued on exercise of warrants (Note 18)	1,998,517	-	-	(560,562)	-	-	-	1,437,955	-	1,437,955
Shares issued on exercise of options (Note 17)	200,300	-	(33,500)	-	-	-	-	166,800	-	166,800
Shares issued pursuant to debenture agreements (Note 15)	110,185	-	-	-	-	(167,260)	-	(57,075)	-	(57,075)
Shares to be issued (Note 19)	-	15,000	-	-	-	-	-	15,000	-	15,000
Issued for non-cash consideration:										
Issued for debt settlements	373,542	(63,390)	-	70,000	-	-	-	380,152	-	380,152
Share based payments (Note 17)	-	-	379,884	38,000	-	-	-	417,884	-	417,884
Foreign exchange translation	-	-	-	-	(8,432)	-	-	(8,432)	-	(8,432)
Net loss for the year	-	-	-	-	-	-	82,506	82,506	-	82,506
Balance at October 31, 2016	7,366,267	15,000	717,636	506,096	(18,104)	-	(4,966,556)	3,620,339	(14,750)	3,605,589
Private placements net of share issue costs (Note 16)	2,890,342	-	-	2,144,571	-	-	-	5,034,913	-	5,034,913
Shares issued on exercise of warrants (Note 18)	1,087,886	-	-	(358,028)	-	-	-	729,858	-	729,858
Shares issued on exercise of options (Note 17)	423,863	-	(178,838)	-	-	-	-	245,025	-	245,025
Shares issued pursuant to debenture agreements (Note 15)	203,522	-	-	-	-	-	-	203,522	-	203,522
Shares to be issued (Note 19)	-	42,500	-	-	-	-	-	42,500	-	42,500
Issued for non-cash consideration:										
Issued for debt settlements	203,063	(5,000)	-	43,000	-	-	-	241,063	-	241,063
Issued for Intellectual property (Note 11)	43,750	-	-	-	-	-	-	43,750	-	43,750
Warrants issued pursuant to promissory note (Note 13)	-	-	-	112,000	-	-	-	112,000	-	112,000
Share based payments (Note 17)	-	-	818,530	-	-	-	-	818,530	-	818,530
Foreign exchange translation	-	-	-	-	65,645	-	-	65,645	-	65,645
Net loss for the year	-	-	-	-	-	-	(5,088,581)	(5,088,581)	-	(5,088,581)
Balance at July 31, 2017	12,218,693	52,500	1,357,328	2,447,639	47,541	-	(10,055,137)	6,068,564	(14,750)	6,053,814
Share based payments (Note 17)	-	-	115,036	-	-	-	-	115,036	-	115,036
Foreign exchange translation	-	-	-	-	(33,935)	-	-	(33,935)	-	(33,935)
Net loss for the year	-	-	-	-	-	-	(1,642,310)	(1,642,310)	-	(1,642,310)
Balance at October 31, 2017	\$ 12,218,693	\$ 52,500	\$ 1,472,364	\$ 2,447,639	\$ 13,606	\$ -	\$ (11,697,447)	\$ 4,507,355	\$ (14,750)	\$ 4,492,605

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
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

	2017	2016
	\$	\$
OPERATING ACTIVITIES		
Net income (loss)	(1,642,310)	82,506
Items not affecting cash		
Net loss (gain) from deconsolidation of subsidiaries and gain and loss from investments in associate and joint ventures	11,906	(835,085)
Impairment of a joint venture	340,300	
Amortization	61,720	67,251
Finance costs	45,159	-
Share based payments	115,036	417,884
Allowance for amounts due from Palo Verde LLC	866,123	-
Change in the fair value of derivative liability	-	(70,338)
Net change in non-cash working capital and other items:		
Accounts receivable	(99,489)	21,121
Prepays	(32,533)	37,920
Amounts due from Palo Verde LLC	(424,801)	(192,889)
Accounts payable and accrued liabilities	84,854	(222,971)
Finance lease	(12,629)	-
Cash Flow used in Operating Activities	(689,664)	(694,601)
INVESTING ACTIVITIES		
Deposits	356,600	6,431
Amounts due from Palo Verde LLC	(226,881)	(38,627)
Purchase of capital assets	(46,374)	(174,983)
Investments in associate and joint ventures	(152)	(40,206)
Cash Flow from (used in) Investing Activities	83,193	(247,385)
FINANCING ACTIVITIES		
Issuance of units, net of share issue costs	-	637,873
Shares issued on warrants exercised	-	1,437,954
Shares issued on options exercised	-	166,800
Cash Flow from Financing Activities	-	2,242,627
Net increase in cash	(603,471)	1,300,641
Effects of exchange rate changes on cash	(144,042)	86,135
Cash at beginning of period	1,924,736	111,786
Cash at end of period	1,177,223	1,498,562

Supplemental information (Note 25)

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 three months ended October 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”) 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 three months ended October 31, 2017 were approved by the Board of Directors on December 28, 2017.

The Company has been incurring operating losses and cash flow deficits since its inception, as it executes on its business plan to capitalize on the opportunity that is emerging from the gradual relaxing of prohibitions in the United States on the cannabis industry. The Company’s operations are not yet sustaining. As such, the Company has been depleting its invested capital and is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs. There is no assurance that any prospective project in the medical marijuana industry will be successfully initiated or completed. Further, regulatory evolution and uncertainty may require the Company to alter its business plan and make further investments to react to regulatory changes.

At October 31, 2017, the Company had a working capital of \$1,325,996 (July 31, 2017 – \$2,391,482), spent \$689,664 (October 31, 2017 - \$733,228) of cash for operating activities, had not yet achieved profitable operations, has accumulated losses of \$11,697,447 (July 31, 2017 - \$10,055,137) 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 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, 2017.

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 three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

2.3 Basis of consolidation

The condensed interim consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries 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 fully condensed interim consolidated from the date that control commences and de-consolidated from 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 Company's subsidiaries and investments in associate and joint ventures are listed below:

Subsidiary/Affiliate	Effective ownership		Accounting method
	October 31, 2017	July 31, 2017	
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
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
NH Medicinal (Minnesota) Inc. ("NHMM")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
NH (Oregon) Properties LLC ("NHOP")	100%	100%	Consolidation
NH Processing (Nevada) Inc. ("NHPN")	100%	100%	Consolidation
NH Operations LLC ("NHOC")	100%	100%	Consolidation
NH Nevada LLC ("NHNC")	100%	100%	Consolidation
Growco Nevada Inc. ("GNI")	100%	100%	Consolidation
NH (Pennsylvania) LLC ("NHPL")	100%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC")	100%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medical Dispensaries LLC ("NHMD"), formerly NH Medicinal Dispensaries Inc.	50%	50%	Equity
Small's Mill Holdings Inc. ("SMHI")	50%	50%	Equity
Aura Health Corp. ("Aura")	16%	16%	Equity

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 the remaining subsidiaries is US dollar.

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

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

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

At the date of authorization of these condensed interim consolidated financial statements, the IASB and International Financial Reporting Interpretations Committee (“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 condensed interim consolidated financial statements of the Company.

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 June 2016, the IASB issued amendments to IFRS 2, Share-based Payment (“IFRS 2”), clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018 with prospective application.
- 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. Restatement of prior periods in relation to the classification and measurement, including impairment, is not required.
- IFRS 15, Revenue from contracts with customers will replace the existing standards for revenue recognition. IFRS 15 established a framework for the recognition and measurement of revenues derived from contracts with customers, and providing users of financial statements with more informative, relevant disclosure. The standard is effective for annual periods beginning on or after January 1, 2018.
- In December 2016, IFRIC 22, Foreign Currency Transactions and Advance Consideration (“IFRIC 22”) was issued by the IASB. IFRIC 22 clarifies the date that should be used for translation when a foreign currency transaction involves an advance payment or receipt. The Interpretation is applicable for annual periods beginning on or after January 1, 2018.

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

2.4 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.

Earlier application is permitted for these pronouncements. The Company is assessing the potential impact of these new standards.

2.5 Recently adopted accounting policies

- 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. These amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of the amendment did not have a material impact to the Company's condensed interim consolidated financial statements, but did result in additional supplemental cash flow disclosure (Note 25).

3. Summary of Significant Accounting Policies

3.1 Share based payments

Share based payment transactions

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

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

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Equity settled transactions

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

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

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

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

3.2 Loss per share

Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the weighted average number of common and potential common shares outstanding during the period. In order to determine diluted loss per share, it is assumed that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the three months ended October 31, 2017 and 2016.

3.3 Taxation

Current income tax

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

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Deferred income tax

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

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

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

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

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

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

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

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

3.4 Financial assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash and investments are classified as FVTPL. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest rate method, less impairment. The Company's accounts receivable, amounts due from Palo Verde LLC and debentures receivable are classified as loans and receivables.

Nutritional High International Inc.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2017 and 2016
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At October 31, 2017, the Company has not classified any financial assets as available for sale.

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

3.5 Financial liabilities

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

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

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the income statement. Where a modification to an existing liability is not substantial, there is no re-recognition, and any costs or fees incurred adjust the carrying amount of the liability, and are amortized over the remaining term of the modified liability.

Financial liabilities classified at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL. Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified at FVTPL are recognized through the statement of comprehensive loss. At October 31, 2017, the Company has not classified any financial liabilities at FVTPL.

3.6 Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired. Management has concluded that there is impairment for amounts due from Palo Verde LLC as at October 31, 2017 and 2016 (Note 8).

Assets carried at amortized cost

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

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3. Summary of Significant Accounting Policies (continued)

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

3.7 Provisions

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

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

3.8 Related party transactions

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

3.9 Leases

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

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

3.10 Intangibles

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization is provided on a straight-line basis over the following terms:

Licenses and Intellectual property rights	Useful life term or contract term
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3. Summary of Significant Accounting Policies (continued)

3.11 Investment property

Investment property earns lease income and is not for sale in the ordinary course of business, is not used in the production or supply of goods or services or for administrative purposes. Investment property is carried at historical cost less any accumulated depreciation and impairment losses. Amortization is computed using the declining balance methods based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period. Amortization is provided at rates as follows:

Building	4% Declining balance
Leasehold Improvement	Straight-line over lease term

3.12 Capital assets

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

Building	4% Declining balance
Leasehold improvements	Straight-line over useful life or lease term
Equipment	25% - 40% Declining balance
Computer and software	33% Declining balance

3.13 Impairment of non-financial assets

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

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

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

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3. Summary of Significant Accounting Policies (continued)

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

3.14 Investments in associates and joint ventures

A joint venture is a type of joint arrangement in which the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity in which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not represent control or joint control over those decisions.

The considerations made in determining joint control or significant influences are similar to those necessary to determine control over subsidiaries.

Investments in joint ventures and associates are accounted for using the equity method, whereby the investment is carried in the condensed interim consolidated statement of financial position at cost plus post-acquisition changes in the Company's share of the net assets of the investment. When the Company's share of losses of a joint venture or associate exceeds the Company's carrying value of the investment, the Company discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the joint venture or associate.

The condensed interim consolidated statement of loss or income reflects the Company's share of the results of operations of the joint venture or associate. Where there has been a change recognized directly in the other comprehensive income of the joint venture or associate, the Company recognizes its share of any changes and discloses this, when applicable, in other comprehensive income. When there has been a change recognized directly in the equity of the joint venture or associate, the Company recognizes, when applicable, its share of any changes in the statement of changes in equity.

The financial statements of the joint venture or associate are prepared for the same reporting period as the Company except when the joint venture or associate does not have coterminous year-end and quarter-ends with the Company, in which case the most recent period-end available in a quarter is used. When necessary, adjustments are made to bring the accounting policies of the joint venture or associate in line with those of the Company.

After the initial application of the equity method, the Company determines at each reporting date whether there is any objective evidence that the investment in the joint venture or associate is impaired and consequently whether it is necessary to recognize an impairment loss with respect to the Company's investment. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the investment and its carrying value and recognizes the impairment in the condensed interim consolidated statement of income.

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3. Summary of Significant Accounting Policies (continued)

Upon loss of significant influence over an associate, the Company measures and recognizes any retained investment at its fair value. Upon loss of joint control over a joint venture, the Company considers whether it has significant influence, in which case the retained investment is accounted for as an associate using the equity method, otherwise the Company measures and recognizes any retained investment as a portfolio investment at its fair value. Any difference between the carrying amount of the investment and the fair value of the retained investment or proceeds from disposal of the investment is recognized in profit or loss.

3.15 Share issuance costs

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

3.16 Share capital

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

3.17 Convertible debentures

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

3.18 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 condensed interim 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 amounts due from Palo Verde LLC (Note 8) and valuation of options.

The most significant judgments relate to recognition of assessment of functional currency, determination of joint control in joint ventures, and recognition of lease income and interest income.

3.19 Foreign currency translation

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

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3. Summary of Significant Accounting Policies (continued)

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

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

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

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

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

4. Accounts Receivable

The breakdown of the accounts receivable balance is as follows:

	October 31, 2017	July 31, 2017
	\$	\$
Harmonized Sales Tax ("HST") recoverable	27,796	27,863
Other receivable	162,172	62,616
Balance	189,968	90,479

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5. Deposits

	October 31, 2017	July 31, 2017
	\$	\$
License deposits ⁽ⁱ⁾	1,289,300	1,498,200
Property deposits ⁽ⁱⁱ⁾	232,074	324,610
Balance	1,521,374	1,822,810

- (i) During the year ended July 31, 2017, the Company deposited a total of \$1,289,300 (US\$1,000,000) into escrow to acquire provisional producer and processor licenses (“Henderson licenses”) in Henderson, Nevada which agreement was terminated on November 11, 2017 (Note 11). On March 17, 2017, the Company paid a total of \$270,753 (US\$210,000) as initial permit application fees to grow and process medical marijuana in Pennsylvania, of which \$256,740 (US\$200,000) was refunded on October 30, 2017 after the permit was not awarded to the Company.
- (ii) On February 17, 2017, the Company advanced \$206,288 (US\$160,000) as a deposit in escrow to acquire a real estate property associated to Henderson licenses which agreement was terminated on September 5, 2017 (Note 24). On March 14, 2017, the Company paid \$128,930 (US\$100,000) as a deposit to purchase a real estate property in Nevada which agreement was terminated and deposit refunded on October 10, 2017. On August 21, 2017, the Company paid \$25,786 (US\$20,000) as a deposit to purchase a real estate property in California (Note 24).

6. Debentures receivable

On May 12, 2017, the Company purchased 100 units from Lineage Grow Company Ltd. (“Lineage”) at a price of \$1,000 per unit for an aggregate price of \$100,000. Each unit consists of \$1,000 in principal amount of secured convertible debentures and 4,000 warrants (“Lineage warrants”).

The debentures bear interest at 12%, mature in 24 months from the date of purchase and are convertible into common shares of Lineage at any time prior to maturity date at a price equal to \$0.25 per share (“Conversion Price”). Interest is payable semi-annually in advance in cash, or at the election of Lineage, in shares at price of \$0.25 per share. The Conversion Price is subject to adjustments for certain events.

Each Lineage warrant is exercisable into one common share of Lineage at a price of \$0.325 (“Exercise price”) with expiry date of May 12, 2019. If Lineage completes an equity financing at any time at an Equity Financing Price of less than \$0.25 per share, the Exercise Price shall be adjusted to a price equal to such Equity Financing Price.

On the Date of Issue, the Company received 24,000 common shares of Lineage valued at \$840 as the payment for the first six months of interest on convertible debentures.

7. Investments

The Company’s investments are comprised of the following:

	October 31, 2017	July 31, 2017
<i>FVTPL</i>	\$	\$
<u>Lineage Grow Company Ltd.</u>		
24,000 Shares	840	840
400,000 Warrants	-	-
Balance	840	840

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8. Amounts due from Palo Verde LLC

The Company has lent Palo Verde LLC (“Palo Verde”) monies pursuant to a credit agreement and has leased property to Palo Verde pursuant to two lease agreements, as disclosed below.

	October 31, 2017	July 31, 2017
	\$	\$
Lease receivable ⁽ⁱ⁾	1,866,056	1,532,721
Revolving loan receivable ⁽ⁱⁱ⁾	1,110,768	823,044
Other receivable ⁽ⁱⁱⁱ⁾	83,291	-
	3,060,115	2,355,765
Provision on amounts receivable ^(iv)	(2,815,384)	(1,896,593)
Balance	244,731	459,172

(i) Lease receivable is generated from the Pueblo property, including recoverable expenses related to Pueblo property, and equipment in Colorado (Notes 8 & 12). Lease receivable was deferred and includes accrued interest at 12% per annum up to April 18, 2017. The lease receivable was due 30 days after the commencement of production of marijuana products by Palo Verde, of which the balance remains outstanding as of October 31, 2017. On April 18, 2017, the lease agreement was amended and extended to April 17, 2027 and included the lease equipment of \$18,398 per month for one year with the option to extend. Under the new term, the lease receivable was further deferred until Palo Verde attains gross sales of US\$125,000 per month for a period of three consecutive months (“gross sales targets”); thereafter, Palo Verde shall pay rent and all deferred rent in equal monthly installments over the following twelve consecutive months or otherwise as agreed by the Company and Palo Verde. As of October 31 2017, this has not been triggered.

(ii) The revolving loan agreement is unsecured, bears interest at 12% per annum, may be extended 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 and was due on September 30, 2016 (“the Maturity date”). The maturity date was deferred to February 28, 2017 on September 1, 2016 and further to May 31, 2018 on February 28, 2017.

Revolving loan of \$1,017,762 (US\$789,391) (July 31, 2017 – \$758,910 (US\$607,857)) and accrued interest of \$93,006 (US\$72,137) (July 31, 2017 – \$64,134 (US\$51,369)) were receivable as at October 31, 2017.

(iii) Other receivable consists of recoverable expenses related to the proprietary packaging materials for Palo Verde.

(iv) An allowance was recorded for October 31, 2017 and 2016 on account of the uncertainties surrounding recoverability of the loan, lease and other receivable in respect of timing and unexpected financing delays. During the three months ended October 31, 2017, the Company recorded an impairment on lease and other receivable of \$471,504 (2016 - \$36,070) and an impairment of revolving loan receivable of \$394,619 (2016 - \$Nil).

Subject to meeting gross sales targets (Note 8), future minimum lease payments receivable on the investment property are as follows:

	\$
Less than 1 year	713,072
1-2 years	559,189
2-3 years	502,827
3-4 years	502,827
4-5 years	502,827
5 years and over	2,241,770
	5,062,512

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9. Investment properties

<u>Cost</u>	Land	Building	Leasehold Improvement	Total
	\$	\$	\$	\$
Balance at July 31, 2016	221,584	1,406,662	273,908	1,902,154
Additions	-	-	293,082	293,082
De-consolidated (Note 10)	(7,242)	(39,022)	(125,700)	(171,964)
Effect of movement in exchange rates	(6,177)	(36,774)	(23,118)	(66,070)
Balance at July 31, 2017	208,165	1,330,866	418,171	1,957,202
Additions	-	-	-	-
Effect of movement in exchange rates	5,100	31,008	13,665	49,773
Balance at October 31, 2017	213,265	1,361,874	431,836	2,006,975

<u>Accumulated Amortization and Accumulated impairment</u>	Land	Building	Leasehold Improvement	Total
	\$	\$	\$	\$
Balance at July 31, 2016	51,424	444,917	-	496,341
Amortization	-	35,715	-	35,715
Effect of movement in exchange rates	678	369	-	1,047
Balance at July 31, 2017	52,102	481,001	-	533,103
Amortization	-	8,479	24,419	32,898
Effect of movement in exchange rates	-	3,504	771	4,275
Balance at October 31, 2017	52,102	492,984	25,190	570,276

<u>Carrying Amounts</u>	Land	Building	Leasehold Improvement	Total
	\$	\$	\$	\$
Balance at July 31, 2016	170,160	961,745	273,908	1,405,813
Balance at July 31, 2017	156,063	849,865	418,171	1,424,099
Balance at October 31, 2017	161,163	868,890	406,646	1,436,699

- (i) The Pueblo property is located in Pueblo West, Colorado ("Pueblo") and is leased to Palo Verde LLC (Note 8). The fair value of the Pueblo West investment property as at October 31, 2017 and 2016 exceeds the carrying value.
- (ii) The Lawrenceville property was purchased by the Company, through its former wholly-owned subsidiary, SMHI, with the intention of being used to open a dispensary in Illinois. On September 17, 2016, ILDISP LLC earned a 50% interest in SMHI and the Company ceased control on SMHI and consequently, Lawrenceville property was de-consolidated (Note 10) from the consolidated statement of financial position.

10. Investments in associate and joint ventures

NHMD and SMHI

On April 4, 2016, the Company through its wholly-owned subsidiaries, NHMD 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") fund the first four months of working capital to earn 50% interest in each NHMD and SMHI.

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10. Investments in associate and joint ventures (continued)

On September 17, 2016, ILDISP LLC satisfied all the conditions to earn 50% interest and equal control in NHMD and SMHI. Consequently, effective September 17, 2016, NHMD and SMHI are accounted for as joint ventures. The Company obtained the approval from IDFPR to operate the Clinic Effingham dispensary in Effingham, Illinois ("TCE") on August 23, 2016 and commenced its operation in September 2016.

During the three months ended October 31, 2017, the Company recorded profit from NHMD of \$37,307 (2017 - \$10,695) and loss from SMHI of \$76 (2016 - \$Nil).

During the three months ended October 31, 2017, the Company and ILDISP LLC have determined and taken steps to wind up SMHI and consequently, the Company identified this as an impairment indicator and wrote off its investments in SMHI to \$Nil.

As of October 31, 2017, the carrying value of the Company's investments in NHMD and SMHI were \$587,382 (July 31, 2017 - \$538,950) and \$Nil (July 31, 2017 - \$336,296), respectively.

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 approximately 24% and resulted in a gain on dilution of \$102,312. The Company's ownership was further reduced to approximately 16% when the Company transferred 1,000,000 shares of Aura to a director of the Company as a bonus, and 289,293 shares to FMI Capital Advisory Inc. as consulting fee on May 1, 2017.

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.

During the three months ended October 31, 2017, the Company recorded loss from Aura of \$49,137 (2017 - \$Nil) and the carrying value of the Company's investment in Aura as of October 31, 2017, was \$11,781 (July 31, 2017 - \$56,238).

The following table summarized the financial information of the associate and joint ventures as at October 31, 2017:

	NHMD	SMHI	Aura
	\$	\$	\$
Cash	241,385	-	43,376
Current assets	176,590	-	41,393
Non-current assets	444,941	-	326,287
Current liabilities	280,711	244,900	288,338
Non-current liabilities	687,241	140,720	381,537
Revenue for the period*	675,017	-	-
Profit (loss) for the period*	74,614	(152)	(299,980)

* For the three months ended October 31, 2017.

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11. Intangible assets

Purple Haze

On June 5, 2015, the Company entered into the agreement with Purple Haze Properties LLC (“PHP”) 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 (“Licensing Agreement”).

The agreement provides for annual exclusivity fees and royalties (“annual fees”) of no less than US\$1,000,000 over five years (US\$200,000 for license and US\$50,000 for royalty per year) with an additional renewal option for an additional five years. The Company has paid, in cash and shares, the first two years of the annual fees and has accrued the third annual fees for the period of October 1, 2017 to September 30, 2018 which has not yet been paid.

During the three months ended December 31, 2017, the Company amortized \$Nil (2016 - \$54,959) of the license, and \$Nil (2016 - \$13,741) prepaid expenses for the advance on royalty pertaining to the first two years of the five-year term.

The Company was informed by PHP that a complaint was filed with the United States District Court, Southern District of New York (“Action”) alleging that PHP and parties related to PHP attempted to improperly exploit the intellectual property rights contained in the Licensing Agreement and seeking equitable relief and damages. As of October 31, 2017, no actions have been brought against the Company in relation to the Licensing Agreement with PHP. The Company is evaluating potential options relating to the Licensing Agreement and due to the uncertainties on the outcome of the complaint, the Company has written the license and prepaid royalty down to \$1 on July 31, 2017.

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, one of whom is a director of the Company, 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 416,667 common shares at a deemed price of \$0.24 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; and
- (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.

In July 2017, the Company successfully tested a prototype version of the Dab stick, and therefore, the first milestone was met pursuant to the agreement. On July 14, 2017, the Company issued 416,667 common shares to the vendors valued at \$43,751, which was determined based on the share price on the date of issuance.

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11. Intangible assets (continued)

Henderson

On January 24, 2017, the Company entered into definitive agreement to acquire provisional cultivation and production 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 October 31, 2017, the Company has advanced \$1,289,300 (US\$1,000,000) which is included in Deposits (Note 5) on the condensed interim consolidated statements of financial position. See also Note 26.

12. Capital Assets

	Land	Building	Leasehold Improvements	Computer and software	Equipment	Total
	\$	\$	\$	\$	\$	\$
<u>Cost</u>						
Balance at July 31, 2016	-	-	96,679	10,917	80,854	188,450
Additions	221,929	347,121	81,761	12,556	705,242	1,368,609
De-consolidated (Note 10)	-	-	(159,119)	(21,163)	-	(180,282)
Effect of movement in exchange rates	(18,837)	(29,464)	805	186	(51,337)	(98,647)
Balance at July 31, 2017	203,092	317,657	20,126	2,496	734,759	1,278,130
Additions	-	-	15,568	-	30,807	46,375
Effect of movement in exchange rates	6,637	10,381	658	82	24,011	41,768
Balance at October 31, 2017	209,729	328,038	36,351	2,578	789,577	1,366,273
<u>Accumulated Amortization</u>						
	Land	Building	Leasehold Improvement	Computer and software	Equipment	Total
	\$	\$	\$	\$	\$	\$
Balance at July 31, 2016	-	-	704	538	337	1,579
Additions	-	-	1,783	2,094	69,187	73,064
De-consolidated (Note 10)	-	-	(2,505)	(2,270)	-	(4,775)
Effect of movement in exchange rates	-	-	18	1	(3,039)	(3,056)
Balance at July 31, 2017	-	-	-	363	66,485	66,848
Additions	-	-	-	171	28,651	28,822
Effect of movement in exchange rates	-	-	-	18	3,080	3,098
Balance at October 31, 2017	-	-	-	552	98,216	98,768
<u>Carrying Amounts</u>						
	Land	Building	Leasehold Improvement	Computer and software	Equipment	Total
	\$	\$	\$	\$	\$	\$
Balance at July 31, 2016	-	-	95,975	10,379	80,517	186,871
Balance at July 31, 2017	203,092	317,657	20,126	2,133	668,274	1,211,282
Balance at October 31, 2017	209,729	328,038	36,351	2,026	691,361	1,267,505

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12. Capital Assets (continued)

On March 24, 2017, the Company closed an acquisition of a real estate property in the City of La Pine ("La Pine") located in Deschutes County, Oregon for \$514,431(US\$399,000). The Company is completing the construction of the property and amortization will be taken once the construction is completed and ready for operation. The property is the security for the financing arrangement closed on June 5, 2017 (Note 13).

As at October 31, 2017, the equipment includes \$227,368 (2016 - \$234,370) of equipment subject to finance lease.

13. Promissory Note Payable

On November 4, 2015, the vendor of the Lawrenceville property in Illinois (Note 9) provided a buyer take-back mortgage in the amount of US\$250,000. The mortgage had a 15-year amortization period, bearing interest at the rate of 6%, payable US\$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 in their 50% interest in SMHI and the Company lost control on SMHI. As a result, the promissory note payable was de-consolidated (Note 10).

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 promissory note which has a twelve-month term bearing interest at 13% per annum payable monthly. As part of the agreement, the Company issued 3,333,334 warrants with exercise price of \$0.06 and expiry date of October 14, 2017 valued at \$29,000. Under the terms of the refinancing, the lender provided an initial advance of US\$600,000 on April 26, 2016 and \$266,760 (US\$200,000) on December 1, 2016. The loan was due in full on April 26, 2017 with an option to extend for up to twelve months provided that all conditions necessary for extension are satisfied.

On April 18, 2017, the lender amended and restated the loan note to extend the US\$800,000 loan to April 18, 2018. As consideration for the extension, the Company paid 1% renewal fee plus 1% extension fee of the principle amount, from 1,000,000 warrants with exercise price of \$0.15 and expiry date of October 18, 2018 valued at \$62,000 and extended the expiry date of 3,333,334 warrants issued on April 19, 2015 from April 26, 2017 to October 18, 2018, which resulted in an increased value from \$29,000 to \$69,000.

On June 5, 2017, the Company closed a financing arrangement secured against its real estate property in La Pine, Oregon (Note 12) in the amount of US\$400,000 in the form of a promissory note which has an eighteen-month term bearing interest at 13% per annum payable monthly. As part of the agreement, the Company issued 1,217,391 warrants with exercise price of \$0.165 and expiry date of June 6, 2019 valued at \$48,000 to the lender. The loan is due on December 31, 2018 with option to extend for six months provided that all the conditions necessary for extension are satisfied.

	October 31, 2017	July 31, 2017
	\$	\$
Opening balance	1,327,740	1,004,999
Advances	-	795,120
Deferred financing costs	-	(211,180)
Deferred financing amortization	45,159	135,080
Repayment	-	(11,489)
De-consolidated on the joint venture (Note 10)	-	(322,079)
Effect of movement in exchange rates	48,959	(62,711)
	1,421,858	1,327,740
Current	971,402	907,698
Long-term	450,456	420,042

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14. Finance lease

On February 15, 2017, the Company entered into a capital equipment lease agreement in relation to equipment at Pueblo facility (Note 12) for \$5,976 (US\$4,635) per month for 30 months, expiring August 15, 2019.

Future minimum lease payable are as follows:

	\$
Less than 1 year	71,711
1-2 years	56,771
	<hr/> 128,482

15. Convertible debentures

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

- (i) Senior convertible debentures 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. A total of \$350,000 of the convertible debentures were converted into 5,833,334 common shares during the year ended July 31, 2016. The remaining \$100,000 of convertible debt was pre-paid in full on April 27, 2016 as per amended agreement entered on December 21, 2015 with the holder of Senior Convertible debentures to provide for the pre-payment.
- (ii) Subordinate convertible debentures 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 debentures. 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 16).

For the three months ended October 31, 2016, the Company recorded a fair value adjustment gain on the convertible debentures of \$70,338 and accretion expense of \$5,047 as finance cost.

On April 4, 2016, the Company through its former wholly-owned subsidiaries, NHMD 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 NHMD 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 NHMD ("Purchaser IDFPR Application"), convertible into 100 shares at US\$500 per NHMD shares and 100 shares at US\$500 per SMHI shares;
 - Upon rejection of the Purchaser IDFPR Application, convertible into an unsecured promissory note issued by NHMD with a maturity of six (6) years with no interest for the first four (4) years and 5% per annum thereafter.

On September 17, 2016, the Purchaser's contribution reached US\$300,000, the total Initial Funding agreed upon, and the Purchaser IDFPR Application was approved. Consequently, the convertible note was converted, conditionally on IDFPR approval which is pending, into 100 NHMD shares and 100 SMHI, which represent 50% interest in each of NHMD and SMHI (Note 10).

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16. Share Capital

	Number of Shares	Amount
Balance, July 31, 2016	142,192,514	\$4,068,429
Issued on private placements, net of share issue costs (i)(ii)(v) (vi)(vii)	59,348,095	3,505,636
Issued on exercise of warrants (Note 18)	33,504,950	3,086,403
Issued on exercise of options (Note 17)	3,932,500	624,163
Issued for purchasing intangible asset (viii)	416,667	43,750
Issued for convertible debentures (iv)	2,934,830	313,707
Issued for debt settlements (iii)	8,870,844	576,605
Balance, July 31, 2017 and October 31, 2017	251,200,400	\$12,218,693

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

- (i) 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 valued at \$Nil. 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.
- (ii) 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 valued at \$5,000. Each warrant is exercisable at \$0.035 for 18 months after closing.
- (iii) 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 valued at \$707,605. 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 loss of \$264,063 is recognized because of this debt settlement. A total of 6,665,174 units were issued to non-arms' length parties to settle the debts in the amount of \$333,258.
- (iv) On October 6, 2016, subordinate convertible debentures 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 15).

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16. Share Capital (continued)

- (v) 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 611,897 finder's units valued at \$218,000. 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.
- (vi) 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 1,933,540 finder's units valued at \$711,000. 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.
- (vii) 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 312,128 finder's units valued at \$97,000. 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.
- (viii) On July 14, 2017, the Company issued 416,667 shares valued at \$43,750 as the first instalment of an IP assignment and option agreement to acquire Dab Sticks (Note 11).

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17. 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 25,120,040 at October 31, 2017.

	Number of Options		Amount
Balance, July 31, 2016	11,240,000	\$	371,252
Granted (i)(ii)(iii)(iv) (v)(vi)(vii)(viii)	10,485,000		1,198,414
Exercised	(3,932,500)		(212,338)
Forfeited	(1,150,000)		-
Balance, July 31, 2017	16,642,500	\$	1,357,328
Granted (ix)	500,000		115,036
Balance, October 31, 2017	17,142,500	\$	1,472,364

- (i) On October 14, 2016, the Company granted 170,000 stock options valued at \$13,000 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.
- (ii) On October 17, 2016, the Company granted 500,000 stock options valued at \$77,797 to Boom Capital Partners Inc. a provider of Investor Relations and Public Relations services, and 2,450,000 stock options valued at \$381,203 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.
- (iii) On November 29, 2016, the Company granted 315,000 stock options valued at \$50,000 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.
- (iv) On February 8, 2017, 850,000 options valued at \$95,000 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.
- (v) On February 16, 2017, 500,000 options valued at \$54,000 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. The options vest in equal quarterly instalments over 2 years. On May 9, 2017, the service agreement was terminated and consequently, all 500,000 options were cancelled immediately.
- (vi) On April 17, 2017, 3,100,000 options valued at \$388,000 were granted to board of directors of the Company. The options are exercisable to Common Share of the Company at a price of \$0.15 per Common Share for a period of five years from the date of issuance. The options vest 25% immediately and 25% vest every 6 months until fully vested.
- (vii) On April 17, 2017, 2,200,000 options valued at \$275,000 were granted to consultants of the Company. The options are exercisable to Common Share of the Company at a price of \$0.15 per Common Share for a period of five years from the date of issuance.
- (viii) On July 10, 2017, 400,000 options valued at \$43,000 were granted to a director of the Company. The options are exercisable to Common Share of the Company at a price of \$0.12 per Common Share for a period of 5 years from the date of issuance. The options vest 25% immediately and 25% every 6 months thereafter.

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17. Reserve for Share Based Payments (continued)

- (ix) On October 30, 2017, 500,000 options valued at \$58,000 were granted to a consultant of the Company. The options are exercisable to Common Share of the Company at a price of \$0.13 per Common Share for a period of 5 years from the date of issuance. A total of 150,000 options vest immediately, and the remaining 350,000 options shall vest every 6 months in equal amount over eighteen months.

In connection to the options granted to consultants during the three months ended October 31, 2017 and year ended July 31, 2017, the fair value of services received cannot be estimated reliably, thus the fair value of the options has been measured using the Black-Scholes option pricing model which used the fair value of common shares of the Company as a reference on grant date.

The estimated fair value of options granted during the three months ended October 31, 2017 was determined using the Black-Scholes option pricing model with the following assumptions:

Volatility	140%
Expected life	5 years
Risk-free interest rate	1.63%
Expected dividend yield	0%
Forfeiture rate	0%

The estimated fair value of options granted during the year ended July 31, 2017 was determined using the Black-Scholes option pricing model with the following assumptions:

Volatility	104%- 165%
Expected life	2-5 years
Risk-free interest rate	0.61%- 1.58%
Expected dividend yield	0%
Forfeiture rate	0%

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 other companies that the Company considers comparable. 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.

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17. Reserve for Share Based Payments (continued)

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

Expiry Date	Exercise Price	Number of Options Outstanding	Number of Options Exercisable
October 14, 2018	\$0.130	127,500	127,500
November 29, 2018	\$0.300	315,000	315,000
February 8, 2019	\$0.205	850,000	850,000
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	204,167
April 21, 2021	\$0.070	2,500,000	1,666,667
October 17, 2021	\$0.135	2,250,000	2,250,000
April 17, 2022	\$0.135	2,200,000	2,200,000
April 17, 2022	\$0.135	3,100,000	1,550,000
July 10, 2022	\$0.120	400,000	100,000
October 30, 2022	\$0.130	500,000	150,000
		17,142,500	13,963,334

As at October 31, 2017, the weighted average exercise price of the stock options was \$0.125 (July 31, 2017 - \$ 0.121) and the weighted average remaining contractual life of the stock options was 3.56 years (July 31, 2017 – 3.59 years). For the three months ended October 31, 2017, the weighted average exercise price of the stock options exercised was \$Nil (2016 - \$0.096).

18. Reserve for Warrants

The following table reflects the continuity of warrants:

	Number of Warrants	Amount
Balance, July 31, 2016	31,358,772	\$ 778,658
Warrants pursuant to private placements (Note 16)	33,912,313	2,306,571
Warrants issued pursuant to debt settlement (Note 16)	4,435,422	131,000
Warrants issued pursuant to promissory note (Note 13)	2,217,391	150,000
Warrants expired	(667,400)	-
Warrants exercised	(33,504,950)	(918,590)
Balance, July 31, 2017 and October 31, 2017	37,751,548	\$ 2,447,639

The estimated fair value of warrants granted during the year ended July 31, 2017 was determined using the Black-Scholes option pricing model with the following assumptions:

Volatility	94%- 111%
Expected life	1.5 - 2 years
Risk-free interest rate	0.68%- 0.70%
Expected dividend yield	0%

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18. Reserve for Warrants (continued)

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

Expiry Date	Exercise Price	Number of Warrants
February 26, 2018	\$0.050	4,680,933
February 26, 2018	\$0.350	22,857
March 9, 2018	\$0.050	2,430,123
March 9, 2018	\$0.035	133,143
March 12, 2018	\$0.070	3,781,424
May 8, 2018	\$0.220	3,829,355
May 18, 2018	\$0.220	12,807,940
May 24, 2018	\$0.220	1,597,483
October 18, 2018	\$0.060	3,333,334
October 18, 2018	\$0.150	1,000,000
November 8, 2018	\$0.150	611,897
November 18, 2018	\$0.150	1,993,540
November 24, 2018	\$0.150	312,128
June 6, 2019	\$0.165	1,217,391
		37,751,548

As at October 31, 2017, the weighted average exercise price of the warrants was \$0.149 (July 31, 2017 - \$ 0.149) and the weighted average remaining contractual life of the warrants was 0.61 years (July 31, 2017 – 0.85 years). For the three months ended October 31, 2017, the weighted average exercise price of the warrants exercised was \$Nil (2016 - \$0.071).

19. 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 months ended October 31, 2017, the Company:

- a. Incurred professional fees of \$33,000 (2016 - \$18,000) from Branson Corporate Services, a company in which a company with a related director has a 49% interest. As at October 31, 2017, \$6,651 (July 31, 2017 - \$Nil) was due from Branson Corporate Services.
- b. Incurred consulting fees of \$48,000 (2016 - \$48,000) from FMI Capital Advisory Inc., a company with a related director. As at October 31, 2017, \$6,451 (July 31, 2017 - \$6,844) was due to FMI Capital Advisory Inc. and \$6,327 (July 31, 2017 - \$6,327) was due from FMI Capital Advisory Inc.
- c. Incurred marketing expenses of \$14,700 (2016 - \$Nil) from Plexus Cybermedia Ltd, a company in which a director has a 33% interest.
- d. Incurred professional fees of \$15,440 (2016 - \$27,842) from Fogler Rubinoff, LLP, a law firm in which a director of the Company is a partner. As at October 31, 2017, \$33,265 (July 31, 2017 - \$Nil) was to Fogler Rubinoff, LLP.
- e. Incurred interest of \$Nil (2016 - \$3,228) under the subordinate convertible debentures (Note 11).
- f. Incurred management compensation to key management and directors of \$99,264 (2016 – \$72,583) in cash and \$97,481 (2016 - \$287,851) in stock based payments. As at October 31, 2017, \$116,825 (July 31, 2017 - \$55,784) was due to officers and directors of the Company of which \$52,500 is included in shares to be issued, and \$7,717 (July 31, 2017- \$7,472) was due from an officer of the Company.

See also Notes 10, 11 and 17.

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20. Non-controlling Interest

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is condensed interim 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 interim 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 three months ended October 31, 2017, the Company recorded \$Nil (2016 - \$Nil) of the subsidiary's net loss and comprehensive loss related to the non-controlling interest.

21. 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 three months ended October 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 October 31, 2017 totaled \$4,492,605 (July 31, 2017 - \$6,053,814).

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.

22. 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 investments as fair value through profit and loss, which is measured at fair value and is classified as Level 2.

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23. Financial Instruments (continued)

The recorded value of the Company's accounts receivable, debenture receivable, amounts due from Palo Verde LLC, accounts payable and accrued liabilities, finance lease, and promissory note payable approximate their fair value.

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, debenture receivable and amounts due from Palo Verde LLC including lease receivable (Note 8). Collection of the amounts due from Palo Verde LLC is contingent on the success of Palo Verde LLC's operations. The Company has no other significant concentration of credit risk arising from operations. Cash are held with a reputable Canadian credit union which is closely monitored by management. Accounts receivable consists of harmonized sales tax due from the Canadian government and other receivable from third parties. Management has considered the credit risk concentration with respect to amounts due from Palo Verde LLC and other receivable and mitigated the risk by managing and monitoring the underlying the business relationships and when appropriate, has provisioned the balance accordingly.

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, 2017, the Company had working capital of \$1,325,996 (July 31, 2017 – \$2,391,482), current assets of \$3,043,866 (July 31, 2017 - \$3,960,793) and current liabilities of \$1,717,870 (July 31, 2017 - \$1,569,312). All the Company's financial liabilities and receivables, excluding amounts due from Palo Verde LLC (Note 8), finance lease (Note 14), and promissory note payable (Note 13), have contractual maturities of less than 90 days and are subject to normal trade terms.

In addition to the commitments outlined in Note 24, the Company has the following contractual obligations :

	<u>< 1 year</u>	<u>1-2 years</u>
	\$	\$
Accounts payable and accrued liabilities	670,547	-
Promissory note payable	1,161,058	526,894
Lease obligation	71,711	56,771
	<u>2,138,809</u>	<u>819,158</u>

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23. Financial Instruments (continued)

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 \$220,750 (July 31, 2017 - \$170,200) 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 \$3,843 (July 31, 2017 - \$2,171) because of the Company's exposure to interest rate fluctuations.

24. Commitments

Properties acquisition in Henderson, Nevada

- (i) On January 24, 2017, the Company entered into an agreement to acquire a real estate property in Henderson, Nevada of which the Henderson licenses (Note 11) are attached to. On February 17, 2017, the Company advanced \$206,288 (US\$160,000) as a deposit in escrow (Note 5). The total purchase price of the property is US\$1.6 million.

On April 17, 2017, the terms on the agreement were amended as follows:

- The closing date is extended to on or before June 30, 2017 and the Company paid an extension fee of \$38,679 (US\$30,000) ("First Extension Period Payment"). The Company paid a further \$38,679 (US\$30,000) for an additional extension fee of US\$30,000 ("Second Extension Period payment) to further extend the closing date to on or before October 1, 2017.
- The purchase price:
 - a. US\$1.6 million remain if the acquisition closes on or before September 29, 2017; or
 - b. US\$1.75 million if the acquisition closes on or after September 30, 2017; and
 - c. Less a credit equal to seventy-five percent (75%) of amounts paid for the First Extension Period Payment and the Second Extension Period Payment, if any.

Subsequent to October 31, 2017, the Company terminated the agreement (Note 26).

- (ii) On March 10, 2017, the Company entered into an agreement to acquire another real estate property in Henderson, Nevada with a purchase price of US\$2,310,000, which was terminated on September 5, 2017.

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24. Commitments (continued)

Property acquisition in Northern California

On August 4, 2017, the Company entered into a purchase and sale agreement to acquire a property in Northern California with a purchase price of \$775,000. On August 21, 2017, the Company paid \$25,786 (US\$20,000) as a deposit in escrow (Note 5).

Lineage Grow Company Ltd.

On February 22, 2017, the Company and Lineage Grow Company Ltd. ("Lineage") entered a Letter of Intent, whereby Lineage will build medical and adult use cannabis cultivation facilities in Henderson, Nevada ("Proposed Transaction Agreement").

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

- (i) Nutritional High will assign to Lineage its right to acquire a Provisional Marijuana Cultivation License issued by the Nevada Division of Public and Behavioral Health (the "Nevada Cultivation License") (Note 19) for a payment of US\$500,000; and
- (ii) Lineage 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 Lineage, land and a building in Pueblo, Colorado ("Pueblo Facility") which qualify for marijuana cultivation. Lineage will sublease the Pueblo Facility to Palo Verde, LLC, a party which has applied to renew a cultivation license in Colorado respecting the Pueblo Facility.

Upon the execution of the formal agreement ("Definitive Agreement") between the Company and Lineage, Lineage will issue between 1,000,000 to 3,000,000 shares to the Company ("Lineage Shares"). The Proposed Transaction Agreement may be terminated if certain conditions are not satisfied by June 30, 2017 ("Drop Dead Date").

On June 29, 2017, the Proposed Transaction Agreement was amended to extend the Drop Dead Date to November 30, 2017 and increase the Lineage Shares to 1,750,000 to be issued on the completion of the closing of the Proposed Transaction.

Subsequent to November 30, 2017, the Company and Lineage have agreed to further extend the amended Drop Dead Date and are in the process of finalizing the definitive agreement.

Xanthic Colorado LLC

On September 25, 2017, the Company entered into packaging supply and equipment lease agreements with Xanthic Colorado LLC to distribute their innovative cannabis-infused powdered drinks and other products in Colorado and to lease equipment for a 5 years term for US\$3,221 per month.

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24. Commitments (continued)

Abba Medix Corp

On October 11, 2017, the Company entered into a LOI with Canada House Wellness Group Inc.'s wholly owned subsidiary Abba Medix Corp. ("Abba") to create a joint venture ("Joint Venture") to manufacture cannabis oil extracts and cannabis-infused products in Canada under the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR").

The Joint Venture will focus on two main product lines: (i) a line of products offered exclusively to existing Abba patients; and (ii) a line of FLI-branded products that will be offered to eligible patients across Canada and to the adult-use market, when permitted by regulation. The terms of the Joint Venture are as follows:

- Abba will lease the space required to the Joint Venture at the rate per square foot at which Abba is currently leasing its Pickering facility;
- Nutritional High and the Joint Venture will enter into an exclusive licensing agreement whereby Nutritional High will contribute its intellectual property relating to its FLI brand to the Joint Venture, for FLI branded products to be sold in Canada on an exclusive basis;
- Abba will suggest a limited menu of products (e.g. oil tinctures and capsules) which will be manufactured by the Joint Venture for Abba medical patients on an exclusive basis;
- The capital costs for establishing the Joint Venture shall be borne by Nutritional High, which shall receive a priority return until repaid, after which, all profits of the Joint Venture will be shared equally.

Lease agreement in Bellingham, Washington

On October 16, 2017, the Company, through its newly formed subsidiary, NH Bellingham Property Holdings LLC, entered into a commercial lease with option to purchase a tier two cannabis cultivation and processing facility ("Property") for a base rent of US\$12,000 per month ("Base Rent"). The lease commenced on October 1, 2017 expiring on September 30, 2020 ("Expiry Date") with the option to renew for two year term ("Renewal Term").

For and in exchange for the sum of \$72,000 ("Option fee"), which the Company paid on October 17, 2017, the Company has the sole and exclusive right to purchase the Property for US\$1,200,000 ("Purchase price") on final day of the initial three year term ("Option Date"). If the Company renews the lease for the Renewal Term, the Company may extend the Option Date to the final day of the Renewal Term, for an additional \$50,000 option fee ("Option Fee Extension").

If the Company exercises the option to purchase the property, the following amounts will be credited to the Purchase Price:

- (i) \$50,000 of Option fee;
- (ii) \$6,000 of each months' Base Rent paid under the lease; and
- (iii) \$50,000 of Option Extension Fee.

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24. Commitments (continued)

Calyx Brands Inc.

On October 27, 2017, the Company entered into a non-binding LOI with Calyx Brands Inc. (“Calyx”), a California-based distributor actively engaged in distributing cannabis products to dispensaries in California, to purchase assets of Calyx for US\$1,850,000 of which US\$400,000 will be payable in the Company’s shares (“Common Shares”), US\$500,000 in cash, and six months after closing, payment of US\$950,000 (“Post-Closing Consideration”) in cash or the Common Shares at the discretion of Calyx. The Company also agreed to pay earn out payments, for a maximum of US\$600,000 upon achieving certain revenue targets.

On November 27, 2017, the agreement was amended to include the following terms:

- (i) The Common Shares issued to the Calyx will be issued at a price that is lower of: (a) CAD\$0.255; or (b) the price at which the Company’s common shares trade on the Canadian Securities Exchange on the day that is three trading days prior to the closing date.
- (ii) If the Calyx shareholders (“Sellers”) elect to receive the Post-Closing Consideration in the Common Shares prior to the closing date, the Common Shares so issuable shall be issued at a price of CAD\$0.255, and if the Sellers elect to receive Post-Closing Consideration in shares after the closing date, the Common Shares shall be issued at the price at which the Common Shares close on the Canadian Securities Exchange on the day that is three days prior to the date that is six (6) months after closing.

IsoBev, Inc.

On October 31, 2017, the Company entered into a non-binding LOI with Isobev, Inc, a Florida corporation and wholly owned subsidiary of Isodiol International Inc. (“IsoBev”), whereby IsoBev intends to provide non-exclusive license within Colorado, Oregon, Washington and Illinois (“Territories”) to sell the Pot-O-Brands products (“Products”) and assist the Company in the preparation of Products for retail marketing and sale. The Company will distribute the Products, purchase all supplies through IsoBev at reasonable commercial rates and pay license fees and royalties to IsoBev.

25. Supplemental Information for condensed interim consolidated statements of cash flows

For the three months ended:	October 31, 2017	October 31, 2016
	\$	\$
Interest paid	48,755	25,601
Shares issued for settlement of debt	-	443,542

26. Subsequent events

Henderson license agreement

On November 11, 2017, the Company terminated the definitive agreement to acquire provincial cultivation and production licenses (Note 11) and the agreement to acquire a real estate property of which the Henderson Licenses are attached to (Note 24). The deposit in escrow pertaining to the Henderson Licenses and the property (Note 5) will be released upon the approval of transfer of the title back to the seller from the Nevada Department of Taxation and other applicable government agencies, which was approved on December 7, 2017.

See also Note 24.