



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED APRIL 30, 2018**

**June 28, 2018**

This management's discussion and analysis (MD&A), which is current to June 28, 2018, is management's assessment of the operations and the financial results of Nutritional High International Inc. ("**Nutritional High**", or the "**Company**"). This MD&A should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements and related notes for the three and nine months ended April 30, 2018, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All figures are in Canadian dollars unless stated otherwise.

This discussion contains forward-looking statements that are historical in nature and involves risks and uncertainties. Forward-looking statements are not guarantees as to Nutritional High's future results as there are inherent difficulties in predicting future results. This MD&A includes, but is not limited to, forward looking statements. Management considers the assumptions on which these forward-looking statements are based to be reasonable at the time the statements were prepared. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements.

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### Description of Business

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's objective is to take advantage of the changing regulation governing the marijuana industry in the United States and Canada. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company is listed on the Canadian Securities Exchange ("CSE") under the trading symbol "EAT". The Company is also listed on the OTCQB Marketplace under US symbol: "SPLIF", and the Frankfurt Stock Exchange under the symbol: "2NU".

The Company manufactures, processes and distributes cannabis-based vaping and infused edible products. Such products include vaporizer cartridges, cannabis oil syringes, and marijuana-infused products ("MIPS") products such as chocolates, gummies and mints, among others. The Company sells the products under its own proprietary FLI brand and distributes numerous other branded cannabis products through one of its wholly-owned subsidiaries. The Company is exploring additional cannabis-infused product types to be potentially offered in the future, including but not limited to, tablets, topicals and beverages. Going forward, a key aspect of the Company's corporate strategy will be identifying potentially high-value product and geographic market segments and developing brand offerings to penetrate these opportunities.

The Company's corporate strategy is focused on developing and acquiring products (including formulae and recipes), and brands for its Marijuana-Infused Products lines ("**Marijuana-Infused Products Segment**"), for sale by the Company where it has secured the required licensing, or for use by licensed operators ("**Licensed Operators**") entering into royalty or packaging agreements with the Company in jurisdictions where permitted. Geographically the Company is primarily focused on Cole Memo (as defined herein) compliant US States which have legalized marijuana for medical or adult use and have obtained a requisite license ("**License**") to conduct the business in the marijuana industry. While the Cole Memo was rescinded on January 4, 2018, the Company continue to abide by its principles and prescriptions as a guiding corporate policy, as well as strictly following the regulations set forth by the current US Federal enforcement guidelines and US states in which the Company operates or has investments in.

The Company is currently operating in Colorado, California, and Illinois, and is in the process of expanding to Nevada, Oregon, Washington State and Canada. The Company currently operates a distribution business in California through its wholly owned subsidiary Calyx Brands Inc. ("**Calyx Brands**"), a leading distributor of cannabis products in California, it owns a manufacturing facility in Colorado which is leased to a Colorado licensed producer, and owns a 50% equity interest in an Illinois dispensary. The Company is also in the process of acquiring a purpose-built cannabis oil manufacturing facility in Sacramento, California through its Letter of Intent to acquire Pasa Verde LLC ("**Pasa Verde**"), and is in a licensing process on a second facility in Sacramento to be used for white labeling opportunities. The Company is in the process of launching sales of its branded FLI products in Washington, awaiting licensing for its built out facility in Oregon, is acquiring a 75% interest in a cultivation, extraction and edible manufacturer in Nevada, and is working toward the launch of a cannabis extraction facility in Canada in joint venture with an existing Canadian licensed producer.

The Company is taking steps to negotiate agreements with existing licensed operators in various other US States to manufacture and sell its FLI branded products, including cannabis oil vape cartridges, syringes, and other oil products, as well as FLI branded cannabis infused chocolates.

The Company continues to develop additional extract products such as shatter and expects to launch a number of edible products included coated products, gummies, hard candies, and a number of innovative products not presently on the market in States where the Company is operating.

The Company is deploying significant resources to expand in California. The California market is the largest legal marijuana market in the world and fully legalized adult recreational use on January 1, 2018. As the State implements new licensing regulations, a restructuring of the industry is underway. The Company looks to take advantage of the resulting turmoil in the industry to expand rapidly in California and acquire a number of brands and operations which

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would otherwise lack resources to secure licensing or otherwise compete and expand in the new regulated marketplace.

With respect to its Colorado project, Nutritional High has recognized accrued rent, earned interest and consulting income with Palo Verde LLC ("Palo Verde"), which has recently commenced production of cannabis oil and edibles. The Company also sells packaging materials to Palo Verde on a cost basis. The Company's Illinois dispensary, owned by NH Medical Dispensaries LLC ("NHMD") and operating under the name The Clinic Effingham, is retailing marijuana products to medical marijuana patients in the State of Illinois. As such, the Company is considered to be a development stage entity.

As at June 28, 2018, the members of Company's management and Board of Directors consisted of:

Name	Position
Jim Frazier	Chief Executive Officer and Director
Sonia Agustina	Chief Financial Officer
Adam Szweras	Secretary and Director
David Posner	Director and Chairman of the Board
Aaron Johnson	Director
Brian Presement	Director and Compensation Committee Chair
Billy Morrison	Director and Chief Technology Officer
Andres Tinajero	Director and Audit Committee Chair
Alex Storcheus	Senior VP, Corporate Development

The Company has also formed an advisory board (the "**Advisory Board**") to provide expertise and advice to the senior management team regarding operational matters relating to the execution of the Company's business plan. The Advisory Board is comprised of Frank Galati, Debra Zwiefelhofer and David Caplan.

### Recent Developments

The Company has experienced the following developments since the last filing date:

- Signed a binding letter of intent to acquire 100% of California-based Pasa Verde, LLC ("Pasa Verde"). Pasa Verde was founded in 2017 and operates a leading cannabis extraction and toll processing facility in Sacramento, California (see press release dated April 20th, 2018).
- Received a Certificate of Occupancy from Deschutes County based on the successful inspection of its extraction facility in La Pine, Oregon, marking the completion of the local permitting process and paving the way for state-level inspections by the Oregon Department of Agriculture and Oregon Liquor Control Commission (see press released dated April 30th, 2018).
- Secured an extension of the US\$800,000 secured note of its Pueblo, Colorado property with Veterans Capital Fund, LLC (see press released dated April 30th, 2018).

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- Entered into binding letter of intent with Xanthic Biopharma Inc. (“**Xanthic**”) for the production and distribution of Xanthic branded water-soluble cannabis-infused powders in California (see press release dated May 7th, 2018).
- Negotiated extension of its previously announced non-binding letter of intent to acquire a 75% interest in Green Therapeutics LLC, one of the premier innovators and established producer/processors within the cannabis space in the State of Nevada (see press release dated June 5th, 2018).
- Promoted Billy Morrison from the role of VP, Extraction to Chief Technology Officer (“CTO”), with a focus on innovating and developing procedures and processes for extracting and refining cannabis oil and other extracts, as well as expanding into new product segments. (see press release dated June 11th, 2018).
- Commenced sales of its FLI vaporizer products in California and initiated a brand launch program in Los Angeles and Orange County (see press release dated June 13th, 2018).
- Initiated deployment of an innovative mobile-friendly sales and marketing strategy for FLI-branded products in Colorado (see press release dated June 25th, 2018).

### Business Overview

The Company operates in the medical marijuana, adult use marijuana products sectors in the United States and Canada, and other jurisdictions where such activity is permitted and regulated by applicable laws, through entities that hold a valid license to produce and distribute such products in accordance with applicable regulations.

The Company's business model differs depending on whether an applicable jurisdiction has a restriction on ownership, whereby the Licensed Operators and their owners are required to be residents of that jurisdiction (“**Residency Requirements**”). Most U.S. States that have legalized marijuana for medical or adult use require Licensed Operators to hold a license (“**License**”) issued by the applicable State and local authorities. In some States, for a Licensed Operator to be eligible to be granted a License, the owners of the Licensed Operator must be residents of such U.S. State. As such, listed companies or other widely held enterprises are ineligible to obtain a License in those States where a Licensed Operator must be a U.S. State resident. In the U.S. States where the applicable regulations permit minority ownership in the Licensed Operators for the entities which are not residents of that U.S. State, the Company may acquire an interest in the Licensed Operators.

The Company will not operate in jurisdictions which have not legalized marijuana, and does not intend on operating in U.S. State jurisdictions which have legalized marijuana but have not developed a licensing and compliance regime for Licensed Operators, in a manner compliant with guidance previously provided by the Cole Memo.

In the U.S. States without Residency Requirements, the Company may choose to apply for a License or acquire entities with a License and produce products itself, or work with other Licensed Operators using the same model as it has developed for U.S. States with a Residency Requirement. The Licensed Operators include growers of marijuana, marijuana-infused product manufacturers, and retail dispensaries. Ancillary service providers may include medical and educational centres and marijuana paraphernalia shops.

In certain jurisdictions, and more specifically in the U.S. States with Residency Requirements, the Company may conduct business in the value chain segments, which do not require a License from the requisite regulatory authorities. Such ancillary value chain segments do not directly handle, process, manufacture, cultivate or distribute cannabis products, and may include: secured and unsecured lending, leasing of real estate to Licensed Operators, equipment leasing, providing non-cannabis raw materials (such as packaging, food ingredients, etc.), consulting, and provision of intellectual property and know-how. The focus of this strategy is to provide the services to Licensed Operators that are focused on extraction and processing of cannabis derivatives to enable them to attain a stronger competitive advantage in the market, while proving an acceptable economic return to the Company.

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In certain circumstances, the Company may pursue business opportunities in other value chain segments, such as operating a dispensary or making strategic investments. The aim of this strategy is to secure a foothold in such markets, through obtaining a License to operate a business that is not directly related to extraction/processing and then partner with another Licensed Operator that is able to operate in the extraction/processing space. The Company has employed this type of strategy in the State of Illinois, where it has obtained a dispensary License, but has also partnered with another Licensed Operator to be in a position to sell its products in Illinois at a future date.

The Company is actively pursuing projects, acquisitions or has active operations in the following US States and Canada:

#### *State of California*

At present the company owns Calyx Brands and is pursuing the following additional projects in the State of California:

- Calyx Brands Acquisition - The Company has closed the acquisition of Calyx Brands Inc. ("**Calyx**") in March 15, 2018, a distributor actively engaged in distributing cannabis products to a large network of dispensaries in California.
- Contract Manufacturing Agreement - The Company has sourced a California-based manufacturer ("**CA Licensed Operator**") who is manufacturing for distribution FLI branded premium cannabis concentrates in California to Nutritional High's specifications.
- Pasa Verde, LLC – The Company signed a binding letter agreement to acquire 100% of California-based Pasa Verde, LLC, which operates a leading cannabis extraction and roll processing facility in Sacramento, California. Pasa Verde, LLC has received an extension on its Cannabis Manufacturing License by the California Department of Public Health, and the State of California.
- Sacramento Extraction Facility - The Company has signed a purchase and sale agreement to acquire a property ("**Property**") in Sacramento, California, which such purchase is conditional on obtaining all requisite municipal license approvals to manufacture cannabis extracts and edible products. The Company has received a conditional use permit, which is one of the permits that is required to establish a cannabis business in Sacramento. The Company is in the process of permitting the Property with local authorities, after which it will apply for a license with the appropriate departments of the State of California. The Company extended the closing of the agreement to twelve months and currently leasing the property for the same period as the extension.
- TKO Product LLC Acquisition – The Company has entered into a LOI with TKO Products LLC ("**TKO**"), a cannabis infused edibles manufacturer in Long Beach, California known for the manufacture of cookies, brownies, chocolate, Krispy treats and vape cartridges, to finance working capital and build-out of TKO with an option to purchase an interest in TKO for US\$3,025,000 plus earn-out payments for a maximum of US\$4,000,000 upon achieving certain revenue milestones. In January 2018, TKO has received notification from City of Long Beach that it has advanced to final review stage of the Medical Marijuana Business License Application process.

The Company intends to also pursue a number of other acquisitions of California brands, and will work to secure supply of branded product and cannabis flower for distribution. As the regulated California cannabis market develops, the Company will work to become a major supplier of branded product in this critical cannabis market.

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#### *State of Colorado*

In the State of Colorado, Licensed Operators are subject to Residency Requirements, which preclude Nutritional High and its subsidiaries from having an interest in any proceeds from production, processing, or retailing activities. Nutritional High has a lease agreement and unsecured loan agreements with Palo Verde LLC ("**Palo Verde**"), a Licensed Operator in Colorado, and is negotiating other commercial agreements with Palo Verde, including branded packaging agreements. The Company earns rental income, interest income and consulting income and income from non-cannabis products, from Palo Verde, which has recently commenced production of cannabis oil. Accordingly, Nutritional High is a landlord, lender and consultant, and a licensor of its FLI brand in Colorado and ensures that all products under the FLI brand and Nutritional High brand meet or exceed the Company's brand quality and standards.

Palo Verde sells vape pen cartridges, syringes and chocolate bars to dispensaries and expects to launch the sale of other cannabis-infused products in short order such as capsules, dab sticks, dab jars and various additional edibles as developed by the Company.

#### *State of Nevada – Green Therapeutics LLC*

On March 5, 2018, the Company entered into a non-binding letter of intent ("**LOI**"), amended on March 12, 2018 and on June 15, 2018 to acquire a 75% interest in Green Therapeutics LLC ("**Green Therapeutics**"), one of the premier innovators and established producer/processors within the cannabis space in the State of Nevada (the "**Acquisition**") for US\$18,000,000. In conjunction with the Acquisition the Company will also purchase certain lands and premises owned by Meridian Companies LLC ("**Meridian**"), a Nevada limited liability company, consisting of cultivation facilities and parcels of land for cultivation expansion (the "**Property**") utilized by Green Therapeutics.

#### *State of Oregon – La Pine Project*

The Company owns a real estate property located in La Pine, Oregon ("**La Pine Property**"), which it purchased for \$498,152 (US\$399,000). Once the licensing process is complete, the Company intends to extract cannabis oil and manufacture cannabis infused products at its La Pine facility. The Company is in the advanced stages of an application process with the Oregon Liquor Control Commission ("**OLCC**") to obtain a License to manufacture cannabis concentrates and edibles for the adult-use market in Oregon ("**Recreational Processing License**").

The Company has also been working with architect and engineering teams out of Bend, OR, to finalize the design of the facility and work with local authorities to apply for requisite local permits to start re-modelling of the facility. Construction in the facility has been completed and installation of equipment is underway.

Once the facility has been successfully inspected by the OLCC, the Recreational Processing License from the State of Oregon will be granted. The final steps in the permitting process include the inspection by the Deschutes County Community Development Department and certain departments of The City of La Pine, including the fire chief, planning department and the City manager. Licensed cannabis companies in the State of Oregon are not subject to Residency Requirements. As such, the Licensed Operator will be wholly owned by Nutritional High.

#### *State of Washington – Bellingham Project*

In the State of Washington, Licensed Operators are subject to Residency Requirements, which preclude Nutritional High and its subsidiaries from having an interest in any proceeds from production, processing, or retailing activities. Nutritional High is engaged in a licensing and leasing arrangement with Mt. Baker Greeneries, LLC ("**Mt. Baker Greeneries**"). Through a subsidiary, the Company has leased a facility with an option to purchase, and has subleased the premises to Mt. Baker Greeneries which operates a two-tier cultivation and processing facility, pursuant to an agreement entered into on October 16, 2017. Mt. Baker Greeneries is a Licensed Operator in Washington. The Company expects to earn rental income, equipment leasing income, intellectual property licensing income, consulting income and income from other non-cannabis products from Mt. Baker Greeneries, which intends to commence production of cannabis oil. Accordingly, Nutritional High is a landlord, equipment lessor, consultant, and a licensor of its FLI brand in Washington and ensures that all products under the FLI brand and Nutritional High brand meet or exceed the Company's brand quality and standards.

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Mt. Baker Greeneries intends to sell vape pen cartridges to dispensaries and expects to launch the sale of other cannabis-infused products in short order such as cannabis infused capsules, disposable vape pens, dab sticks, and various edible products developed by the Company.

### *State of Illinois – The Clinic Effingham*

Since September 2016, Nutritional High has retailed marijuana products to medical marijuana patients through NHMD, operating as The Clinic Effingham ("**TCE**") in Effingham, Illinois, which is licensed as a medical cannabis dispensary license under CUMCPPA (as defined herein).

Since its grand opening in late September 2016 to October 2017, The Clinic Effingham has achieved sales of just under US\$2,500,000 (unaudited) and for the nine months ended April 30, 2018, TCE generated US\$1,902,924 (unaudited) of sales. The growth in sales has been due to strongly increasing patient numbers and high patient retention rates, which are a result of a diligent patient outreach program undertaken by the dispensary's staff. TCE achieves a monthly returning patient rate of over 90%, which demonstrates a strong and loyal customer base. To service the patient base, TCE has started working with more cultivators licensed with the Illinois Department of Agriculture to expand its product offering, and has also hired additional staff in an effort to provide exceptional customer service. Given the current pace of business, the need for further capital investment has been greatly reduced and the business is running on a profitable basis before tax.

As reported by The Illinois Department of Public Health ("**IDPH**") on March 7, 2018, IDPH has approved applications for approximately 33,000 qualifying patients, since it began accepting applications on September 2, 2014, and approximately 38,800 individuals have submitted a complete application to IDPH.

On September 17, 2016, an Illinois investor group ("**ILDISP**") contribution reached US\$300,000, the total initial funding agreed upon under the joint-venture agreement (see Note 13 of the condensed interim consolidated financial statements). Consequently, ILDISP, conditionally on Illinois Department of Financial and Professional Regulation ("**IDFPR**") approval which is pending, were issued 100 NHMD shares and 100 Small Mill's Holdings Inc. ("**SMHI**"), which represent 50% interest in each of NHMD and SMHI. ILDISP is the operator of TCE and will receive a fee based on TCE's net profit. Nutritional High has also entered into an agreement with an Illinois cannabis cultivation and extraction facility to develop a framework under which the extraction facility will manufacture and distribute our oils and edibles in Illinois. The agreement provides the Company the right to negotiate a framework in good faith.

### *Canada*

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 agreement provides that Abba will lease the space to the Joint Venture and enter into an exclusive licensing agreement pursuant to which 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. Nutritional High will cover the capital costs, working capital and cost of equipment for the Joint Venture, which shall receive a priority return until repaid, after which, all profits of the Joint Venture will be shared equally. On November 7, 2017, the parties to the agreement amended the LOI as binding.

Through the Joint Venture, the Company intends on manufacturing oil based products for the medical market for distribution to Abba's patients and patients of other Licensed Producers. Once recreational cannabis is permitted, the Company, through the Joint Venture, will manufacture oil and edible products as permitted by law, for distribution across Canada. Abba Medix has received its oils license under ACMPR at its Pickering Facility, as announced in the Company's press release dated April 24, 2018.

The Company has made a number of strategic investments into projects with other companies, including:

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- Acquisition of interest in Aura Health Corp. – In November 2016 the Company has made a strategic investment into Aura Health Corp. ("AHC") which owns and operates medical cannabis clinics through its subsidiaries in the US. At present, the Company owns approximately 17% interest in AHC.
- Lineage Grow Company Ltd. – The Company and Lineage Grow Company Ltd. ("LGC"), whereby the parties will assist certain Licensed Operators in the US in establishing and developing marijuana-related operations. Nutritional High owns approximately 1,674,000 common shares and 400,000 warrants in the capital of LGC ("LGC Shares") and a convertible debenture with the face value of \$100,000, convertible into LGC Shares at a price of \$0.20 ("LGC Debentures"). LGC has recently closed an equity private placement at a price of \$0.25 per LGC Share and has completed a listing on the Canadian Securities Exchange under the symbol "BUDD".

LGC and the Company have also entered into a Put Agreement with a third party, whereby the third party has an option to put to the Company ("Put Option Agreement") LGC Debentures in the amount of \$2.5 million if LGC fails to meet certain milestones. As of April 30, 2018, a total of \$1.28 million of convertible debentures has been converted and thus, reducing the Company's obligation subject to Put Option Agreement to \$1.22 million. The Put Option Agreement also specifies that if LGC acquires dispensaries in the states where the Company's products are sold, LGC shall purchase the Company's products to stock at least 20% of the shelf space per product category at a price equal to Nutritional High's best regular wholesale price to Nutritional High's customers in the state, subject to availability of supply.

The Company has acquired or is acquiring intellectual property and internally developed brand lines or products, including:

- Agreement to acquire Dab Stick technology - The Dab Stick is a dispenser for viscous liquid substances, capable of carrying approximately ½ gram of cannabis oil extract designed with the retail consumer and adult use user in mind. The oil vessel is capable of dispensing oil in very small metered doses, which ensures consistency between each dose of oil dispensed and providing desired consumer experience. While there have been similar products introduced in the California market (and have been subsequently discontinued), Dab Stick uses a revolutionary patent pending process which solves technical failings of such past discontinued products.

The Dab Stick allows the user to select an exact amount of oil to dispense, which provides a controlled and consistent flow in a multitude of operating conditions. The product is also designed with a view to being able to easily integrate empty vessels into filling equipment. The chief advantage of using Dab Stick, versus other commercially available methods of dispensing concentrate products is the ability to control pressure inside the vessel to avoid leakage and product spoilage.

A provisional patent application has been filed with the United States Patent and Trademark Office (the "USPTO") in November 2017 and with Innovation, Science and Economic Development Canada ("ISED") in October 2017 for the Dab Stick and the vendors of the technology has completed a conceptual design, prototype and initial engineering of the Dab Stick.



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- **FLI** - The Company completed development of and launched its flagship line of products under the brand name "FLI". At this time, the following FLI line of products are being manufacture and sold by Palo Verde: vape cartridges, syringes, and chocolate bars. FLI vape cartridges are a distributed in California by Calyx.
- **Purple Haze Licensing Agreement** - The Company entered into a license agreement ("**License Agreement**") with Purple Haze Properties LLC ("**PHP**"), granting the Company exclusive right to manufacture and distribute marijuana and hemp oil-infused products using the song titles and bearing the likeness of iconic guitarists Jimi Hendrix. The products include gummy bears, hard candies and health and energy drinkable products, and non-exclusive rights to manufacture and distribute certain apparel and accessories, in the United States and Canada.
- **NeutriSci** – The company has entered into a binding Memorandum of Understanding ("MOU") to develop, manufacture and distribute THC and CBD infused sublingual tablets utilizing NeutriSci's patent pending technology, proprietary ingredients and formulations. Subject to the negotiation of a definitive agreement, NeutriSci and Nutritional High will develop products which will be manufactured and distributed by Nutritional High in US states which permit the sale of cannabis infused products. The tablets will combine the benefits of NeutriSci and Nutritional High's existing technologies and ingredient mixes. Initial manufacturing will be carried out in Nutritional High's manufacturing facilities in Sacramento, California and Green Therapeutics LLC facilities in Las Vegas, Nevada, with sales and distribution expected to begin in Q3 2018.

### Financing

On March 15, 2018, the Company completed a private placement consisting of 8,000 Convertible Debentures Units (the "Units") for \$8,000,000. Each Unit consists of \$1,000 principal amount of 10% senior unsecured convertible debentures and 1,667 common share purchase warrants of the Company payable semi-annually. The debentures mature on March 15, 2021. The debentures are convertible into common shares of the Company at a conversion price of \$0.60 per share. Each warrant is exercisable to acquire one common share of the Company for a period of 36 months following Closing at an exercise price of \$0.70 per share.

The Company paid cash fees of \$947,956 and issued debentures in the principal amount of \$190,000 and 316,730 Warrants. In addition, the Agents received 1,066,666 warrant units ("Agents' Units") Each Agents' Unit shall be exercisable into one Agents' Unit at a price of \$0.60 per Agents' Unit. Each Agents' Unit consists of one common share and one warrant. Each warrant exercisable for a period of 2 years following Closing at an exercise price of \$0.70 per share.

On April 18, 2018, the lender extended a US\$800,000 note for an additional twelve months to April 18, 2019.

### **REGULATORY OVERVIEW**

#### ***United States Federal Law***

While marijuana and Marijuana-Infused Products are legal under the laws of several U.S. States (with vastly differing restrictions), presently the concept of "medical marijuana" and "retail marijuana" do not exist under U.S. federal law. The United States *Federal Controlled Substances Act* classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision.

The United States Supreme Court has ruled in a number of cases that the federal government does not violate the federal constitution by regulating and criminalizing cannabis, even for medical purposes. Therefore, federal law criminalizing the use of marijuana pre-empts state laws that legalizes its use for medicinal and adult-use purposes.

The U.S. Department of Justice has issued official guidance regarding marijuana enforcement in 2009, 2011, 2013, 2014 and 2018 in response to state laws that legalize medical and adult-use marijuana. In each instance, the U.S.

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Department of Justice has stated that it is committed to the enforcement of federal laws and regulations related to marijuana. However, the DOJ has also recognized that its investigative and prosecutorial resources are limited. As of January 4, 2018, the U.S. Department of Justice has rescinded all federal enforcement guidance specific to marijuana and has instead directed that federal prosecutors should follow the "Principles of Federal Prosecution" originally set forth in 1980 and subsequently refined over time in chapter 9-27.000 of the U.S. Attorney's Manual creating broader discretion for federal prosecutors to potentially prosecute state-legal medical and adult-use marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. Prior to 2018 and in the Cole Memo, the U.S. Department of Justice acknowledged that certain U.S. states had enacted laws relating to the use of marijuana and outlined the U.S. federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain states have legalized or decriminalized the use, sale, and manufacture of marijuana. "**Cole Memo**" means the memorandum dated August 29, 2013, addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General of the United States, as may be supplemented or amended indicating that federal enforcement of the applicable federal laws against cannabis-related conduct should be focused on eight priorities, which are to prevent: (1) distribution of cannabis to minors; (2) criminal enterprises, gangs and cartels from receiving revenue from the sale of cannabis; (3) transfer of cannabis from States where it is legal to States where it is illegal; (4) cannabis activity from being a pretext for trafficking of other illegal drugs or illegal activity; (5) violence or use of firearms in cannabis cultivation and distribution; (6) drugged driving and adverse public health consequences from cannabis use; (7) growth of cannabis on federal lands; and (8) cannabis possession or use on federal property.

To ensure compliance with the previously issued guidance provided by the Cole Memo, the Company does the following:

- Ensure the operations of its subsidiaries (or third parties, in the jurisdictions where the Company conducts its business as an ancillary services provider) are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable State, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Company retains competent legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable regulations;
- The activities relating to cannabis business adhere to the scope of the licensing obtained - eg. in the states where only medical cannabis is permitted, the products are only sold to patients, who hold the necessary documentation to permit the possession of the cannabis, in the states where only medical cannabis is permitted; and in the states where cannabis is permitted for adult recreational use, the products are only sold to individuals who meet the requisite age requirements;
- If licensed and directly involved in distribution of marijuana the products through dispensaries, which may only sell to adults under the applicable State regulations. In working with Licensed Operators, the Company conducts due diligence on the policies and procedures to ensure that the products are not distributed to minors. Additionally, the Company employs professional consultants to investigate any past license violations and ensure that the business has not been involved in these types of violations;
- The Company only works through Licensed Operators, which must pass a range of requirements, adhere to strict business practice standards and be subjected to strict regulatory oversight whereby sufficient checks and balances to ensure that no revenue is distributed to criminal enterprises, gangs and cartels. Furthermore, as a part of its due diligence, the Company retains professional consultants to vet the ownership of such cannabis businesses to ensure that no profits or revenues are used for the benefit of criminal enterprises;
- As a part of its compliance audit, the Company also ensures that the Licensed Operators have an adequate inventory tracking system (eg. METRC) and necessary procedures in place to ensure that such compliance system is effective in tracking inventory. This is done to ensure that there is no diversion of cannabis or cannabis products into the states where cannabis is not permitted by state law, or cross the state lines in general;
- The Company conducts the necessary review of financial records and where appropriate retains professional third-party consultants to do so, to ensure that the state-authorized cannabis business activity is not used as a

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cover or pre-text for trafficking of other illegal drugs, is engaged in other illegal activity or any activities that are contrary to any applicable Anti-Money Laundering statutes;

- The Company conducts background checks to ensure that the principals and management of the Licensed Operators are of good character, and have not been involved with other illegal drugs, engaged in illegal activity or activities involving violence, or use of firearms in cultivation, manufacturing or distribution of cannabis;
- The Company conducts reviews of activities of the cannabis businesses, the premises on which they operate and the policies and procedures that are related to possession of cannabis or cannabis products outside of licensed premises (including the cases where such possession is permitted by regulation – eg. transfer of products between licensed premises). These activities are done to ensure that no Licensed Operators possess or use cannabis on federal property or engage in manufacturing or cultivation of cannabis on federal lands; and
- The Company conducts reviews of products and product packaging to ensure that the products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

On January 4, 2018 and as discussed above, the Cole Memo was rescinded by a one-page memo signed by the US Attorney General Jeff Sessions. It is the Company's opinion that the Memorandum does not represent a significant policy shift as it does not alter the U.S. Justice Department's discretion or ability to enforce federal marijuana laws rather just provides additional latitude to the U.S. Justice Department to potentially prosecute state-legal marijuana businesses even if they are not engaged in marijuana-related conduct enumerated by the Cole Memo as being an enforcement priority. U.S. state attorney generals will continue to have discretion over how the federal law is enforced with respect to the companies that operate in the states where cannabis has been legalized for medical or adult use.

Even though the Cole Memo has been rescinded we will, as guiding corporate policy, continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current US Federal enforcement guidelines and US states in which the Company operates or has investments in.

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with State laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal laws vigorously. Any such change in the U.S. federal government's enforcement of current U.S. federal laws could cause adverse financial impact and remain a significant risk to the Company's business.

On December 16, 2014, President Obama signed the H.R.83 - Consolidated and Further Continuing Appropriations Act, 2015 ("**Omnibus Bill**"), approving spending for certain federal agencies through September 30, 2015. Section 583 of the Omnibus Bill prohibits the United States government from using federal funds to prevent States with medical marijuana laws from implementing state laws that authorize the use, distribution, possession, or cultivation of medical marijuana.

On May 5, 2017, US President Trump signed into law H.R. 244, the Consolidated Appropriations Act, 2017, which authorizes appropriations that fund the operation of the Federal Government through September 30, 2017. Section 587 of the Consolidated Appropriations Act prohibits the United States government from using federal funds to prevent States with medical marijuana laws from implementing State laws that authorize the use, distribution, possession, or cultivation of medical marijuana. Nevertheless, (1) this does not prevent the United States government from using federal funds to prevent states with adult use marijuana laws from implementing such laws requiring use, distribution, possession or coloration of adult use marijuana; and (2) there can be no certainty that future U.S. federal funding bills will include similar provisions. The provisions relating to cannabis under Cromnibus Bill, are currently under review by the United States Congress, which is in the process of finalizing the appropriations act. See "*Risk Factors*".

On November 14, 2017, the Jeff Sessions, the Attorney General of the United States has stated before the House Judiciary Committee has made a comment about prosecutorial forbearance regarding state-licensed marijuana

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businesses. In his statement Mr. Sessions has stated that the US Federal Government's current policy is the same fundamentally as the Holder-Lynch policy, whereby the States may legalize marijuana for its law enforcement purposes, but it still remains illegal with regard to federal purposes.

On March 22, 2018, the House of Representatives and Senate voted in favour of approving the Omnibus Spending Bill and it was signed into law the following day by the President of The United States. With the Bill's approval comes an extension of Rohrabacher-Leahy Amendment until September 2018, which is represented by Section 538 of the Bill. Rohrabacher-Leahy Amendment prevents the US Department of Justice from using federal funds in enforcing federal law relating to medical cannabis, which effectively allows states to implement their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. The amendment was first introduced in 2014 and has been reaffirmed annually since then. It should be noted that this amendment does not apply to adult-use marijuana.

The provisions of Internal Revenue Code section 280E are being applied by the Internal Revenue Service ("IRS") to businesses operating in the medical and adult use marijuana industry. Section 280E of the IRS prohibits marijuana businesses from deducting their ordinary and necessary business expenses, forcing them to pay higher effective federal tax rates than similar companies in other industries. The effective tax rate on a marijuana business depends on how large its ratio of non-deductible expenses is to its total revenues. Therefore, businesses in the legal cannabis industry may be less profitable than they would otherwise be.

### *Canadian Companies with U.S. Marijuana-Related Assets*

On October 16, 2017, the Canadian Securities Administrators published Staff Notice 51-352 – *Issuers with U.S. Marijuana-Related Activities*, which provides specific disclosure expectations for reporting issuers in Canada that currently have, or are in the process of developing, marijuana-related activities in the United States as permitted within a particular State's regulatory framework. All reporting issuers with U.S. marijuana-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other applicable disclosure documents in order to fairly present all material facts, risks and uncertainties about issuers with U.S. marijuana-related activities.

Such disclosure includes, but is not limited to, (i) a description of the nature of a reporting issuer's involvement in the U.S. marijuana industry; (ii) an explanation that marijuana is illegal under U.S. federal law and that the U.S. enforcement approach is subject to change; (iii) a statement about whether and how the reporting issuer's U.S. marijuana-related activities are conducted in a manner consistent with U.S. federal enforcement priorities; and (iv) a discussion of the reporting issuer's ability to access public and private capital, including which financing options are and are not available to support continuing operations. Additional disclosures are required to the extent a reporting issuer is deemed to be directly or indirectly engaged in the U.S. marijuana industry, or deemed to have "ancillary industry involvement", all as further described in the Staff Notice. Public reaction to the notice was generally positive and industry participants welcomed the opportunity to review and provide enhanced disclosure.

The Company has obtained legal advises regarding compliance with applicable state regulatory frameworks and exposure and implication arising from U.S. federal laws in the States where it conducts operation. As of June 28, 2018, the Company has not received any notices of violation, denial or non-compliance from any U.S. authorities.

The following is the summary of the Company's balance sheet as at April 30, 2018:

	Investment in		Total
	Subsidiaries	associates	
	\$	\$	\$
Current assets	2,605,087	-	2,605,087
Non-current assets	7,605,125	757,084	8,362,209
Total assets	10,210,212	757,084	10,967,296
Current liabilities	2,696,202	-	2,696,202
Non-current liabilities	467,438	-	467,438
Total liabilities	3,163,640	-	3,163,640

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The liabilities exclude liabilities due from subsidiaries to the Company, as a Canadian parent company.

The following is the summary of operating losses from U.S. cannabis-related activities for the nine months ended April 30, 2018:

	<b>Subsidiaries</b>	<b>Investment in associates</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	2,683,756	-	2,683,756
COGS	(1,346,722)	-	(1,346,722)
Expenses	(3,502,456)	-	(3,502,456)
Income from investment in associate	-	151,990	151,990
Net operating (loss) income	(2,165,422)	151,990	(2,013,432)

The operating expenses include expenses incurred directly by subsidiaries, amortization for investment properties and capital assets. The operating expenses exclude share-based payments and any allocation of expenses incurred at the Company's corporate office in Canada.

### *Canadian Law*

Legal access to dried cannabis for medical purposes was first allowed in Canada in 1999 through Section 56 Exemptions under the Controlled Drugs and Substances Act ("**CDSA**"). The decision of the Court of Appeal for Ontario in 2000 in R. v. Parker held that individuals with a medical need had the right to possess cannabis for medical purposes. This led to the implementation of the Medical Marihuana Access Regulations ("**MMAR**") in 2001. Under the MMAR, residents of Canada who had been authorized by their health care practitioners to access cannabis for medical purposes could access dried cannabis for those purposes by producing their own cannabis plants, designating someone to do so on their behalf, or purchasing cannabis from Health Canada.

The MMAR were repealed on March 31, 2014 and were replaced by the Marihuana for Medical Purposes Regulations ("**MMPR**"). The MMPR established a legal regime for licensing producers and permitting the sale of dried cannabis to registered patients pursuant to a medical document provided by a health care practitioner, for the purpose of seeking to ensure that individuals resident in Canada with a medical need could access quality-controlled cannabis grown under secure and sanitary conditions.

The MMPR were simpler and involved fewer obstacles than the previous regulatory regime and allowed for competition among Licensed Producers on a host of factors including product quality, customer service, price, variety and brand awareness.

In June 2015, the Supreme Court of Canada decided in R. v. Smith that restricting legal access to only dried cannabis was unconstitutional. The Court decided that individuals with a medical need have the right to use and make other cannabis products. To eliminate uncertainty around a legal source of supply of cannabis, in July 2015 the Minister issued Section 56 Exemptions under the CDSA to allow, among other things, Licensed Producers to produce and sell cannabis oil and fresh cannabis in addition to dried cannabis, and to allow authorized users to possess and alter different forms of cannabis.

The MMPR were repealed on August 24, 2016 and were replaced by the Access to Cannabis for Medical Purposes Regulations ("**ACMPR**") as a result of a decision by the Federal Court of Canada in February 2016 in Allard v. Canada, which found that requiring individuals to obtain cannabis only from Licensed Producers violated liberty and security rights protected by section 7 of the Canadian Charter of Rights and Freedoms. The Court found that individuals who require cannabis for medical purposes did not have "reasonable access" under the MMPR regime.

The ACMPR are the current governing regulations regarding the production, sale, and distribution of cannabis products, including cannabis oil, in Canada. The process of becoming a Licensed Producer is rigorous and management believes that this process presents a significant barrier to entry for prospective licensees. As part of the regulatory improvements announced by Health Canada on May 26, 2017, in connection with streamlining the licensing process and enabling increased production of cannabis by Licensed Producers, Health Canada streamlined the application process for becoming a Licensed Producer. The stages in the application process are now summarized as follows: 1. Applications Received / Preliminary Screening; 2. Enhanced Screening; 3. Security Clearance and

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Application Review; 4. Licensing and Inspection. Health Canada requires rigorous testing of cannabis products and derivatives provided by Licensed Producers. A Licensed Producer is subject to a wide variety of compliance and enforcement activities conducted by Health Canada after it has received its licence.

In 2015, the Government of Canada announced a platform advocating for the legalization of recreational cannabis in order to regulate the illegal market and restrict access by under-aged individuals. On April 20, 2016, the Government of Canada announced its intention to introduce, by the spring of 2017, legislation to legalize the recreational use of cannabis in Canada. On April 13, 2017, the Cannabis Act was introduced. The Cannabis Act provides a licensing and permitting scheme for the production, testing, packaging, labelling, sending, delivery, transportation, sale, possession, and disposal of cannabis, to be implemented by regulations made under the Cannabis Act. Cannabis Act was passed by the House of Commons and the Canadian Senate, and on June 19, 2018 Bill C-45 has received Royal Assent, passing Cannabis Act into law. Subsequently, Canadian Prime Minister Justin Trudeau announced that Oct. 17 will be the date that marijuana will be legal across Canada.

### *US State Regulations Overview*

Regulations differ significantly amongst the U.S. states. Some U.S. states only permit the cultivation, processing and distribution of medical marijuana and marijuana-infused products. Some U.S. states may also permit the cultivation, processing, and distribution of marijuana for adult purposes and retail marijuana-infused products.

#### Colorado

On November 6, 2012, Colorado Amendment 64 was passed to amend Colorado's constitution, subsequently enacted as Article 18, section 16 of the Colorado constitution, addressing "personal use and regulation of marijuana" for adults 21 and over, as well as commercial cultivation, manufacture, and sale, effectively regulating cannabis in a manner similar to alcohol. Pursuant to the Retail Code last adopted in April 2017, by the State of Colorado, Licensed Operators are subject to Residency Requirements. Marijuana Enforcement Division of the Colorado Department of Revenue ("**MED**") oversees the medical and retail marijuana programs in the State of Colorado. Since neither the Company nor any of its subsidiaries own an interest in Palo Verde, the Company does not have direct or indirect operations in Colorado, but operates a model with material ancillary involvement.

Palo Verde is currently undergoing an administrative process relating to the renewal of its Retail MIPs license with the MED relating to the notice of denial that it has received. According to the administrative provisions of Colorado Retail Code ("**Retail Code**"), Palo Verde will be able to continue its operation within its current licensed premises pending an administrative process to determine if the Retail MIPs license renewal was properly denied by the MED. To the Company's knowledge, other than the notice of denial to renew the MIPs License, Palo Verde is in compliance with all applicable licensing requirements and the regulatory framework that have been enacted by the MED.

#### Illinois

On August 1, 2013, Illinois enacted the means Compassionate Use of Medical Cannabis Pilot Program Act (Illinois ("**CUMCPPA**")) legalizing medical marijuana in Illinois with the legislation taking effect on January 1, 2014. CUMCPPA establishes a patient registry program, protects registered qualifying patients and registered designated caregivers from "arrest, prosecution, or denial of any right or privilege," and allows for the registration of cultivation centers and dispensing organizations. The statute that sets out the regulations for dispensaries is: Title 68; Chapter VII; Subchapter b of the Illinois Administrative Code, titled "Rules for Administration of The Compassionate Use of Medical Cannabis Pilot Program. ("**IDFPR Rules**"). IDFPR Rules impose a number of restrictions on the affairs of the Dispensary, including rules pertaining to changes in ownership structure, addition of new dispensary agents and principal officers, entry into management agreements, bonding rules, changing the location of dispensary and setting the criteria for annual renewals. In August 2016, the Company was advised by the IDFPR that it has received all required registration information and that NHMD is licensed to operate the dispensary in Effingham, IL, thereby complying with all applicable requirements of the State of Illinois. IDFPR Rules may change at any time there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to IDFPR review and approval. The Company monitors regulatory developments on regular basis to ensure to that NHMD complies with applicable regulation. To this end, the Company has developed a periodic reporting system for monitoring financial performance of NHMD, which is lined directly into NHMD's inventory tracking system. Certain directors

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and key members of the Company's executive team have access to the inventory tracking system and monitor it for potential discrepancies. In addition, the management team communicates with key members of NHMD's operating team (general manager) on regular basis, which includes a review of any compliance-related matters. To the Company's knowledge, NHMD is in compliance with all applicable licensing requirements and the regulatory framework that have been enacted by the IDFPR. To the Company's knowledge, since the inception of its operations, NHMD has not received any material citations or notices of violation.

#### Oregon

In November of 2014, Oregon voters passed Measure 91, "Control, Regulation, and Taxation of Marijuana and Industrial Hemp Act," creating a regulatory system for individuals 21 years of age and older to purchase marijuana for personal use from licensed retail marijuana stores, as well as cultivate marijuana at home OLCC licenses and regulates adult-use marijuana businesses and is currently accepting applications. On October 15, 2015, OLCC published draft recreational marijuana rules, which were finalized and took effect on June 29, 2016, as OLCC Division 25 of the Oregon Administrative Rules ("**OAR Division 25**"). These rules have been updated on a regular basis since that time, due to administrative prerogative and legislative changes. Currently licensed cannabis companies in the State of Oregon are not subject to residency requirements. OAR Division 25 will continue to evolve and there is no certainty that changes will not adversely affect the Company's operations, as the changes are subject to OLCCs review and approval.

#### Washington

Cannabis in Washington is legal for medical purposes and for any purpose by adults over 21. Medical marijuana was legalized in Washington in 1998, and recreational use and sale of marijuana was legalized in 2012. In November, 2012, the Washington State Liquor Control Board ("**WSLCB**") passed Initiative 502 ("**I-502**"), pursuant to a vote by the people of the State of Washington. I-502 authorized the WSLCB to regulate and tax recreational marijuana products for persons over 21 years of age and thereby created a new industry for the growing, processing and selling of recreational marijuana products regulated by Washington State.

This initiative allows adults over the age of 21 to legally possess up to 1 oz (28 g) of marijuana, 16 oz (450 g) of marijuana infused product in solid form, 72 oz (2.0 kg) of marijuana infused product in liquid form or any combination of all three and to legally consume marijuana, and marijuana infused products. Licensed Operators in Washington are subject to Residency Requirement, neither the Company nor any of its subsidiaries own an interest in Licensed Operators, As such, the Company does not have direct or indirect operations in Colorado, but operates a model with material ancillary involvement. To the Company's knowledge, Mt. Baker Greeneries is in compliance with all applicable licensing requirements and the regulatory framework that have been enacted by the WSLCB.

#### California

California has an existing medical marijuana law and voted to approve the "Adult Use of Marijuana Act" ("**AUMA**") to tax and regulate for all adults 21 years of age and older on November 8, 2016. California was the first State to pass medical marijuana in 1996, allowing for a not-for-profit patient/caregiver system, but there was no State licensing authority to oversee businesses that emerged. In September of 2015, the California legislature passed three bills collectively known as the "Medical Cannabis Regulation and Safety Act" ("**MCRSA**"). The MCRSA establishes a licensing and regulatory framework for medical marijuana businesses in California. The system has multiple license types for dispensaries, infused products manufacturers, cultivation facilities, testing laboratories, transportation companies, and distributors. Edible infused product manufacturers will require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies will oversee different aspects of the program and businesses will require a State license and local approval to operate.

On June 27, 2017, California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act ("**MAUCRSA**"), which amalgamates MCRSA and AUMA to provide a set of regulations to govern medical and adult use licensing regime for cannabis businesses in the State of California. On November 16, 2017, the State of California has introduced the emergency regulations, which shall be governed by California Bureau of Cannabis Control, California Department of Public Health and California Department of Food and Agriculture (collectively "**Emergency CA Regulations**"), which provide further clarity on the regulatory framework that will

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govern cannabis businesses. The regulations build on the regulations provided by MCRSA and AUMA and also specify that the businesses will need to comply with the local law in order to also comply with the State regulations. The new State regulations are expected to take effect on January 1, 2018, whereby the Licensed Operators that are based in California will be required to comply with additional regulations. There is no assurance that the proposed changes will not have a direct or indirect effect on the current manufacturing arrangement that the Company has in California, or its prospective acquisition targets.

On January 1, 2018, California moved to full-adult use state legalization for cannabis products.

The Bureau of Cannabis Control, the Department of Public Health, and the Department of Food and Agriculture (collectively referred to as the "Licensing Authorities"). The proposed extension was previously announced to the public on May 18th, 2018. Under the terms of the extension, the Licensing Authorities are proposing to extend the regulations for an additional 180 days and implement amendments to the current regulatory structure with the intent of providing greater clarity to licensees and address issues that have been identified by licensees since the commencement of the emergency regulations.

Key parts of the proposed changes include:

- Applicants can complete 1 license application and request a Medical designation, an Adult-use designation, or both in combination
- Irrespective of license designation chosen, applicants will pay only 1 licensing fee
- Licensees will be able to conduct commercial activities with any licensee regardless of license designation

#### Nevada

The use of medical marijuana became legal in Nevada in 2001, and state-certified medical marijuana establishments, like dispensaries, became operational in 2015. The Nevada Medical Marijuana Program is governed by Nevada Revised Statute 453A and Nevada Administrative Code 453A. Patients meeting certain criteria can apply for a Nevada medical marijuana card. The medical marijuana card allows the patient to legally purchase marijuana from a state-certified medical marijuana dispensary and a registry of medical marijuana patient cardholders is administered by the Division of Public and Behavioral Health.

The sale of marijuana for adult use in Nevada was approved by ballot initiative on November 8, 2016 and Nevada Revised Statute 453D exempts a person who is 21 years of age or older from state or local prosecution for possession, use, consumption, purchase, transportation or cultivation of certain amounts of marijuana and requires the Nevada Department of Taxation (the "NDT") to begin receiving applications for the licensing of marijuana establishments on or before January 1, 2018. The legalization of retail marijuana does not change the medical marijuana program.

As of July 1, 2017, NDT is responsible for licensing and regulating and retail marijuana businesses in Nevada and for Nevada's state medical marijuana program. The NDT accepted applications for an early start program governed by Nevada Temporary Regulation T002-17. The early start program ran from July 1, 2017 to December 31, 2017 and only operational medical marijuana establishment certificate holders in good standing, with the exception of distributor licenses, (which is a new license type under the retail program) were able to participate.

Licensing and operations requirements for production and distribution of medical marijuana are set out in NRS 435A. Each medical marijuana establishment must register with the NDT and apply for a medical marijuana establishment registration certificate. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical marijuana establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony conviction or had a previously granted medical marijuana registration revoked.

Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the NDT as a medical marijuana agent and hold a valid medical marijuana establishment agent card.



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The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical marijuana establishment will sell or deliver edible marijuana products or marijuana-infused products, proposed operating procedures for handling such products which must be preapproved by the NDT.

In determining whether to issue a medical marijuana establishment registration certificate pursuant to NRS 453A.322, the NDT, in addition the application requirements set out, considers the following criteria of merit:

- (1) The total financial resources of the applicant, both liquid and illiquid;
- (2) The previous experience of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment at operating other businesses or nonprofit organizations;
- (3) The educational achievements of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment;
- (4) Any demonstrated knowledge or expertise on the part of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment with respect to the compassionate use of marijuana to treat medical conditions;
- (5) Whether the proposed location of the proposed medical marijuana establishment would be convenient to serve the needs of persons who are authorized to engage in the medical use of marijuana;
- (6) The likely impact of the proposed medical marijuana establishment on the community in which it is proposed to be located;
- (7) The adequacy of the size of the proposed medical marijuana establishment to serve the needs of persons who are authorized to engage in the medical use of marijuana;
- (8) Whether the applicant has an integrated plan for the care, quality and safekeeping of medical marijuana from seed to sale;
- (9) The amount of taxes paid to, or other beneficial financial contributions made to, the State of Nevada or its political subdivisions by the applicant or the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment; and
- (10) Any other criteria of merit that the Division determines to be relevant.

A medical marijuana establishment registration certificate expires 1 year after the date of issuance and may be renewed upon resubmission of the application information and renewal fee to the NDT.

The regular retail marijuana program under Nevada's Regulation and Taxation of Marijuana Act is set to begin in early 2018 and for the first 18 months of the program, only existing medical marijuana establishment certificate holders can apply for a retail marijuana establishment license. In November 2018, the NDT may open up the application process to those not holding a medical marijuana establishment certificate.

There are five types of retail marijuana establishment licenses under Nevada's retail marijuana program:

- (1) Cultivation Facility - licensed to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.
- (2) Distributor - licensed to transport marijuana from a marijuana establishment to another marijuana establishment. For example, from a cultivation facility to a retail store.
- (3) Product Manufacturing Facility - licensed to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers. Marijuana products include things like edibles, ointments, and tinctures.

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- (4) Testing Facility - licensed to test marijuana and marijuana products, including for potency and contaminants.
- (5) Retail Store - licensed to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

Administration of the regular retail program in Nevada will be governed by permanent regulations, currently being drafted by the NDT. The NDT has been conducting public consultation and receiving public comments on the Revised Proposed Adult-Use Marijuana Regulation (LCB File No. R092-17) dated December 13, 2017 (the "**Nevada Adult-Use Regulation**"). As of June 28, 2018, the Nevada Adult-Use Regulation has not been adopted by the NDT and the NDT is not seeking applications for adult-use marijuana or medical marijuana registration certificates.

The Company is currently in the process of establishing operations in the States of Oregon, Washington, Nevada and California, where once licensed and established, the Company will have direct involvement in manufacturing of cannabis-infused products and cannabis concentrates (in the case of Oregon and California) and will have a material ancillary involvement in the State of Washington. At such time, the Company's operations will have to comply with applicable licensing and requirements and regulations set out by the requisite State agencies.

The Company will also implement the procedures to ensure adequate compliance with such requirements on continuous basis, which shall include, but not limited to: real-time financial reporting access, real-time inventory tracking, periodic compliance reports from the operating personnel. The Company will also implement necessary training procedures and guidelines for employee conduct to ensure that the regulatory requirements are exceeded, and the operations are compliant with the requirements of the Cole Memo. The Company will also implement community relations, social responsibility, neighbourhood security and whistleblower procedures to implement the safeguards to deter non-compliance.

The Company operates in a highly regulated industry, which to date remains illegal under U.S. federal law and is new in most U.S. States. There is no certainty that any of the local, State, or federal governments of jurisdictions where the company operates will continue to maintain current regulatory regimes, changes to regulatory regimes could adversely affect the Company's operations. Please see the "Risk Factors" section.

### ***Products and Services – Brand Lines and Intellectual Property***

The products and services offered by the Company will differ significantly depending on State and local regulations. The products and services are not bundled and are custom-designed to fit the needs of Licensed Operators to be in compliance with applicable regulations.

The Company has developed and launched its flagship line of products under the brand name "FLI" internally using its own resources, with the use of third party consultants. The product lines include liquid concentrate for bulk sales, vape pen cartridges, and consumer focused concentrate products. Marijuana extracts are manufactured using Nutritional High's process that employs a mix of mechanical separation, cold ethanol extraction and short path distillation. The versatility of the process allows to vary final product characteristics to fit the requirements of the manufacturer in terms of terpene and cannabinoid profiles.

The Company entered into a license agreement ("**License Agreement**") with Purple Haze Properties LLC ("**PHP**"), granting the Company exclusive right to manufacture and distribute marijuana and hemp oil-infused products under the "Jimi Hendrix" brand including gummy bears, hard candies and health and energy drinkable products, and non-exclusive rights to manufacture and distribute certain apparel and accessories, in the United States and Canada.

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 of Jimi Hendrix, seeking equitable relief and damages. At this time, no actions have been brought against the Company in relation to the License Agreement with PHP. At this time, the Company is evaluating potential options relating to the Licencing Agreement and full-fledged roll-out of Jimi-branded products, in light of the Action against PHP and parties related to PHP. Please see "*Risk Factors*"

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On January 25, 2018, the parties entered into a license agreement addendum (“Addendum”) with PHP to address 2017 and 2018 annual fees are to be satisfied through the payment of US\$265,000 in cash and issuance of 750,000 shares of the Company, respectively. As per the terms of the addendum, one-half (50%) of all shares issuances and 100% of monetary royalties shall be placed in a litigation escrow account (“Escrow account”) until the sum of (US\$2,000,000) is reached. The escrow account can be drawn upon at any time to pay litigation expenses and damages related to any formal litigation by the plaintiff of the New York litigation against the Company. Upon PHP prevailing in the New York litigation and if there having been no formal litigation commenced against the Company, the funds and shares in the escrow account shall be released to PHP. Finally, the parties agree to two (2) one-year extensions at the Company’s option.

The Company has entered into agreement to acquire the technology and intellectual property rights of an innovative dispenser for viscous liquid substances referred to as the "**Dab Stick**" ("**Dab Stick Acquisition**"). As a part of the Dab Stick Acquisition, the Dab Stick vendors have agreed to assign to Nutritional High the Dab Stick technology and the intellectual property and all rights thereto, and the Dab Stick Vendors will assist with developing improvements. The Company has filed a Canadian Patent Application for Dab Stick in October 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 a 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.

The Company has entered into an agreement with Xanthic Biopharma Ltd. ("**Xanthic**") to manufacture and distribute their innovative cannabis-infused powdered drinks and other products in Colorado. Subject to regulatory approval Nutritional High will sublicense Palo Verde LLC to manufacture the products. Nutritional High also expects to launch the Xanthic products in Oregon, Washington, California, and other jurisdictions in the future, where permitted by regulations. Xanthic is a Toronto-based life sciences company which develops high quality THC and CBD infused products with a focus on alternative delivery methods to enable consistent and precise dosing of active ingredients. At present, Xanthic has developed the following product formulations, which it intends to launch in Colorado as a part of Phase I: "Rescue Drink", Cannabis-Infused Fruit Drinks and Cannabis-Infused High-Performance Sport Drink.

#### *Strategic Investments and Joint Ventures*

##### Aura Health Corp.

On November 14, 2017, the Company acquired an equity interest in Aura Health Corp. ("**AHC**"), a private company based in Ontario, which owns and operates Green Global Properties Inc., a private company incorporated in Delaware.

Since June 2016, AHC and its subsidiaries have been involved in the development and acquisition of marijuana health clinics in the United States. The medical health clinics test prospective patients, and where such patients are found to have one of the qualifying medical conditions, the clinics apply to the State on behalf of the patient for a medical-use certificate.

AHC owns 30% interest in clinics in each of Las Vegas, NV, Mesa, AZ and Tucson, AZ. AHC also has the option to increase its ownership interest in these clinics to 51% and to acquire up to 51% interest in seven additional clinics being launched by Sun Valley Holdings ("**Sun Valley**"), a private company based in Phoenix, Arizona, which also operates three wholly-owned clinics in Arizona and is the largest clinic owner and operator in the State of Arizona.

# NUTRITIONAL HIGH INTERNATIONAL INC.

## Management's Discussion and Analysis of Financial Condition and Results of Operations For the nine months ended April 30, 2018

### Lineage Grow Company Ltd.

The Company and Lineage Grow Company Ltd. ("**LGC**") will assist certain Licensed Operators in the US in establishing and developing marijuana-related operations. Nutritional High owns approximately 1,674,000 common shares and 400,000 warrants in the capital of LGC ("**LGC Shares**") and a convertible debenture with a face value of \$100,000, convertible into LGC Shares at a price of \$0.20 ("**LGC Debentures**"). LGC has recently closed an equity private placement at a price of \$0.25 per LGC Share and has completed a listing on the Canadian Securities Exchange under the symbol "BUDD".

LGC and the Company have also entered into a Put Agreement with a third party, whereby the third party has an option to put to the Company ("**Put Option Agreement**") LGC Debentures in the amount of \$2.5 million if LGC fails to meet certain milestones. As of April 30, 2018, a total of \$1.28 million of convertible debentures has been converted and thus, reducing the Company's obligation subject to Put Option Agreement to \$1.22 million. The Put Option Agreement also specifies that if LGC acquires dispensaries in the states where the Company's products are sold, LGC shall purchase the Company's products to stock at least 20% of the shelf space per product category at a price equal to Nutritional High's best regular wholesale price to Nutritional High's customers in the state, subject to availability of supply.

### **Selected Annual and Quarter-End Information**

Summarized selected financial information with respect to Nutritional High is as follows:

	<b>Nine months ended April 30, 2018</b>	<b>Year ended July 31, 2017</b>	<b>Year ended July 31, 2016</b>	<b>Year ended July 31, 2015</b>
	\$	\$	\$	\$
Cash and short-term investments	7,421,983	1,924,736	111,786	19,567
Working capital (deficiency)	6,046,947	2,391,481	(1,432,542)	116,437
Total assets	19,227,881	8,130,581	2,686,449	1,972,588
Total current liabilities	4,519,971	1,569,312	1,731,657	272,276
Total long-term liabilities	11,329,196	507,455	579,287	869,973
Shareholders' Equity	7,898,685	6,053,814	375,505	830,339

	<b>Nine months ended April 30, 2018</b>	<b>Nine months ended April 30, 2017</b>	<b>Change</b>
	\$	\$	\$
Sales	1,674,269	-	1,674,269
Cost of goods sold ("COGS")	(1,346,722)	-	(1,346,722)
Gross profit	327,547	-	327,547
Interest income	174,560	122,697	51,863
License income	3,312	-	3,312
Rental income	831,615	404,530	427,085
Total revenue (net of COGS)	1,337,034	527,227	809,807
Operating expenses	6,276,149	3,084,158	3,191,991
Net loss	5,924,286	2,186,588	3,737,698
Net loss and comprehensive loss	5,969,875	2,216,413	3,753,462
Loss per share	0.023	0.010	0.013

## NUTRITIONAL HIGH INTERNATIONAL INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations For the nine months ended April 30, 2018

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#### Operating results for three months ended April 30, 2018

Sales revenue of \$1,674,269 and cost of goods sold of \$1,346,722 recognized for the three months ended April 30, 2018, were exclusively derived from Calyx Brands Inc., which was acquired on March 15, 2018. The gross profit from March 15<sup>th</sup> to April 30<sup>th</sup>, 2018 was \$327,547 or 19.6%.

The Company generated rental income of \$292,131, an increase of \$145,391 from comparative period, from Palo Verde LLC and Mt. Baker Greeneries LLC. Interest income increased by \$25,120, from \$49,023 in comparative period to \$74,143, which resulted from the increased loan provided to Palo Verde LLC as well as interest earned on debenture on Lineage Grow Company Ltd. and Aura Health Corp.

For the three months ended April 30, 2018, total operating expenses was \$2,688,740, an increase of \$1,157,086, compared to the comparative prior period of \$1,531,654.

The increase in operating expenses during the quarter from the prior comparative quarter was largely related to:

- An allowance for amounts due from Palo Verde of \$569,838 for the three months ended April 30, 2018, an increase of \$424,099 from the comparative period of \$145,739 following management's periodic assessment with respect to the estimated timing of the recoverability of the loan, lease and other receivable from Palo Verde, LLC.
- Acquisition and project evaluation costs of \$185,300 (2017 - \$Nil) are mostly related to transaction costs associated to the acquisition of Calyx Brands Inc.
- Increase of \$465,643 in office and general compared to comparative period is mainly due to the first-time inclusion of Calyx's office and general expense of \$413,508 for the period after acquisition. Included in the office and general was \$146,399 of one-time bad debt expense.
- Sales and marketing increased by \$247,532 compared to comparative period is mainly consisted of increased investor marketing and campaign in various media outlets as well as sponsorship/promotion giveaways which the Company incurred a total of approximately \$77,000. Additionally, \$118,485 incurred in Calyx Brands, for the three months ended April 30, 2018 of which mostly related to commissions.

For the three months ended April 31, 2018, the Company incurred a net loss of \$2,271,718 or \$0.009 per common share compared with a net loss of \$1,557,995 or \$0.006 per common share for comparative period ended.

The Company recognized \$100,000 of other income for the three months ended April 30, 2018 representing the 400,000 Lineage shares received as part of the consideration for introducing Mt. Baker to Lineage.

Finance costs increased by \$265,756 from comparative period mostly due to the interest expense associated to the convertible debentures which was closed on March 15, 2018.

For the three months ended April 30, 2018, the Company incurred a net loss and comprehensive loss of \$2,397,163 compared to \$1,574,263 for the same period ended April 30, 2018.

## NUTRITIONAL HIGH INTERNATIONAL INC.

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#### Operating results for nine months ended April 30, 2018

Rental income increased by \$427,085, to \$831,615 compared to the comparative prior period of \$404,530 from Palo Verde LLC and Mt. Baker Greeneries LLC. Interest income increased by \$51,863 compared to the prior comparative period of \$122,697 as a result of increased loan provided to Palo Verde LLC.

For the nine months ended April 30, 2018, the total operating expenses was \$6,276,149, an increase of \$3,191,991, compared to the comparative prior period of \$3,084,158.

For the nine months ended April 30, 2018, the Company incurred a net loss of \$5,924,286 or \$0.023 per common share compared with a net loss of \$2,186,588 or \$0.01 per common share for the comparative period.

For the nine months ended April 30, 2018, the Company incurred a net loss and comprehensive loss of \$5,969,875 compared to \$2,216,413 for the same period ended April 30, 2017. During the nine months ended April 30, 2018, the Company recorded an impairment of \$340,300 to write off its investments in Small's Mill Holdings Inc. ("SMHI") as the Company and its joint venture partner, ILDISP LLC, have decided to wind up SMHI and recorded an allowance for amounts receivable from Palo Verde of \$1,915,562. The net loss in the comparative prior period is largely offset by \$927,188 of net gain from the deconsolidation of the NH Medical Dispensaries LLC and Small's Mill Holdings Inc. in September 2017 and a gain on settlement of shares with debenture holders of \$132,657.

Selected financial information for the previous quarters as follows:

Quarter ended	Revenue	Net income (loss)	Net income (loss) and comprehensive loss	Net income (loss) per share (basic and diluted)
April 30, 2018	\$2,040,543	\$(2,271,718)	\$(2,397,163)	\$(0.009)
January 31, 2018	\$335,112	\$(1,931,718)	\$(1,817,927)	\$(0.01)
October 31, 2017	\$308,101	\$(1,642,310)	\$(1,676,245)	\$(0.01)
July 31, 2017	\$327,343	\$(2,819,487)	\$(2,732,449)	\$(0.01)
April 30, 2017	\$195,763	\$(1,557,995)	\$(1,574,263)	\$(0.01)
January 31, 2017	\$161,864	\$(711,099)	\$(716,224)	\$(0.00)
October 31, 2016	\$169,600	\$82,506	\$74,074	\$0.00
July 31, 2016	\$149,810	\$(1,040,350)	\$(1,057,167)	\$(0.01)
April 30, 2016	\$168,909	\$(601,211)	\$(584,995)	\$(0.00)

#### 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

## **NUTRITIONAL HIGH INTERNATIONAL INC.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations For the nine months ended April 30, 2018**

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when due. As at April 30, 2018, the Company had working capital of \$6,046,947 (July 31, 2017 – \$2,391,482), current assets of \$10,566,918 (July 31, 2017 - \$3,960,793) and current liabilities of \$4,519,971 (July 31, 2017 - \$1,569,312). All the Company's financial liabilities and receivables, excluding amounts due from Palo Verde LLC (Note 11), finance lease (Note 18), promissory note payable (Note 17), contingent consideration (Note 3), put option guarantee premium (Note 9), put option guarantee (Note 9), and convertible debenture (Note 19) have contractual maturities of less than 90 days and are subject to normal trade terms.

The cash used in operating activities for the nine months ended April 30, 2018 was \$5,143,943 compared to the comparative nine month period where the Company spent \$1,439,227, and increase of \$3,704,716. The increase is primarily attributable to acquisition costs incurred related to the asset acquisition of Calyx Brands, increased office and general due to increase salaries and wages as the Company continued operating activities and expansion efforts in California, and increased legal, accounting, and consulting fees.

The cash used in investing activities was \$3,608,913, a decrease of \$1,991,654 compared to the prior comparative period where the Company spent \$5,600,567 of cash in investing activities. The decrease is primarily attributable to the Company having received total refunds of US\$1,260,000 in connection with licenses and properties acquisition agreements which were terminated in 2017. The increase was partially offset by a deposit payment of US\$50,000 for the purchase of a property in Sacramento. Investment property additions decreased by \$836,688 compared to the prior comparative period due to the Company's purchase of property in La Pine, Oregon as it entered into that state whereas in the current period, the Company was focused on execution and development of operations. This consequently resulted in capital asset additions of \$950,662 compared to the prior comparative period where capital asset expenditures were \$756,629. Additionally, the Company's recent asset acquisition of Calyx Brands resulted in net cash outflows of \$958,476. Investments decreased by \$334,265 as a result of the Company deciding to commence wind-up of its investment in SMHI.

The cash generated from financing activities was \$11,591,517, an increase of \$2,999,905 compared to the comparative prior period of \$8,591,612. The increase was primarily attributable to the issuance of 8,000 convertible debenture units for gross proceeds of \$8,000,000 as well as the exercise of warrants during the period for gross proceeds of \$4,051,187.

#### **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 \$485,591 (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 \$5,779 (July 31, 2017 - \$2,171) because of the Company's exposure to interest rate fluctuations.

## NUTRITIONAL HIGH INTERNATIONAL INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations For the nine months ended April 30, 2018

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#### **Related Party Transactions and Key Management Compensation**

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 nine months ended April 30, 2018, the Company:

- a. Incurred professional fees of \$150,904 (2017 - \$90,300) from Branson Corporate Services, a company in which a company with a related director has a 49% interest. As at April 30, 2018, \$Nil (July 31, 2017 - \$Nil) was due to Branson Corporate Services.
- b. Incurred consulting fees of \$204,864 (2017 - \$144,000) from FMI Capital Advisory Inc., a company with a related director, of which \$60,864 is included in acquisition and project evaluation costs. As at April 30, 2018, \$18,080 (July 31, 2017 - \$6,844) was due to FMI Capital Advisory Inc. and \$6,662 (July 31, 2017 - \$6,327) was due from FMI Capital Advisory Inc.
- c. Incurred marketing expenses of \$71,413 (2017 - \$Nil) and software costs of \$51,537 (2017 - \$Nil) from Plexus Cybermedia Ltd, a company in which a director has a 33% interest. As at April 30, 2018, \$Nil was due to Plexus Cybermedia Ltd.
- d. Incurred professional fees of \$222,451 (2017 - \$165,240) from Fogler Rubinoff, LLP, a law firm in which a director of the Company is a partner of which \$149,359 was incurred related to share issue costs and \$2,688 was incurred related to an acquisition and project evaluation costs. As at April 30, 2018, \$181,457 (July 31, 2017 - \$Nil) was due to Fogler Rubinoff, LLP.
- e. Incurred management compensation to key management and directors of \$356,825 (2017 - \$235,494) in cash and \$281,412 (2017 - \$371,906) in stock-based payments. As at April 30, 2018, \$52,500 (July 31, 2017 - \$52,500) is included in shares to be issued to an officer of the Company.

See also Notes 5 and 6 of the condensed interim consolidated financial statements for the three and nine months ended April 30, 2018

#### **Disclosure of outstanding share data**

As at April 30, 2018, the Company had 282,716,951 common shares outstanding, 17,165,000 options of which 14,117,500 are vested and eligible to be exercised at a weighted average price of \$0.126 and warrants outstanding of 26,912,693 with a weighted average exercise price \$0.419.

As at June 28, 2018, the Company had 286,808,620 common shares outstanding, 20,946,228 options outstanding and 22,100,610 warrants outstanding.

#### **Off-Balance Sheet Arrangements**

As of April 30, 2018, the Company has no off-balance sheet arrangements.

#### **Subsequent events**

On May 7, 2018, the Company granted options to a consultant to purchase an aggregate of 400,000 common shares at an exercise price of \$0.40 per common share, for a term of 5 years, expiring on May 7, 2023. Vesting terms are as follows: 100,000 options every three months until fully vested.

On May 8, 2018, the Company granted options to directors and consultants to purchase an aggregate of 3,700,000 common shares at an exercise price of \$0.36 per common share, for a term of 5 years, expiring on March 15, 2023. Options vest every six months over 18 months, in equal amount until fully vested.



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On June 1, 2018 the Company and Palo Verde LLC amended the existing agreements and entered into new agreements, as follows:

- (i) Revolving loan – the maturity date of the revolving loan was extended to June 1, 2023 and interest shall accrue at 10%. In addition, Palo Verde shall make agreed upon monthly payments commencing on June 1, 2018 to June 1, 2023. All outstanding revolving loan and interest balance, net of monthly payments received, shall be due and payable on June 1, 2023.
- (ii) Lease agreements – the monthly lease rates were amended and 10% interest per annum will be applied on deferred lease effective June 1, 2018. Palo Verde shall make agreed upon monthly payments towards deferred lease commencing on June 1, 2018 to June 1, 2021. All deferred lease, net of monthly payments received, shall be due and payable on June 1, 2021.
- (iii) Consulting and branded packaging agreements – the Company shall provide consulting services and proprietary packaging materials and certain trademarks to Palo Verde LLC.

See Notes 5, 6, 9, 26 and 28 for the condensed interim consolidated financial statements for the three and nine months ended April 30, 2018.

### **Critical Accounting Estimates and judgments**

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 11) and Mt. Baker Greeneries (Note 27), Intangibles and Goodwill arising from the Calyx Brands transaction (Note 3), valuation of options and warrants.

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.

### **Risk Factors**

There are numerous and various risks, known and unknown, that may prevent the Company from achieving its goals. It is believed that these are the factors that could adversely affect the Company's business, financial condition or results of operation. In such case, the trading price of the Common Shares could decline and investors could lose all or part of their investment. The following is a summary of certain risks that could be applicable to the business of the Company:

#### *Limited operating history*

The Company has a very limited history of operations, is in the early stage of development and must be considered a start-up. As such, the Company is subject to many risks common to such enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial and other resources, and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of its early stage of operations. The Company has no history of earnings. Because the Company has a limited operating history in emerging area of business, you should consider and evaluate its operating prospects in light of the risks and uncertainties frequently encountered by early-stage companies in rapidly evolving markets. These risks may include:

- risks that it may not have sufficient capital to achieve its growth strategy;
- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;

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- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

The Company's future growth will depend substantially on its ability to address these and the other risks described in this section. If it does not successfully address these risks, its business may be significantly harmed.

#### Reliance on securing agreements with Licensed Producers

The regulatory framework in most States restricts the Company from obtaining a License to grow, store and sell marijuana products. As such, the Company relies on securing agreements with Licenses Producers in the targeted jurisdictions that have been able to obtain a License with the appropriate regulatory authorities. Failure of a Licensed Producer to comply with the requirements of their License or any failure to maintain their License would have a material adverse impact on the business, financial condition and operating results of the Company. Should the regulatory authorities not grant a License or grant a License on different terms unfavorable to the Licensed Operators, and should the Company be unable to secure alternative Licensed Operators, the business, financial condition and results of the operation of the Company would be materially adversely affected.

If the U.S. federal government changes its approach to the enforcement of laws relating to marijuana, the Company would need to seek to replace those tenants with non-marijuana tenants, who would likely pay lower rents. It is likely that the Company would realize an economic loss on its capital acquisitions and improvements made to its capital assets specific to the marijuana industry, and the Company would likely lose all or substantially all of its investments in the markets affected by such regulatory changes.

The Company has advanced, and may continue to advance, significant funds to Palo Verde in the form of unsecured loans, which the Company may not be able to collect if Palo Verde fails to profitably operate its business. Palo Verde is a development stage entity with limited capacity to raise funds. There is no assurance that any or all of the amounts loaned will be recovered by the Company. If Palo Verde is unable to operate in a profitable fashion or secure an alternative source of funds, the full amount of the loan might be written off.

#### Regulation

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company cannot predict the nature of any future laws, regulations, interpretations, policies or applications, nor can it determine what effect additional governmental regulations or administrative interpretations or procedures, when and if promulgated, could have on the Company's operations.

Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

Local, State and federal laws and regulations governing marijuana for medicinal and adult use purposes are broad in scope and are subject to evolving interpretations, which could require the Company to incur substantial costs associated with bringing the Company's operations into compliance. In addition, violations of these laws, or allegations of such violations, could disrupt the Company's operations and result in a material adverse effect on its financial performance. It is beyond the Company's scope to predict the nature of any future change to the existing laws,

## NUTRITIONAL HIGH INTERNATIONAL INC.

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regulations, policies, interpretations or applications, nor can the Company determine what effect such changes, when and if promulgated, could have on the Company's business.

#### U.S. Federal Laws

The business operations of the Company are dependent on State laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt legal manufacturer and sale of marijuana, which would negatively impact the business of the Company.

The concepts of "medical marijuana" and "retail marijuana" do not exist under U.S. federal law. The Federal Controlled Substances Act classifies "marijuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of safety for the use of the drug under medical supervision. As such, marijuana-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of marijuana are illegal under U.S. federal law. Strict compliance with State laws with respect to marijuana will neither absolve the Company of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company.

Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect, and as a result the Company, including their reputation and ability to conduct business, their holdings (directly or indirectly) of medical cannabis licenses in the United States, and the listing of their securities on various stock exchanges, their financial position, operating results, profitability or liquidity or the market price of their publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

As of June 2, 2018, twenty-eight States, the District of Columbia and Guam allow their residents to use medical marijuana. Voters in the States of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The State laws are in conflict with the Federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by State-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws and decide to enforce the federal laws to the fullest extent possible. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

The constant evolution of laws and regulations affecting the marijuana industry could detrimentally affect the Company's operations. Local, State and federal medical marijuana laws and regulations are broad in scope and subject to changing interpretations. These changes may require the Company to incur substantial costs associated with legal and compliance fees and ultimately require the Company to alter its business plan. Furthermore, violations of these laws, or alleged violations, could disrupt the business of the Company and result in a material adverse effect on operations. In addition, the Company cannot predict the nature of any future laws, regulations, interpretations or applications, and it is possible that regulations may be enacted in the future that will be directly applicable to the business of the Company.

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### Management's Discussion and Analysis of Financial Condition and Results of Operations For the nine months ended April 30, 2018

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#### Local regulation could change and negatively impact on the Company's operations

Most US States that permit marijuana for adult use or medical use provide local municipalities with the authority to prevent the establishment of medical or adult use marijuana businesses in their jurisdictions. If local municipalities where the Company or its Licensed Operators have established facilities decide to prohibit marijuana businesses from operating, the Company or its Licensed Operators could be forced to relocate operations at great cost to the Company, and the Company or its Licensed Operators may have to cease operations in such State entirely if alternative facilities cannot be secured.

#### The Company is dependent on intellectual property, and failure to protect the rights to use that intellectual property could adversely the Company's future growth and success.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available. As a result, intellectual property of the Company's U.S. investments may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that the businesses in which it invests will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

The Company's failure to protect its existing intellectual property rights may result in the loss of exclusivity or the right to use the brands and technologies to which the Company has acquired or internally developed. If the Company does not adequately ensure the freedom to use this intellectual property the Company may be subject to damages for infringement or misappropriation, and/or be enjoined from using such intellectual property. In addition, it may be difficult for the Company to enforce certain of its intellectual property rights against third parties who may have inappropriately acquired interests in the Company's intellectual property rights by filing unauthorized trademark applications in foreign countries to register the Company's marks because of their familiarity with our business in the United States. See "Business Overview – Products and Services – Brands and Intellectual Property". Any potential intellectual property litigation could result in significant expense to the Company, adversely affect the development of sales of the challenged product or intellectual property and divert the efforts of the Company's technical and management personnel, whether or not such litigation is resolved in the favor of the Company. In the event of an adverse outcome in any such litigation, the Company may, among other things, be required to: pay substantial damages; cease the development, manufacture, use, sale or importation of products that infringe upon other patented intellectual property; expend significant resources to develop or acquire non-infringing intellectual property; discontinue processes incorporating infringing technology; or obtain licenses to the infringing intellectual property.

#### There are risks associated with removal of U.S. Federal Budget Rider Protections

The United States Congress has passed appropriations bills (the "Leahy Amendment") each of the last four years to prevent the federal government from using congressionally appropriated funds to enforce federal marijuana laws against regulated medical marijuana actors operating compliance with state and local laws. The 2018 Consolidated Appropriations Act was passed by Congress on March 23, 2018 and included the re-authorization of the Leahy Amendment. It will continue in effect until September 30, 2018, the last day of fiscal year 2018.

American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state medical cannabis laws. However, because this conduct continues to violate federal law, American courts have observed that should Congress at any time choose to appropriate funds to fully prosecute the CSA, any individual or business—even those that have fully complied with state law—could be prosecuted for violations of federal law. If Congress restores funding, for example by declining to include the Leahy Amendment in the 2019 budget resolution, or by failing to pass necessary budget legislation and causing another government shutdown, the government will have the authority to prosecute individuals for violations of the law before it lacked funding under the five-year statute of limitations applicable to non-capital Controlled Substances Act violations. Additionally, it is important to note that the appropriations protections only apply to medical cannabis

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operations and provide no protection against businesses operating in compliance with a state's recreational cannabis laws.

#### Regulation that may hinder the Company's ability to establish and maintain bank accounts

The U.S. federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

In the event that financial service providers do not accept accounts or transactions related to the marijuana industry, it is possible that Licensed Operators may seek alternative payment solutions, including but not limited to crypto currencies such as Bitcoin. There are risks inherent in crypto currencies, most notably its volatility and security issues. If the industry was to move towards alternative payment solutions and accept payments in crypto currency the Company would have to adopt policies and protocols to manage its volatility and exchange rate risk exposures. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

#### Product liability, operational risk

As a licensing company (in the case of the Company) and a manufacturer and distributor of products (in the case of the Licensed Operators) designed to be ingested by humans, the Licensed Operators and the Company face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana-infused products based on the Company's recipes and brands involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's and the Licensed Operator's products alone or in combination with other medications or substances could occur.

#### Product recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products developed by the Company and sold by Licensed Operators are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense relating to the recall and any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant management attention and could harm the image of the brand and Company.

#### Uninsurable risks

The medical and retail marijuana business is subject to several risks that could result in damage to or destruction of properties or facilities or cause personal injury or death, environmental damage, delays in production and monetary losses and possible legal liability. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise, they could reduce or eliminate any future profitability and result in increasing costs and a decline in the value of the securities of the Company. The Company does not currently have any insurance policies covering its properties or the operation of its business and any liabilities that may arise as a result any of the above noted risks may cause a material adverse effect on the financial condition of the Company.

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#### *The Market Price of Securities is volatile and may not accurately reflect the long-term value of the Company*

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies has experienced substantial volatility in the past. This volatility may affect the ability of holders of Shares or Warrants to sell their securities at an advantageous price. Market price fluctuations in the Shares and Warrants may be due to the Company's operating results or its U.S. Investees' operating results failing to meet expectations of securities analysts or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors. These broad market fluctuations may adversely affect the market price of the Shares and Warrants.

Financial markets historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares and Warrants may decline even if the Company's investment results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in investment values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Shares and Warrants may be materially adversely affected.

#### *Additional financing*

The Company may need to raise significant additional funds in order to support its growth, develop new or enhanced services and products, respond to competitive pressures, acquire or invest in complementary or competitive businesses or technologies, or take advantage of unanticipated opportunities. If its financial resources are insufficient, it will require additional financing in order to meet its plans for expansion. The Company cannot be sure that this additional financing, if needed, will be available on acceptable terms, or at all.

Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility with respect to business matters. If additional funds are raised through the issuance of equity securities, the percentage ownership of existing shareholders will be reduced, such shareholders may experience additional dilution in net book value, and such equity securities may have rights, preferences or privileges senior to those of its existing shareholders.

Access to public and private capital and financing continues to be negatively impacted by many factors as a result of the global financial crisis and global recession. Such factors may impact the Company's ability to obtain debt and equity financing in the future on favorable terms or obtain any financing at all. Additionally, global economic conditions may cause a long-term decrease in asset values. If such global volatility, market turmoil and the global recession continue, the Company's operations and financial condition could be adversely impacted.

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#### Risks Affecting the real estate industry

The Company is subject to risks generally associated with ownership of real estate, including: (a) changes in general economic or local conditions; (b) changes in supply of, or demand for, similar or competing properties in the area; (c) bankruptcies, financial difficulties or defaults by tenants or other parties (including Licensed Operators and Licensed Operators); (d) increases in operating costs, such as taxes and insurance; (e) the inability to achieve full stabilized occupancy at rental rates adequate to produce targeted returns; (f) periods of high interest rates and tight money supply; (g) excess supply of rental properties in the market area; (h) liability for uninsured losses resulting from natural disasters or other perils; (i) liability for environmental hazards; and (j) changes in tax, real estate, environmental, zoning or other laws or regulations. There is no assurance that the Company's investments will yield an economic profit.

Weakness in regional and national economies could materially and adversely impact the Licensed Operators and Licensed Operators leasing the real estate properties that the Company's may acquire in the future. If the Licensed Operators or Licensed Operators suffer a business disruption or the Company's ability to collect the rents from those parties may be limited, and the recourse available to the Company can be limited. As such, this may hinder the Company's ability to service its financial obligations, and in some cases, may lead to complete loss of the Company's assets if its lenders were to foreclose.

#### Taxes

U.S. federal prohibitions on the sale of marijuana may result in the Company not being able to deduct certain costs from its revenue for U.S. federal taxation purposes if the U.S. Internal Revenue Service (IRS) determines that revenue sources of the Company are generated from activities which are not permitted under U.S. federal law. Section 280E of the Internal Revenue Code of 1986 prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the CSA). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly, and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

#### The Company may be vulnerable to unfavorable publicity or consumer perception

The Company believes the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favorable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company.

Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise hindering market growth and state adoption due to inconsistent public opinion and perception of the medical-use and adult-use cannabis industry. Public opinion and support for medical and adult-use cannabis has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use cannabis, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical cannabis as opposed to legalization in general).

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#### Illegal drug dealer could pose threats

Currently, there are many drug dealers and cartels that cultivate, buy, sell and trade marijuana in the United States, Canada and worldwide. Many of these dealers and cartels are violent and dangerous, well financed and well organized. It is possible that these dealers and cartels could feel threatened by legalized marijuana businesses such as those with whom the Company does business and could take action against or threaten the Company, its principals, employees and/or agents and this could negatively impact the Company and its business.

#### Reliance on management

The success of the Company is currently dependent on the performance of its senior management. The loss of the services of these persons would have a material adverse effect on the Company's business and prospects in the short term. There is no assurance the Company can maintain the services of its officers or other qualified personnel required to operate its business. Failure to do so could have a material adverse effect on the Company and its prospects.

#### Factors which may prevent realization of growth targets

The Company is currently in the early development stage. There is a risk that the additional resources will be needed and milestones will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these risk factors and the following as it relates to the Company and its Licensed Operators:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;
- non-performance by third party contractors;
- increases in materials or labour costs;
- construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- labour disputes, disruptions or declines in productivity;
- inability to attract sufficient numbers of qualified workers;
- disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions, earthquakes or storms.

#### Risks associated with increasing competition

The marijuana industry is highly competitive. The Company will compete with numerous other businesses in the medicinal and adult use industry, many of which possess greater financial and marketing resources and other resources than the Company. The marijuana business is often affected by changes in consumer tastes and discretionary spending patterns, national and regional economic conditions, demographic trends, consumer confidence in the economy, traffic patterns, local competitive factors, cost and availability of raw material and labour, and governmental regulations. Any change in these factors could materially and adversely affect the Company's operations.

The Company expects to face additional competition from new entrants. If the number of legal users of marijuana in its target jurisdiction increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products.

#### The products provided by the Company to Licensed Operators may become subject to regulation governing food and related products

Should the Federal government legalize marijuana for medical or adult use nation-wide, it is possible that the U.S. Food and Drug Administration ("FDA") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938. The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical marijuana and marijuana-infused products. Clinical trials may be needed to verify efficacy and safety of the medical marijuana. It is also possible that the FDA would require



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that facilities where medical marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event, any of these regulations are imposed, The Company cannot foresee the impact on its operations and economics. If the Company or the Licensed Operators are unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency, the Company or the Royalty Producer may be unable to continue to operate in its current form or at all.

#### Environmental and employee health and safety regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### Difficult to forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the marijuana industry in Canada and the U.S. A failure in the demand for its products to materialize as a result of competition, technological change, market acceptance or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

#### Holding company

As a holding company with no material assets other than the stock of the Company's operating subsidiaries and intellectual property, nearly all of the Company's funds generated from operations are generated by the Company's operating subsidiaries. The Company's subsidiaries are subject to requirements of various regulatory bodies, both domestically and internationally. Accordingly, if the Company's operating subsidiaries are unable, due to regulatory restrictions or otherwise, to pay the Company's dividends and make other payments to the Company when needed, the Company may be unable to satisfy the Company's obligations when they arise.

#### Management of growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

#### Dividends

The Company has no earnings or dividend record and does not anticipate paying any dividends on the Common Shares in the foreseeable future. Dividends paid by the Company would be subject to tax and, potentially, withholdings.

#### Currency exchange rates

Exchange rate fluctuations may adversely affect the Company's financial position and results. It is anticipated that a significant portion of the Company's business will be conducted in the United States using U.S. Dollars. The Company's financial results are reported in Canadian Dollars and costs are incurred primarily in U.S. Dollars in its Marijuana-Infused Products Segment. The depreciation of the Canadian Dollar against the U.S. Dollar could increase

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the actual capital and operating costs of the Company's U.S. operations and materially adversely affect the results presented in the Company's financial statements.

*We share control in joint venture projects, which limits our ability to manage third-party risks associated with these projects.*

Joint ventures often have shared control over the operation of our joint venture assets, such as the joint-venture arrangement with Illinois investor group, and do not control all the decisions of the joint ventures. Therefore, joint venture investments may involve risks such as the possibility that a co-venture in an investment might become bankrupt, be unable to meet its capital contribution obligations, have economic or business interests or goals that are inconsistent with our business interests or goals, or take actions that are contrary to our instructions or to applicable laws and regulations. In addition, we may be unable to take action without the approval of our joint venture partners, or our joint venture partners could take actions binding on the joint venture without our consent. Consequently, actions by a co-venture or other third-party could expose us to claims for damages, financial penalties and reputational harm, any of which could have an adverse effect on our business and operations. In addition, we may agree to guarantee indebtedness incurred by a joint venture or co-venture or provide standard indemnifications to lenders for loss liability or damage occurring as a result of our actions or actions of the joint venture or other co-ventures. Such a guarantee or indemnity may be on a joint and several bases with a co-venture, in which case we may be liable in the event such co-venture defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations.

Preparing our financial statements requires us to have access to information regarding the results of operations, financial position and cash flows of our joint ventures. Any deficiencies in our joint ventures' internal controls over financial reporting may affect our ability to report our financial results accurately or prevent or detect fraud. Such deficiencies also could result in restatements of, or other adjustments to, our previously reported or announced operating results, which could diminish investor confidence and reduce the market price for our shares. Additionally, if our joint ventures are unable to provide this information for any meaningful period or fail to meet expected deadlines, we may be unable to satisfy our financial reporting obligations or timely file our periodic reports.

Although our joint ventures may generate positive cash flow, in some cases they may be unable to distribute that cash to the joint venture partners. Additionally, in some cases our joint venture partners control distributions and may choose to leave capital in the joint venture rather than distribute it. Because our ability to generate liquidity from our joint ventures depends in part on their ability to distribute capital to us, our failure to receive distributions from our joint venture partners could reduce our return on these investments.

The joint venture might require a need for additional capital infusions which might create an obligation on the Company to make additional contributions, failing to do which may result in reduction of the Company's interest in NHMD and SMHI. In addition, Illinois investor group's failure to contribute may create a greater need for the Company to contribute additional capital, which may not be available to the Company on favorable terms or at all.

*Non-compliance with federal, provincial or State laws and regulations, or the expansion of current, or the enactment of new laws or regulations, could adversely affect the Company's business.*

The activities of the Company are subject to regulation by governmental authorities. Achievement of the Company's Business objectives are contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Business, results of operations and financial condition of the Company.

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the CSA, there is no certainty that this exclusion could not be altered

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by court or governmental action or re-interpretation. There is no certainty that the United States Food and Drug Administration ("FDA") will not regulate the use of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of 1994 ("DSHEA"), or would otherwise be permitted for use under the DSHEA. The FDA has taken steps to pursue companies that manufacture hemp-infused products that make health and medical claims about their products, and may take steps to pursue companies that manufacture marijuana products. This may include Licensed Operators, which would adversely affect the Company's financial performance.

*Scientific research related to the benefits of marijuana remains in early stages, is subject to a number of important assumptions and may prove to be inaccurate.*

Research in Canada, the United States and internationally regarding the medical benefits, viability, safety, efficacy and dosing of cannabis or isolated cannabinoids remains in early stages. To the Company's knowledge, there have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids. Any statements concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, any statements made herein are subject to the experimental parameters, qualifications, assumptions and limitations in the studies that have been completed.

Although the Company believes that the articles and reports, and details of research studies and clinical trials that are publicly available reasonably support its beliefs regarding the medical benefits, viability, safety, efficacy and dosing of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding and perceptions relating to cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those Stated in this prospectus or reach negative conclusions regarding the viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could materially impact the Company.

*Negative publicity or consumer perception may affect the success of our business.*

The success of the marijuana industry may be significantly influenced by the public's perception of marijuana. Both the medical and recreational use of marijuana are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to marijuana will be favourable. The marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical and recreational marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion (whether or not accurate or with merit) relating to the consumption of marijuana, whether in Canada, the United States or elsewhere, may have a material adverse effect on our operational results, consumer base and financial results. Among other things, such a shift in public opinion could cause State jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new State jurisdictions into which the Company could identify potential acquisition opportunities.

*Certain events or developments in the cannabis industry more generally may impact the Company's reputation.*

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. Cannabis has often been associated with various other narcotics, violence and criminal activities, the risk of which is that our business might attract negative publicity. There is also risk that the action(s) of other participants, companies and service providers in the cannabis industry may negatively affect the reputation of the industry as a whole and thereby negatively impact the reputation of the Company. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views in regards to the Company and its activities, whether true or not and the cannabis industry in general, whether true or not. The Company does not ultimately have direct control over how it or

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the cannabis industry is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, thereby having a material adverse impact on the Company.

### **Internal Control over Financial Reporting**

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance with respect to the reliability of financial reporting and financial statement preparation.

During the nine months ended April 30, 2018, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at July 31, 2017 covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### **Cautionary Note Regarding Forward Looking Statements**

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. Forward-looking Statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include, without limitation: the intention to complete the listing; the description of the Company that assumes completion of the listing of its Common Shares; the intention to grow the business and operations of the Company; anticipated timing for the ability of the Company to agree to terms of royalty agreements with Licensed Operators; expected growth in the number of users of Medical Marijuana in Canada; the risk of foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve its business objectives, the uncertainty associated with commercial negotiations and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements,

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prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

Readers are cautioned that the foregoing lists of risks, uncertainties and other factors are not exhaustive. The forward-looking statements contained herein are made as of June 28, 2018 and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary Statement.

#### **Management's Responsibility for Financial Information**

Management is responsible for all information contained in this report. The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's informed judgments and estimates. The financial and operating information included in this report is consistent with that contained in the audited consolidated financial statements in all material aspects.

Management maintains internal controls to provide reasonable assurance that financial information is reliable and accurate and assets are safeguarded.

The Audit Committee has reviewed the audited consolidated financial statements with management. The Board of Directors has approved the audited consolidated financial statements on the recommendation of the Audit Committee.

June 28, 2018  
Jim Frazier  
Chief Executive Officer