



## **Nutritional High International Inc.**

Condensed Interim Consolidated Financial Statements  
For the three and six months ended January 31, 2019 and 2018

(expressed in Canadian Dollars, unless otherwise noted)

### **Notice of No Auditor Review of Interim Financial Statements**

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

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

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

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

As at	Notes	January 31, 2019 (Unaudited) \$	July 31, 2018 (Audited) \$
<b>Assets</b>			
<b>Current</b>			
Cash		3,725,479	784,998
Short-term investment		-	2,010,360
Amounts receivable	5,22	2,820,147	2,206,348
Prepays		359,342	557,418
Deposits	6	103,680	57,119
Inventory	7	3,827,869	1,293,125
Investments	9	451,906	378,505
Debenture receivable	8	-	100,000
		<b>11,288,423</b>	<b>7,387,873</b>
<b>Non-current assets</b>			
Financial guarantee receivable	8	-	75,000
Investment property	11	1,409,035	1,436,793
Investments in associate and joint ventures	12	-	873,873
Capital Assets	14,22	6,497,407	6,397,115
Intangible Assets	13	11,045,279	6,388,485
Goodwill	13	4,753,392	4,702,416
		<b>34,993,536</b>	<b>27,261,555</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	15,22	6,204,426	4,029,618
Income taxes payable		617,768	169,221
Promissory note payable	16	1,009,340	1,421,816
Finance lease	17	913,165	366,051
Consideration payable	3, 4	3,164,045	2,381,881
		<b>11,908,744</b>	<b>8,368,587</b>
<b>Non-current liabilities</b>			
Finance lease	17	1,806,165	687,949
Consideration payable	3, 4	1,963,045	2,168,245
Convertible debentures	18	6,996,874	5,136,061
Derivative liabilities	18	1,670,952	-
Deferred gain on sale and leaseback		196,101	-
Put option guarantee liability	8	-	173,600
		<b>24,541,881</b>	<b>16,534,442</b>
<b>Shareholders' Equity</b>			
Share capital	19	27,275,813	22,204,166
Shares to be issued	3,13,22	3,490,650	3,679,924
Reserve for share based payments	20	2,887,474	2,093,669
Reserve for warrants	21	2,008,289	2,261,831
Reserve for foreign currency translation		(205,254)	(95,736)
Equity component of convertible debenture	18	355,241	359,462
Non-controlling interest	23	(14,750)	(14,750)
Deficit		(25,345,808)	(19,761,453)
		<b>10,451,655</b>	<b>10,727,113</b>
		<b>34,993,536</b>	<b>27,261,555</b>

*Nature of Operations and Going concern (Note 1)*  
*Commitments and Contingencies (Note 26)*  
*Subsequent Events (Note 29)*

Approved on behalf of the Board:

"Adam Szweras" Director

"Andres Tinajero" Director

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

**Nutritional High International Inc.**  
**Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**For the three and six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian Dollars)*  
(Unaudited)

	Note	Three months ended		Six months ended	
		2019 \$	2018 \$	2019 \$	2018 \$
Sales		6,062,506	-	11,826,186	-
Cost of goods sold		(4,548,227)	-	(9,187,349)	-
<b>Gross profit</b>		<b>1,514,279</b>	<b>-</b>	<b>2,638,837</b>	<b>-</b>
Interest	10	2,719	34,098	3,812	100,417
License	3	-	3,312	-	3,312
Rental	10	50,452	-	50,452	-
		<b>1,567,450</b>	<b>37,410</b>	<b>2,693,101</b>	<b>103,729</b>
<b>Operating expenses:</b>					
Salaries and consulting fees	22	3,195,819	337,631	4,805,992	587,624
Professional fees	22	404,733	229,079	546,153	353,246
Office and general		1,636,598	474,550	2,475,758	602,920
Acquisition and project evaluation costs	22	220,243	264,447	397,348	400,053
Share based payments	22	326,683	73,295	840,461	188,331
Impairment of inventory	7	371,132	-	371,132	-
Amortization	11, 13, 14	654,380	47,791	1,246,518	109,511
Allowance for amounts receivable	5	51,679	-	380,229	-
Allowance for amounts due from Palo Verde LLC	10	230,379	181,899	279,668	806,240
<b>Total operating expenses</b>		<b>7,091,646</b>	<b>1,608,692</b>	<b>11,343,259</b>	<b>3,047,925</b>
<b>Other items:</b>					
Foreign exchange gain		708,106	293,158	211,063	116,407
Finance costs	16,18	781,199	114,292	1,516,790	208,233
Impairment of a joint venture	12	-	-	-	340,300
Loss (gain) on sale and leaseback	17	54,770	-	54,770	-
Other income	8	(15,500)	-	(173,600)	-
Unrealized loss on FVTPL investments	9	2,971	-	101,599	-
Gain on sale of interest in a joint venture	12	-	-	(3,706,003)	-
Gain on sale of property	14	(818,790)	-	(818,790)	-
Change in fair value of derivative liability	18	428,998	-	(664,540)	-
Gain on debt settlement	19	(119,387)	-	(119,387)	-
(Gain) loss from investments in associate and joint venture	12	3,567	(47,014)	85,399	(35,108)
<b>Total other items</b>		<b>1,025,934</b>	<b>360,436</b>	<b>(3,512,699)</b>	<b>629,832</b>
<b>Loss before income taxes</b>		<b>(6,550,130)</b>	<b>(1,931,718)</b>	<b>(5,137,459)</b>	<b>(3,574,028)</b>
<b>Income tax expense</b>					
Current		225,403	-	446,896	-
<b>Net loss</b>		<b>(6,775,533)</b>	<b>(1,931,718)</b>	<b>(5,584,355)</b>	<b>(3,574,028)</b>
<b>Other comprehensive loss</b>					
Exchange differences on translating foreign operations		(29,957)	113,791	(109,518)	79,856
<b>Net loss and comprehensive loss</b>		<b>(6,805,490)</b>	<b>(1,817,927)</b>	<b>(5,693,873)</b>	<b>(3,494,172)</b>
<b>Net loss attributable to:</b>					
non-controlling interest	23	-	-	-	-
parent company		(6,775,533)	(1,931,718)	(5,584,355)	(3,574,028)
		<b>(6,775,533)</b>	<b>(1,931,718)</b>	<b>(5,584,355)</b>	<b>(3,574,028)</b>
<b>Net loss and comprehensive loss attributable to:</b>					
non-controlling interest	23	-	-	-	-
parent company		(6,805,490)	(1,817,927)	(5,693,873)	(3,494,172)
		<b>(6,805,490)</b>	<b>(1,817,927)</b>	<b>(5,693,873)</b>	<b>(3,494,172)</b>
<b>Weighted average number of common shares outstanding</b>					
Basic		298,194,591	257,016,645	294,804,197	254,108,523
Diluted		298,194,591	257,016,645	294,804,197	251,200,400
<b>Income (Loss) per share</b>					
Basic		(0.02)	(0.01)	(0.02)	(0.01)
Diluted		(0.02)	(0.01)	(0.02)	(0.01)

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

**Nutritional High International Inc.**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
*(Expressed in Canadian Dollars)*  
*(Unaudited)*

	Share Capital	Shares to be issued	Reserve for Share based payments	Reserve for Warrants	Reserve for foreign currency translation	Equity Component of Convertible Debentures	Accumulated Deficit	Attributable to owners of parent	Non- controlling interest	Total
<b>Balance at July 31, 2017</b>	\$ 12,218,693	\$ 52,500	\$ 1,357,328	\$ 2,447,639	\$ 47,541	\$ -	\$ (10,055,137)	\$ 6,068,564	\$ (14,750)	\$ 6,053,814
Share based payments (Note 20)	-	-	188,331	-	-	-	-	188,331	-	188,331
Shares issued on exercise of warrants (Note 19)	4,303,608	-	-	(1,257,057)	-	-	-	3,046,551	-	3,046,551
Shares issued on exercise of options (Note 19)	396,075	-	(151,250)	-	-	-	-	244,825	-	244,825
Shares to be issued	-	18,443	-	-	-	-	-	18,443	-	18,443
Shares issued for service (Note 19)	157,500	-	-	-	-	-	-	157,500	-	157,500
Foreign exchange translation	-	-	-	-	79,856	-	-	79,856	-	79,856
Net loss for the period	-	-	-	-	-	-	(3,574,028)	(3,574,028)	-	(3,574,028)
<b>Balance at January 31, 2018</b>	\$ 17,075,876	\$ 70,943	\$ 1,394,409	\$ 1,190,582	\$ 127,397	\$ -	\$ (13,629,165)	\$ 6,230,042	\$ (14,750)	\$ 6,215,292
<b>Balance at July 31, 2018</b>	\$ 22,204,166	\$ 3,679,924	\$ 2,093,669	\$ 2,261,831	\$ (95,736)	\$ 359,462	\$ (19,761,453)	\$ 10,741,863	\$ (14,750)	\$ 10,727,113
Share based payments (Note 20)	-	-	840,461	-	-	-	-	840,461	-	840,461
Shares issued on exercise of warrants (Note 19)	565,207	-	-	(331,990)	-	-	-	233,217	-	233,217
Shares issued on exercise of options (Note 29)	120,238	-	(46,656)	-	-	-	-	73,582	-	73,582
Shares issued pursuant to Calyx acquisition (Note 3)	145,950	(145,950)	-	-	-	-	-	-	-	-
Shares issued pursuant to Pasa Verde acquisition (Note 3)	43,324	(43,324)	-	-	-	-	-	-	-	-
Shares issued for debt settlement (Note 19)	81,908	-	-	15,024	-	-	-	96,932	-	96,932
Shares issued for service (Note 19)	10,000	-	-	-	-	-	-	10,000	-	10,000
Conversion of debentures (Note 18)	68,368	-	-	-	-	(4,221)	-	64,147	-	64,147
Warrants issued pursuant to sale and leaseback (Note 17)	-	-	-	63,424	-	-	-	63,424	-	63,424
Shares issued for pursuant to Moses Garden acquisition (Note 4)	3,828,148	-	-	-	-	-	-	3,828,148	-	3,828,148
Shares issued for interest on convertible debenture	208,504	-	-	-	-	-	-	208,504	-	208,504
Foreign exchange translation	-	-	-	-	(109,518)	-	-	(109,518)	-	(109,518)
Net loss for the period	-	-	-	-	-	-	(5,584,355)	(5,584,355)	-	(5,584,355)
<b>Balance at January 31, 2019</b>	\$ 27,275,813	\$ 3,490,650	\$ 2,887,474	\$ 2,008,289	\$ (205,254)	\$ 355,241	\$ (25,345,808)	\$ 10,466,405	\$ (14,750)	\$ 10,451,655

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

**Nutritional High International Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian Dollars)*  
*(Unaudited)*

	2019 \$	2018 \$
<b>OPERATING ACTIVITIES</b>		
Net loss	(5,584,355)	(3,574,029)
Items not affecting cash		
Interest income	(3,812)	-
Amortization	1,246,518	109,283
Shares issued for services	10,000	157,500
Impairment of a joint venture	-	340,300
Unrealized loss on FVTPL investments	101,599	-
Gain on sale of interest in joint venture	(3,706,003)	-
Other income	(173,600)	-
Change in fair value of derivative liabilities	(664,540)	-
(Gain) loss from investment in associate and joint venture	85,399	(35,108)
Gain on debt settlement	(119,387)	-
Accretion and finance costs	1,516,790	90,317
Share based payments	840,461	188,331
Gain on sale of property	(818,790)	-
Allowance for amounts receivable	328,550	-
Allowance for amounts due from Palo Verde LLC	279,668	1,345,724
Net change in non-cash working capital:		
Amounts receivable	(482,309)	(160,522)
Promissory note receivable	-	(122,542)
Prepays	198,076	(105,643)
Inventory	(2,534,744)	-
Amounts due from Mt. Baker Greeneries LLC	-	(50,661)
Amounts due from Palo Verde LLC	-	(740,405)
Income taxes payable	448,547	-
Accounts payable and accrued liabilities	2,432,874	249,096
Cash Flow used in Operating Activities	(6,599,058)	(2,308,359)
<b>INVESTING ACTIVITIES</b>		
(Payment) Refund of deposits	(46,561)	1,528,849
Amounts due from Palo Verde LLC	(193,873)	(397,354)
Redemption of short-term investments	2,014,172	-
Consideration paid pursuant to Calyx acquisition	(763,321)	-
Amounts receivable to Green Therapeutics	(463,150)	(122,542)
Assets acquisition of Moses Garden LLC	(912,288)	-
Proceeds from sale of property	1,718,565	-
Purchase of intangible assets	-	(51,536)
Purchase of investment property	-	(87,849)
Purchase of capital assets	(427,222)	(336,599)
Proceeds on sale of interest in a joint venture	4,747,192	-
Additions to investment in associate	(249,060)	-
Cash Flow generated from Investing Activities	5,424,454	655,511
<b>FINANCING ACTIVITIES</b>		
Issuance of convertible debenture units, net of issue costs	3,671,276	-
Proceeds on sale and leaseback	1,922,203	-
Interest paid on promissory note	(77,954)	-
Repayment of promissory note	(539,800)	-
Interest paid on convertible debenture	(404,500)	-
Finance lease payments	(347,100)	(70,209)
Shares issued on warrants exercised	233,217	3,046,551
Shares issued on options exercised	73,582	244,825
Proceeds on shares to be issued	-	18,443
Cash Flow generated from Financing Activities	4,530,924	3,239,610
<b>Net (decrease) increase in cash</b>	<b>3,356,320</b>	<b>1,586,762</b>
<b>Effects of exchange rate changes on cash</b>	<b>(415,839)</b>	<b>57,842</b>
<b>Cash at beginning of period</b>	<b>784,998</b>	<b>1,924,736</b>
<b>Cash at end of period</b>	<b>3,725,479</b>	<b>3,569,340</b>

**Supplementary information (Note 27)**

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

**Nutritional High International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian dollars)*

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## **1. Nature of Operations and Going Concern**

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

The condensed interim consolidated financial statements for the three and six months ended January 31, 2019 were approved by the Board of Directors on April 1, 2019.

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

As at January 31, 2019, the Company had working capital deficiency of \$620,321 (July 31, 2018 – \$980,714), spent \$6,402,957 (2018 - \$2,308,359) of cash for operating activities, had not yet achieved profitable operations, has accumulated losses of \$25,345,808 (July 31, 2018 - \$19,761,453) and expects to incur further losses in the development of its business, all of which describes the material uncertainties that cast significant doubt upon the Company’s ability to continue as a going concern. The Company will require additional financing in order to conduct its planned business operations, meet its ongoing levels of corporate overhead and discharge its liabilities and commitments as they come due. There is no assurance that the Company will successfully raise this financing. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern, which could be material.

## **2. Basis of Presentation**

### **2.1 Statement of compliance**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). These interim financial statements should be read in conjunction with the Company’s most recently issued audited financial statements for the year ended July 31, 2018.

### **2.2 Basis of measurement**

The condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and acquisition-related contingent consideration which are measured at fair value.

**Nutritional High International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian dollars)*

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**2. Basis of Presentation (continued)**

**2.3 Basis of consolidation**

These condensed interim consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and 51% owned subsidiary, Eglinton Medicinal Advisory Ltd. Subsidiaries are those entities over which the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns.

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

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

The Company's subsidiaries and investments in associate and joint venture are listed below:

<b>Subsidiary/Affiliate</b>	<b>Effective ownership</b>		<b>Accounting method</b>
	<b>January 31, 2019</b>	<b>July 31, 2018</b>	
NHII Holdings Ltd. ("NHHL")	100%	100%	Consolidation
NHC IP Holdings Corp. ("NHCIP")	100%	100%	Consolidation
Nutritional High (Colorado) Inc. ("NHCI")	100%	100%	Consolidation
NH Properties Inc. ("NHPI")	100%	100%	Consolidation
NHC Edibles LLC ("NHC")	100%	100%	Consolidation
NH Medicinal (Minnesota) Inc. ("NHMM")	100%	100%	Consolidation
Nutritional High (Oregon) LLC ("NHOL")	100%	100%	Consolidation
Nutritional Traditions Inc. ("NTI")	100%	100%	Consolidation
Nutritional IP Holdings LLC ("NIPH")	100%	100%	Consolidation
NH (Oregon) Properties LLC ("NHOP")	100%	100%	Consolidation
NH Processing (Nevada) Inc. ("NHPN")	100%	100%	Consolidation
NH Operations LLC ("NHOC")	100%	100%	Consolidation
NH Nevada LLC ("NHNC")	100%	100%	Consolidation
NH (Pennsylvania) LLC ("NHPL")	100%	100%	Consolidation
NH Properties (Nevada) LLC ("NPNL")	100%	100%	Consolidation
Eastgate Property Holding LLC ("EPHC")	100%	100%	Consolidation
NH Processing (California) LLC ("NHPC")	100%	100%	Consolidation
NH Bellingham Property Holdings LLC ("NHBH")	100%	100%	Consolidation
NH Distribution California LLC ("NHDC")	100%	100%	Consolidation
Pasa Verde, LLC ("Pasa Verde")	100%	100%	Consolidation
Nutritional High Group, LLC ("NHG")	100%	100%	Consolidation
Eglinton Medicinal Advisory Ltd. ("EMAL")	51%	51%	Consolidation
NH Medicinal Holdings LLC ("NHMH")	100%	100%	Consolidation
NH Medical Dispensaries LLC ("NHMD") <sup>(1)</sup>	-	50%	Equity
Aura Health Inc. ("Aura")	20.09%	16%	Equity

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(1) The Company sold its 50% interest in NHMD in October 2018 (Note 12).

**2. Basis of Presentation (continued)**

**Nutritional High International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian dollars)*

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#### **2.4 Functional and presentation of foreign currency**

The condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise noted. The functional currency of the Company, NHHL, NHCIP, and EMAL is the Canadian dollar. The functional currency of the remaining subsidiaries is the US dollar.

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

New accounting standards, amendments and interpretations issued but only effective for the Company beginning on or after January 1, 2019 are as follows:

- IFRS 16, *Leases* (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, which will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. Based on its current assets, interests and review of existing lease arrangements, no significant impact is anticipated from the new standard.

- IFRIC 23, *Uncertainly over Income Tax Treatments* (“IFRIC 23”)

IFRIC 23 was issued in June 2017. IFRIC 23 clarifies the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 and requires an entity to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it uses or plans to use in its income tax filing. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019 and permits early adoption. The Company is currently assessing the potential impact of these new standards.



**Nutritional High International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian dollars)*

**3. Business Acquisitions**

**Calyx Brands Inc.**

On March 15, 2018, the Company acquired all assets of Calyx Brands Inc. (“Calyx”), a California-based distributor of cannabis products for a large network of dispensaries (“the Acquisition”). The Company determined that the Acquisition was a business combination in accordance with the definition in IFRS 3, *Business Combinations* (“IFRS 3”), and as such, has accounted for it in accordance with this standard, with the Company being the accounting acquirer on the acquisition date of March 15, 2018 (“the Acquisition date”).

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

The following table summarizes the purchase price allocation based on the fair value of the consideration transferred as of the Acquisition date:

<b>Total purchase price consideration</b>	<b>\$</b>
Cash (i)	651,600
Issued shares (ii)	1,032,960
Settlement of pre-existing working capital advances (iii)	514,290
Deferred consideration payable (iv)	1,146,208
Contingent consideration payable (v)	781,920
	<b>4,126,978</b>
<b>Identified tangible assets and liabilities assumed</b>	
Cash	207,414
Prepays	29,259
Accounts receivable	285,992
Inventory	466,713
Capital assets	22,963
Accounts payable and accrued liabilities	(962,166)
<b>Identified intangible assets</b>	
Management agreement	1,146,088
Trade name	400,110
Proprietary data	77,881
Customer relationships	903,552
<b>Goodwill</b>	<b>1,549,172</b>
	<b>4,126,978</b>

- (i) Total cash consideration of \$651,600 (US\$500,000) were settled in November 2017 and on the Acquisition date.
- (ii) The Company issued 2,025,411 Common Shares on the Acquisition date. The fair value of the Common Shares was determined based on the share price on the Acquisition date.
- (iii) The Company advanced a total of \$514,290 (US\$394,637) to Calyx for working capital prior to the Acquisition date. These advances were effectively settled through the Acquisition.

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**3. Business Acquisitions (continued)**

**Calyx Brands Inc. (continued)**

- (iv) The Company issued a promissory note of US\$950,000 ("the Calyx Note") which was subject to the working capital adjustment on the Acquisition date and due on September 15, 2018. On September 1, 2018, the settlement of the Calyx Note was amended to issuance of 486,500 Common Shares (issued) and US\$595,041 in cash due on September 15, 2018 (paid) and US\$172,500 in cash due on September 15, 2019.
- (v) The Company is committed to a payment of up to \$788,640 (US\$600,000) based on the achievement of sales targets of up to US\$12,000,000 within 24 months after the Acquisition date which will be payable 50% in cash and 50% in Common Shares. The sales targets have been met as of March 15, 2019.

As at January 31, 2019, \$621,054 (July 31, 2018 - \$1,165,075) was included in a current consideration payable, \$Nil (July 31, 2018 - \$224,543) was included in long-term consideration payable and \$390,510 (July 31, 2018 - \$536,460) was included in Common Shares to be issued.

The Company incurred \$299,166 in expenditures related to this acquisition. On closing, the Company and Calyx entered into a management service agreement whereby the Company will be compensated for services through assignment of Calyx's results of operation.

**Pasa Verde, LLC**

On July 26, 2018, the Company, through its wholly-owned subsidiary, NHNC, acquired a 100% membership interest in Pasa Verde. Pasa Verde is a California limited liability company which operates a licensed cannabis extraction facility which provides toll manufacturing services and develops, acquires and designs products for brands in the cannabis infused edible and oil extracts sectors of the medical and adult use cannabis markets in the State of California.

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**3. Business Acquisitions (continued)**

**Pasa Verde LLC (continued)**

The acquisition of the 100% membership interest of Pasa Verde has been accounted for in accordance with IFRS 3 using the acquisition method. The results of operations are included in the consolidated statements of income (loss) and comprehensive income (loss) from the date of acquisition, which was July 26, 2018 (the "Closing date"). The following table summarizes the estimated fair values of the identifiable assets and liabilities acquired at the date of acquisition:

<b>Total purchase price consideration</b>	<b>\$</b>
Cash – paid (i)	327,200
Deferred cash consideration (ii)	654,400
Settlement of pre-closing advances on working capital(iii)	96,851
Shares issued (iv)	1,083,096
Contingent consideration payable (v)	5,046,696
	<b>7,208,243</b>
<b>Identified tangible assets and liabilities assumed</b>	
Cash	146
Accounts receivable	35,701
Inventory	451,930
Deposits	23,035
Capital assets	1,462,814
Accounts payable and accrued liabilities	(214,062)
Finance lease liability	(1,021,992)
<b>Identified intangible assets</b>	
License	2,447,788
Trade name	466,744
Customer relationship	389,456
<b>Goodwill</b>	<b>3,166,683</b>
	<b>7,208,243</b>

Goodwill arose from the acquisition comprised of assembled workforce, expected revenue growth, and future market development. These benefits were not recognized separately from goodwill as they do not meet the criteria for identifiable intangible assets.

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**3. Business acquisitions (continued)**

**Acquisition of Pasa Verde, LLC (continued)**

- (i) Total cash consideration paid on closing was \$327,200 (US\$250,000).
- (ii) The Company will pay \$654,400 (US\$500,000) (the "Permitting Payment") upon Pasa Verde providing documentation of receipt of local authorization approval from the City of Sacramento which is subject to a working capital adjustment on closing.
- (iii) The Company advanced a total of \$96,851 (US\$78,000) to Pasa Verde for working capital prior to the Closing date. These advances were effectively settled through the Closing date.
- (iv) The Company issued 3,094,560 Common Shares on the date of acquisition. The fair value of the shares was determined based on the share price on the Closing date.
- (v) The Company is obligated to pay up to \$6,899,010 (US\$5,300,000) ("the Earn-out payment") at certain intervals between 12 months to 24 months from closing date which will be payable contingent on Pasa Verde achieving adjusted gross revenue ("Gross Revenue") targets which will be settled 50% in cash and 50% in shares as follows:

*12-month Earn-out payment*

The Company shall pay US\$1,000,000 provided Gross Revenue equals or exceeds US\$2,000,000 for the 12-month period following the closing date. If the Gross Revenue is less than US\$2,000,000, the Company shall pay the lesser of: (i) US\$750,000 and (ii) 50% of the Gross Revenue.

*18-month Earn-out payment*

The Company shall pay US\$1,500,000 provided Gross Revenue equals or exceeds US\$2,750,000 for 18-month period following the closing date. If the Gross Revenue is less than US\$2,750,000, the Company shall pay the lesser of: (i) US\$1,000,000 and (ii) 50% of the Gross Revenue.

*24-month Earn out payment*

The Company shall pay US\$2,600,000 provided Gross Revenue equals or exceeds US\$3,500,000 for the 24-month period following the closing date. If the Gross Revenue is less than US\$3,500,000, the Company shall pay the lesser of: (i) US\$1,500,000 and (ii) 50% of the Gross Revenue.

*Bonus Earn out payment*

In the event the vendor is eligible for the 12,18, and 24-month Earn Out payment, the Company will pay the Seller an additional US\$200,000 within 10 days following the 24-months from closing.

The fair value of the Earn Out payment is recorded as contingent consideration payable and was calculated by assessing the amount expected to be paid out for each distinct Earn Out period, assessing the probability as to the likelihood of the payout occurring and using a 20% discount rate, equivalent to the market rate of interest expected to be incurred by the Company to finance the obligation in the case of early payment.

As at January 31, 2019, \$1,228,591 (July 31, 2018 - \$1,216,806) was included in a current consideration payable, \$1,963,045 (July 31, 2018 - \$1,943,702) was included in a long-term consideration payable and \$2,509,659 (July 31, 2018 - \$2,509,659) was included in shares to be issued.

In connection with the acquisition, the Company incurred \$36,776 of legal fees and 4% of the transaction value in finders' fee to FMI Capital Advisory, a related party (Note 22).

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**4. Asset acquisition**

On January 3, 2019, the Company acquired certain assets of Moses Garden LLC, a Washington-based limited liability company ("Moses Garden"). The Company determined that the transaction as acquisition of assets in accordance with the definition in IFRS 3, *Business Combinations* ("IFRS 3"), and as such, has accounted for it in accordance with his standard.

<b>Total purchase price consideration</b>	<b>\$</b>
Cash (i)	905,018
Issued shares (ii)	3,828,148
Contingent consideration payable (iii)	1,350,100
Transaction costs (iv)	7,271
	<b>6,090,536</b>
<b>Identified tangible assets and liabilities assumed</b>	
Equipment	904,393
<b>Identified intangible assets</b>	
Assignment of license and trademark (v)	5,186,143
	<b>6,090,536</b>

- (i) Total cash consideration paid was \$905,018 (US\$675,000).
- (ii) The Company issued 13,432,098 Common Shares on closing. The fair value of the Common Shares was determined based on the share price on the closing date.
- (iii) The Company is obligated to issue US\$500,000 worth of Common Shares six months after closing and US\$500,000 worth of Common Shares nine months after closing.
- (iv) The Company incurred \$7,271 in expenditures related to this acquisition.
- (v) Assignment of license and trademark is to license a number of well-known brands, including Marley Natural brand, for use in connection with inhalable cannabis products in Washington and Oregon.

As at January 31, 2019, \$1,314,400 (July 31, 2018 - \$Nil) was included in current consideration payable.

**5. Amounts Receivable**

The breakdown of the accounts receivable balance is as follows:

	January 31, 2019	July 31, 2018
	<b>\$</b>	<b>\$</b>
Trade accounts receivable	<b>1,306,739</b>	1,314,768
Harmonized Sales Tax ("HST") recoverable	<b>105,047</b>	36,923
Promissory note receivable <sup>(i)</sup>	<b>1,229,348</b>	761,875
Sale leaseback receivable <sup>(ii)</sup>	<b>494,748</b>	-
Other receivable	<b>64,494</b>	92,782
Provision <sup>(iii)</sup>	<b>(380,229)</b>	-
Balance	<b>2,820,147</b>	2,206,348

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**5. Amounts Receivable (continued)**

- (i) Promissory note receivable is made up of:
- \$769,308 (US\$585,292) of advances to TKO Products LLC (“TKO”) as per the terms of the letter of intent (“LOI”) entered into on November 14, 2017 and amended on December 28, 2017. The LOI provided the Company the ability to purchase certain assets of TKO for US\$3,025,000 and to pay earn-out payments, up to US\$4,000,000 upon achieving certain revenue targets payable in a combination of cash and Common Shares. In July 2018, the Company decided to terminate the LOI with TKO as it has decided to pursue other opportunities. The promissory note receivable has a one-year term with the earliest note due in January 2019 and is secured by personal guaranty of TKO’s shareholders; and
  - \$460,040 (US\$350,000) of advances to Green Therapeutics, LLC (Note 26), which will be offset against the purchase price on closing.
- (ii) On January 24, 2019, the Company drew down a total of \$494,748 (US\$370,500) from equipment sale leaseback line of credit (Note 17). The proceeds were received on February 7, 2019.
- (iii) For the six months ended January 31, 2019, the Company recorded a provision for amounts receivable of \$380,229 (2018 – \$Nil).

**6. Deposits**

Deposits consists of \$87,907 (July 31, 2018 - \$57,119) of security deposits on leased facilities and \$15,773 (July 31, 2018 - \$Nil) of refundable deposit.

**7. Inventory**

The breakdown of inventory was as follows:

	<b>January 31, 2019</b>	July 31, 2018
	<b>\$</b>	<b>\$</b>
Raw materials	<b>823,076</b>	470,077
Finished goods	<b>3,004,793</b>	823,048
<b>Total inventory</b>	<b>3,827,869</b>	1,293,125

Inventories recognized as an expense during the six months ended January 31, 2019 was \$8,496,595 (2017 - \$nil). The Company recorded an impairment of inventory of \$371,132 (2018 - \$Nil).

**8. Lineage Grow Company (“Lineage”)**

On May 12, 2017, the Company purchased 100 units from Lineage at a price of \$1,000 per unit for aggregate proceeds of \$100,000. Each unit consists of \$1,000 principal amount of secured convertible debentures and 4,000 warrants (“Lineage warrants”). The debentures bore interest at 12%, matured 24 months from the date of issuance and were convertible into common shares of Lineage at \$0.25 per share, adjusted to \$0.20 per share on July 29, 2018. Each Lineage warrant is exercisable into one common share of Lineage at a price of \$0.325 and expire on May 12, 2019. On September 5, 2018, the Company converted the full amount of its debenture receivable into 500,000 Lineage shares.

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**8. Lineage Grow Company (continued)**

On February 1, 2018, the Company amended and restated the letter of intent (the "LOI") dated February 22, 2017, as amended on June 30, 2017, to assist Lineage to enter into a strategic partnership with Mt. Baker Greeneries LLC ("Mt. Baker"), in the State of Washington. As partial consideration for introducing Mt. Baker to Lineage, the Company received 400,000 common shares of Lineage in April 2018 with a fair value of \$100,000. In addition, Lineage will enter into a joint venture (the "Pueblo Joint Venture") with the Company and Palo Verde, LLC ("Palo Verde") by entering into a series of agreements with the Company and Palo Verde in connection with the expansion of the Company's cannabis facility located in Pueblo, Colorado. Upon the completion of the Pueblo Joint Venture, Lineage will issue to the Company 100,000 Lineage Shares at \$0.25 per share as partial consideration for providing consulting services to Lineage in preparation for entering into the Pueblo Joint Venture. Lastly, the Company will enter into a put option agreement (the "Put Option Agreement") to purchase up to \$2.5 million principal of Convertible Debentures of Lineage ("Lineage Debentures") issued in May 2017.

Pursuant to the LOI, the Company entered into a Put Option Agreement with KW Capital Partners Ltd. ("KW"), pursuant to which, in certain circumstances (set out below), the Company would be obligated, at the election of KW, to purchase the Lineage Debentures at a price equal to the amount of all principal and accrued interest outstanding thereon. The Company has agreed to enter into the Put Option Agreement in consideration for:

1. The issuance of 1,250,000 Lineage Shares at \$0.25 per share to the Company with a total fair value of \$312,500 (Note 9);
2. \$75,000 cash paid to the Company in the form of a 5% royalty on all revenue of Lineage paid on an installment basis with the balance of any amount owing and not yet paid by October 16, 2019, to be paid in a lump sum (the "Royalty payment"); and
3. If Lineage acquires any dispensary in a state in which the Company's products are sold, Lineage shall purchase the Company's products to stock at least 20% of the dispensary's shelf space per product category at a price equal to the Company's best regular wholesale price to the Company's customers in the state, subject to availability of supply (the "Shelf Space Commitment").

On initial recognition, the Company recorded a Put Option guarantee liability of \$387,500 which was the equivalent of the premium receivable on the financial guarantee. As at January 31, 2019, a total of \$2.5 million (July 31, 2018 - \$1.38 million) of Lineage Debentures had been converted and the Company's obligation subject to the Put Option Agreement was reduced to \$Nil (July 31, 2018 - \$1.2 million). As a result of the conversion, the Company's put option guarantee liability was reduced to \$Nil and the reduction of \$387,500 was recognized in condensed interim statement of income (loss) and comprehensive income (loss) as other income.

On January 25, 2019, the Company and Lineage agreed to terminate the LOI upon full and final completion of the following:

- (i) Settlement of Royalty payment of \$75,000 shall be satisfied through issuance of common shares in the capital of Lineage at a deemed price of \$0.165 per common shares (issued); and
- (ii) The Company shall waive the Shelf Space Commitment unless the reverse take-over transaction between Lineage and FLRish, Inc. is not completed by June 30, 2019.

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**9. Investments**

The Company's investments are comprised of the following:

	January 31, 2019	July 31, 2018
<i>FVTPL</i>	\$	\$
<u>Lineage Grow Company Ltd. ("Lineage")</u>		
2,682,545 Shares (2018 – 1,728,000 shares)	442,620	354,240
400,000 Warrants (2018 – 400,000 warrants)	2,411	24,265
<u>Aura Health Inc. ("Aura")</u>		
200,000 Warrants (2018 – 200,000 warrants)	6,875	-
<b>Balance</b>	<b>451,906</b>	<b>378,505</b>

For the six months ended January 31, 2019, the Company recognized unrealized losses of \$101,599 (2018 – \$Nil) on the change in fair value of investments.

**10. Amounts due from Palo Verde LLC**

	Revolving loan <sup>(i)</sup>	Proprietary packaging <sup>(ii)</sup>	Promissory note <sup>(iii)</sup>	Total
	\$	\$	\$	\$
<b>Balance at July 31, 2017</b>	<b>459,172</b>	-	-	<b>459,172</b>
Additions	706,996	326,451	150,655	1,184,102
Effect of movement in exchange rates	(76,105)	-	-	(76,105)
Provision <sup>(iv)</sup>	(1,090,063)	(326,451)	(150,655)	(1,567,169)
<b>Balance at July 31, 2018</b>	-	-	-	-
Additions	-	88,536	190,767	279,303
Effect of movement in exchange rates	-	210	155	365
Provision <sup>(iv)</sup>	-	(88,746)	(190,922)	(279,668)
<b>Balance at January 31, 2019</b>	-	-	-	-

(i) The revolving loan agreement is unsecured, bears interest at 10% per annum effective June 1, 2018 (12% prior to June 1, 2018). The loan matures on June 1, 2023 and Palo Verde shall make agreed upon monthly payments towards deferred lease up to June 1, 2023 with the remaining balance due and payable on the same date.

(ii) Proprietary packaging materials purchased for Palo Verde.

(iii) On June 1, 2018, the Company issued a one-year, 10% commercial promissory note to fund up to US\$300,000. For the six months ended January 31, 2019, the Company advanced a total of \$190,767 (2018 - \$Nil).



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**10. Amounts due from Palo Verde LLC (continued)**

(iv) An allowance was recorded on account of uncertainties surrounding the Company's recoverability of the loan, lease and other receivable due to the timing and unexpected financing delays. For the six months ended January 31, 2019, the Company recorded a provision on the revolving loan and promissory loan to Palo Verde of \$279,668 (2018 - \$806,240).

The Company leased Pueblo property and equipment in Colorado to Palo Verde (Notes 11 & 14). On April 18, 2017, the lease agreement was amended to extend the term to April 17, 2027 and defer payment ("deferred lease") until Palo Verde attains certain gross sales targets. The agreement was further amended on June 1, 2018 to modify monthly lease rates and 10% per interest per annum will be applied on deferred lease. In addition, Palo Verde shall make agreed upon monthly payments towards deferred lease up to June 1, 2021 with the remaining balance due and payable on the same date.

For the six months ended January 31, 2019, the Company received \$50,452 (US\$38,318) (2018 - \$Nil) of lease payments from Palo Verde, and as a result, the Company recognized \$50,452 (2018 - \$Nil) of rental income on the condensed interim consolidated statements of loss and comprehensive loss.

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

	<b>\$</b>
Less than 1 year	<b>705,994</b>
1-5 years	<b>3,573,675</b>
5 years and over	<b>488,018</b>
	<b>4,767,687</b>

**11. Investment property**

<u>Cost</u>	Land	Building	Leasehold Improvement	Total
	\$	\$	\$	\$
<b>Balance at July 31, 2017</b>	<b>208,165</b>	<b>1,330,866</b>	<b>418,171</b>	<b>1,957,202</b>
Additions	-	-	41,755	41,755
Effect of movement in exchange rates	6,650	40,432	22,160	69,242
<b>Balance at July 31, 2018</b>	<b>214,815</b>	<b>1,371,298</b>	<b>482,086</b>	<b>2,068,199</b>
Additions	-	-	-	-
Effect of movement in exchange rates	1,588	9,652	4,703	15,943
<b>Balance at January 31, 2019</b>	<b>216,403</b>	<b>1,380,950</b>	<b>486,789</b>	<b>2,084,142</b>

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**11. Investment property (continued)**

	Land	Building	Leasehold Improvement	Total
<u>Accumulated Amortization</u>				
	\$	\$	\$	\$
<b>Balance at July 31, 2017</b>	<b>52,102</b>	<b>481,001</b>	-	<b>533,103</b>
Amortization	-	34,110	58,284	92,394
Effect of movement in exchange rates	-	4,909	1,000	5,909
<b>Balance at July 31, 2018</b>	<b>52,102</b>	<b>520,020</b>	<b>59,284</b>	<b>631,406</b>
Amortization	-	17,079	24,643	41,722
Effect of movement in exchange rates	-	1,316	663	1,979
<b>Balance at January 31, 2019</b>	<b>52,102</b>	<b>538,415</b>	<b>84,590</b>	<b>675,107</b>
<u>Net Book Value</u>				
	\$	\$	\$	\$
<b>Balance at July 31, 2017</b>	<b>156,063</b>	<b>849,865</b>	<b>418,171</b>	<b>1,424,099</b>
<b>Balance at July 31, 2018</b>	<b>162,713</b>	<b>851,278</b>	<b>422,802</b>	<b>1,436,793</b>
<b>Balance at January 31, 2019</b>	<b>164,301</b>	<b>842,535</b>	<b>402,199</b>	<b>1,409,035</b>

The Pueblo property is located in Pueblo West, Colorado ("Pueblo") and is leased to Palo Verde (Note 10). The fair value of the investment property as at January 31, 2019 and July 31, 2018 exceeded its carrying value.

**12. Investments in associate and joint venture**

**NHMD and Small's Mill Holdings Inc. ("SMHI")**

Pursuant to the restate letter agreement entered on April 4, 2016 between the Company and ILDISP, LLC ("ILDISP"), ILDISP acquired 50% interest and equal control in NHMD and SMHI on September 17, 2016. Consequently, since September 17, 2016, NHMD and SMHI had been accounted for as joint ventures using the equity method.

SMHI was dissolved in 2018 and consequently, the Company wrote off its investments in SMHI from \$340,300 to \$Nil in October 2017.

NHMD operates The Clinic Effingham dispensary in Effingham, Illinois since September 2016 and in September 2018, the Company received its first distribution income from NHMD of \$147,493 (US\$111,500). On October 29, 2018, the Company sold its 50% interest in NHMD to ILDISP for gross proceeds of \$4,599,700 (US\$3,500,000) and as a result, the Company recognized a gain on the sale of \$3,706,003.

For the six months ended January 31, 2019, the Company recognized its share of NHMD's income up to the date of sale of \$163,661 (2018 – \$37,307). As at January 31, 2019, the carrying value of the Company's investment in NHMD was \$Nil (July 31, 2018 - \$873,873).

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**12. Investments in associate and joint venture (continued)**

**Aura**

Aura is engaged in the development and acquisition of medical cannabis certification clinics in the United States. The medical health clinics test prospective patients and issue medical-use certificates to qualified patients in the United States.

On November 14, 2016, Aura issued a promissory note of US\$120,000 to the Company, bearing interest at 12% per annum, maturing 24 months from the date of issue ("Maturity date"). At the option of the Company, on or after November 14, 2017, and prior to the Maturity date, the promissory note together with accrued and unpaid interest shall be convertible into Aura's units at the conversion price of \$0.05. Each of Aura's units comprise of one Aura common share and one-half Aura warrant exercisable, until the earlier of 5 years from the date of issuance or 2 years from the date of listing of Aura's shares on the CSE, into one Aura's common share at the exercise price of \$0.075. As consideration for the promissory note, Aura issued 4,000,000 common shares to the Company.

On May 1, 2017, the Company transferred 1,000,000 shares of Aura to a director of the Company as a bonus, and 289,293 shares to FMI Capital Advisory Inc. as consulting fee.

On August 9, 2018, the Company invested \$98,000 for 200,000 units of Aura. Each unit comprises one common share and one warrant exercisable at \$0.75 for a period of 24 months from closing.

On December 3, 2018, the Company converted US\$120,000 of the promissory note and the interest accrued into 4,028,272 Aura's units which are comprised of 4,028,272 Aura common shares and 2,014,136 Aura warrants. Following the conversion, the Company exercised the 2,014,136 warrants at the exercise price of \$0.075.

As at January 31, 2019, the Company's ownership in Aura was 20.09% (July 31, 2018 – 16.30%).

For the six months ended January 31, 2019, the Company recorded a loss from Aura of \$249,060 (2018 – \$62,402). The carrying value of the Company's investment in Aura as at January 31, 2019, was \$Nil (July 31, 2018 - \$Nil).

The following table summarizes the financial information of the associate as at January 31, 2019:

	<b>Aura</b>
	\$
Cash	155,166
Current assets	125,994
Non-current assets	1,029,338
Current liabilities	348,363
Non-current liabilities	1,181,842
Revenue for the period*	-
Profit (loss) for the period*	(405,880)

\* For the six months ended December 31, 2018.

The following table summarizes the financial information of the associate and joint venture as at July 31, 2018:

	<b>NHMD</b>	<b>Aura</b>
	\$	\$
Cash	632,760	236,683
Current assets	268,861	55,825
Non-current assets	455,230	296,178
Current liabilities	345,193	960,240
Non-current liabilities	607,874	621,198
Revenue for the year*	3,393,931	-
Profit (loss) for the year*	649,285	(617,772)

\* For the twelve months ended July 31, 2018 for NHMD and the eleven months ended June 30, 2018 for Aura.

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### **13. Intangible assets and Goodwill**

#### **Purple Haze**

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

The agreement provides for annual exclusivity fees and royalties (“annual fees”) of no less than US\$1,000,000 over five years (US\$200,000 for license and US\$50,000 for royalty per year) with an additional renewal option for an additional five years.

The Company was informed by PHP that a complaint was filed with the United States District Court, Southern District of New York (“Complaint”) alleging that PHP and parties related to PHP attempted to improperly exploit the intellectual property rights contained in the Licensing Agreement and are seeking equitable relief and damages. Due to the uncertainties on the outcome of the Complaint, the Company had written the license and prepaid royalty down to \$1 in 2017. On January 25, 2018, the parties entered into a license agreement addendum (“Addendum”) whereby, the second (2017) and third (2018) annual fees are to be satisfied through the payment of \$340,869 (US\$265,000) (paid) in cash and issuance of 750,000 Common Shares (issued), respectively. The payments were expensed and recorded in the condensed interim consolidated statement of loss and comprehensive loss.

As per the terms of the Addendum, one-half (50%) of all Common Share issuances and 100% of monetary royalties shall be placed in a litigation escrow account (“Escrow account”) for contingencies until the sum of \$2,572,600 (US\$2,000,000) is reached. The Addendum also includes two one-year options to extend the Licensing Agreement at the Company’s sole discretion. As at January 31, 2019, no actions have been brought against the Company in relation to the Licensing Agreement with PHP.

#### **Dab Stick**

On January 30, 2017, the Company entered into an IP assignment and option agreement to acquire a dispenser for viscous liquid substances (the “Dab Stick”) and the technology and the intellectual property and rights for the purpose of allowing the Company to make, have made, use, sell and market products using such technology and intellectual property rights. As a consideration, the Company shall issue common shares to the vendors as follows:

- (i) Upon confirmation, to the Company’s satisfaction, that the Dab Stick product satisfactorily functions for its intended purpose, the Company shall issue an aggregate of 416,667 common shares at a deemed price of \$0.24 per share (issued on July 14, 2017 with a fair value of \$43,751);
- (ii) Upon the commercial sale at fair market value of the first 100 Dab Stick products, an aggregate of \$100,000 worth of common shares;
- (iii) Upon the commercial sale at fair market value of the next 500 Dab Stick products, an aggregate of \$100,000 worth of common shares; and
- (iv) Upon the grant of a patent by the United States Patent and Trademark Office (“USPTO”) for a provisional patent application filed in October 2016, an aggregate of \$200,000 worth of common shares. Should the vendors fail to advance the application which results in application going abandoned, the \$200,000 worth of common shares shall become due on the date of abandonment.

The Company has recognized the remaining \$400,000 obligation as noted in (ii) to (iv) as shares to be issued, due to their likelihood of occurrence in the near future.

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**13. Intangible assets and Goodwill (continued)**

	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total Intangible assets	Goodwill	Total of Intangible assets and Goodwill
	\$	\$	\$	\$	\$	\$	\$
<u>Cost</u>							
<b>Balance at July 31, 2017</b>	43,751	-	-	-	43,751	-	43,751
Additions	619,911	-	-	-	619,911	-	619,911
Additions from business acquisitions	3,593,876	866,854	77,881	1,293,008	5,831,619	4,715,855	10,547,474
Effect of movement in exchange rate	(44)	777	554	2,494	3,781	(13,439)	(9,658)
<b>Balance at July 31, 2018</b>	<b>4,257,494</b>	<b>867,631</b>	<b>78,435</b>	<b>1,295,502</b>	<b>6,499,062</b>	<b>4,702,416</b>	<b>11,201,478</b>
Additions	5,186,143	-	-	-	5,186,143	-	5,186,143
Effect of movement in exchange rate	20,367	4,660	115	6,937	32,079	50,0976	83,055
<b>Balance at January 31, 2019</b>	<b>9,464,004</b>	<b>872,291</b>	<b>78,550</b>	<b>1,302,439</b>	<b>11,717,284</b>	<b>4,753,392</b>	<b>16,470,676</b>
<u>Accumulated Amortization</u>							
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at July 31, 2017</b>	-	-	-	-	-	-	-
Additions	2,577	31,278	6,088	70,634	110,577	-	110,577
Effect of movement in exchange rate	-	-	-	-	-	-	-
<b>Balance at July 31, 2018</b>	<b>2,577</b>	<b>31,278</b>	<b>6,088</b>	<b>70,634</b>	<b>110,577</b>	-	<b>110,577</b>
Additions	35,760	87,997	7,615	428,780	560,152	-	560,152
Effect of movement in exchange rate	-	147	43	1,086	1,276	-	1,276
<b>Balance at January 31, 2019</b>	<b>38,337</b>	<b>119,422</b>	<b>13,746</b>	<b>500,500</b>	<b>672,005</b>	-	<b>672,005</b>

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**13. Intangible assets and Goodwill (continued)**

<u>Net Book Value</u>	Licenses, Management agreement	Trade name and IP	Proprietary data	Customer relationships	Total Intangible assets	Goodwill	Total of Intangible assets and Goodwill
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at July 31, 2017</b>	43,751	-	-	-	43,751	-	43,751
<b>Balance at July 31, 2018</b>	<b>4,254,917</b>	<b>836,353</b>	<b>72,347</b>	<b>1,224,868</b>	<b>6,388,485</b>	<b>4,702,416</b>	<b>11,090,901</b>
<b>Balance at January 31, 2019</b>	<b>9,425,667</b>	<b>752,869</b>	<b>64,804</b>	<b>801,939</b>	<b>11,045,279</b>	<b>4,753,392</b>	<b>15,798,671</b>

**14. Capital Assets**

Cost	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2017</b>	<b>203,092</b>	<b>317,657</b>	<b>20,126</b>	<b>2,496</b>	<b>734,759</b>	-	-	<b>1,278,130</b>
Additions	-	1,011,584	607,603	237,105	1,773,740	136,468	-	3,766,500
Additions from business acquisitions	-	-	246,781	-	1,216,768	-	22,963	1,486,512
Effect of movement in exchange rates	8,654	13,536	21,048	106	32,356	-	(9,735)	65,965
<b>Balance, July 31, 2018</b>	<b>211,746</b>	<b>1,342,777</b>	<b>895,558</b>	<b>239,707</b>	<b>3,757,623</b>	<b>136,468</b>	<b>13,228</b>	<b>6,597,107</b>
Additions	-	2,600	306,206	14,195	1,150,942	-	829	1,474,772
Additions – sale and leaseback	-	-	-	-	2,014,151	-	-	2,014,151
Dispositions – sale and leaseback	-	-	-	-	(2,088,075)	-	-	(2,088,075)
Disposal	-	(1,036,776)	-	-	-	-	-	(1,036,776)
Effect of movement in exchange rates	2,066	25,823	8,194	2,270	103,565	1,331	136	145,385
<b>Balance, January 31, 2019</b>	<b>213,812</b>	<b>334,424</b>	<b>1,209,958</b>	<b>256,172</b>	<b>4,938,206</b>	<b>137,799</b>	<b>14,193</b>	<b>7,104,564</b>

Accumulated Amortization	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2017</b>	-	-	-	<b>363</b>	<b>66,485</b>	-	-	<b>66,848</b>
Additions	-	-	-	7,027	113,147	5,610	2,075	127,859
Effect of movement in exchange rates	-	-	-	204	5,081	-	-	5,285
<b>Balance, July 31, 2018</b>	-	-	-	<b>7,594</b>	<b>184,713</b>	<b>5,610</b>	<b>2,075</b>	<b>199,992</b>
Additions	-	4,468	123,219	73,625	232,219	24,967	8,258	466,756
Additions – sale and leaseback	-	-	-	-	146,173	-	-	146,173
Dispositions – sale and leaseback	-	-	-	-	(209,643)	-	-	(209,643)
Effect of movement in exchange rates	-	(31)	(430)	(35)	4,221	104	50	3,879
<b>Balance, January 31, 2019</b>	-	<b>4,437</b>	<b>122,789</b>	<b>81,184</b>	<b>357,683</b>	<b>30,681</b>	<b>10,383</b>	<b>607,157</b>

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**14. Capital Assets (continued)**

Net Book Value	Land	Building	Leasehold improvement	Computer and software	Mfg. Equipment	Vehicles	Furniture and equipment	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Balance, July 31, 2017</b>	203,092	317,657	20,126	2,133	668,274	-	-	1,211,282
<b>Balance, July 31, 2018</b>	211,746	1,342,777	895,558	232,112	3,572,910	130,858	11,153	6,397,115
<b>Balance, January 31, 2019</b>	213,812	329,987	1,087,169	174,988	4,580,523	107,118	3,810	6,497,407

On March 24, 2017, the Company acquired a real estate property in the City of La Pine ("La Pine") located in Deschutes County, Oregon for \$498,152 (US\$399,000). The property is the security for the financing arrangement closed on June 5, 2017 (Note 16).

On June 24, 2018, the Company acquired a 9,000 square foot real estate property located in Sacramento, California for \$1,018,660 (US\$775,000). In October 2018, the Company decided to put the property on the market which was originally acquired for manufacturing expansion in California. On November 21, 2018, the Company sold the real estate property for \$1,840,160 (US\$1,400,000) and the Company paid \$110,410 (US\$84,000) in commission.

As at January 31, 2019, capital assets include \$1,888,583 (July 31, 2018 - \$1,206,321) of equipment subject to finance lease.

**15. Accounts payable and accrued liabilities**

The breakdown of the accounts payable balance is as follows:

	January 31, 2019	July 31, 2018
	\$	\$
Trade accounts payable	1,952,538	3,528,029
Payroll tax payable	919,358	-
Excise tax payable	2,163,040	459,825
Other payable and accrued liabilities	1,169,490	41,764
<b>Balance</b>	<b>6,204,426</b>	<b>4,029,618</b>

**16. Promissory Note Payable**

***Pueblo, Colorado***

On April 19, 2016, the Company entered into a refinancing arrangement of its Pueblo, Colorado property in the amount of US\$800,000 in the form of a twelve-month promissory note. The note bears interest at 13% per annum payable monthly. As part of the arrangement, the Company issued 3,333,334 warrants at an exercise price of \$0.06 expiring on October 14, 2017 valued at \$29,000.

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

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**16. Promissory Note Payable (continued)**

On April 18, 2018, the lender further amended and restated the loan note of US\$800,000 for an additional twelve months to April 18, 2019, with an option to extend for a further six months. As consideration for the extension, the Company paid the lender a renewal fee of \$20,182 (US\$16,000), issued 750,000 warrants at an exercise price of \$0.70 per share, expiring on October 18, 2019, valued at \$167,942 and extended the expiry of the previously issued 3,333,334 warrants and 1,000,000 warrants to October 18, 2019. The extension resulted in a fair value increase of these warrants of \$53,186. The Company recorded a loss on extinguishment of promissory note of \$102,198.

***La Pine, Oregon***

On June 5, 2017, the Company closed a financing arrangement secured against its real estate property in La Pine, Oregon (Note 14) in the amount of US\$400,000 in the form of an eighteen-month promissory note. The note bore interest at 13% per annum payable monthly. As part of the arrangement, the Company issued 1,217,391 warrants at an exercise price of \$0.165 expiring on June 6, 2019, valued at \$48,000. The loan was due and repaid on December 31, 2018.

For the six months ended January 31, 2019, the Company recorded accretion expense of \$165,092 (2017- \$274,770) which is included within finance costs.

The breakdown of the promissory note balance is as follows:

	<b>January 31, 2019</b>	July 31, 2018
	\$	\$
Opening balance	<b>1,421,816</b>	1,327,740
Extinguishment of promissory note	<b>(539,800)</b>	102,198
Loss on extinguishment of promissory note	-	(1,009,120)
Issuance of new promissory note (discounted)	-	1,133,014
Deferred financing costs	-	(246,040)
Finance costs	<b>177,306</b>	387,520
Interest paid	<b>(77,954)</b>	(208,761)
Effect of movement in exchange rates	<b>27,972</b>	(64,735)
	<b>1,009,340</b>	1,421,816
Current	<b>1,009,340</b>	1,421,816
Long-term	-	-

**17. Finance lease**

On February 15, 2017, the Company entered into a lease agreement in relation to equipment at the Pueblo facility (Note 14) for \$5,949 (US\$4,635) per month for 30 months, expiring August 15, 2019.

Pursuant to the acquisition of Pasa Verde (Note 3), the Company entered into a lease agreement for extraction equipment for US\$26,573 per month, expiring June 29, 2021.

On May 1, 2018, the company entered an equipment sale leaseback line of credit agreement (the "sale leaseback agreement") with a lender for up to \$2,628,800 (US\$2,000,000) for a three-year term with fixed monthly lease rental payments. The Company may extend the lease term for a minimum of twelve months. At the end of the lease term, the Company has the option to purchase all equipment for the then fair market value which shall not exceed 20% of the cost.

For the six months ended January 31, 2019, the Company drew down a total of \$1,922,203 (US\$1,550,104) from equipment sale leaseback line of credit. Pursuant to the agreement, the Company issued 553,609 Common Share purchase warrants to the lender. Each warrant entitles the lender to purchase one Common Share at a price of \$0.70 per share for a period of 24 months from the date of issuance.



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**17. Finance lease (continued)**

Future minimum lease payable are as follows:

	January 31, 2019	July 31, 2018
	\$	\$
Less than 1 year	1,287,067	493,520
1-5 years	2,095,325	795,580
More than 5 years	-	-
<b>Total future minimum lease payments</b>	<b>3,382,391</b>	1,289,100
Less: amount representing interest	<b>(663,061)</b>	(235,100)
Present value of minimum lease payments	<b>2,719,330</b>	1,054,000
Less: non-current portion	<b>1,806,165</b>	687,949
	<b>913,165</b>	366,051

**18. Convertible debentures**

***March 2018 Convertible debentures***

On March 15, 2018, the Company issued 8,000 Convertible Debentures Units (the "CD Units") for gross proceeds of \$8,000,000. Each CD Unit consists of \$1,000 principal amount of 10% senior unsecured convertible debentures payable semi-annually and 1,667 common share purchase warrants of the Company. The convertible debentures mature on March 15, 2021.

The debentures are convertible into Common Shares of the Company at a conversion price of \$0.60 per share. Each warrant is exercisable to acquire one Common Share of the Company for a period of 36 months following Closing at an exercise price of \$0.70 per share.

Beginning July 16, 2018, the Company may force the conversion of all the principal amount of the then outstanding debentures at the conversion price on not less than 30 days' notice should the daily volume weighted average trading price of the Common Shares be greater than \$1.20 for any 20 consecutive trading days.

The Company paid cash fees of \$947,956 and issued an additional 190 Units. In addition, the Agents received 1,066,666 warrant units ("Agents' Units"). Each Agents' Unit is exercisable into one Agents' Unit at a price of \$0.60 per Agents' Unit. Each Agents' Unit consists of one Common Share and one warrant. Each warrant exercisable for a period of 2 years following Closing at an exercise price of \$0.70 per share.

The convertible debentures are compound financial instruments. On initial recognition, the residual method was used to allocate the fair value of the debt and equity components. The fair value of the liability was calculated as \$6,406,521 using a discount rate of 20%. The residual proceeds of \$1,783,479 were allocated between warrants and conversion option on a pro-rata basis relative to their fair values. Total financing costs of \$1,866,327 have been allocated proportionately to the equity and liability components.

In July 2018 and January 2019, holders converted a combined total of \$195,000 principal amount of convertible debentures resulting in the issuance of 324,999 Common Shares. The Company paid accrued interest of \$573 upon conversions. On conversions, the Company reduced the present value of the liability by \$127,222 and related equity component by \$13,118.

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**18. Convertible debentures (continued)**

***March 2018 Convertible debentures (continued)***

For the six months ended January 31, 2019, the Company recorded accretion expense on the convertible debentures of \$611,462 (2018 - \$Nil) which is included within finance costs, of which \$360,746 is outstanding in accounts payable and accrued liabilities as at January 31, 2019 (Note 15).

***August 2018 Convertible debentures***

On August 3, 2018, the Company issued 4,200 Convertible Debentures Units (the "Units") for aggregate proceeding of \$4,200,000. Each Unit consists of \$1,000 principal amount of 10% senior secured convertible debentures and 1,429 common share purchase warrants of the Company payable semi-annually. The convertible debentures mature on August 7, 2021.

The debentures are convertible into Common Shares at a conversion price of \$0.70 per share. Each warrant is exercisable to acquire one Common Share for a period of 36 months following closing at an exercise price of \$0.80 per share.

The interest is payable in cash or by issuing Common Shares against the amount due at the sole option of the Company. If the Company elects to issue the Common Shares as interest payment, the price per Common Share shall equal the 20-day volume-weighted average price (VWAP), and the effective interest rate shall be increased to 12% from 10%.

The convertible debentures are secured by the assets of the Company and its subsidiaries, subject to subordination in certain situations. The Company paid finder's a cash commission of \$336,000, of which \$42,000 was paid to FMI Capital Advisory Inc., a related party (Note 22). Additionally, the Company issued 480,000 finder's options, valued at \$162,696, to acquire finder units exercisable at a price of \$0.70 per Finder Unit for a term of 24 months following the closing date. Each Finder Unit will be comprised of one Common Share and one Finder Warrant, with each Finder Unit Warrant entitling the holder to acquire one additional Common Share at 0.80 per share.

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 securities laws and stock exchange rules. If the Common Shares trade at a VWAP under \$0.25 for a period of 50 consecutive trading days while the convertible debentures are outstanding, the conversion price shall be reduced to \$0.30. In accordance to IFRS, the conversion feature of the convertible debenture and warrant meet the definition of a derivative liability as certain events will result in adjustment to the conversion price.

Consequently, on issuance, the convertible debentures were split amongst the financial liability, the conversion feature and warrants. The financial liability portion was determined by subtracting issuance costs and the fair value of the conversion feature and warrants from the principal of the debentures. The fair value of the equity conversion feature and warrants are calculated using the Black-Scholes pricing model and re-measured each reporting period with changes between periods recognized in the condensed interim consolidated statements of income (loss) and comprehensive income (loss). Expected volatility used is based on the Company's share price volatility over the relevant period to expiry. The financial liability portion is measured at amortized cost and accreted such that carrying amount of the convertible debentures will equal the face value of the convertible debenture at maturity.

On initial recognition, the fair value of the derivative liability components was valued first at \$2,600,979 and the residual of \$1,599,021 was allocated to the non-derivative host debenture. Total transaction costs of \$691,420 have been allocated proportionately to the derivative liability and debenture components. Changes in the fair value of the derivative liability are recognized at fair value through profit and loss. For the six months ended January 31, 2019, the Company recognized an unrealized gain on the change in fair value of the derivate liabilities of \$1,092,538.

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**18. Convertible debentures (continued)**

For the six months ended January 31, 2019, the Company recorded accretion expense on the convertible debentures of \$193,962 (2018 - \$Nil) which is included within finance costs, of which \$42,805 is outstanding in accounts payable and accrued liabilities as at January 31, 2019 (Note 15).

The following is a summary of the convertible debenture liability activity:

	January 31, 2019	July 31, 2018
	\$	\$
Balance, beginning of period/year	5,136,061	-
Issuance of convertible debentures	4,200,000	8,190,000
Conversion of principal debenture	-	(100,000)
Unamortized present value discount and transaction costs	(497,870)	(3,206,465)
Estimated fair value of derivative liability on date of issuance (net of transaction costs)	(2,335,492)	-
Conversion	(95,000)	-
Discount amortized	589,175	252,526
<b>Balance, end of period/year</b>	<b>6,996,874</b>	<b>5,136,061</b>

The changes to the embedded derivative liabilities are as follows:

	\$
<b>Balance, July 31, 2018</b>	<b>-</b>
Estimated fair value of derivative liability on date of issuance (net of transaction costs)	2,335,492
Estimated fair value changes of derivative liabilities during the period	(664,540)
<b>Balance, January 31, 2019</b>	<b>1,670,952</b>

The Company used the Black-Scholes valuation model to estimate the fair value of the embedded derivative liabilities upon the initial measurement and as at January 31, 2019 using the following assumptions:

	January 31, 2019	August 2, 2018
Risk-Free Interest Rate	1.38%-1.81%	2.08%-2.12%
Expected Dividend Yield	0%	0%
Expected Stock Price Volatility	132-134%	136%-137%
Expected Life of Debentures	1.5-2.5 years	2-3 years
Forfeiture Rate	0%	0%

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**19. Share Capital**

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

	Number of Shares	Amount
<b>Balance, July 31, 2017</b>	<b>251,200,400</b>	<b>\$12,218,693</b>
Issued on exercise of warrants	31,610,858	6,805,987
Issued for services (i)	228,571	102,500
Issued on exercise of options	1,996,272	543,957
Issued pursuant to Calyx acquisition (ii)	2,025,411	1,032,960
Issued pursuant to Pasa Verde acquisition (iv)	3,094,560	1,083,096
Issued for intangible assets (iii)	750,000	345,000
Issued on conversion of debentures (Note 18)	166,666	71,973
<b>Balance, July 31, 2018</b>	<b>291,072,738</b>	<b>\$ 22,204,166</b>
Issued on exercise of options	698,711	120,238
Issued on exercise of warrants	1,385,128	565,207
Issued pursuant to Pasa Verde acquisition (v)	123,782	43,324
Issued pursuant to Calyx acquisition (vi)	486,500	145,950
Shares for debt settlement (vii)	364,035	81,908
Issued for services (viii)	50,000	10,000
Issued on conversion of debentures (ix)	158,333	68,368
Shares issued pursuant to Moses Garden acquisition (x)	13,432,098	3,828,148
Shares for interest on convertible debt (xi)	1,076,847	208,504
<b>Balance, January 31, 2019</b>	<b>308,848,172</b>	<b>\$ 27,275,813</b>

- (i) On January 17, 2018, the Company issued 178,571 Common Shares valued at \$75,000 as compensation for services where the fair value of the Common Shares was determined based on the value of services received. The Company also issued 50,000 Common Shares valued at \$27,500 to an employee of the Company pursuant to an employment agreement, where the fair value of the Common Shares was based on the share price on the date of issuance.
- (ii) On March 15, 2018, the Company issued 2,025,411 Common Shares to Calyx (Note 3), valued at \$1,032,960 based on the share price on the date of issuance.
- (iii) On June 5, 2018, the Company issued 750,000 Common Shares to Purple Haze Properties, LLC valued at \$345,000 based on the share price on the date of issuance pursuant to the amended Purple Haze agreement (Note 13).
- (iv) On July 26, 2018, the Company issued 3,094,560 Common Shares to Pasa Verde (Note 3), valued at \$1,083,096 based on the share price on the date of issuance.
- (v) On August 10, 2018, the Company issued 123,782 Common Shares to FMI Capital Advisory Inc., a related party, valued at \$43,324 as a finders' fee pursuant to the acquisition of Pasa Verde (Note 3).
- (vi) On September 28, 2018, the Company issued 486,500 Common Shares to shareholders of Calyx (Note 3), valued at \$145,960 based on the share price on the date of issuance.

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**19. Share Capital (continued)**

- (vii) On November 22, 2018, the Company issued 364,035 units to settle outstanding debt owing to a vendor in the amount of \$163,816. Each unit is comprised of one Common Share and one-half warrant. Each whole warrant is exercisable into one Common Share at an exercise price of \$0.80 per share for a period of 24 months from issuance. A gain of \$119,387 is recognized on the settlement of this debt settlement.
- (viii) On December 12, 2018, the Company issued 50,000 Common Shares valued at \$10,000 as compensation for services where the fair value of the Common Shares was determined based on the value of services received.
- (ix) On January 2, 2019, convertible debenture of \$95,000 (Note 18) were converted to 158,333 Common Shares at a price of \$0.60 per share.
- (x) On January 4, 2019, the Company issued 13,432,098 Common Shares to Moses Garden LLC (Note 4), valued at \$3,828,148 based on the share price on the date of issuance.
- (xi) On January 7, 2019 and January 18, 2019, the Company issued 1,076,847 Common Shares to the holders of August 2018 convertible debenture (Note 18), representing 12% interest payment from August 3, 2018 to December 31, 2018.

**20. Reserve for Share Based Payments**

The Company has a stock option plan, and effective July 11, 2018, an RSU plan ("RSU") to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs ("Option Plan"). The maximum number of Common Shares reserved for issuance for RSUs that may be granted under the Plan is 5% of the total issued and outstanding Common Shares. The maximum number of Common Shares reserved for issuance for options and RSU that may be granted under the Plan is 10% of the total issued and outstanding Common Shares which was 308,848,172 at January 31, 2019. As at January 31, 2019, the Company has not issued any RSUs.

The following table reflects the continuity of Options:

	<b>Number of Options</b>		<b>Amount</b>
<b>Balance, July 31, 2017</b>	<b>16,642,500</b>	<b>\$</b>	<b>1,357,328</b>
Granted (i)(ii)(iii)(iv)(v)(vi)	6,500,000		955,532*
Exercised	(1,996,272)		(219,191)
Forfeited	(950,000)		-
Expired	(250,000)		-
<b>Balance, July 31, 2018</b>	<b>19,946,228</b>	<b>\$</b>	<b>2,093,669</b>
Granted (vii)(viii)(ix)(x)(xi)(xii)	3,030,000		840,461*
Exercised	(698,711)		(46,656)
Forfeited/cancelled	(1,000,000)		-
Expired	(1,115,000)		-
<b>Balance, January 31, 2019</b>	<b>20,162,517</b>	<b>\$</b>	<b>2,887,474</b>

\* Amount includes share-based payments for stock options granted in the prior years and vested during the period/year.

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**20. Reserve for Share Based Payments (continued)**

- (i) On October 30, 2017, 500,000 options valued at \$58,000 were granted to a consultant of the Company. The options are exercisable into Common Shares of the Company at a price of \$0.13 per Common Share for a period of 5 years from the date of issuance. A total of 150,000 options vest immediately, and the remaining 350,000 options shall vest every six months in equal amount over eighteen months.
- (ii) On January 17, 2018, 500,000 options valued at \$230,401 were granted to an employee of the Company. The options are exercisable into Common Shares of the Company at a price of \$0.58 per Common Share for a period of 5 years, vesting one-third per year over three years.
- (iii) On February 21, 2018, 500,000 options valued at \$220,152 were granted to an officer of the Company. The options are exercisable at a price of \$0.50 per Common Share for a period of 5 years from the date of issuance. A total of 140,000 options vested immediately, and the remaining 360,000 options vest every 6 months in equal amount over thirty-six months.
- (iv) On March 15, 2018, 900,000 options valued at \$402,580 were granted to employees. The options are exercisable at a price of \$0.51 per Common Share for a period of 5 years from the date of issuance. The options vest 25% immediately and 25% every 8 months thereafter.
- (v) On May 7, 2018, 400,000 options valued at \$118,311 were granted to a consultant. The options are exercisable at a price of \$0.40 per Common Share for a period of 5 years from the date of issuance. The options vest 25% every three months from date of issuance.
- (vi) On May 8, 2018, 3,700,000 options valued at \$1,137,393 were granted to directors and consultants of the Company. The options are exercisable at a price of \$0.36 per Common Share, for a period of 5 years from issuance. The options vest every six months over 18 months, in equal amount until fully vested.
- (vii) On August 14, 2018, 730,000 options valued at \$57,695 were granted to employees and consultants of the Company. The options are exercisable at a price of \$0.35 per Common Share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.
- (viii) On August 14, 2018, 100,000 options valued at \$25,085 were granted to a consultant of the Company. The options are exercisable at a price of \$0.35 per Common Share, for a period of 5 years from issuance. The options vest 50% every six months from the date of issuance.
- (ix) On December 6, 2018, 750,000 options valued at \$94,763 were granted to employees and consultants of the Company. The options are exercisable at a price of \$0.30 per Common Share, for a period of 5 years from issuance. The options vest one-third every six months from the date of issuance.
- (x) On December 6, 2018, 650,000 options valued at \$51,224 were granted to employees and consultants of the Company. The options are exercisable at a price of \$0.30 per Common Share, for a period of 2 years from issuance. The options vest one-third every six months from the date of issuance.
- (xi) On January 7, 2019, 300,000 options were issued to a former officer of the Company to replace 300,000 options granted on February 21, 2019 and an additional value of \$6,997 was recognized on issuance. The options are exercisable at a price of \$0.30 per Common Share, for a period of 2 years from issuance and vest immediately.
- (xii) On January 30, 2019, 500,000 options valued at \$89,339 were granted to an employee and a consultant of the Company. The options are exercisable at a price of \$0.30 per Common Share, for a period of 2 years from issuance. The options vest one-third every six months from the date of issuance.

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**20. Reserve for Share Based Payments (continued)**

In connection to the options granted to consultants during the six months ended January 31, 2019 and year-ended July 31, 2018, the fair value of services received cannot be estimated reliably, thus the fair value of the options has been measured using the Black-Scholes option pricing model which used the fair value of common shares of the Company as a reference on grant date.

The estimated fair value of options granted during the six months ended January 31, 2019 and year-ended July 31, 2018 were determined using the Black-Scholes option pricing model with the following assumptions:

	<b>January 31, 2019</b>	<b>July 31, 2018</b>
Risk-Free Interest Rate	<b>1.82%-22.23%</b>	1.63%-2.16%
Expected Dividend Yield	<b>0%</b>	0%
Expected Stock Price Volatility	<b>122%-144%</b>	131%-140%
Expected Life of Options	<b>2-5 years</b>	5 years
Forfeiture Rate	<b>0%</b>	0%

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

As at January 31, 2019, the following stock options were outstanding:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>
July 7, 2019	\$0.10	1,200,000	1,200,000
March 18, 2020	\$0.10	1,825,000	1,825,000
June 10, 2020	\$0.10	400,000	400,000
December 6, 2020	\$0.30	650,000	-
December 21, 2020	\$0.075	350,000	350,000
January 7, 2021	\$0.30	300,000	300,000
January 30, 2021	\$0.30	500,000	-
April 21, 2021	\$0.07	2,500,000	2,083,333
October 17, 2021	\$0.135	1,500,000	1,500,000
April 17, 2022	\$0.15	2,900,000	2,900,000
April 17, 2022	\$0.15	1,600,000	1,600,000
July 10, 2022	\$0.12	200,000	200,000
October 30, 2022	\$0.13	257,517	257,517
February 21, 2023	\$0.50	200,000	200,000
March 15, 2023	\$0.51	800,000	425,000
May 7, 2023	\$0.40	200,000	200,000
May 8, 2023	\$0.36	3,700,000	1,233,333
August 14, 2023	\$0.35	230,000	-
August 14, 2023	\$0.35	100,000	-
December 6, 2023	\$0.30	750,000	-
		<b>20,162,517</b>	<b>14,674,183</b>

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**20. Reserve for Share Based Payments (continued)**

As at January 31, 2019, the weighted average exercise price of options exercisable was \$0.159 (July 31, 2018 - \$0.131), the weighted average exercise price of options outstanding was \$0.207 (July 31, 2018 - \$0.195) and the weighted average remaining contractual life of stock options was 2.85 years (July 31, 2018 – 3.25 years). For the six months ended January 31, 2019, the weighted average exercise price of stock options exercised was \$0.105 (July 31, 2018 - \$0.163).

**21. Reserve for Warrants**

The following table reflects the continuity of warrants:

	<b>Number of Warrants</b>	<b>Amount</b>
<b>Balance, July 31, 2017</b>	<b>37,751,548</b>	<b>\$ 2,447,639</b>
Warrants pursuant to convertible debenture (Note 18)	14,719,396	1,384,775
Warrants issued and modified pursuant to promissory note (Note 16)	750,000	221,128
Warrants issued	1,005,486	-
Warrants expired	(492,346)	-
Warrants exercised	(31,610,858)	(1,791,711)
<b>Balance, July 31, 2018</b>	<b>22,123,226</b>	<b>\$ 2,261,831</b>
Warrants pursuant to convertible debenture (Note 18)	6,481,800	-
Warrants pursuant to sale and leaseback (Note 17)	553,609	63,424
Warrants pursuant to debt settlement (Note 19 (vii))	182,018	15,024
Warrants issued	511,197	-
Warrants exercised	(1,385,128)	(331,990)
Warrants expired	(229,157)	-
<b>Balance, January 31, 2019</b>	<b>28,237,565</b>	<b>\$ 2,008,289</b>

The estimated fair value of warrants granted during the six months ended January 31, 2019 and year-ended July 31, 2018 was determined using the Black-Scholes option pricing model with the following assumptions:

	<b>January 31, 2019</b>	<b>July 31, 2018</b>
Risk-Free Interest Rate	<b>1.86%-2.35%</b>	1-75%-1.88%
Expected Dividend Yield	<b>0%</b>	0%
Expected Stock Price Volatility	<b>123-159%</b>	141%-147%
Expected Life of Warrants	<b>2 – 3 years</b>	1.5 – 3 years



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**21. Reserve for Warrants (continued)**

As at January 31, 2019, the following warrants were outstanding:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Number of Warrants</b>
June 6, 2019	\$0.165	1,217,390
October 18, 2019	\$0.15	1,000,000
October 18, 2019	\$0.06	3,333,334
October 18, 2019	\$0.70	750,000
March 15, 2020	\$0.60	13,336,000
March 15, 2020	\$0.60	1,066,666
March 15, 2020	\$0.70	316,730
August 3, 2021	\$0.80	6,001,800
August 3, 2020	\$0.80	480,000
November 7, 2020	\$0.70	264,689
November 12, 2020	\$0.70	156,574
November 22, 2020	\$0.80	182,018
January 24, 2022	\$0.70	132,364
		<b>28,237,565</b>

As at January 31, 2019, the weighted average exercise price of the warrants was \$0.558 (July 31, 2018 - \$0.462) and the weighted average remaining contractual life of the warrants was 1.34 years (July 31, 2018 – 1.42 years). For the six months ended January 31, 2019, the weighted average exercise price of the warrants exercised was \$0.168 (July 31, 2018 - \$0.159).

**22. Related Parties and Key Management**

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

The following is a summary of the related party transactions, including the key management compensation for the six months ended January 31, 2019 and 2018:

- a. Incurred professional fees of \$96,919 (2018 - \$72,000) from Branson Corporate Services, a company in which a company with a related director, Adam Szweras, has a 49% ownership interest. As at January 31, 2019, \$Nil (2018 - \$Nil) was due to Branson Corporate Services.
- b. Incurred consulting fees of \$138,580 (2018 - \$156,864) from FMI Capital Advisory Inc. ("FMI"), a company with a related director, Adam Szweras. In connection to acquisition of Pasa Verde (Note 3), the Company is obligated to pay up to \$315,014 (US\$242,000) to FMI, representing a 4% finders' fees, payable in cash and shares, due at the same date as payments to shareholder of Pasa Verde. The Company issued 123,782 shares pursuant to the Pasa Verde acquisition (Note 3) as finders' fees valued at \$43,324 to FMI. In connection with the August 2018 Convertible debentures (Note 18), the Company paid FMI a cash finder's fee of \$42,000. As at January 31, 2019, \$197,371 (2018 - \$18,080) was due to FMI and \$6,662 (2017 - \$6,327) was due from FMI.
- c. Incurred marketing expenses of \$166,742 (2018 - \$39,534) from Plexus Cybermedia Ltd., a company in which a director, Brian Presement, has a 33% ownership interest in. As at January 31, 2019, \$62,003 (2018 - \$28,237) was due to Plexus Cybermedia Ltd.
- d. Incurred professional fees of \$109,264 (2018 - \$99,428) from Fogler, Rubinoff, LLP, a law firm in which a director, Adam Szweras, is a partner. As at January 31, 2019, \$28,185 (2018 - \$125,112) was due to Fogler Rubinoff, LLP.

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**22. Related Parties and Key Management (continued)**

- e. Incurred management compensation to key management and directors of \$410,045 (2018 – \$207,885) in cash and \$725,065 (2018 - \$150,427) in stock-based payments. As at January 31, 2019, \$52,500 (2018 - \$52,500) is included in shares to be issued to an officer of the Company.
- f. Incurred professional fees of \$180,229 (2018 - \$Nil) from JRG Attorneys, a law firm in which a director, Aaron Johnson, is a partner. Aaron Johnson was appointed to the board on Feb 20, 2018. As at January 31, 2019, \$168,784 (2018 - \$Nil) was due to JRG Attorneys.
- g. As at January 31, 2019, the Company had \$Nil (2018 - \$67,460) due to officers and/or directors of the Company.
- h. On May 1, 2017, the Company transferred 1,000,000 shares of Aura valued at \$100,000 to a director of the Company, David Posner, as a bonus, and 289,293 shares of Aura \$28,929 to FMI Capital Advisory Inc. as consulting fee.
- i. In connection with the IP assignment and option agreement of Dab Sticks (Note 13), a director of the Company, Billy Morrison, is one of the vendors.

**23. Non-controlling interest**

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is condensed interim consolidated into the Company's condensed interim consolidated financial statements. The 49% interest attributable to a minority shareholder is presented as "non-controlling interest" within shareholders' equity on the condensed interim consolidated statements of financial position. For the six months ended January 31, 2019, the Company recorded \$Nil (2018 - \$Nil) of the net loss and comprehensive loss related to EMAL.

**24. Management of Capital**

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended January 31, 2019. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be shareholders' equity, which is comprised of share capital, shares to be issued, reserve for warrants, reserve for share-based payments, reserve for foreign currency translation, equity component of convertible debentures, non-controlling interest, and deficit, which as at January 31, 2019 totaled \$10,451,655 (July 31, 2018 - \$10,727,113).

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

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## **25. Financial Instruments**

### **Fair Value of Financial Instruments**

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs to fair value measurements. The three levels of hierarchy are:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based on observable market data

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

The Company designated its cash and short-term investments as fair value through profit and loss, which is measured at fair value and is classified as Level 1. The Company designated its investments as fair value through profit and loss, which is measured at fair value and is classified as Level 2. The Company designated derivative liability as fair value through profit and loss, which is measured at fair value and classified as Level 2.

The recorded value of the Company's accounts receivable, promissory note receivable, debenture receivable, financial guarantee receivable, accounts payable and accrued liabilities, finance lease, promissory note payable, consideration payable and put option guarantee approximate their fair value.

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

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

#### **Credit risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to accounts receivable, promissory note receivable, debenture receivable, financial guarantee receivable. The Company has no other significant concentration of credit risk arising from operations. Cash and short-term investments are held with a reputable credit union which is closely monitored by management. Accounts receivable consists of trade amounts receivable, harmonized sales tax due from the Canadian government and other receivable from third parties.

#### **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's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due.

As at January 31, 2019, the Company had working capital deficiency of \$620,321 (2018 – \$980,714), current assets of \$11,288,423 (July 31, 2018 - \$7,387,873) and current liabilities of \$11,907,744 (July 31, 2018 - \$8,368,587).

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**25. Financial Instruments (continued)**

**Foreign currency exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company enters into foreign currency purchase transactions and has assets and liabilities that are denominated in foreign currencies and thus is exposed to the financial risk fluctuations arising from changes in foreign exchange rates and the degree of volatility of these rates. The Company does not currently use derivative instruments to reduce its exposure to foreign currency risk.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by \$171,824 (2018 – \$232,194) as a result of the Company's exposure to currency exchange rate fluctuations.

**Interest rate risk**

Interest rate risk is the potential for financial loss arising from changes in interest rates. Financial instruments that potentially subject the Company to interest rate risk include financial liabilities with fixed interest rates. The Company manages interest rate risk by monitoring market conditions and the impact of interest rate fluctuations on its debt.

Net earnings are sensitive to the impact of a change in interest rates on the average balance of interest-bearing financial liabilities during the year. An increase (decrease) of 25 basis points would have impacted net loss by \$15,857 (2018 - \$4,995) because of the Company's exposure to interest rate fluctuations.

**26. Commitments and Contingencies**

**Abba Medix Corp.**

On October 11, 2017, the Company entered into an Agreement ("the Abba Agreement") with Canada House Wellness Group Inc.'s wholly-owned subsidiary, Abba Medix Corp. ("Abba") to create a joint venture ("Joint Venture") to manufacture cannabis oil extracts and cannabis-infused products in Canada under the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). On November 9, 2017, the parties amended the Abba Agreement as binding. The Joint Venture will focus on two main product lines: (i) a line of products offered exclusively to existing Abba patients; and (ii) a line of FLI-branded products that will be offered to eligible patients across Canada and to the adult-use market, when permitted by regulation.

**Bellingham, Washington**

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

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

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**26. Commitments and Contingencies (continued)**

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

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

On October 27, 2017, the Company, through its subsidiaries, entered the following agreements with Mt. Baker Greeneries LLC ("Mt. Baker"):

- (i) Sub-lease agreement for base rent of US\$10,000 per month effective October 7, 2017 expiring on September 30, 2020;
- (ii) Equipment purchase and leaseback agreement whereby the Company bought certain equipment for US\$25,350 from Mt. Baker and leased it back for a period of two years at US\$1,181 per month; and
- (iii) Equipment, technology, exclusive license, materials and packaging agreement expiring December 31, 2022, to supply certain materials and packaging, equipment and technology to Mt. Baker. In consideration for an exclusive license to use the technology, Mt. Baker shall pay \$61,465 (US\$50,000) no later than 18 months from the date of the agreement.

The Company has decided that it is no longer proceeding with Mt. Baker and has begun the process of terminating all agreements with Mt. Baker and Bellingham lease.

**NeutriSci International Corp. ("NeutriSci")**

On May 29, 2018, the Company entered into a binding Memorandum of Understanding ("MOU") with NeutriSci to jointly develop THC and/or CBD products. NeutriSci shall supply product ingredients for production and will fund US\$5,000 for the roll-out of the Products in the State of California and ongoing product promotion of up to US\$5,000 per quarter thereafter, based on a promotion plan to be developed and approved jointly. The Company shall be the exclusive manufacturer and distributor of the products. The agreement has a term of 5 years, with an option to renew for an additional 5 years.

**Green Therapeutics, LLC**

On September 30, 2018, the company entered into a membership interest purchase agreement to acquire 75% of Green Therapeutics LLC ("GTL"), a Nevada limited liability company, with its founding members ("the sellers"), for US\$18 million, to be paid as follows:

- (i) US\$2,000,000 in cash due to GTL and US\$4,000,000 in shares to be issued to the sellers at a price which is the lesser of (i) US\$0.27 per share, or (ii) the 20-day volume weighted average price ("VWAP") due upon closing;
- (ii) US\$4,600,000 in cash due to GTL on a mutually agreed time but no later than within 18 months post-closing; and
- (iii) US\$7,400,000 in promissory note (the "Note") to the sellers with US\$3,400,000 of which shall mature 12 months from closing, and \$4,000,000 of which shall mature 24 months from closing.

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**26. Commitments and Contingencies (continued)**

At any time after the date the secured notes have been satisfied and paid in full and then upon fifteen days prior written notice ("Option Notice") to GTL, the Company has an option to acquire the remaining 25% of GTL at any time after the payment or conversion of the Note for (i) \$7,500,000 if the Option Notice is sent on or before the second anniversary of the Closing; or thereafter (ii) the greater of (a) \$7,500,000 or (b) a multiple based on the 12-month EBITDA. The purchase price will be paid in cash, or at the election of the Vendors, 50% in Common Shares.

GTL has an option to require the Company to buy their 25% remaining interest in GTL at any time after the second anniversary after the Closing at a price equal to a multiple based on the 12-month EBITDA. If the option is exercised, the purchase price will be paid half in cash and Common Shares.

Concurrent with the closing of the acquisition, the Company will purchase a property for US\$1,519,000 consisting of cultivation facilities and parcels of land for cultivation expansion utilized by GTL.

During the six months ended January 31, 2019, the Company advanced US\$350,000 (Note 5) to GTL, which will be offset against the purchase price on closing.

**Office and Operating Leases**

The Company leases certain business facilities from third parties under operating lease agreements that specify minimum rentals. The leases expire through 2021 and contain certain renewal provisions.

Future minimum lease payments under non-cancellable operating leases having an initial or remaining term of more than one year are as follows:

	<b>\$</b>
2020	466,875
2021	218,720
2022	-
<b>Total</b>	<b>685,595</b>

**27. Supplemental Information for condensed interim consolidated statements of cash flows**

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Interest paid	<b>482,454</b>	97,803
Shares issued for services	<b>10,000</b>	157,500
Shares issued for settlement of debt	<b>81,908</b>	-
Conversion of Aura debenture	<b>120,000</b>	-
Shares received for settlement of put option	<b>75,000</b>	-
Consideration paid pursuant to Calyx acquisition	<b>763,321</b>	-
Shares issued for debenture interest	<b>208,504</b>	-

**Nutritional High International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended January 31, 2019 and 2018**  
*(Expressed in Canadian dollars)*

**28. Office and general**

	Six months ended January 31, 2019 \$	Six months ended January 31, 2018 \$
Advertising and marketing	294,964	309,924
Automotive and transportation	498,291	-
Bank service charges	5,249	9,214
General Admin	136,445	4,754
Insurance	200,123	50,507
Investor relations	139,977	48,950
Permits and licenses	90,656	(6,382)
Rent	480,982	67,056
Repairs and maintenance	34,177	485
Research and development	38,617	-
Security	178,749	-
Travel expenses	224,282	99,356
Utilities and supplies	153,245	19,056
<b>Total</b>	<b>2,475,758</b>	<b>602,920</b>

\*\$1,534,779 (2018 - \$Nil) of the total office and general expenses were from operations in Calyx and Pasa Verde, which were acquired in March 2018 and July 2018 (Note 3), respectively.

**29. Subsequent events**

**Pasa Verde LLC**

Effective February 1, 2019, the City of Sacramento Cannabis Policy and Enforcement (the "City") has rescinded local authorization for cannabis manufacturing for Pasa Verde. The City has provided a path for a reapplication process once the building improvements have been completed. Without local authorization in place, the California Department of Public Health was required to revoke Pasa Verde's state temporary manufacturing license.

**Shares issuance**

On February 28, 2019, the Company issued 133,334 Common Shares to pay for services of consultants in the amount of \$60,000.

**Private placement**

On March 14, 2019, the Company completed a non-brokered private placement (the "Private Placement") with Apple Wealth Holding Company Limited ("AWH"), consisting of 5,000,000 Common Shares at a price of \$0.27 per Common Share for gross proceeds of \$1,350,000. In connection with Private Placement, the Company incurred \$27,000 and issued 100,000 Common Shares of commission costs. Concurrently, the Company entered into a 12 months consulting agreement with a shareholder and senior advisor of AWH, which shall be paid in form of issuance of 700,000 Common Shares at a price of \$0.27 per Common Share.

**Options**

On March 14, 2019, the Company granted 650,000 stock options to employees of the Company. The options are exercisable into Common Share at a price of \$0.30 per Common Share for a period of 5 years from the date of issuance. The options vest one-third every six months from the date of issuance.

**Warrants**

Subsequent to January 31, 2019, 1,297,054 warrants were exercised for gross proceeds of \$216,005 and 303,881 underlying warrants were issued through the exercise of brokers' units, and 40,200 warrants expired.

**Nutritional High International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**29. Subsequent events (continued)**

**Conversion of convertible debenture**

On March 25, 2019, convertible debentures of \$81,000 (Note 18) were converted to 115,714 common shares at a price of \$0.70 per share.