

## **Notice to Reader**

Nutritional High International Inc. had amended and restated its Management's Discussion and Analysis (the "**Revised MD&A**") for the nine months ended April 30, 2018. The refiling was made in connection with disclosure review of the Company's disclosure filings by the Ontario Securities Commission. The Revised MD&A was refiled to, among other things, provide more prominent disclosure in respect to the Company's involvement in marijuana-related activities in the United States.

The revised MD&A is available on SEDAR as filed on September 5, 2018.

The previously filed MD&A for the financial period was originally filed by the Company on SEDAR on June 28, 2018. The Revised MD&A replaces and supersedes the previously filed version. The revisions relate only to the MD&A and no changes were made to the financial statements for the relevant period.



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

September 5, 2018

This amended and restated management's discussion and analysis ("**MD&A**"), which is current to September 5, 2018, is management's assessment of the operations and the financial results of Nutritional High International Inc. ("**Nutritional High**", "**NHII**" 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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The Company currently does, and is expected to continue to, derive its revenues from the cannabis industry in certain states in the United States, which industry is illegal under Federal Law in the United States. NHII is directly involved (through its licensed wholly-owned subsidiary) in the medical or adult-use cannabis industry in the States of Oregon and California. The Company also has material ancillary involvement in U.S. marijuana in the states of Colorado, Oregon, Washington and California. Lastly, the Company has indirect involvement in U.S. marijuana in the States of Illinois, Arizona, Nevada and Florida. See "*Issuers with U.S. Cannabis-Related Assets*".

Almost half of the states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the *Controlled Substances Act* (the "U.S. CSA") in the United States and as such, is in violation of federal law in the United States. Despite the current state of the federal law and the U.S. CSA, certain states have legalized the recreational use of cannabis, including Oregon, Illinois and California, where the Company has a direct involvement in U.S. marijuana.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law must be applied. Notwithstanding the paramountcy of federal law in the United States, enforcement of such laws may be limited by other means or circumstances, which are further described in this Prospectus. See "*Enforcement of United States Federal Laws and United States Enforcement Proceedings*". Unless and until the United States Congress amends the U.S. CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a significant risk that federal authorities may enforce current federal law, which may adversely affect the current and future operations of the Company in the United States. As such, there are a number of significant risks associated with the Company's existing and future operations in the United States, and such operations may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States or any other jurisdiction. See "*Risk Factors*".

For the reasons set forth above, the Company's existing interests and operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. There are a number of significant risks associated with the business of the Company. See "*Issuers with U.S. Cannabis-Related Assets*" and "*Risk Factors*".

## 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 U.S. symbol: "SPLIF", and the Frankfurt Stock Exchange under the symbol: "2NU".

The Company manufactures and processes cannabis-based vaping and infused edible products and manages a distributor of cannabis products. Such products include vaporizer cartridges, cannabis oil syringes, and marijuana-infused products ("**MIP**") products such as chocolates, gummies and mints, among others. The Company has developed its own proprietary cannabis oil vape cartridges, syringes under the "FLI" brand and distributes numerous other branded cannabis products through a distributor it manages. The Company is exploring additional cannabis-

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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.

The Company is currently operating in California and Illinois and its brands are offered for sale in Colorado through a third-party entity licensed by that state. The Company is also in the process of expanding to Oregon, Nevada, Washington and Canada. The Company currently operates distribution and manufacturing facilities in California and owns a 50% equity interest in an Illinois dispensary. The Company is taking steps to negotiate agreements with existing licensed operators in various other U.S. 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 including 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 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, cannabis oil filled syringes, chocolates, and other 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 the processor to vary final product characteristics to fit specific requirements in terms of terpene and cannabinoid profiles.

As at September 5, 2018, the members of Company's management and Board of Directors consisted of:

<b>Name</b>	<b>Position</b>
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
Jeremy Pace	Senior VP, Operations

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.

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## Recent Developments

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

- The Company closed non-brokered private placement, consisting of \$4,200,000 aggregate principal amount of senior secured convertible debenture units at a price of \$1,000 per Convertible Debenture Unit (a "**CD Unit**") to fund its continued expansion and pending acquisitions in California, Nevada, Colorado and West Coast. Each CD Unit is comprised of one senior secured convertible debenture (a "Convertible Debenture") with face value of \$1,000 and 1,429 common share purchase warrants exercisable at \$0.80 for 36 months from closing date. The Convertible Debentures are convertible into common shares in the capital of the Company (each, a "Common Share") at \$0.70 per Common Shares. Interest on the Convertible Debenture are payable semi-annually in arrears, which can be payable in cash at 10% per annum or Common Shares at 12% per annum, at the sole option of the Company. If the Company undertakes an equity financing at a price per Common Shares of less than \$0.45 per Common Share while the Convertible Debentures are outstanding, the conversion price of the Convertible Debentures will be reduced to the new financing price and the warrant exercise price will be reduced to a price that is 20% premium to the new financing price, subject to compliance with applicable stock exchange and securities laws. If the Common Shares trade at a volume weighted average trading price under \$0.25 for a period of 50 consecutive trading days while the Convertible Debentures are outstanding, the conversion price of the Convertible Debentures shall be reduced to \$0.30.
- The Company acquired Pasa Verde LLC ("**Pasa Verde**"), a 17,600 square foot commercial facility cannabis oil extraction and edible facility in Sacramento, California.
- The Company completed an acquisition of a 9,000 square foot Sacramento Property permitted for the manufacture of cannabis extracts and infused products.
- The Company commenced production planning to process its newly developed chewable, sublingual THC product ("**Nu Energy Tablets**") for sale and distribution in the state of California. Nu Energy Tablets are slated to be produced at the Company's Pasa Verde manufacturing facility in Sacramento, California.
- The Company obtained a US\$2,000,000 conditional equipment lease commitment ("**Lease Line of Credit**") for the funding of new extraction and lab processing equipment.
- The Company signed a Letter of Intent ("**LOI**") to acquire 51% interest in Bright Green Lights LLC, a California company d/b/a as J:MEDS. J:MEDS produces high quality cannabis-infused strain specific lozenges and sugar-free mints distributed across California.
- The Company announced that will no longer proceed with the previously announced arrangement to finance the build out of the TKO Products LLC ("**TKO**") manufacturing facility and does not expect to exercise its option to acquire an interest in TKO.

## ISSUERS WITH U.S. CANNABIS-RELATED ASSETS

On February 8, 2018, the Canadian Securities Administrators ("**CSA**") published Staff Notice 51-352 (Revised) – *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

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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.

**SUMMARY OF THE COMPANY'S SUBSIDIARY/AFFILIATE WITH U.S. MARIJUANA CANNABIS ACTIVITIES**

Below is the summary chart of the Company's direct, indirect or material ancillary involvement in U.S. marijuana, through its subsidiaries and investments as at April XX, 2018. "Direct", "Indirect" and "Material Ancillary" are classification terms as defined in Staff Notice 51-352 (as described above).

Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
Nutritional High (Colorado) Inc. ("NHCI")	100%	Material Ancillary	Colorado	N/A <sup>1</sup>	Tenth Circuit – District of Colorado	NHCI provides revolving loan to Palo Verde LLC with principal balance of approximately US\$1.3 Million.
NHC Edibles LLC ("NHC")	100%	Material Ancillary	Colorado	N/A <sup>1</sup>	Tenth Circuit – District of Colorado	NHCE owns and leases Pueblo Property and the extraction equipment to Palo Verde LLC.
Nutritional IP Holdings LLC ("NIPH")	100%	Ancillary	Colorado  California	N/A	Tenth Circuit – District of Colorado  Ninth Circuit – Central District of California and Northern District of California	NIPH owns intellectual property and has packaging arrangements with Pasa Verde LLC and NHDCI.
Nutritional High (Oregon) LLC ("NHOL")	100%	Direct	Oregon	OLCC and City of La Pine	Ninth Circuit – District of Oregon	NHOL has applied for a Processor License with the OLCC
NH Medical Dispensaries LLC ("NHMD")	50%	Indirect (licensed dispensary)	Illinois	IDFPR	Seventh Circuit – Southern District of Illinois	NHMD operates a medical cannabis dispensary in Effingham, Illinois, and holds the medical cannabis dispensary license from the IDFPR under the CUMPAA.

<sup>1</sup> Documentation relating to provision of ancillary services to Licensed Operators in Colorado is reviewed by the MED if such relationship of lender and service provider is considered to be a party at interest, but the service provider itself is not regulated by the MED.

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Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
Aura Health Inc. ("Aura")	11.97%	Indirect	Arizona	AZDHS	Ninth Circuit – District of Arizona	Aura is a reporting issuer that is in the process of listing on the Canadian Stock Exchange, involved in the development and acquisition of marijuana health clinics in the United States, in which the Company owns a minority stake.
			Nevada	NDS	Ninth Circuit – District of Nevada	
			Florida	FLDA	Eleventh Circuit – Southern District of Florida	
NH Operations LLC ("NHO")	100%	Material Ancillary	Colorado	N/A	Tenth Circuit – District of Colorado	NHO provides consulting services to Palo Verde LLC and has equipment, technology, exclusive license, materials and packaging agreement with Mt. Baker Greeneries.
NH (Oregon) Properties LLC ("NHOP")	100%	Material Ancillary	Oregon	N/A	Ninth Circuit – District of Oregon	NHOP owns a property in La Pine, OR, that is leased to NHOL.
Pasa Verde LLC ("Pasa Verde")	100%	Direct (licensed manufacturer)	California	CDPH and the City of Sacramento	Ninth Circuit – Eastern District of California	Pasa Verde LLC is the holder of a state temporary manufacturing license in the City of Sacramento, California. The Company acquired all of the interests of Pasa Verde in July 2018. Pasa Verde LLC holds a Temp Type 6 License with CDPH and is currently upgrading its facility, upon completion they anticipate that they will resume manufacturing operations in a fully licensed manufacturing facility.
NH Bellingham Property Holdings LLC ("NHBPH")	100%	Material Ancillary	Washington	N/A	Ninth Circuit – Western District of Washington	NHBPH leases property in Bellingham, WA, which it sub-leases to Mt. Baker Greeneries LLC ("Mt. Baker Greeneries"), a company licensed as a processor by the WA LCB. NHBPH also has an equipment lease arrangement with Mt. Baker Greeneries.
NH Processing (California) LLC ("NHPCLLC")	100%	Direct	California	CDPH and the City of Sacramento	Ninth Circuit – Eastern District of California	NHPCLLC applied for the conditional use permit and the business operating permit for a property in Sacramento, CA.
NH Distribution California Inc. ("NHDCI") (dba Calyx Brands)	100%	Material Ancillary Agreement to provide services to licensed operator <sup>2</sup>	California	N/A	Ninth Circuit – Central District of California and Northern District of California	NHDCI acquired certain assets of Calyx Brands and has contracted with Calyx Brands, the holder of a State Temporary distribution license in Oakland, California to perform certain management service <sup>2</sup> functions on their behalf.

<sup>2</sup> NHDCI and Calyx Brands Inc. ("Calyx") are parties to a management service agreement, whereby NHDCI shall provide management services with respect to the cannabis distribution operation of Calyx Brands Inc. ("Calyx"). In exchange for services, Calyx assigns its sales revenue from sale of cannabis related products to NHDCI. Once NHDCI secures licensing, the management service agreement will cease and it is expected that Calyx will be winded up.

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Subsidiary/ Affiliate	% ownership	Classification	Jurisdictions	State and Local Regulators	United States circuit and federal judicial district	Description of Involvement
Lineage Grow Company Ltd. ("Lineage")	3.08%	Indirect	N/A	N/A	N/A	Lineage does not have active operations that would constitute material involvement in U.S. marijuana. Lineage is in the process of acquiring a number of acquisitions of U.S.-based operations which when completed would constitute material involvement in US marijuana.

Other than set out below, neither the Company nor any of its subsidiaries, affiliates or Licensed Operators that the Company or any of its subsidiaries has a material relationship with have received any notices, citations, of non-compliance, violation or denial from any applicable local municipal or the U.S. State regulatory authorities.

In addition to the interest that the Company has in various subsidiaries which have material involvement in marijuana-related activities in the U.S. it also has various contractual relationships with various entities which are Licensed Operators. In certain cases, the Company holds an interest in such Licensed Operators and in certain instances the Company's respective subsidiary has a contractual relationship with such Licensed Operators. The table below also outlines the Licensed Operators on which the Company has an interest in or has a contractual relationship with, as well as relevant a summary of their compliance with applicable laws.

Licensed Operator	Nature of relationship	State and Local Regulators	U.S. circuit and federal judicial district	Licensed Operator is in compliance with applicable U.S. State law and related licensing framework	Notices, citations of non-compliance, violation or denial from any applicable local municipal or U.S. State regulatory authorities
NHDCI	Material Ancillary	The City of Oakland	Ninth Circuit – Central District of California and Northern District of California	Yes, Calyx Brands, Inc.	None
Pasa Verde	Direct involvement: 100% wholly owned subsidiary.	CDPH and City of Sacramento	Ninth Circuit – Eastern District of California	Yes	None
NHOL <sup>3</sup>	Direct involvement: 100% wholly owned subsidiary.	OLCC and City of La Pine	Ninth Circuit – District of Oregon	N/A	N/A
NHMD	Indirect involvement: 50% wholly owned subsidiary.	IDFPR	Seventh Circuit – Southern District of Illinois	Yes	Yes <sup>4</sup>
NHPCLLC <sup>5</sup>	Direct involvement: 100% wholly owned subsidiary.	CDPH and the City of Sacramento	Ninth Circuit – Eastern District of California	N/A	N/A

<sup>3</sup> NHOL has applied for Processors License with OLCC, which has not yet been granted and as of the date hereof NHOL has not commenced.

<sup>4</sup> NHMD received non-disciplinary citations by IDFPR related to immaterial irregularity found in reconciling inventories, inconsistency in maintaining the access log record for the visitors and failure to refuse entrance of a minor child who was accompanying a patient from entering the Effingham Clinic. NHMD was ordered to pay a total of the \$500 administration fee for the citations.

<sup>5</sup> NHPCLLC has applied for the conditional use permit and business operating permit with CDPH for a property in Sacramento, CA which have not yet been granted as of hereof.



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Licensed Operator	Nature of ancillary relationship	Is Licensed Operator in compliance with applicable U.S. State law and related licensing framework to the best of the Company's knowledge?
Palo Verde	Material ancillary involvement: <ul style="list-style-type: none"> <li>• Lease Agreements with NHC</li> <li>• Revolving Loan Agreement with NHCI</li> <li>• Packaging Agreement with NIPH</li> <li>• Consulting Agreement with NHO</li> </ul>	On December 8, 2018, Palo Verde received Notice of Denial <sup>6</sup> .
Mt. Baker Greeneries	Material ancillary involvement: <ul style="list-style-type: none"> <li>• Leased the Bellingham Property from NHBPH</li> <li>• Equipment purchase and leaseback agreement with NHBPH</li> <li>• Equipment, technology, exclusive license, materials and packaging agreements with NHO.</li> </ul>	Yes
Calyx	Material ancillary involvement: <ul style="list-style-type: none"> <li>• Asset purchase agreement to acquire the assets of Calyx</li> <li>• Management services agreement with NHDC.</li> </ul>	Yes

In addition, the Company is deemed to have indirect involvement through its minority investments in Lineage and Aura, each of which is in compliance with applicable licensing requirements and regulatory framework enacted by the applicable U.S. state. The Company is not aware of any non-compliance, citations or notices of violation that either Lineage or Aura has received.

The Company has obtained legal advice regarding compliance with applicable state regulatory frameworks, exposure and implication arising from U.S. federal laws in the States where it conducts operation. As of September 5, 2018, the Company has not received any notices of violation, denial or non-compliance from U.S. authorities other than those disclosed above.

**REGULATORY OVERVIEW**

**U.S. 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 U.S. 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. Department of Justice (the "**DOJ**") 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

<sup>6</sup> On December 8, 2017, Palo Verde received a Notice of Denial ("NoD") on its renewal of Retail Marijuana Products Manufacturer and new license applications for Retail Marijuana Cultivation Facility License and Medical Marijuana Infused-Products Manufacturer License. Palo Verde is currently contesting the grounds of which resulted the MED to issue NoD. A scheduled hearing for Palo Verde is set for September 24<sup>th</sup>, 2018.

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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.

On January 4, 2018 and as discussed above, the Cole Memo was rescinded by a one-page memo signed by the U.S. Attorney General Jeff Sessions ("**Sessions Memorandum**"). It is the Company's opinion that the Sessions 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 the Company intends, as guiding corporate policy, to continue to abide by its principles and prescriptions, as well as strictly following the regulations set forth by the current U.S. Federal enforcement guidelines relating to U.S. 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, U.S. 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 state-legal medical marijuana. Nevertheless, (1) this does not prevent the United States government from using federal funds to prevent states with retail 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.

On November 14, 2017, Jeff Sessions, the Attorney General of the United States appearing before the House Judiciary Committee commented on prosecutorial forbearance regarding state-licensed marijuana businesses. In his statement Mr. Sessions stipulated that the U.S. 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.

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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. Section 538 of the Bill provided for an extension of the Rohrabacher-Leahy Amendment until September 2018. The Rohrabacher-Leahy Amendment prevents the U.S. Department of Justice from using federal funds in enforcing federal law relating to state-legal 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 that time. It should be noted that this amendment does not apply to state-legal retail marijuana.

On April 13, 2018, the Washington Post reported that President Trump and Colorado Sen. Cory Gardner reached an understanding that the marijuana industry in Colorado will not be the subject of interference from the federal government and that the DOJ's recession of the Cole memo will not impact Colorado's state legal marijuana industry. Furthermore, President Trump provided assurances that he will support a federalism-based legislative solution to fix the issue regarding of states' rights to regulate cannabis. Around the same timeframe it was announced that a former Republican House Speaker John Boehner has been appointed to the advisory board of a private U.S. cannabis company. The Company is cautiously optimistic that these developments represent a clear and positive sign that the industry is shifting towards a climate where cannabis users and business can participate in the industry without fear of interference from the federal government. 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 law vigorously. **Any such change in the U.S. federal government's enforcement of current U.S. federal law could cause adverse financial impact and remain a significant risk to the Company's businesses, which could in turn have an impact on the Company's.** See "Risk Factors".

*Responses of U.S. Attorneys to Sessions Memorandum*

The following is a summary of U.S. Attorneys' responses following the Sessions Memorandum in the States in which the Company operates.

*California*

McGregor Scott, U.S. Attorney for the Eastern District of California, said he will prioritize illegal marijuana operations rather than going after the legal recreational marijuana market. He commented, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there, so for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

The acting US Attorney for the Northern District of California, Alex Tse, assumed his position on January 7, 2018. He has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

The US Attorney for the Central District of California is Nicola Hanna, who was nominated and confirmed by the Senate in April of 2018. He has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize cannabis", "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent." On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with \$2.5 million in federal money backing the effort.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

*Illinois*

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To the knowledge of the Company's management, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Illinois.

*Oregon*

The Company's Oregon operations are in Bend, which falls within the U.S. District Court for the District of Oregon. The U.S. Attorney for the Western District of Washington is Billy Williams, who was appointed in 2015. In response to the Sessions Memo, he commented, "As noted by Attorney General Sessions, today's memo on marijuana enforcement directs all U.S. Attorneys to use the reasoned exercise of discretion when pursuing prosecutions related to marijuana crimes. We will continue working with our federal, state, local and tribal law enforcement partners to pursue shared public safety objectives, with an emphasis on stemming the overproduction of marijuana and the diversion of marijuana out of state, dismantling criminal organizations and thwarting violent crime in our communities."

In February 2018, U.S. Attorney Billy Williams told a gathering that included Governor Kate Brown, law enforcement officials and representatives of the cannabis industry that Oregon has an "identifiable and formidable overproduction and diversion problem." In May 2018, Attorney Williams issued a memorandum spelling out five priorities for going after illegal cannabis operations that violate federal laws, with the first priority to crack down on the leakage of surplus marijuana into bordering states where pot is still against the law. The memo also stated that federal prosecutors will also target keeping marijuana out of the hands of minors, any crimes that involve violence or firearm violations or organized crime, and cultivation that threatens to damage federal lands through improper pesticide and water usage. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Oregon, other than an August 3, 2018 statement by Mr. Williams that an Oregon-Idaho High Intensity Drug Area program report "confirms what we already know (about cannabis in Oregon) – it is out of control." Williams also issued a missive that state officials respond "quickly and in a comprehensive manner to address the many concerns raised. To date, we've seen insufficient progress from our state officials."

*Washington*

In response to the Sessions Memorandum, Washington State Attorney General Bob Ferguson stated that his office was prepared for a legal fight over marijuana legalization in the State, if necessary, and that he would be willing to get involved if the federal government takes any "adverse action" against a marijuana business compliant with state law. Governor Jay Inslee also stated, "We will use every single power at our disposal to preserve and protect the mission statement Washington State voters gave us," noting that voters approved the initiative legalizing marijuana in Washington. To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Washington State.

The Company's Washington operations are in Bellingham, which falls within the U.S. District Court for the Western District of Washington. The U.S. Attorney for the Western District of Washington is Annette Hayes, who was appointed in 2014. On the same day as the rescinding of the Cole Memorandum, she commented, "Today the Attorney General reiterated his confidence in the basic principles that guide the discretion of all U.S. Attorneys around the country and directed that those principles shepherd enforcement of federal law regarding marijuana. He also emphasized his belief that U.S. Attorneys are in the best position to address public safety in their districts and address the crime control problems that are pressing in their communities. Those principles have always been at the core of what the United States Attorney's Office for Western Washington has done—across all threats to public safety, including those relating to marijuana. As a result, we have investigated and prosecuted over many years cases involving organized crime, violent and gun threats, and financial crimes related to marijuana. We will continue to do so to ensure—consistent with the most recent guidance from the Department—that our enforcement efforts with our federal, state, local and tribal partners focus on those who pose the greatest safety risk to the people and communities we serve."

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Washington State.

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*Colorado*

On January 4, 2018, U.S. Attorney Bob Troyer of the District of Colorado has issued the following statement saying there are no plans to change marijuana prosecutions:

"Today the Attorney General rescinded the Cole Memo on marijuana prosecutions and directed that federal marijuana prosecution decisions be governed by the same principles that have long governed all of our prosecution decisions. The United States Attorney's Office in Colorado has already been guided by these principles in marijuana prosecutions—focusing in particular on identifying and prosecuting those who create the greatest safety threats to our communities around the state. We will, consistent with the Attorney General's latest guidance, continue to take this approach in all of our work with our law enforcement partners throughout Colorado."

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Colorado.

*Nevada*

In response to the Sessions Memorandum, Nevada Attorney General Adam Laxalt had issued a public statement, pledging to defend the law after it was approved by voters. Governor Brian Sandoval also stated, "Since Nevada voters approved the legalization of recreational marijuana in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos," and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational marijuana.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada.

*Arizona*

Following the issuance of the Sessions Memorandum on January 4, 2018, the U.S. Attorney's Office for the District of Arizona, headed by acting U.S. Attorney Elizabeth Strange, had not made any public comments regarding the enforcement of federal law related to cannabis, other than stating that the Office is "committed to the enforcement of federal law". To the knowledge of the Company's management, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Arizona.

*Florida*

Following the issuance of the Sessions Memorandum, no public comments have been made by the Office of the Attorney General, headed by Florida Attorney General Pam Bondi, or any U.S. attorneys from the other Districts of Florida. To the knowledge of the Company's management, there have not been any statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Florida.

***Enforcement of U.S. Federal Laws***

For the reasons set forth above, the Company's existing investments in the United States, and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the United States or any other jurisdiction. See "Risk Factors".

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis,

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thereby limiting the number of new state jurisdictions into which the Company could continue to operate or to expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors".

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the 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 on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its 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. See "Risk Factors".

### ***U.S. Enforcement Proceedings***

The U.S. Congress has passed appropriations bills each of the last three years that included the Rohrabacher Amendment Title: H.R.2578 — Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016 ("**Rohrabacher-Blumenauer Amendment**"), which by its terms does not appropriate any federal funds to the DOJ for the prosecution of medical cannabis offenses of individuals who are in compliance with state medical cannabis laws. Subsequent to the issuance of the Sessions Memorandum on January 4, 2018, the U.S. Congress passed its omnibus appropriations bill, SJ 1662, which for the fourth consecutive year contained the Rohrabacher-Blumenauer Amendment language (referred to in 2018 as the "**Rohrabacher-Leahy Amendment**") and continued the protections for the state-legal medical cannabis marketplace and its lawful participants from interference by the DOJ up and through the 2018 appropriations deadline of September 30, 2018. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those individuals comply with state law. 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 U.S. 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, the U.S. federal government will have the authority to prosecute individuals for violations of the law before it lacked funding under the U.S. CSA's five-year statute of limitations.

### ***Ability to Access Public and Private Capital***

The Company has historically, and continues to have, access to both public and private capital in Canada in order to support its continuing operations. The Company has had cannabis-related activities in the United States since 2014. In addition, the Company has had successes in completing several public and private offerings in the last number of years, including private placements of Common Shares, Common Share purchase warrants, Convertible Debentures and secured notes. . However, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants, given that marijuana is illegal under U.S. federal law. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company has never needed to access public equity capital in the U.S.

### **State-Level 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.

The following sections present an overview of state-level regulatory and operating conditions for the marijuana industry in which the Company has direct, indirect and material ancillary involvement.

#### ***California***

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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 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 current Emergency CA Regulations, adopted by the Bureau of Cannabis Control, California Department of Public Health and California Department of Food and Agriculture were readopted in June 2018, to meet the legislative mandate to open California's regulated cannabis market on January 1, 2018, the same date California moved to full-adult use state legalization for cannabis products. In July, California's three state cannabis licensing authorities announced the publication of proposed regulations in the California Regulatory Notice Register, the first step toward adopting non-emergency regulations. This publication is the start of the formal rulemaking process and marks the opening of the 45-day public comment period. To operate legally in California, cannabis operators must obtain a state license and local authorization. Local authorization is a prerequisite to obtaining the state license, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold, except as it relates to certain cultivation Medium Outdoor, Medium Indoor or Medium Mixed light A or M license, where a party may only receive one license in the respective category but may supplement with other license types. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licenses may not hold any other licenses aside from a laboratory license and distributors may not also hold a transport license. There are no residency requirements for ownership under MAUCRSA.

Under the terms of the Readopted Emergency Regulations, the Licensing Authorities extended the regulations for an additional 180 days and implemented 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 one license application and request a Medical designation, an Adult-use designation, or both in combination
- Irrespective of license designation chosen, applicants will pay only one licensing fee
- Licensees will be able to conduct commercial activities with any licensee regardless of license designation

In California, two state leaders had issued statements signaling intent to defend the State's voter-approved law legalizing recreational marijuana, in response to the Sessions Memorandum. California Attorney General Xavier Becerra has stated publicly, "In California, we decided it was best to regulate, not criminalize, cannabis," "We intend to vigorously enforce our state's laws and protect our state's interests." The BCC's Chief Executive Lori Ajax also stated, "We'll continue to move forward with the state's regulatory processes covering both medicinal and adult-use cannabis consistent with the will of California's voters, while defending our state's laws to the fullest extent." On May 29, 2018, federal and state authorities announced a joint effort to target illegal cannabis grows, with \$2.5 million in federal money backing the effort.

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The Company's California ancillary operations are in the Northern District of California (Oakland), and its direct operations are in the Eastern District of California (Sacramento).

McGregor Scott, US Attorney for the Eastern District of California, said he will prioritize illegal marijuana operations rather than going after the legal recreational marijuana market. He commented, "The reality of the situation is there is so much black-market marijuana in California that we could use all of our resources going after just the black market and never get there, so for right now, our priorities are to focus on what have been historically our federal law enforcement priorities: interstate trafficking, organized crime, and the federal public lands."

The acting US Attorney for the Northern District of California, Alex Tse, assumed his position on January 7, 2018. He has not yet offered a public stance on his approach to legislation of marijuana in his judicial district.

To the knowledge of the Company's management, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in California.

Under California state law, all state licensed cannabis businesses were entitled to rely on certain transition provisions until June 30, 2018. These provisions were included to ease the transition of businesses into the new regulatory regime introduced on January 1, 2018 in California. The provisions grandfathered the sale of certain products compliantly produced prior to January 1, 2018, and, among other things, also allow state licensees to transact with other state licensees regardless of the parties' adult-use (A) or medical (M) license until July 1, 2018.

Below is an overview of some of the principal license types issued in California (each of which can be issued with a Medical (M-Class) or Adult-Use (A-Class) designation):

- Type 6: authorized to manufacture cannabis products using mechanical or non-volatile solvent extractions.
- Type 7: authorized to manufacture cannabis products using volatile solvent extractions.
- Type N: authorized to manufacture cannabis products (other than extracts or concentrates) using infusion processes, but does not conduct extractions.
- Type P: authorized to only package or repackage cannabis products or relabel the cannabis product container.
- Type 8: authorized to test the chemical composition of cannabis and cannabis products.
- Type 9: authorized to conduct retail cannabis sales exclusively by delivery.
- Type 10: authorized to sell cannabis goods to customers.
- Type 11: authorized to transport and store cannabis goods purchased from other licensed entities, and sell them to licensed retailers, and is responsible for laboratory testing and quality assurance to ensure packaging and labeling compliance.
- Type 13: authorized to transport cannabis goods between licensed cultivators, manufacturers, and distributors.

#### *Zoning and Land Use Requirements*

Applicants are required to comply with all local zoning, environmental and land use regulations and provide written authorization from the property owner and the local jurisdiction where the commercial cannabis operations are proposed to take place, which must dictate that the applicant has the property owner's authorization and the jurisdiction's authorization to engage in the specific state-sanctioned commercial cannabis activities proposed to occur on the premises.

#### *Record-Keeping and Continuous Reporting Requirements*

California's state license application process additionally requires comprehensive criminal history, regulatory history, financial and personal disclosures, coupled with stringent monitoring and continuous reporting requirements designed to ensure only good actors are granted licenses and that licensees continue to operate in compliance with the State regulatory program.

#### *Operating Procedure Requirements*

Applicants must submit standard operating procedures describing how the operator will, among other requirements, address transportation, security, inventory, waste disposal, and quality control as applicable to the license sought. Once the standard operating procedures are determined compliant and approved by the applicable state regulatory agency, the licensee is required to abide by the processes described and seek regulatory agency approval before any



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changes to such procedures may be made. Licensees are additionally required to train their employees on compliant operations and are only permitted to transact with other legal and licensed businesses.

*Site-Visits & Inspections*

The California Operators will not be able to obtain or maintain state licensure, and thus engage in commercial cannabis activities in the state of California without satisfying and maintaining compliance with state and local law. As a condition of state licensure, operators must consent to random and unannounced inspections of the commercial cannabis facility as well as all of the facility's books and records to monitor and enforce compliance with state law. Many localities have also enacted similar standards for inspections, and the state has already commenced site-visits and compliance inspections for operators who have received state temporary or annual licensure.

*Compliance with United States operations - California*

The Company has a full-time brand manager who is responsible for all aspects of vendor compliance education and enforcement, which includes:

- Securing and updating local operating permits and state manufacturing permits;
- Screening products and product packaging for any discrepancies with regulations issued by the State's three ruling agencies: Department of Consumer Affairs' Bureau of Cannabis Control, Department of Public Health's Manufactured Cannabis Safety Brand, and Department of Food and Agriculture's CalCannabis Cultivation Licensing Division;
- Working with manufacturers and cultivators to address any packaging deficiencies;
- Testing all products according to the State code via licensed facilities;
- Working with State regulators to address any issues exposed through testing including relabeling, remediation or product destruction via licensed cannabis waste management organization; and
- Managing integration with the State's forthcoming Track and Trace program.

In addition, the Company has previously sought and continue to seek legal advice from JRG Attorneys at Law ("JRG"), as local external counsel, to ensure that all aspects of the license/permit, products and operation prior to acquisition (as part of due diligence) and post-acquisition are in compliance with applicable State of California law. The executive of each operation units are responsible for overseeing and maintaining compliance post-acquisition. Aaron Johnson, a JRG's senior partner, who sits on the board of directors of the Company, provides back up for operating units, supporting all licensing activities and advising on any compliance questions or issues.

Finally, the Company is in the process of evaluating a full-time, executive level corporate compliance officer or a contract with a consulting firm that specializes in marijuana compliance, to protect the Company across all the states where we operate.

*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

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financial performance of NHMD, which is lined directly into NHMD's inventory tracking system. Certain directors 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 that may have an impact on the NHMD's license, business activities or operations.

Oregon

Oregon has both medical and adult-use marijuana programs. In 1998, Oregon voters passed a limited non-commercial patient/caregiver medical marijuana law with an inclusive set of qualifying conditions that include chronic pain. In 2013, the legislature passed, and the Governor signed, House Bill 3460 to create a regulatory structure for existing unlicensed medical marijuana businesses. However, the original regulations created by the Oregon Health Authority ("OHA") after the passage of House Bill 3460 were minimal and only regulated storefront dispensaries, leaving cultivators and infused-product manufacturers within the unregulated patient/caregiver system.

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. The Oregon Liquor Control Commission ("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 OLCC's review and approval.

On June 30, 2015, Gov. Kate Brown signed House Bill 3400 into law, which improved on the existing regulatory structure for medical marijuana businesses and created a licensing process for adult-use cultivators, processors, wholesalers, retailers, testing facilities and research laboratories.

In Oregon, Licensed Operators generally must also obtain local permits from the municipalities where the facility will be located where the Licensed Operator intends to carry out its operations. In most municipalities in Oregon where adult-use cannabis businesses are permitted to operate, Licensed Operators must obtain a LUCS from the land use/zoning department of the county (if located in unincorporated areas of the county) or the city (if located in the incorporated areas of the county).

The OHA licenses and regulates medical marijuana businesses and the OLCC licenses and regulates adult-use marijuana businesses. The Oregon Department of Agriculture (ODA) regulates industrial hemp. There is some overlap among the three agencies, with both OHA marijuana and ODA hemp allowed to enter into the OLCC system when certain requirements are met. Aside from ODA industrial hemp permits, there are six distinct types of license types are available for medical and adult-use businesses: cultivation ("production"), manufacturing ("**processing**"), wholesaling, dispensing ("retailing"), testing and research. Vertical integration between and among production, processing, wholesale and retail is permissible, but not required, for both medical and adult-use. The law does not impose a limit on the number of licenses and applications are currently being accepted for both medical and adult-use businesses on a rolling basis. Local governments may restrict the number of both medical or adult-use marijuana businesses. Laws passed during the 2016 legislative session removed the two-year residency requirement that existed within House Bill 3400.

The Company has applied for a processor license with the OLCC which we expect will be issued shortly.

Compliance with United States operations – Oregon

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The Company has previously sought and continue to seek legal advice from Harris Bricken, as local external counsel, to ensure that the Company is in compliance with all applicable Oregon law. As the Company expects to obtain the processor license and commence its operation in Oregon in coming months, the Company has begun its search to fill in a compliance role similar to California, as discussed above.

Washington

In Washington, the Company is engaged in business through its licensing and leasing arrangement with Mt. Baker Greeneries, located in the City of Bellingham.

The State of Washington has both medical and adult-use marijuana programs. The original medical law, passed by voters in 1998, allows physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses. But, unlike Colorado, the legislature was unable to pass laws regulating the medical marijuana businesses that developed around 2008.

On November 6, 2012, Initiative 502 was passed to legalize marijuana for adults 21 years of age and older in 2012. It regulated adult-use marijuana businesses and left the unregulated medical marijuana establishments in a precarious situation. The Governor of Washington then signed, Senate Bill 5052 in 2015, which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a "medical marijuana endorsement" to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The Washington State Liquor and Cannabis Board (the "**WSLCB**") regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities ("**processors**"), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a "true party of interest" in a marijuana business license must have at least six months of Washington residency.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

At this time, WSLCB is not accepting applications for new licenses, as such there is a limited number of Licensed Operators that the Company can enter into commercial relationship with. In addition, there is no assurance that any such relationships will be approved by the WSLCB.

Colorado

On November 7, 2000, 54% of Colorado voters approved Amendment 20, which amended the State Constitution to allow the use of marijuana in the State for approved patients with written medical recommendation from a license physician.

Colorado voters legalized the use of retail marijuana in 2012 through amendments to the Colorado Constitution. The Colorado Amendment 64, which was passed by voters on November 6, 2012, led to legalization in January 2014. There are two sets of policies in Colorado relating to cannabis use: those for medicinal cannabis and for recreational use, along with a third set of rules governing hemp.

On January 1, 2014, Colorado became the first state in the nation to allow sales of recreational cannabis, with a licensing scheme that is overseen by the Department of Revenue, Marijuana Enforcement Division. Unlike the State of Washington, Colorado did not place caps on production or the number of licensed retail cannabis stores available within the State – as of August 1, 2018, there were about 532 licensees in the state. Any adult aged 21 or over may purchase up to one ounce of cannabis or cannabis products per day from a licensed retailer.

Governor Hickenlooper signed several bills into law on May 28, 2013, implementing the recommendations of the Task Force on the Implementation of Amendment 64. On September 9, 2013, the Colorado Department of Revenue adopted final regulations for recreational marijuana establishments, implementing the Colorado Retail Marijuana Code (HB 13-1317). On September 16, 2013, the Denver City Council adopted an ordinance for retail marijuana establishments. During 2014, the first year of implementation of Colorado Amendment 64, Colorado's legal marijuana market (both medical and recreational) reached total sales of \$700 million.

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The Colorado Department of Revenue's Marijuana Enforcement Division licenses and regulates Marijuana Businesses in the State of Colorado. To operate legally in Colorado, cannabis operators must apply for a Marijuana Business License, and must meet certain statutory requirements including being at least 21 years of age or older and a resident of the state of Colorado. Additionally, they must confirm that the city and county where they plan to operate their business within their jurisdiction. Anyone working within Colorado's marijuana industries must also obtain a Marijuana Occupational License. These application and licensing fees can range from anywhere from \$3,000 to over \$13,000.

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 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. 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 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 to 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;

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- (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 one 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 began 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.
- (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 is governed by permanent regulations, Adult-Use Marijuana Regulation (LCB File No. R092-17) dated December 13, 2017, which were approved by the NDT in January 2018. The application period to apply for a retail dispensary license will be open for a ten-day period (Sept. 7, 2018, 8:00 a.m. to Sept. 20, 2018, 5:00 p.m.), during which time the NDT will accept applications from qualified existing medical marijuana establishment certificate holders to apply for one or more recreational retail marijuana store license/s.

### Arizona

In Arizona, the medical marijuana program is administered by the Arizona Department of Health Services ("ADHS") under Arizona Medical Marijuana Act (Arizona Revised Statute Title 36 Chapter 28.1) and Medical Marijuana Rules

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(Arizona Administrative Code, Title 19 Health Services, Chapter 17 Department of Health Services-Medical Marijuana Program).

A qualifying patient, who has been diagnosed with one of the debilitating medical conditions will need to get a written certification from a physician (medical doctor, osteopath, naturopath, or homeopath licensed to practice in Arizona) with whom he/she has a physician-patient relationship. The written certification has to be on a form provided by ADHS within 90 days before submitting an application for a registry identification card. After obtaining the written certification from the physician, the qualifying patient can apply online for a registry identification card, after April 14, 2011.

Allopathic (MD), Osteopathic (DO), Homeopathic [MD(H) or DO(H)], and Naturopathic [NMD or ND] physicians who have a physician-patient relationship with the patient may write certifications for medical marijuana. The physician must hold a valid Arizona license.

ADHS will periodically review the demographics of qualifying patients. If ADHS determines that a physician providing written certifications may be engaging in unprofessional conduct, ADHS will provide information to the physician's licensing board.

"Debilitating medical condition" means one or more of the following:

- (a) Cancer, glaucoma, positive status for human immunodeficiency virus, acquired immune deficiency syndrome, hepatitis C, amyotrophic lateral sclerosis, crohn's disease, agitation of alzheimer's disease or the treatment of these conditions.
- (b) A chronic or debilitating disease or medical condition or its treatment that produces one or more of the following: cachexia or wasting syndrome; severe and chronic pain; severe nausea; seizures, including those characteristic of epilepsy; or severe and persistent muscle spasms, including those characteristic of multiple sclerosis.
- (c) Any other medical condition or its treatment added by ADHS.

The law and rules specify requirements for issuing written certifications for patients for the medical use of marijuana. A physician is required to:

- Have made or confirmed a diagnosis of a debilitating medical condition for the qualifying patient;
- Have established a medical record for the qualifying patient and is maintaining the qualifying patient's medical record;
- Have conducted an in-person physical examination of the qualifying patient within the last 90 calendar days appropriate to the qualifying patient's presenting symptoms and the debilitating medical condition the physician diagnosed or confirmed;
- Have reviewed the qualifying patient's medical records, including medical records from other treating physicians from the previous 12 months, the qualifying patient's responses to conventional medications and medical therapies, and the qualifying patient's profile on the Arizona Board of Pharmacy Controlled Substances Prescription Monitoring Program database;
- Have explained the potential risks and benefits of the medical use of marijuana to the qualifying patient, or if applicable, the qualifying patient's custodial parent or legal guardian;
- Have reviewed evidence documenting that the patient is currently undergoing conventional treatment for PTSD, if treating a PTSD patient.
- If the physician has referred the qualifying patient to a dispensary, have disclosed to the qualifying patient, or if applicable, the qualifying patient's custodial parent or legal guardian, any personal or professional relationship I have with the dispensary;
- Address the potential dangers to fetuses caused by smoking or ingesting marijuana while pregnant or to infants while breastfeeding and inform the patient that the use of marijuana during pregnancy may result in a risk of being reported to the Department of Child Safety during pregnancy or at the birth of the child by persons who are required to report; and

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- Attest that, in the physician's professional opinion, the qualifying patient is likely to receive therapeutic or palliative benefit from the qualifying patient's medical use of marijuana to treat or alleviate the qualifying patient's debilitating medical condition.

In addition, for a patient who is under the age of 18, another physician must:

- Have conducted a comprehensive review of the qualifying patient's medical records from other physicians treating the qualifying patient;
- If the physician has referred the qualifying patient to a dispensary, have disclosed to the qualifying patient, or if applicable, the qualifying patient's custodial parent or legal guardian, any personal or professional relationship I have with the dispensary; and
- Attest that, in the physician's professional opinion, the qualifying patient is likely to receive therapeutic or palliative benefit from the qualifying patient's medical use of marijuana to treat or alleviate the qualifying patient's debilitating medical condition.

Florida

In Florida, the medical marijuana program is administered by the Florida Health, Office of Medical Marijuana Use.

The Florida Legislature passed Senate Bill 1030, the Compassionate Medical Cannabis Act of 2014, during the 2014 legislative session to specifically allow for the medical usage of "low-THC cannabis." In 2016, the Florida Legislature passed House Bill 307, the Compassionate Medical Cannabis Act of 2016, to amend the Act to further allow for the medical usage of "medical cannabis." These Acts are now included in 2017 Florida Statutes, under title XXIX-Public Health General Provisions, 381.986 Medical Use of Marijuana.

Under the Florida statute, "Qualified physician" means a person who holds an active, unrestricted license as an allopathic physician under chapter 458 (M.D.) or as an osteopathic physician under chapter 459 (D.O.) and is in compliance with the physician education requirements of subsection (3) (additional course). Accordingly, a physician licensed by the Florida Board of Medicines (M.D./Allopathic Physician) or by the Florida Board of Osteopathic Medicine (D.O./Osteopathic Physician) can order low-THC cannabis and medical cannabis for their patients' use, provided they obtain the additional certification. The law requires that before ordering low-THC cannabis or medical cannabis for use by a patient, the ordering physician must successfully complete an 8-hour course offered by either the Florida Medical Association or the Florida Osteopathic Medical Association. The course encompasses the clinical indications for the appropriate use of low-THC and medical cannabis, the appropriate delivery mechanisms, the contraindications for such use, as well as the relevant state and federal laws governing the ordering, dispensing, and possessing of this substance. The physician must successfully pass an examination upon completion of the course. This course and examination must be taken once every two years (prior to renewal of the physician's license to practice medicine).

A qualified physician may not be employed by, or have any direct or indirect economic interest in, a medical marijuana treatment center or marijuana testing laboratory.

"Qualified patient" means a resident of this state who has been added to the medical marijuana use registry by a qualified physician to receive marijuana or a marijuana delivery device for a medical use and who has a qualified patient identification card.

"Qualifying medical condition" means a patient must be diagnosed with at least one of the following conditions to qualify to receive marijuana or a marijuana delivery device:

- (a) Cancer.
- (b) Epilepsy.
- (c) Glaucoma.
- (d) Positive status for human immunodeficiency virus.
- (e) Acquired immune deficiency syndrome.

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- (f) Post-traumatic stress disorder.
- (g) Amyotrophic lateral sclerosis.
- (h) Crohn's disease.
- (i) Parkinson's disease.
- (j) Multiple sclerosis.
- (k) Medical conditions of the same kind or class as or comparable to those enumerated in paragraphs (a)-(j).
- (l) A terminal condition diagnosed by a physician other than the qualified physician issuing the physician certification.
- (m) Chronic nonmalignant pain.

A qualified physician may issue a physician certification only if the qualified physician:

1. Conducted a physical examination while physically present in the same room as the patient and a full assessment of the medical history of the patient.
2. Diagnosed the patient with at least one qualifying medical condition.
3. Determined that the medical use of marijuana would likely outweigh the potential health risks for the patient, and such determination must be documented in the patient's medical record. If a patient is younger than 18 years of age, a second physician must concur with this determination, and such concurrence must be documented in the patient's medical record.
4. Determined whether the patient is pregnant and documented such determination in the patient's medical record. A physician may not issue a physician certification, except for low-THC cannabis, to a patient who is pregnant.
5. Reviewed the patient's-controlled drug prescription history in the prescription drug monitoring program database established pursuant to s. 893.055.
6. Reviews the medical marijuana use registry and confirmed that the patient does not have an active physician certification from another qualified physician.
7. Registers as the issuer of the physician certification for the named qualified patient on the medical marijuana use registry in an electronic manner determined by the department, and:
  - (i) Enters into the registry the contents of the physician certification, including the patient's qualifying condition and the dosage not to exceed the daily dose amount determined by the department, the amount and forms of marijuana authorized for the patient, and any types of marijuana delivery devices needed by the patient for the medical use of marijuana.
  - (ii) Updates the registry within 7 days after any change is made to the original physician certification to reflect such change.
8. Physician must receive a signed informed consent from the patient or the patient's parent or legal guardian, acknowledging the qualified physician has sufficiently explained its content.

***Summary of balance sheets and operating results with exposure to the U.S. cannabis-related activities***

The Company's exposure to the U.S. marijuana-related activities through (1) the manufacture and sale of various cannabis consumer products in California and pending operation subject to receipt of license in Oregon (2) material investment in companies it does not control with operation in Arizona, Nevada and Florida and (3) material ancillary involvement in companies it does not control with operation in Colorado, Washington and California.

Through the acquisition of Pasa Verde LLC, the Company acquired a licensed manufacturer of cannabis consumer products in the state of California. Subsequent to the purchase of the assets of Calyx Brands, Inc. the Company entered into a service provider agreement with Calyx Brands, Inc.

The non-controlling investments held by the Company consists of equity-accounted investments in Aura and NHMD.

The Company has arrangements such as building/equipment leases, packaging, service and consulting arrangements with various licensed operators in Colorado, Washington and California.



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The following is the summary of the Company's balance sheet exposure to the U.S. cannabis-related activities as at April 30, 2018:

	Subsidiaries	Non-controlling investments	Total	Percentage (%) exposure to the US marijuana industry
	\$	\$	\$	
Current assets	2,605,087	-	2,605,087	25%
Non-current assets	7,728,878	757,084	8,485,962	98%
Total assets	10,333,965	757,084	11,091,049	58%
Current liabilities	2,696,202	-	2,696,202	60%
Non-current liabilities	467,438	-	467,438	7%
Total liabilities	3,163,640	-	3,163,640	28%

Goodwill and intangibles related to the purchase of the assets of Calyx Brands Inc., is included in the subsidiaries non-current assets balance.

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:

	Subsidiaries	Investment in associates	Total	Percentage (%) exposure to the US marijuana industry
	\$	\$	\$	
Revenue	2,683,756	-	2,683,756	100%
COGS	(1,346,722)	-	(1,346,722)	100%
Expenses	(3,502,456)	-	(3,502,456)	56%
Income from investment in associate	-	151,990	151,990	100%
Net operating (loss) income	(2,165,422)	151,990	(2,013,432)	34%

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

### **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 *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 Marijuana 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 was repealed on March 31, 2014, and was replaced by the Marijuana 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 was 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.

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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 was repealed on August 24, 2016, and was 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 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 October 17, 2018, will be the date that marijuana will be legal across Canada.

**Selected Annual and Quarter-End Information**

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

	Nine months ended April 30, 2018	Year ended July 31, 2017	Year ended July 31, 2016	Year ended July 31, 2015
	\$	\$	\$	\$
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

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	Three months ended April 30, 2018	Three months ended April 30, 2017	Change
	\$	\$	\$
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	74,143	49,023	25,120
Rental income	292,131	146,740	145,391
Total revenue (net of COGS)	693,821	195,763	498,058
Operating expenses	2,688,740	1,531,654	1,157,086
Net loss	2,271,718	1,557,995	713,723
Net loss and comprehensive loss	2,397,163	1,574,263	822,900
Loss per share	0.009	0.006	0.003
	Nine months ended April 30, 2018	Nine months ended April 30, 2017	Change
	\$	\$	\$
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

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

Historically, revenue was derived from interest and rental income. However, in the current quarter, the Company had revenue from product sales.

On March 15, 2018, the Company purchased the assets of Calyx Brands Inc. ("**Calyx**"), an established distribution based out of Oakland, California. Calyx holds a temporary distributor license from the State of California and has retained the Company, through NHDC, to provide management services whereby NHDC manages the operation, pays for all expenses and assigns its sales revenue from all cannabis-related products.

As a result, for the first time, the Company recognized sales of \$1,674,269 representing product sales of cartridges, syringes, dab jars, flowers and edibles in California from March 15, 2018 – April 30, 2018.

Cost of goods sold were \$1,346,722 for the three months ended April 30, 2018, compared to \$Nil for the three months ended April 30, 2017. The cost of goods sold are costs of product sales pertained to cost of materials and direct labour related to the products sales through Calyx.

Interest income is derived mainly from the interest on the revolving loan and lease receivable from Palo Verde LLC. The interest income increased by \$25,120 this quarter from comparable period due to the increase in principal balance of loan and lease from Palo Verde LLC. As of April 30, 2018, the outstanding principal balance of the loan and lease receivable are US\$1,112,167 (April 30, 2017 – US\$ 393,723) and US\$ 1,666,770 (April 30, 2017 – US\$ 885,647)

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respectively. The Company also generated ancillary interest income from its debenture receivable in Lineage Grow Company (CSE:BUDD) and promissory note receivable from Aura Health Inc. in both the current and comparable period.

Rental income pertains to the revenue generated from property and equipment leases to Palo Verde LLC in Colorado and Mt. Baker Greeneries LLC in Washington. The increase of \$145,391 for the three months ended April 30, 2018, compared to the three months ended April 30, 2017, is due to: (1) Property and equipment lease arrangement with Mt. Baker Greeneries which commenced on October 2017; (2) Equipment lease arrangements with Palo Verde LLC which took effect in April 2017, and (3) increased monthly MIP lease rate from \$13,750 to \$27,339 per month effective April 18, 2017.

The Company also recognized \$3,312 (April 30, 2017 - \$Nil) in license income during the period from Calyx Brands Inc. prior to March 15, 2018.

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, resulting in 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 purchase of the assets of Calyx Brands Inc. which closed in March 2018.
- Increase of \$465,643 in office and general compared to comparative period is mainly due to the first-time inclusion of Calyx's month and a half of operating activities which included office and general expense of \$413,508 for the period after March 15, 2018. Included in the office and general was \$146,399 of one-time bad debt expense as it was determined that certain accounts receivable would not be collected.
- Sales and marketing increased by \$247,532 compared to the comparative prior period mainly due to increased investor marketing and campaigning 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 30, 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 the 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.

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

Sales, cost of goods sold and gross profit for the nine and three months ended April 30, 2018, are the same as they were derived exclusively from Calyx. Please refer to the above under "Operating results for three months ended April 30, 2018, for discussion pertaining these balances.

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Rental income increased by \$427,085, to \$831,615 compared to the comparative prior period of \$404,530 as a result of amending its rental agreement with Palo Verde, LLC (a licensed manufacturer) which resulted in increased rental fees charged to Palo Verde LLC for equipment (US\$18,389 per month) and an increase to building rent of US\$13,589 per month at its Colorado property. Additionally, in October 2017, the Company entered into a 3-year lease agreement with Mt. Baker Greeneries LLC, to sub-lease a portion of its Washington facility for base rent of US\$10,000 per month. Concurrently, the Company also leased equipment to Mt. Baker Greeneries for US\$1,181 per month for a 2 year period which resulted incremental rental income compared to the prior comparative period where the Company did not have active operations in the state.

Interest income increased by \$51,863 to \$174,560 compared to the prior comparative period of \$122,697 primarily due generating income on its outstanding revolving loan receivable to Palo Verde, LLC. The Company amended the terms of its revolving loan receivable on April 18, 2017, increasing the amount available for funding which has resulted in a corresponding increase to interest earned on the balance outstanding. The Company will continue to provide working capital funding to Palo Verde, LLC as it develops and expands its production and manufacturing activities in Colorado.

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, which largely due to:

- \$715,017 increase in office and general primarily due to first time recognition of \$413,509 of administration expenses of Calyx as well as additional leases in Washington and California in the current fiscal year.
- \$585,353 of acquisition and project evaluation costs which consists of finder's fees incurred on the Abba Medix Corp. joint venture transaction, transaction costs related to purchase of assets of Calyx, M&A fees for a cultivation and processing facility in Washington, and non-refundable deposit in connection to terminated agreement to acquire provisional cultivation and production licenses in Henderson with the remainder.
- \$556,845 increase in sales and marketing due to marketing and advertising efforts to raise awareness the Company's brand in US (website, Fli B2B/reward program) and in Europe through marketing and campaigning in various media outlets as well as sponsorship/promotion giveaways. Additionally, \$118,485 incurred in Calyx Brands, which entirely related to commission.
- \$1,589,015 increase in an allowance for amounts due from Palo Verde is due to the management's periodic assessment with respect to the estimated timing of the recoverability of the loan, lease and other receivable from Palo Verde LLC.

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.

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Selected financial information for the previous quarters as follows:

<b>Quarter ended</b>	<b>Revenue</b>	<b>Net income (loss)</b>	<b>Net income (loss) and comprehensive loss</b>	<b>Net income (loss) per share (basic and diluted)</b>
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)

In the last quarter, the Company has seen a significant growth in its operation, as a result of acquisition of Calyx Brands Inc. in March 2018. The Company has recognized cannabis sales revenue this quarter, for the first time since its inception, which made up of approximate 80% of the total revenue generated in the last quarter.

Previous to the April 30, 2018 quarter, the Company's main source of income was generated from leases on property and equipment and interest on revolving loan to Palo Verde LLC, all from Colorado. From the quarter-ended April 30, 2017 to quarter-ended July 31, 2017, the Company's revenue rose by approximately 65% as the Company began recognizing monthly equipment lease and increased monthly building lease rate, resulting in an increase in combined revenue total of US\$31,987/month.

The Company expects sales revenue to increase in the coming quarters generated from Calyx Brands Inc. as well as Palo Verde LLC, a manufacturer in Sacramento, which the Company acquired in July 2018.

In September 2016, the Company's partner in Illinois, ILDISP LLC, acquired 50% interest in the Company's former wholly-owned subsidiary, NHMD. The transaction resulted in a gain of de-consolidated of \$1,132,966 in quarter-ended October 31, 2016. In quarter-end July 31, 2016, the Company recognized an impairment loss of \$428,457 on Lawrenceville property which was purchased with the intention of being used to open a dispensary in Illinois. The property has since been sold in fiscal 2018.

The Company's net loss has increased since quarter-end January 31, 2017 due the increase operational expenses as the Company has expanded its operation, except for the following:

1. \$396,720 loss on share for debt settlements and \$123,243 loss on extension of promissory note payable recognized in quarter end April 30, 2017, and
2. Approximately \$1.3 million of additional allowance for amounts due from Palo Verde LLC in quarter-end July 31, 2017.

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**Liquidity Risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at 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 costs incurred related to the asset purchase 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 purchase 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 U.S. 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 U.S. 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.

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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.

**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 CFO, controllership, bookkeeping and administration services of \$150,904 (2017 - \$90,300) from Branson Corporate Services, a company in which a company with a related director, Adam Szweras, has a 49% interest. As at April 30, 2018, \$Nil (July 31, 2017 - \$Nil) was due to Branson Corporate Services.
- b. Incurred M&A and financial advisory fees of \$204,864 (2017 - \$144,000) from FMI Capital Advisory Inc., a company with a related director, Adam Szweras, 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 development costs of \$51,537 (2017 - \$Nil) from Plexus Cybermedia Ltd, a company in which a director, Brian Presement, has a 33% interest. As at April 30, 2018, \$Nil was due to Plexus Cybermedia Ltd.
- d. Incurred legal services expenses of \$222,451 (2017 - \$165,240) from Fogler Rubinoff, LLP, a law firm in which a director, Adam Szweras, is a partner of which \$149,359 related to share issue costs and \$2,688 was incurred related to 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 Billy Morrison, a director and officer of the Company.
- f. As of April 30, 2018, the Company advanced a total of \$44,625 (2017 - \$Nil) to Billy Morrison, a director and officer of the Company, which was settled subsequent to April 30, 2018, and a total of \$140,746 (2017 - \$Nil) to a director and CEO of the Company, Jim Frazier.

**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.

**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.

These agreements are all subject to approval of the Colorado MED.

On August 3, 2018, the Company closed non-brokered private placement, consisting of \$4,200,000 aggregate principal amount of Convertible Debenture Units at a price of \$1,000 per Convertible Debenture Unit to funds its continued expansion and pending acquisitions in California, Nevada, Colorado and West Coast. Each Convertible Debenture Unit is comprised of one Convertible Debenture with face value of \$1,000 and 1,429 common share purchase warrants exercisable at \$0.80 for 36 months from closing date. The Convertible Debentures are convertible into Common Shares at \$0.70 per Common Shares. Interest on the Convertible Debenture are payable semi-annually in arrears, which can be payable in cash at 10% per annum or Common Shares at 12% per annum, at the sole option of the Company. If the Company undertakes an equity financing at a price per Common Shares of less than \$0.45 per Common Share while the Convertible Debentures are outstanding, the conversion price of the Convertible Debentures will be reduced to the new financing price and the warrant exercise price will be reduced to a price that is 20% premium to the new financing price, subject to compliance with applicable stock exchange and securities laws. If the Common Shares trade at a volume weighted average trading price under \$0.25 for a period of 50 consecutive trading days while the Convertible Debentures are outstanding, the conversion price of the Convertible Debentures shall be reduced to \$0.30.

On July 25, 2018, the Company acquired Pasa Verde LLC ("**Pasa Verde**"), a 17,600 square foot commercial facility cannabis oil extraction and edible facility in Sacramento, California.

On July 26, 2018, the Company completed an acquisition of a 9,000 square foot Sacramento Property permitted for the manufacture of cannabis extracts and infused products.

On June 29, 2018, the Company obtained a US\$2,000,000 conditional equipment lease commitment ("**Lease Line of Credit**") for the funding of new extraction and lab processing equipment.

On July 16, 2018, the Company signed a Letter of Intent ("**LOI**") to acquire 51% interest in Bright Green Lights LLC, a California company d/b/a as J:MEDS. J:MEDS produces high quality cannabis-infused strain specific lozenges and sugar-free mints distributed across California.

On July 27, 2018, the Company announced that will no longer proceed with the previously announced arrangement to finance the build out of the TKO Products LLC ("**TKO**") manufacturing facility and does not expect to exercise its option to acquire an interest in TKO.

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.

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**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;
- 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.

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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, 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 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. The enforcement of relevant laws is a significant risk.**

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

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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.

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 September 5, 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.

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

Most U.S. 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.

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

*Access to Banks*

We may have difficulty accessing the service of banks, which may make it challenging to operate efficiently.

As the result of U.S. federal prohibitions on marijuana and concerns in the banking industry regarding money laundering and other federal financial crime related to marijuana, the access to U.S. banking system which include, but not limited to, inability to deposit funds in federally insured and licensed banking institutions have been restricted. Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to service their businesses or access to credit card processing services. As a result, marijuana businesses in the U.S. are largely cash-based which complicates the implementation of financial controls and increases security and safety issues. The Company's inability to manage such risks may adversely affect the Company's operations and financial performance.

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*Reliance on third-party suppliers, manufacturers and contractors*

The Company intends to maintain a full supply chain for the provision of products and services to the regulated cannabis industry. Due to the uncertain regulatory landscape for regulating cannabis in Canada and U.S., the Company's third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results. Such third parties may include but not limited to: suppliers, contractors, business service providers, financial service providers, depository and clearing service providers.

*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.

*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.

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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. There is no certainty that additional financing, if needed, will be available on acceptable terms, or at all.

Access to public and private capital and financing continues to be negatively impacted by the federal illegality of cannabis in the United States. Although the Company has had success completing public and private capital in the past, the Company's ability to obtain debt and/or equity financing in the future on favorable terms or obtain any financing at all cannot be guaranteed.

Furthermore, any debt financing, if available, may involve restrictive covenants and granting of security against assets of the Company, which may limit its operating flexibility with respect to business matters as well as may make it more difficult for the Company to obtain additional capital. The Company will require additional financing to fund its operations until anticipated positive cash flow is achieved.

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.

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.

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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).

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;
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- 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 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

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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 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

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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 by court or governmental action or re-interpretation. There is no certainty that the 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

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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 regard 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 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

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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 grow the business and operations of the Company; statements regarding expected changes in laws and enforcements in the United States; statements related to the effect and consequences of certain regulatory initiatives and related announcements, and the impact thereof for shareholders, industry participants and other stakeholders; the Company's investments in the United States, the characterization, and consequences of those investments under federal law, and the framework for the enforcement of medical cannabis and cannabis related offenses in the United States; the grant and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; the anticipated future gross margins of the Company's operations;; These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These risks are set out in "Risk Factors" of this Restated MD&A. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, 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 September 5, 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.

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**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.

September 5, 2018

Jim Frazier  
Chief Executive Officer