

Nutritional High International Inc.

Consolidated Financial Statements

For the years ended July 31, 2016 and 2015

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the consolidated statement of financial position date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

“Jim Frazier”, Director and CEO

“Amy Stephenson”, CFO

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Nutritional High International Inc.

We have audited the accompanying consolidated financial statements of Nutritional High International Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2016 and July 31, 2015, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended July 31, 2016 and July 31, 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Nutritional High International Inc. and its subsidiaries, as at July 31, 2016 and July 31, 2015, and its financial performance and its cash flows for the years ended July 31, 2016 and July 31, 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes the material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Canada
November 28, 2016

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

As at July 31,	2016	2015
Assets		
Current		
Cash	\$ 111,786	\$ 19,567
HST receivable (Note 4)	46,950	121,572
Other receivable	-	9,459
Prepays (Note 19)	127,247	238,115
Property deposit	13,132	-
	299,115	388,713
Non-current assets		
Investment property (Note 6)	1,405,813	1,129,582
Amounts due from Palo Verde LLC (Note 5)	592,998	197,842
License (Note 19)	201,652	249,780
Capital assets (Note 7)	186,871	-
Property deposit	-	6,671
	\$ 2,686,449	\$1,972,588
Liabilities		
Current		
Accounts payable and accrued liabilities (Notes 8 and 9)	\$ 1,029,164	\$ 272,274
Promissory notes payable (Note 10)	702,493	-
	1,731,657	272,276
Non-current liabilities		
Promissory notes payable (Note 10)	302,506	-
Convertible debentures (Note 15)	271,821	539,910
Derivative liability (Note 15)	4,960	330,065
	2,310,944	1,142,249
Shareholders' Equity		
Share capital (Note 11)	4,068,429	2,719,740
Shares to be issued	63,390	-
Reserve for share based payments (Note 12)	371,252	314,000
Reserve for warrants (Note 11 and 13)	778,658	566,399
Reserve for foreign currency translation	(9,672)	(15,285)
Equity component of convertible debentures	167,260	-
Accumulated deficit	(5,049,062)	(2,740,442)
Non-controlling interest (Note 14)	(14,750)	(14,073)
	375,505	830,339
	\$ 2,686,449	\$1,972,588

Nature of Operations and Going Concern (Note 1)
Commitments (Note 20)
Subsequent Events (Note 22)

Approved on behalf of the Board:

"Adam Szweras" Director "David Posner" Director

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

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

	For the Year Ended July 31, 2016	For the Year Ended July 31, 2015
Revenue		
Interest	\$ 72,953	8,492
Rental income (Note 5)	515,324	202,270
Consulting income	20,000	-
	\$ 608,277	\$ 210,762
Expenses		
Management and consulting fees (Note 9)	\$ 961,252	\$ 753,432
Professional fees (Note 9)	290,642	468,809
Office and general administrative	460,002	480,167
Loss (gain) on foreign exchange	29,462	(185,778)
Share based payments (Note 12 and 13)	191,252	286,000
Change in fair value of derivative liability (Note 15)	(42,340)	277,753
Finance costs	171,196	73,216
Amortization	250,445	25,523
Allowance for amounts receivable (Note 5)	200,000	100,000
Loss (gain) on settlement of debts	(22,794)	-
Impairment on investment property	428,457	-
Net income (loss)	(2,309,297)	(2,068,360)
Other Comprehensive income (loss)		
<i>Items that may be reclassified subsequently to net income/loss</i>		
Exchange differences on translating foreign operations	5,613	(15,285)
Net loss and comprehensive loss	\$ (2,303,684)	\$ (2,083,645)
Net loss attributable to non-controlling interest (Note 14)	\$ (677)	\$ (9,073)
Net loss attributable to parent company	(2,308,620)	(2,059,287)
	\$ (2,309,297)	\$ (2,068,360)
Net loss and comprehensive loss attributable to non-controlling interest (Note 14)	\$ (677)	\$ (9,073)
Net loss and comprehensive loss attributable to parent company	(2,303,007)	(2,074,572)
	\$ (2,303,684)	\$ (2,083,645)
Weighted average number of shares outstanding		
- Basic and diluted (Note 3.2)	133,212,627	91,731,676
Loss per share		
- Basic and diluted (Note 3.2)	\$ (0.02)	\$ (0.02)

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

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

Note	Share Capital		Equity Component of Convertible Debt	Revenue for Share-based payments	Revenue for Warrants	Revenue for Foreign Currency Translation	Shares to be Issued	Accumulated Deficit	Attributable to owners of Parent	Non-controlling Interest	Total
	Number of shares	Amount									
Balance at July 31, 2014	71,913,631	\$ 1,653,462	\$ -	\$ 26,000	\$ 65,000	\$ -	\$ -	\$ (841,165)	\$ 476,327	\$ -	\$ -476,327
Private placements (Note 11)	4,000,000	12,000	-	-	84,000	-	-	-	96,000	-	96,000
Issued warrants based on connection with private placement (Note 11)	-	-	-	-	363,000	-	-	-	363,000	-	363,000
Issued warrants based on connection with initial public offering (Note 13)	32,800,000	1,218,000	-	-	363,000	-	-	-	1,581,000	-	1,581,000
Compensation warrants issued in connection with initial public offering (Note 13)	-	-	-	-	(48,000)	-	-	-	64,000	-	64,000
Shares issued on exercise of warrants (Note 11)	5,044,638	322,852	-	-	(48,000)	-	-	-	274,851	-	274,851
Issued for success fee (Note 9 & 11)	700,000	16,000	-	-	19,000	-	-	-	35,000	-	35,000
Issued for extension fee (Note 10 & 15)	800,000	44,000	-	-	16,000	-	-	-	30,000	-	30,000
Issued for success fee (Note 9 & 11)	3,333,334	250,000	-	-	250,000	-	-	-	500,000	-	500,000
Issued for income and royalty fee (Note 11 and 19)	66,667	5,000	-	-	-	-	-	-	200,000	(5,000)	195,000
Shares based on payments (Note 12)	-	-	-	286,000	-	-	-	-	(238,194)	-	(41,814)
Exchange loss on translating foreign currency translation	-	-	-	-	-	-	-	-	(15,265)	-	(15,265)
Net loss for the year	-	-	-	-	-	-	-	(2,055,297)	(2,059,237)	(9,973)	(2,069,210)
Balance at July 31, 2015	149,369,335	\$ 2,719,749	\$ -	\$ 314,000	\$ 686,398	\$ (15,265)	\$ -	\$ (2,416,449)	\$ 250,000	\$ (14,479)	\$ 250,000
Private placements (Note 11)	5,000,000	193,000	-	-	62,000	-	-	-	134,400	-	134,400
Shares issued on exercise of warrants (Note 11)	2,789,000	147,141	-	-	(12,741)	-	-	-	63,390	-	63,390
Issued for success fee (Note 9 & 11)	-	-	-	-	-	-	-	-	-	-	-
Issued for non-cash consideration	-	-	-	-	-	-	-	-	-	-	-
Issued for services (Note 11)	706,668	35,334	-	-	-	-	-	-	35,334	-	35,334
Issued for success fee (Note 9 & 11)	600,000	30,000	-	-	-	-	-	-	30,000	-	30,000
Issued for income and royalty fee (Note 11 and 19)	5,853,334	450,000	-	-	134,000	-	-	-	584,000	-	584,000
Issued for debt settlements (Note 11)	2,822,700	127,622	-	-	-	-	-	-	127,622	-	127,622
Shares based on payments	-	-	-	57,622	-	-	-	-	57,622	-	57,622
Conversion component of convertible debt (Note 10)	-	-	-	-	29,000	-	-	-	29,000	-	29,000
Share issue costs (Note 11)	-	(842)	-	-	-	-	-	-	(842)	-	(842)
Net loss for the year	-	-	-	-	-	-	-	(2,308,620)	(2,308,620)	(677)	(2,309,297)
Balance at July 31, 2016	145,192,514	\$ 4,068,429	\$ 67,260	\$ 371,622	\$ 776,658	\$ (8,821)	\$ 63,390	\$ (6,648,069)	\$ 390,215	\$ (14,750)	\$ 376,065

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

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

	For the Year Ended July 31, 2016	For the Year Ended July 31, 2015
OPERATING ACTIVITIES		
Net Income (Loss)	\$ (2,309,297)	\$ (2,068,360)
Item not affecting cash:		
Amortization	250,445	25,523
Interest accretion	37,927	22,222
Shares issued for services	35,334	122,500
Impairment of investment property	428,457	-
Interest paid	-	(46,157)
Share based payments (Note 11)	191,252	286,000
Allowance for amounts receivable (Note 5)	200,000	100,000
Change in the fair value of derivative liability	(42,340)	277,753
Net change in non-cash working capital and other items:		
HST receivables and other receivables	84,081	(107,284)
Prepays	150,868	(175,668)
Amounts due from Palo Verde LLC (Note 5)	(647,410)	(191,674)
Accounts payable and accrued liabilities	949,956	159,557
Cash Flow Used in Operating Activities	(670,727)	(1,595,567)
INVESTING ACTIVITIES		
Amounts due from Palo Verde LLC (Note 5)	52,258	(60,335)
Property deposit (Note 7)	(6,461)	(5,962)
Purchase of investment property (Note 6)	(750,291)	(977,744)
Purchase of capital assets	(188,450)	-
Cash Flow Used Investing Activities	(892,944)	(1,044,041)
FINANCING ACTIVITIES		
Issuance of share capital, net of share issue costs (Note 11)	249,198	1,680,157
Shares issued on warrant exercise	134,400	-
Issuance of promissory notes	1,041,630	-
Repayment of promissory notes	(22,009)	-
Settlement of convertible debt	(127,000)	-
Convertible debentures issued, net of issue costs (Note 15)	291,427	543,000
Shares to be issued	63,390	-
Cash Flow Provided by Financing Activities	1,631,036	2,223,157
Net increase (decrease) in cash	\$ 67,365	\$ (416,451)
Effects of exchange rate changes on cash	24,854	(181,047)
Cash at beginning of year	19,567	617,066
Cash at end of year	\$ 111,786	\$ 19,567
Share based payments (Note 12)		
Conversion of convertible debt (Note 15)		
Modification of warrants (Note 13)		

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

Nutritional High International Inc.
Notes to the consolidated Financial Statements
For the year ended July 31, 2016 and July 31, 2015
(expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Nutritional High International Inc. ("Nutritional High" or "the Company" or "NHII") is the parent company of NHII Holdings Ltd. formerly Nutritional High Ltd. ("NHHL"), NH Real Estate Holdings Ltd ("NHREH"), NH Properties Inc ("NHPI"), Nutritional High (Colorado) Inc. ("NHCI"), NHC Edibles LLC ("NHC"), NH Medical Dispensaries Inc. ("NHMDI"), NH Medicinals (Maryland) Inc. ("NHMMI"), Small's Mill Holdings Inc. ("SMHI"), Nutritional Traditions Inc. ("NTI"), NH Medicinal (Minnesota) Inc., and Eglinton Medicinal Advisory Ltd ("EMAL"). The Company's objective is to take advantage of the changing regulation governing the marijuana industry in the United States and Canada. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company is listed on the Canadian Securities Exchange (CSE) under symbol "EAT". The Company is also listed on the OTCQB Marketplace under US symbol: SPLIF.

The Company was incorporated on July 19, 2004 under the Canada Business Corporations Act.

The consolidated financial statements were approved by the Board of Directors on November 28, 2016.

The Company is in the process of developing brands, trademark applications, and packaging for a confectionery line. The Company is also developing a licensing/franchising system to work with licensed marijuana edibles manufacturers and in this regard, is negotiating with parties who are licensed or seeking a manufacturing license.

The Company has earned rental income but the balance is uncollected and included in Amounts due from Palo Verde LLC as at July 31, 2016. Collection is dependent on commencement of operations at the facility leased by Palo Verde LLC. The Company has not yet realized any revenue from its non-rental operations and will not be able to do so until a license/franchise arrangement is negotiated with licensed parties. As such, there is uncertainty with respect to the Company's ability to continue as a going concern, dependent upon such events as financing, entering into agreements with licensed parties, commencement of sales and market demand conditions. There is no assurance that any prospective project in the medical marijuana industry will be successfully initiated or completed. The Company is dependent upon obtaining necessary financing from time to time to finance its on-going and planned activities and to cover administrative costs.

At July 31, 2016, the Company had a working capital (deficiency) of \$(1,432,542) (July 31, 2015 - \$116,437), had not yet achieved profitable operations, has accumulated losses of \$5,049,062 (July 31, 2015 - \$2,740,442) and expects to incur further losses in the development of its business, all of which describes the material uncertainties that may 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

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in full compliance with the International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended July 31, 2016.

Nutritional High International Inc.
Notes to the consolidated Financial Statements
For the year ended July 31, 2016 and July 31, 2015
(expressed in Canadian Dollars)

2. Basis of Presentation (continued)

2.2 Basis of presentation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 3.

2.3 Basis of consolidation

The consolidated financial statements include the accounts of Nutritional High International Inc. and its wholly-owned subsidiaries disclosed in Note 1 and 51% owned subsidiary Eglinton Medical Advisory Ltd.

The subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

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

Intercompany balances and transactions, and unrealized gains arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

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

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. However, the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- Pronouncements effective for annual periods beginning on or after January 1, 2016 that may have a material impact on the Company's financial statements:

IAS 1 Presentation of Financial Statements amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset are not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

Nutritional High International Inc.
Notes to the consolidated Financial Statements
For the year ended July 31, 2016 and July 31, 2015
(expressed in Canadian Dollars)

2. Basis of Presentation (continued)

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

- Pronouncements effective for annual periods beginning on or after January 1, 2017 that may have a material impact on the Company's financial statements:

In January 2016, the IASB issued the disclosure initiative amendments to IAS 7, statement of Cash Flow. The amendment will require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes.

In January 2016, IAS 12, Income Taxes, was amended to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

- Pronouncements effective for annual periods beginning on or after January 1, 2018 that may have a material impact on the Company's financial statements:

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. The new standard will replace IAS 39, Financial instruments: recognition and measurement. The final amendments made in the new version include guidance for the classification and measurement of financial assets and a third measurement category for financial assets, fair value through other comprehensive income. The standard also contains a new expected loss impairment model for debt instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exceptions. Early adoption is permitted. Restatement of prior periods in relation to the classification and measurement, including impairment, is not required.

IFRS 15, Revenue from contracts with customers will replace the existing standards for revenue recognition. IFRS 15 established a framework for the recognition and measurement of revenues derived from contracts with customers, and providing users of financial statements with more informative, relevant disclosure.

In June 2016, the IASB issued amendments to IFRS 2, Share-based Payments, in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice in three main areas, including the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

Nutritional High International Inc.
Notes to the consolidated Financial Statements
For the year ended July 31, 2016 and July 31, 2015
(expressed in Canadian Dollars)

2. Basis of Presentation (continued)

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

- Pronouncements effective for annual periods beginning on or after January 1, 2019 that may have a material impact on the Company's financial statements:

IFRS 16 Leases was issued in January 2016 and replaces IAS 17 Leases. Under IAS 17, lessees were required to make a distinction between a finance lease and an operating lease. If the lease was classified as a finance lease, a lease liability was included on the statement of financial position. IFRS 16 now requires lessees to recognize a right of use asset and lease liability reflecting future lease payments for virtually all lease contracts. The right of use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability accrues interest. The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and obtain substantially all the economic benefits from that use. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

3. Summary of Significant Accounting Policies

3.1 Share based payments

Share based payment transactions

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

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

Equity settled transactions

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

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative cost is recognized for equity settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share based payment reserve. No expense is recognized for awards that do not ultimately vest.

Nutritional High International Inc.
Notes to the consolidated Financial Statements
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(expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

3.1 Share based payments (Continued)

Where the terms of an equity settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

3.2 Loss per share

Basic loss per share is calculated using the weighted number of shares outstanding. Diluted loss per share is calculated using the weighted average number of common and potential common shares outstanding during the period. In order to determine diluted loss per share, it is assumed that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from warrants were excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended July 31, 2016 and July 31, 2015.

3.3 Taxation

Current income tax

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

Deferred income tax

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

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Nutritional High International Inc.
Notes to the consolidated Financial Statements
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(expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

3.3 Taxation (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

3.4 Financial assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through the statement of comprehensive loss. The Company's cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest rate method. The Company's amounts due from Palo Verde LLC and other receivables, except for HST receivable, are classified as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive loss except for losses in value that are considered other than temporary. At July 31, 2016, the Company has not classified any financial assets as available for sale.

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

Nutritional High International Inc.
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3. Summary of Significant Accounting Policies (continued)

3.5 Financial liabilities

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

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

Financial liabilities classified at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at FVTPL. Derivatives, including separated embedded derivatives are classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified at FVTPL are recognized through the statement of comprehensive loss. At July 31, 2016, the Company has a convertible debenture including a conversion feature that is a derivative liability at FVTPL, and another convertible debenture including a conversion feature classified as equity.

3.6 Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired. Management has concluded that there is impairment for amounts due from Palo Verde LLC as at July 31, 2016 (Note 5).

Assets carried at amortized cost

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

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

3.7 Provisions

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

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

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3. Summary of Significant Accounting Policies (continued)

3.8 Related party transactions

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

3.9 Leases

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

The Company as lessor

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

3.10 Intangibles (License)

Intangibles arise on the purchase of a license, which is accounted for using the cost model whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite. Useful lives are reviewed annually and intangibles are subject to impairment testing (3.14 Impairment of non-financial assets). The license term (Note 19) has commenced on October 2015, with the minimum payable in cash or shares at the Company's option.

3.11 Investment property

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

Building	4% Declining balance
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3. Summary of Significant Accounting Policies (continued)

3.12 Capital assets

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

Leasehold improvements	Straight-line over the lease term (5 years)
Furniture and equipment	20% Declining balance
Computer and software	33% Declining balance

3.13 Impairment of non-financial assets

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

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

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

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

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3. Summary of Significant Accounting Policies (continued)

3.14 Share issuance costs

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

3.15 Share capital

In situations where the Company issues units, the value of warrants is bifurcated and is included in the separate reserve of the Company's equity.

3.16 Convertible debentures

The proceeds received on issue of the Company's convertible debentures have been recorded as a liability on the consolidated statement of financial position. The Company has a convertible debenture containing an embedded derivative liability, which has been designated as a financial liability at fair value through profit and loss. The Company revalues the convertible debenture derivative liability using option pricing models at each reporting period. The Company has another convertible debenture in which the conversion feature is classified as equity.

3.17 Foreign currency translation

The functional currency of the Company, Nutritional High Ltd. and Eglinton Medical Advisory Ltd. is the Canadian dollar, which is the presentation currency of the consolidated financial statements. The functional currency of US subsidiaries (Nutritional High (Colorado), Inc., NHC Edibles, LLC, NH Medicinal (Minnesota), Inc., NH Medicinals (Maryland) Inc., Small's Mill Holdings Inc., Nutritional Traditions Inc.), NH Real Estate, NH Properties and NH Medical Dispensaries is the US dollar.

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

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

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

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

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3. Summary of Significant Accounting Policies (continued)

3.17 Foreign currency translation (continued)

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

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

3.18 Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to recoverability of loan receivable and rent receivable (note 5), valuation of deferred income tax amounts, valuation of warrants and shares issued during private placements and to settle debt and services, valuation of impaired investment properties, measurement of derivative liability and the bifurcation of the convertible debt.

The most significant judgments relate to recognition of deferred tax assets and liabilities, determination of property as held for sale, assessment of functional currency and determination of embedded derivative liability or equity of the conversion options of convertible debt.

4. HST receivable

HST consists of harmonized sales tax ("HST") due from the Canadian government.

5. Amounts due from Palo Verde LLC

The Company has lent Palo Verde LLC ("Palo") monies pursuant to a credit agreement and has leased property to Palo pursuant to two lease agreements, as disclosed below. The Company intends on entering into a branding arrangement with Palo in respect of its licensing arrangement (note 19).

	2016	2015
Rental income receivable ⁽ⁱ⁾	\$ 674,872	\$ 183,000
Loan receivable ⁽ⁱⁱ⁾	140,999	105,424
Interest receivable	77,127	9,418
	892,998	297,842
Impairment on amounts receivable ⁽ⁱⁱⁱ⁾	(300,000)	(100,000)
Balance July 31	\$ 592,998	\$ 197,842

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5. Amounts due from Palo Verde LLC (continued)

- (i) Rental income receivable is on the investment property in Colorado. Rent is deferred until 30 days after commencement of production of marijuana products by the tenant, and accrues interest at 12% per annum. At year-end, the accrued interest on rental income receivable was \$54,316 (USD \$41,650) (July 31, 2015 – 1,823 (USD \$1,394)).
- (ii) Revolving line of credit of USD \$150,000 to Palo Verde LLC, of which \$140,999 (USD \$108,120) (July 31, 2015 – \$105,425 (USD \$80,600)) and accrued interest of \$22,811 (USD \$17,492) (July 31, 2015 – \$7,478 (USD \$5,717)) was receivable as at July 31, 2016. Advances through a promissory note are unsecured; bear interest at 12% per annum which are due on September 30, 2016. Palo Verde may extend the maturity date for up to an additional four successive one-year terms for a total of five years, but no later than July 22, 2020 for a fee equal to 1% of the outstanding revolving credit loan. On September 1, 2016 amounts due under the note were deferred until February 28, 2017.
- (iii) An allowance was recorded in 2016 and 2015 on account of the uncertainties surrounding recoverability of the loan and rents receivable in respect of timing and unexpected financing delays.

6. Investment property

	Land	Building	Total
<u>Cost</u>			
Balance at July 31, 2014	\$ -	\$ -	\$ -
Additions	141,200	858,496	999,696
Effect of movement in exchange rates	22,300	135,584	157,884
Balance at July 31, 2015	163,500	994,080	1,157,580
Additions	58,384	691,907	750,291
Effect of movement in exchange rates	(300)	(5,417)	(5,717)
Balance at July 31, 2016	221,584	1,680,570	1,902,154
<u>Accumulated Amortization and Impairment</u>			
Balance at July 31, 2014	\$ -	\$ -	\$ -
Amortization for the year	-	25,523	25,523
Effect of movement in exchange rates	-	2,475	2,475
Balance at July 31, 2015	-	27,998	27,998
Amortization for the year	-	39,219	39,219
Impairment	51,424	377,042	428,457
Effect of movement in exchange rates	-	667	667
Balance at July 31, 2016	51,424	444,926	496,341
<u>Carrying Amounts</u>			
Balance at July 31, 2014	\$ -	\$ -	\$ -
Balance at July 31, 2015	163,500	966,082	1,129,582
Balance at July 31, 2016	170,160	1,235,644	1,405,813

The investment properties are located in Pueblo West, Colorado, United States and in Lawrenceville, Illinois, United States.

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6. Investment property (continued)

The fair value of the Pueblo West investment property as at July 31, 2016 and July 31, 2015 continues to approximate the carrying value. The direct operating expenses arising from investment property that generated rental income were \$32,965 (USD \$24,972) for the period ended July 31, 2016.

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

Less than 1 year	\$ 508,599
1- 2 years	337,436
	\$ 846,035

The Lawrenceville property was purchased with the intention of being used to open a dispensary in Illinois. The Company has located another property for the dispensary site, and thus the Lawrenceville property is being marketed for sale, but sale may not be highly probable at this time. The Company identified this as an impairment indicator, and an impairment loss of \$428,457 was recorded to reduce the carrying value of the property to fair value less costs to sell of \$169,147. The fair value measurement is classified as level 3 in the fair value hierarchy.

7. Capital Assets

	Furniture and Equipment	Computer	Leasehold Improvements	Total
<u>Cost</u>				
Balance at July 31, 2015	\$ -	\$ -	\$ -	\$ -
Additions	80,854	10,917	96,679	188,450
Balance at July 31, 2016	80,854	10,917	96,679	188,450
<u>Accumulated Amortization</u>				
Balance at July 31, 2015	\$ -	\$ -	\$ -	\$ -
Additions	337	538	704	1,579
Balance at July 31, 2016	337	538	704	1,579
<u>Carrying Amounts</u>				
Balance at July 31, 2015	\$ -	\$ -	\$ -	\$ -
Balance at July 31, 2016	80,517	10,379	95,975	186,871

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8. Accounts Payable and Accrued Liabilities

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

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

	2016	2015
Less than 30 days	\$ 224,152	\$ 97,370
31 – 90 days	119,621	174,904
Over 90 days	537,191	-
Total trade payables	880,964	272,274
Accrued liabilities	148,200	-
Total accounts payable and accrued liabilities	\$ 1,029,164	\$ 272,274

9. Related Parties and Key Management

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

For the year ended July 31, 2016, the Company incurred professional fees of \$74,100 (2015 - \$98,000) from Branson Corporate Services, a company in which a company with a related director has a 49% interest.

For the year ended July 31, 2016, the Company incurred consulting fees of \$248,000 (2015 - \$227,000) from FMI Capital Advisory Inc. (formerly Foundation Opportunities Inc.), a company with a related director.

For the year ended July 31, 2016, the Company incurred professional fees of \$81,537 (2015 - \$354,007) from Fogler Rubinoff, LLP, a law firm in which a director of the company is a partner.

Total key management compensation paid to the Chairman, Chief Executive Officer, the Chief Operating Officer, the VP Product Development, and a Director amounted to \$264,816 (2015 - \$172,829) for the year ended July 31, 2016. In addition, 4,100,000 stock options valued at \$44,197 (2015 - \$Nil) were issued to directors and officers during the period.

These expenses have been measured at the amounts negotiated and agreed to by the parties to the transactions. As at July 31, 2016, \$186,588 (July 31, 2015 - \$85,463) is included in accounts payable and accrued liabilities.

For the twelve-month period ended July 31, 2016, the Company incurred interest expense of \$18,049 (2015 - \$8,136) under the subordinate convertible debenture (Note 15). As at July 31, 2016, accrued interest owed to directors and officers were \$22,884 (2015 - \$33,926)

During the year, the Corporate Secretary and the Chairman each loaned the Company \$15,000 (a total of \$30,000) to assist with cash flow needs. These loans were non-interest bearing and were repaid within three months.

The Company also has convertible debentures outstanding with directors of the company (Note 15b).

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10. Promissory Notes Payable

On November 4, 2015, the vendor of the real estate property in Illinois where the Company's dispensary will be located provided a buyer take-back mortgage in the amount of \$350,150 (USD \$250,000). The mortgage has a 15-year amortization period, bearing interest at the rate of 6%, payable USD \$2,110 monthly including interest and be due in two years from the date of issuance as a balloon payment (Note 6).

On April 19, 2016, the Company entered into a financing arrangement of its Pueblo, Colorado property in the amount of USD \$800,000 in the form of a loan note. Under the terms of the refinancing, the lender has provided an initial advance of \$756,840 (USD \$600,000) on April 26, 2016. The loan has a twelve-month term, bears interest at 13% per annum payable monthly with the principal due in full on April 26, 2017. There is an option to extend the term of the loan by six months if minimum monthly revenues of USD \$200,000 are achieved at the Pueblo, Colorado location. There is an option to extend the term an additional six months with an increased interest rate of 18.5% if an extension fee of 10% of the outstanding loan is paid. Pursuant to the refinancing arrangement, the Company also issued 3,333,334 warrants valued at \$29,000 (Note 11).

	July 31, 2016	July 31, 2015
Opening balance	\$ -	\$ -
Advances	1,106,990	-
Financing costs	(94,360)	-
Repayments	(22,009)	-
Effect of movement in exchange rates	14,378	-
	1,004,999	-
Current	702,493	-
Long-term	\$ 302,506	-

11. Share Capital

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

On October 8, 2014, the Company closed a subscription for 4,000,000 units at \$0.025 per unit for gross proceeds of \$100,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.05 per share until the earlier of 36 months from the date of issuance or 18 months following the date of a business combination between the Company and a public company pursuant to a reverse take-over, merger, amalgamation, take-over bid, insider bid, reorganization, joint venture, sale or exchange of assets or similar transaction or IPO. In connection with the subscription, the Company paid a finder's fee of \$8,000 and issued an aggregate of 320,000 finder's warrants (Note 9), exercisable into one common share at a price of \$0.025 per share until 18 months from the closing date.

On October 31, 2014, 3,566,638 warrants were exercised at \$0.05 per warrant for gross proceeds of \$178,332. An additional \$17,467 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share purchase warrants have been amended to include an early exercise provision of an additional warrant exercisable into one common share at a price of \$0.10 per share until 24 months from the date of issuance. As a result of the amendment, an additional 3,566,638 warrants were issued, as described in Note 12. The terms of any unexercised Company warrants outstanding at October 31, 2014 remain unchanged.

On March 13, 2015, 32,900,000 units at \$0.05 per unit were issued for gross proceeds of \$1,645,000 pursuant to the IPO. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share until 24 months from the date of issuance.

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11. Share Capital (continued)

On March 13, 2015, the Company issued 2,404,800 compensation options under a warrant indenture valued at \$63,000 based on the services provided. Each option is exercisable at \$0.05 per unit, and comprised of one common share and one half of one share purchase warrant, exercisable into one additional common share at a price of \$0.07 per share until 24 months from the date of issuance. Cash costs in connection with the transactions amounted to \$239,194.

On March 18, 2015, the Company paid an extension fee of \$30,000 by issuing an aggregate of 600,000 units consisting of one common share and one half of one share purchase warrant, exercisable into one common share at a price of \$0.07 per share until 24 months from the date of issuance (Note 15).

On March 18, 2015, the Company paid a going public success fee of \$35,000 by issuing an aggregate of 700,000 units and one half of one share purchase warrant, exercisable into one common share at a price of \$0.07 per share until 24 months from the date of issuance to FMI Capital Advisory (formerly Foundation Opportunities Inc.), a company with a related director.

On March 26, 2015, 400,000 warrants were exercised for gross proceeds of \$28,000. An additional \$8,827 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On March 27, 2015, 400,000 warrants were exercised for gross proceeds of \$28,000. An additional \$8,827 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On March 30, 2015, 12,000 compensation options under the warrant indenture were exercised for \$600 for 12,000 common shares and 6,000 share purchase warrants, exercisable at a price of \$0.07 per share until March 16, 2017. An additional \$314 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On April 7, 2015, 160,000 warrants were exercised for \$4,000 for 160,000 common shares and 80,000 share purchase warrants, exercisable at a price of \$0.05 per share until April 8, 2016. An additional \$2,000 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On April 8, 2015, 6,000 warrants were exercised for gross proceeds of \$420. An additional \$132 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On April 20, 2015, 500,000 warrants were exercised for gross proceeds of \$35,000. An additional \$11,034 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants.

On June 5, 2015, the Company issued 3,333,334 shares valued at \$250,000 to satisfy the initial licensing and royalty commitment as described in Note 19.

On June 6, 2015, the Company issued 66,667 shares valued at \$5,000 in exchange for 2% interest in NH Medicinal Dispensaries Inc. as described in Note 14.

On June 7, 2015, the Company issued 700,000 shares valued at \$52,500 as compensation for services where the fair value of shares was determined based on the value of services received.

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11. Share Capital (continued)

On July 31, 2015, the Company issued 111,111 shares valued at \$5,000 as compensation for services where the fair value of shares was determined based on the value of services received.

On August 20, 2015, the Company issued 692,431 shares valued at \$51,932 as the final instalment on its initial licensing obligations, as described in Note 18.

On September 7, 2015, the Company issued 406,668 shares valued at \$20,333 as compensation for services where the fair value of shares was determined based on the value of services received.

On October 5, 2015, 8,000 warrants were exercised for gross proceeds of \$400. An additional \$39 credited to share capital represents a transfer of the reserve for warrants in respect of the exercised warrants. The share price on the date of exercise was \$0.05.

On October 23, 2015, a holder of the convertible debentures (Note 15) converted \$306,976 in convertible debentures into 3,000,000 common shares of the Company at a share price of \$0.06 per share.

On October 26, 2015, the Company issued 50,000 shares valued at \$2,500 as compensation for services where the fair value of shares was determined based on the value of services received.

On November 5, 2015, a holder of the convertible debentures (Note 15) converted \$173,141 in convertible debentures into 1,666,667 common shares of the Company at a share price of \$0.06 per share.

On November 5, 2015, 1,600,000 warrants were exercised for gross proceeds of \$80,000. The share price on the date of exercise was \$0.05.

On November 12, 2015, a holder of the convertible debentures (Note 15) converted \$119,945 in convertible debentures into 1,166,667 common shares of the Company at a share price of \$0.06 per share.

On November 17, 2015, 1,000,000 warrants were exercised for gross proceeds of \$50,000. The share price on the date of exercise was \$0.05.

On December 2, 2015, the Company completed a non-brokered private placement of 4,200,000 units at \$0.05 per unit for gross proceeds of \$210,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share for a period of 18 months from the date of issuance.

On January 28, 2016, the Company issued 2,822,700 shares to settle \$141,135 of debt, where the fair value of shares was determined based on the share price at the date of issuance. A gain of \$14,113 was recognized as a result of this debt settlement.

On January 31, 2016, the Company completed a non-brokered private placement of 800,000 units at \$0.05 per unit for gross proceeds of \$40,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share for a period of 18 months from the date of issuance.

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11. Share Capital (continued)

On March 18, 2016, pursuant to the amendment of the exclusive licensing agreement with Purple Haze Properties, the Company issued 5,000,000 common shares at \$0.065 (USD \$0.05) per share.

On March 22, 2016, 160,000 shares were issued at \$0.025 per share pursuant to exercising of broker warrants.

On June 9, 2016, 250,000 shares were issued at \$0.05 per share for gross proceeds of \$12,500 as per consulting service agreement with a German company, Deutsche Gesellschaft Fur Wertpapieranalyse GMBH. The fair value of shares was determined based on the value of the services received.

12. Reserve for Share Based Payments

The Company established a stock option plan to provide additional incentive to its officers, directors, employees and consultants in their effort on behalf of the Company in the conduct of its affairs. Options vest immediately, unless otherwise stated, and expire on the fifth anniversary from the date of issue unless otherwise specified. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the total issued and outstanding Common shares, which was 14,219,251 at July 31, 2016.

The following table reflects the continuity of options for the period ended July 31, 2016:

	Number of Options	Amount
Balance, July 31, 2014	2,800,000	\$ 28,000
Granted	8,400,000	286,000
Expired	(200,000)	-
Balance, July 31, 2015	11,000,000	314,000
Granted	4,340,000	69,202
Expired	(4,100,000)	(11,950)
Balance – July 31, 2016	11,240,000	\$ 371,252

During the period ended July 31, 2016, the Company granted the following options:

- a) On September 16, 2015, the Company granted 1,100,000 stock options to an officer to purchase common shares of the Company at the exercise price of \$0.075 exercisable until 60 months from the date of issuance, vesting quarterly over 3 years.
- b) On December 21, 2015, the Company granted 500,000 stock options to a director and an officer, to purchase common shares of the Company at the exercise price of \$0.075 exercisable until 60 months from the date of issuance, vesting quarterly over 3 years.
- c) On April 21, 2016, the Company granted 2,500,000 stock options to an officer to purchase common shares of the Company at the exercise price of \$0.07 exercisable until 60 months from date of issuance, vesting every 6 months over 3 years.
- d) On June 14, 2016, the company granted 240,000 stock options to a consultant, Cor Capital Inc as per resolution to purchase common shares of the Company at the exercise price of \$0.07 exercisable from time to time up but not after June 14, 2018. As the fair value of services received cannot be estimated reliably, the option value has been measured using the Black-Scholes option pricing model.

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12. Reserve for Share Based Payments (continued)

During the year ended July 31, 2015, the Company granted 8,400,000 stock options to certain officers, directors, consultants and advisory board members to purchase common shares of the Company at the exercise price of \$0.10 exercisable until 60 months from the date of issuance.

Vesting periods on the options granted during the year ended July 31, 2015 are as follows: 7,050,000 stock options vested immediately upon issuance, 300,000 stock options issued on March 18, 2015, 50% of which vested immediately and the remaining 50% vest monthly over 6 months, 2,000,000 stock options issued on March 18, 2015, which vest in stages over a minimum of 12 months with no more than 1/4 of options vesting any three-month period, and the remaining vest quarterly over next 24 months.

The estimated fair value of share based compensation during the period ended July 31, 2016 was determined using the Black-Scholes option pricing model with the following assumptions:

	September 16, 2015	December 21, 2015	April 21, 2016	June 14, 2016	Total
Number of options	1,100,000	500,000	2,500,000	240,000	
Share price	\$0.030	\$0.045	\$0.030	\$0.040	
Risk-free interest rate	0.87%	0.85%	0.82%	0.60%	
Expected life of options	5 years	5 years	5 years	2 years	
Expected volatility	192%	189%	187%	110%	
Expected dividend yield	0%	0%	0%	0%	
Fair value	\$31,000	\$22,000	\$71,000	\$4,000	\$128,000

The estimated fair value of share based compensation during the year ended July 31, 2015 was determined using the Black-Scholes option pricing model with the following assumptions:

	October 10, 2014	March 18, 2015	April 1, 2015	April 6, 2015	June 10, 2015	July 22, 2015	Total
Number of options	400,000	6,950,000	250,000	150,000	400,000	250,000	
Share price	\$0.025	\$0.050	\$0.095	\$0.110	\$0.080	\$0.050	
Risk-free interest rate	1.56%	0.75%	0.98%	0.98%	0.95%	0.83%	
Expected life of options	5 years	5 years	5 years	5 years	5 years	5 years	
Expected volatility	100%	100%	209%	209%	209%	209%	
Expected dividend yield	0%	0%	0%	0%	0%	0%	
Fair value	\$5,000	\$199,000	\$23,000	\$16,000	\$31,000	\$12,000	\$286,000

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimated, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Expected volatility is based on comparable companies.

The weighted average remaining contractual life for outstanding options is as follows:

Exercise Price	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Number of Options - exercisable
\$0.07	2,740,000	\$0.02	4.48	240,000
\$0.08	350,000	\$0.00	4.39	58,333
\$0.10	8,150,000	\$0.07	3.47	8,150,000
\$0.075 - \$0.10	11,240,000	\$0.09	3.75	8,448,333

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13. Reserve for Warrants

The following table reflects the continuity of warrants for the period ended July 31, 2016:

	Number of Warrants (#)	Amount (\$)
Balance – July 31, 2014	13,650,006	65,000
Warrants pursuant to private placement and option agreement	5,966,638	88,000
Warrants pursuant to IPO	16,450,000	363,000
Compensation warrants	2,410,800	64,000
Warrants issued for success and extension fees	650,000	35,000
Warrants exercised	(5,044,638)	(48,601)
Balance – July 31, 2015	34,082,806	566,399
Warrants pursuant to private placement	2,508,000	62,000
Warrants pursuant to debenture agreement	3,750,000	134,000
Warrants issued pursuant to promissory note	3,333,334	29,000
Warrants expired	(9,795,368)	-
Warrants exercised	(2,608,000)	(12,741)
Balance – July 31, 2016	31,270,772	778,658

During the period ended July 31, 2016, the Company issued warrants to purchase common shares, valued at \$225,000 using the Black-Scholes option pricing model using the following assumptions:

	December 2, 2015	December 2, 2015	December 21, 2015	January 31, 2015	April 14, 2016	Total
Number of warrants	2,100,000	16,000	3,750,000	400,000	3,333,334	
Share price	\$0.055	\$0.055	\$0.045	\$0.040	\$0.035	
Risk-free interest rate	0.63%	0.63%	0.70%	0.63%	0.56%	
Expected life of options	1.5	1.5	2	1.5	1.5	
Expected volatility	118%	118%	189%	118%	85%	
Expected dividend yield	0%	0%	0%	0%	0%	
Fair value	\$55,000	\$1,000	\$134,000	\$6,000	\$29,000	\$225,000

During the year ended July 31, 2015, the Company issued warrants to purchase common shares, valued at \$550,000 using the Black-Scholes option pricing model using the following assumptions:

	October 8, 2014	October 31, 2014	March 13, 2015	March 18, 2015	March 30, 2015	April 7, 2015	Total
Number of warrants	2,320,000	3,566,638	18,854,800	650,000	6,000	80,000	
Share price	\$0.025	\$0.100	\$0.050	\$0.130	\$0.110	\$0.100	
Risk-free interest rate	1.05%	1.04%	0.49%	0.49%	0.49%	0.67%	
Expected life of warrants	1.5 years	2 years	2 years	2 years	2 years	2 years	
Expected volatility	100%	100%	100%	209%	209%	209%	
Expected dividend yield	0%	0%	0%	0%	0%	0%	
Valued at	\$18,000	\$64,000	\$426,000	\$35,000	\$1,000	\$6,000	\$550,000

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13. Reserve for Warrants (continued)

Warrants to purchase common shares carry exercise prices and terms to maturity at July 31, 2016 as follows:

Date of Issue	No. of warrants	Exercise Price (\$)	Expiry Date
May 16, 2014	2,550,000	0.05	May 16, 2017
October 31, 2014	1,016,638	0.10	October 31, 2016
March 16, 2015	15,800,000	0.07	March 16, 2017
March 16, 2015	2,392,800	0.05	March 16, 2017
December 2, 2015	2,028,000	0.07	June 2, 2017
December 21, 2015	3,750,000	0.06	December 21, 2017
January 31, 2016	400,000	0.07	July 31, 2017
April 14, 2016	3,333,334	0.06	October 14, 2017
	<u>31,270,772</u>		

On December 21, 2015, the company amended the exercise period of its share purchase warrants issued on June 27, 2014 from eighteen months to twenty-one months. 5,563,348 Series I Warrants with expiry date of December 27, 2015 expired on March 27, 2016. The modification of warrants did not result in a material increase in fair value on the date of modification.

14. Non-controlling Interest

The Company's 51% interest in Eglinton Medicinal Advisory Ltd. is consolidated into the Company's consolidated financial statements. The 49% interest attributable to a minority shareholder is then presented as "non-controlling interest" within shareholders' equity on the consolidated statement of financial position. Net loss and comprehensive loss is allocated between the Company's 51% ownership and non-controlling 49% ownership interest. The Company recorded \$677 (2015- \$9,073) of the subsidiary's net loss and comprehensive loss related to the non-controlling interest during the year ended July 31, 2016.

15. Convertible Debentures

- (i) On November 17, 2014, the Company closed its non-brokered private placement of secured convertible debentures for total gross proceeds of \$600,000 as follows:
- a. Senior convertible debenture of \$450,000, bearing interest at 12%, maturing in 24 months from date of issue, and secured by a first ranking general security interest over all assets of the Company. The senior convertible debenture is convertible into common shares of the Company at any time prior to the maturity date at a price equal to a 20% premium to the price at which the Company completes its going public transaction or \$0.06 per Company share ("Conversion Price"). If the Company fails to complete the going public transaction on or before January 31, 2015, the Conversion Price will be reduced to \$0.05 per Company share. If the Company completes the going public transaction on or before January 31, 2015, but less than \$1,000,000 is raised, the Conversion Price will be equal to the price at which the Company completes the going public transaction ("Conversion Price Adjustment") and the Company will issue to the holder 450,000 Company shares immediately prior to closing the going public transaction. On January 19, 2015, an amendment was made to the agreement to extend the going public date from January 31, 2015 to March 16, 2015, in consideration for \$30,000, convertible into common shares at the offering price.

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15. Convertible Debentures (Continued)

On October 23, 2015, \$180,000 of the convertible debentures were converted into 3,000,000 common shares (Note 11). On November 5, 2015, \$100,000 of the convertible debentures were converted into 1,666,667 common shares (Note 11). On November 12, 2015, \$70,000 of the convertible debentures were converted into 1,166,667 common shares (Note 11).

On December 21, 2015, the Company entered into an amending agreement with the holder of Senior Convertible Debenture ("Holder") to provide for the pre-payment. The Company has agreed to issue 3,750,000 Common Share purchase warrants ("Warrants") to the holder of the Secured Convertible Debenture immediately, and pay a fee in the amount of \$27,000 if the Company elects to proceed with pre-payment. Each Warrant entitles the Holder to purchase one Common Share at an exercise price of \$0.06 per Common Share for a period of two years from the date of the Warrant. The warrants were valued at \$134,000 on issuance. The remaining \$100,000 of convertible debt was pre-paid in full on April 27, 2016.

- b. Subordinate convertible debenture of \$150,000, bearing interest at 12%, maturing in 24 months from date of issue, and secured by a general security interest over all assets of the Company, subordinate to the senior convertible debenture. The group of lenders is comprised of directors of the Company. The subordinate convertible debenture carries the same Conversion Prices and Conversion Price Adjustment as the senior convertible debenture described above. On January 19, 2015, an amendment was made to the agreement to extend the going public date from January 31, 2015 to March 16, 2015. As at July 31, 2016, the entire \$150,000 convertible debenture was outstanding.

The debentures are classified as a liability at amortized cost for the host component and its embedded derivative was classified at fair value through profit and loss as the conversion feature of debentures failed equity classification. The fair value of the derivative was calculated using the Black-Scholes model with the following assumptions: (November 17, 2014 and July 31, 2015: share price: \$.02 and \$.045; risk free interest rate: 1%; expected life: 2 and 1.3 years; expected volatility 100% and 209%; dividend yield 0%). The assumptions used in the Black-Scholes model are based on management's estimate of the rates that are reflective for the Company. Changes in these estimates could result in significant changes in the fair value of the derivative. The discount is being accreted over the term of the debenture utilizing the effective interest rate method at a 5.22% discount rate.

The debt issue costs in the amount of \$30,000 were recorded against the debentures liability and amortized using the effective interest method. As at July 31, 2016, \$22,884 is recorded as accrued interest in accounts payable and accrued liabilities.

A fair value adjustment gain on the convertible debentures for the period ended July 31, 2016, of \$42,340 (July 31, 2015 - \$277,753) has been reflected in the consolidated statement of comprehensive loss as a change in the fair value of the derivative liability. The fair value of the derivative liability at the inception was \$52,312. The interest and accretion expense in the amount of \$33,921 and \$64,532 are recorded as a finance cost.

- (ii) On April 4, 2016, the Company through its subsidiaries SMHI and NHMDI entered into a restated letter agreement whereby the Company agreed to a work plan and earn-in with ILDISP, LLC (the "Purchaser") whereby the Purchaser shall fund up to \$391,230 (US\$300,000) (the "Initial Funding") of the expenses necessary to complete the Company's dispensary in Illinois acceptable and approved by the Illinois Department of Financial and Professional Regulation ("IDFPR") and fund the first four months of working capital to earn a 50% joint-venture in the dispensary. For the Initial Funding of US\$300,000, the Purchaser shall receive from the Company:

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15. Convertible Debentures (continued)

- (i) An unsecured no interest promissory note in the amount of \$200,000;
- (ii) An unsecured convertible note in the amount of \$100,000:
 - Upon approval by the IDFPFR convertible into 200 shares at \$500 per SMHI and NHMDI shares;
 - Upon rejection by the IDFPFR convertible into an unsecured promissory note issued by NHMDI and SMHI with a maturity of six (6) years with no interest for the first four (4) years and 5% per annum thereafter.

The promissory note and convertible note have been evaluated as one financial instrument, as both were issued to the same lender, as part of the same financing agreement. The conversion feature can be settled by exchanging a fixed amount for cash for a fixed number of equity instruments, and as such, is classified as equity component of convertible debt. The debt was bifurcated between its debt and equity components on the date of issuance. The Company has calculated the initial fair value of the liability component using an effective interest rate of 20%, and the residual balance was applied to the equity component. As of July 31, 2016, total contribution from the Purchaser was \$291,427, of which \$124,167 is included in convertible debentures and \$167,260 is included in equity component of convertible debentures.

16. 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 period ended July 31, 2016. 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, reserve for warrants, share based payments, reserve for foreign currency translation, non-controlling interest, equity component of convertible debentures, shares to be issued and accumulated deficit, which as at July 31, 2016 totaled \$375,505.

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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17. Financial Instruments

Fair Value of Financial Instruments

The fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

- Level 1 quoted prices in active markets for identical assets or liabilities;
- Level 2 inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and
- Level 3 inputs for the asset or liability that are not based upon observable market data.

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

The Company designated its cash as fair value through profit and loss, which is measured at fair value and is classified as Level 1. The Company designated its derivative liability from convertible debentures as fair value through profit and loss which is measured at fair value and classified as level 2.

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

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

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

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts due from Palo Verde LLC including rent receivable (Note 5). Collection of the amounts due from Palo Verde LLC is contingent on the success of Palo Verde LLC's operation, which have not yet commenced. The Company has no significant concentration of credit risk arising from operations. Cash is held with a reputable Canadian credit union which is closely monitored by management. The Board of Directors meets on a quarterly basis to review and assess the risk profile of the loan. Management believes that the credit risk concentration with respect to financial instruments included in cash and other receivable is not material for the Company. Management has considered the credit risk concentration with respect to amounts due from Palo Verde LLC, and has provisioned for the balance accordingly.

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17. Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2016, the Company had current assets of \$299,115 (July 31, 2015 - \$388,713) and current liabilities of \$1,731,657 (July 31, 2015 - \$272,276). All of the Company's financial liabilities and receivables, excluding a loan receivable (Note 5), have contractual maturities of less than 90 days and are subject to normal trade terms. As at July 31, 2016, working capital (deficiency) of the Company is \$(1,432,542) (July 31, 2015 - \$116,439).

Foreign currency exchange risk

The Company conducts a portion of its purchases in US dollars which results in the foreign currency exchange risk. The Company does not consider its exposure to foreign currency exchange risk to be material.

An increase (decrease) of 10% in the currency exchange rate of the Canadian dollar versus US dollar would have impacted net loss by \$26,958 (July 31, 2015 - \$1,493) 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 \$170 (July 31, 2015 - \$1,100) as a result of the Company's exposure to interest rate fluctuations.

18. Income Taxes

Provision for income taxes

No deferred tax asset has been recognized because of the uncertainty as to the utilization of the losses for income tax purposes. The Company has accumulated losses for Canadian and US income tax purposes expiring as follows:

2034	\$ 293,827
2035	2,048,860
2036	1,923,761

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18. Income Taxes (continued)

The Company has share issue costs of \$192,126 available for deduction against future Canadian taxable income over the next four years.

	2016	2015
Loss before income taxes	\$ (2,309,297)	\$ (2,068,360)
Tax rate	26.5%	26.5%
Calculated income tax recovery	(611,694)	(548,115)
Non-deductible expense and other	90,866	24,152
Non-deductible listing expense	8,936	5,889
Change in deferred taxes not recognized	512,162	518,074
Income tax expense	\$ -	\$ -

Provision for income taxes

The tax effects of temporary differences that give rise to future income tax assets and liabilities are as follows:

	2016	2015
Deferred income tax assets		
Non-capital loss carry forwards	\$ 1,130,609	\$ 620,812
Issue costs	(7,793)	(14,409)
Investment property	(14,788)	(10,537)
	1,108,028	595,866
Less: Deferred taxes not recognized	(1,108,028)	(595,866)
	\$ -	\$ -

19. Licensing and Royalty Agreement

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

Under the terms of the agreement, the Company issued 3,333,334 common shares (Note 10) valued at USD\$250,000 to pay for the annual exclusivity fee (USD \$200,000) for the first out of five years and royalties USD \$50,000 which was due on signing the agreement. The agreement provides for annual exclusivity fees and royalties of no less than USD \$1,000,000 over five years with an additional renewal option for an additional five years. The agreement term commences the earlier of the first product sale or October 1, 2015, with minimum (US \$200,000 for first year of license and US \$50,000 for first year of royalty) payable in cash or shares at the Company's option.

On March 7, 2016, the Company signed an addendum agreement with Purple Haze Properties LLC to allow for the 2016 payment of Nutritional High stock to occur on date of addendum. The Company issued 5,000,000 shares valued at USD \$200,000, of which \$160,000 pertains to license and \$40,000 pertains to prepaid royalty for the period from October 1, 2016 to September 30, 2017.

During the year, \$208,130 of the license was amortized. As at July 31, 2016, the company has \$201,652 unamortized license and \$50,408 prepaid expense for the advance on royalty pertaining to the first two years of the five-year license and royalty agreement.

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20. Commitments

The Company is committed to annual rental payments of USD \$49,133 for use of premises under a lease agreement, which expires June 30, 2021. There is an option to extend the lease for an additional five years at an annual rate of USD \$51,590. As at July 31, 2016, the anticipated lease payments in USD in each of the next five years are as follows:

2017	\$ 49,133
2018	49,133
2019	49,133
2020	49,133
2021	45,039
Total	\$ 241,571

21. Segment Information

The Company has one reportable segment which is Marijuana-Infused Products. The segment reflects the basis on which management measures performance and makes decisions regarding the allocation of resources. As at July 31, 2016, \$1,592,685 of non-current assets were held and \$587,938 of revenue was earned in US subsidiaries.

22. Subsequent events

- a. On August 15, 2016, the application for Medical Cannabis Processor Licence in Maryland was rejected, and the refund of deposit of property purchase USD\$5,000 was received on October 14, 2016. On October 19, 2016, NH Medicinals (Maryland) Inc was formally dissolved.
- b. On August 24, 2016, 250,000 options exercisable at \$0.10 were forfeited. The options were fully vested at the time of forfeiture.
- c. On August 26, 2016, 11,432,580 units were issued in the first tranche of a private placement, at \$0.035 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.05 for 18 months, with acceleration clause. In connection with the private placement, 22,857 compensation warrants were issued, exercisable at \$0.035 for 18 months.
- d. On September 1, 2016, the Company amended the revolving loan agreement due from Palo Verde LLC to extend the maturity date to February 28, 2017.
- e. On September 9, 2016, 11,445,960 units were issued in the second tranche of a private placement, at \$0.035 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.05 for 18 months, with acceleration clause. In connection with the private placement, 133,143 compensation warrants were issued, exercisable at \$0.035 for 18 months.
- f. On September 12, 2016, the Company entered into debt settlement agreements to settle \$615,809 of outstanding accounts payable, of which \$443,542 was settled with 8,870,844 units at a deemed price of \$0.05 per unit, and an additional \$172,267 was settled in cash. Each unit includes one common share and one half of a warrant with an exercise price of \$0.07 for 18 months from closing.
- g. Between October 5, 2016 and October 14, 2016, 6,168,330 warrants were exercised at \$0.07 per share, 2,500,000 warrants were exercised for \$0.06 per share and 1,176,520 warrants were exercised for \$0.05 per share, for a total of 9,994,850 common shares issued.

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22. Subsequent events (continued)

- h. On October 6, 2016, \$176,090 of convertible debt was converted into 2,934,830 of common shares, at \$0.06 per share.
- i. On October 7, 2016, 150,000 options were exercised at \$0.10 per share for a total of 150,000 common shares.
- j. Between October 11, 2016 and October 14, 2016, 584,260 warrants were issued, exercisable at \$0.07 per share for 5 months.
- k. On October 14, 2016, 100,000 warrants were exercised for \$0.07 per share for 100,000 common shares.
- l. Between October 17, 2016 and November 3, 2016, 3,126,637 warrants were exercised at \$0.10 per share, 5,049,680 warrants were exercised at \$0.07 per share, 1,250,000 warrants were exercised at \$0.06 per share, and 1,124,080 warrants were exercised at \$0.05 per share for a total of 10,550,397 common shares issued.
- m. Between October 17, 2016 and October 27, 2016, 562,040 warrants were issued, exercisable at \$0.07 per share for 5 months.
- n. On October 17, 2016, 3,120,000 options were issued for the price of \$0.135 per share, exercisable from time to time up but not after October 17, 2021.
- o. Between October 17, 2016 and November 7, 2016, 1,450,000 options were exercised at \$0.10 per share, 240,000 options were exercised at \$0.07 per share for a total of 1,690,000 common shares issued.
- p. On October 23, 2016, 400,000 options were cancelled for the price of \$0.10 per share.
- q. On November 8, 2016, 7,658,710 units were issued in the first tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- r. Between November 7, 2016 and November 8, 2016, 600,000 warrants were exercised for \$0.07 per share for 600,000 common shares.
- s. On November 10, 2016, 8,000 warrants were exercised at \$0.05 per share, 4,000 warrants were exercised at \$0.07 per share for a total of 12,000 common shares.
- t. On November 11, 2016, 330,500 warrants were exercised for \$0.07 per share for 330,500 common shares.
- u. Between November 14, 2016 and November 15, 2016, 1,0314,260 warrants were exercised for \$0.07 per share for 1,034,260 common shares.
- v. On November 17, 2016, the company closed the acquisition of 40% interest in Aura Health Corp. As part of the acquisition the company has advanced in the amount of US\$ 120,000 in a form of a short-term loan.
- w. On November 18, 2016, 26,915,880 units were issued in the second tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- x. On November 22, 2016, 84,260 warrants were exercised at \$0.07 per share for 84,260 common shares.
- y. On November 24, 2016, 2,061,631 units were issued in the third tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- z. On November 25, 2016, 150,000 options were exercised for 150,000 common shares at \$0.10 per share.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE AND SIX MONTH PERIODS ENDED JULY 31, 2016**

November 28, 2016

Management's discussion and analysis (MD&A) is current to November 28, 2016 and is management's assessment of the operations and the financial results together with future prospects of Nutritional High International Inc. ("**Nutritional High**", or the "**Company**"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and related notes for the year ended July 31, 2016, prepared in accordance with International Financial Reporting Standards ("**IFRS**"). All figures are in Canadian dollars unless stated otherwise.

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

NUTRITIONAL HIGH INTERNATIONAL INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the year ended July 31, 2016

Description of Business

Nutritional High International Inc. ("**Nutritional High**" or the "**Company**"), formerly Sonoma Capital Inc. ("**Sonoma**"), is the parent company of NHII Holdings Ltd. formerly Nutritional High Ltd. ("**NHHL**"), NH Real Estate Holdings Ltd ("**NHREH**"), NH Properties Inc. ("**NHPI**"), Nutritional High (Colorado) Inc. ("**NHCI**"), NHC Edibles LLC ("**NHC**"), NH Medical Dispensaries Inc. ("**NHMDI**"), NH Medicinals (Maryland) Inc. ("**NHMMI**"), Small's Mill Holdings Inc. ("**SMHI**"), Nutritional Traditions Inc. ("**NTI**"), and NH Medicinal (Minnesota) Inc., and Eglinton Medicinal Advisory Ltd ("**EMAL**"). The Company was incorporated on July 19, 2004. The Company's objective is to take advantage of the changing regulation governing the marijuana industry in the United States and Canada. The address of the Company's registered office is 77 King Street West, Suite 2905, Toronto, Ontario M5K 1H1. The Company is listed on the Canadian Securities Exchange (CSE) under symbol "EAT". The Company is also listed on the OTCQB Marketplace under US symbol: SPLIF, and the Frankfurt Stock Exchange under the symbol: 2NU.

The Company's business is focused on the production of marijuana oils, extracts and edibles (the "Marijuana-Infused Products Segment") and is developing a business plan relating to hemp infused products (the "Hemp-Infused Products Segment"). In its Marijuana-Infused Products Segment, the Company is focused on developing, acquiring and designing marijuana-infused products and marijuana concentrate products and brands for sale by the Company where it had secured the required licensing, or for use by Licensed Operators entering into royalty or packaging agreements with the Company in jurisdictions where permitted. In its Hemp-Infused Products Segment, the Company is developing brands, trademarks, products and packaging for products infused with hemp extract that have less than 0.3% THC and are not subject to the same regulation as the products in the Company's Marijuana-Infused Products Segment. To date, other than accrued rent, interest and consulting income, the Company has not yet earned any revenues from its Marijuana-Infused Products Segment or its Hemp-Infused Products Segment. As such, the Company is considered to be a development stage entity.

On June 27, 2014, the Company completed the acquisition of NHL (the "**Acquisition**"), whereby it acquired all the issued and outstanding shares and warrants of NHL and changed its name to "Nutritional High International Inc." NHL's incorporation date was April 17, 2014. In connection with the Acquisition, the Company issued an aggregate of 60,400,011 common shares in the capital of the company (the "**Common Shares**") and 13,500,006 Series I Warrants, on a one-for-one basis, in exchange for the NHL securities held by the vendors, which on closing represented 83.99% of the total issued and outstanding shares of the Company. In addition, 150,000 Series II Warrants issued pursuant to the Northumberland Option were exchanged on a one-for-one basis in connection with the Acquisition.

Prior to the completion of the Acquisition, the Company had no active business operations and was seeking business opportunities including assets or businesses with good growth potential to merge with or acquire. After completing the Acquisition, the Company has continued NHL's efforts to develop its business in the marijuana business sector.

On March 13, 2015, the Company completed its initial public offering of units ("**Units**"), which raised gross proceeds of \$1,645,000 through its agent Jacob Securities Inc. Each Unit was comprised of one Common Share and one-half of one Common Share purchase warrant ("**Unit Warrant**"). Each whole Unit Warrant entitles the holder thereof to purchase a Common Share at a price of \$0.07 per share until March 13, 2017. The Company's Common Shares commenced trading on the Canadian Securities Exchange at the opening of market on March 23, 2015 under the trading symbol "NHL".

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As at November 28, 2016, the members of Company's management and Board of Directors consisted of:

Name	Position
Jim Frazier	President, Chief Executive Officer
Amy Stephenson	Chief Financial Officer
Adam Szweras	Secretary and Director
David Posner	Chairman of the Board
David Caplan	Director
Brian Presement	Director
Billy Morrison	Director
Robert Keeler	Director

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

Business Overview

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

The Company has two distinct objectives as a part of the separate business units:

- Marijuana-Infused Products Segment. In its Marijuana-Infused Products Segment, the Company is focused on developing, acquiring and designing marijuana-infused products and marijuana concentrate products and brands for sale by the Company where it has secured the required licensing, or for use by Licensed Operators entering into royalty or packaging agreements with the Company in jurisdictions where permitted; and
- Hemp-Infused Products Segment. The Company is focused on developing, acquiring, manufacturing and distributing products infused with non-psychoactive constituent of the industrial hemp plant (less than 0.3% THC or otherwise as permitted by applicable law), which may be distributed in all 50 states. The Company intends on pursuing a retail distribution strategy through networks of retail dispensaries where THC products are sold, head shops, vitamin stores and independent grocers via direct sales and distributors and is considering online sales, and multi-level marketing

The Company will establish operations only in U.S. States which have implemented adequate licensing frameworks and are in compliance with the "Cole Memo" as hereinafter described below.

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Marijuana-Infused Products Segment

In its Marijuana-Infused Products Segment, the Company is focused on developing, acquiring and designing marijuana-infused products and marijuana concentrate products and brands for use by licensed operators who enter into raw materials and packaging agreements or royalty agreements with the Company in respect to the Company's brands, recipes and know-how ("**NH Licensed Operators**") or sell packaging to licensed operators with the Company's branding, as permitted by the applicable regulation. The Marijuana-Infused Products Segment is solely focused on the U.S. states where marijuana-infused products are permitted by law and regulation. The Company has a lease agreement and loan agreements with Palo Verde LLC, a Licensed Operator in Colorado, and is negotiating other commercial agreements with Palo Verde. Nutritional High also has entered into an agreement with an Illinois cannabis cultivation and extraction facility to develop a framework under which the extraction facility will manufacture and distribute our oils and edibles in Illinois. The agreement provides for a right to negotiate an agreement to negotiate the framework in good faith, but provides for no financial terms in this regard. As such, the Company considers the agreement not material to its operations at this time. Nutritional High currently has no commercial products.

The Company's business model in its Marijuana-Infused Products Segment differs depending on the residency requirements of the applicable jurisdiction. Most U.S. states that have legalized marijuana for medical or recreational use require the businesses or individuals to hold a valid license under applicable regulation in the respective U.S. state issued by the applicable state authorities. In some U.S. states, for a licensed operator to be eligible to be granted a license, the owners of the licensed operator must be residents of such U.S. state. As such, listed companies or other widely held enterprises are ineligible to obtain a license in those U.S. states where a licensed operator must be a state resident. In such U.S. states, the Company will work with a licensed operator to provide them with financing, licensing of its products, recipes and brands, know how, consulting services and may purchase the facilities where such license operators operate or intend to operate. In U.S. states where there are no residency requirements and where the Company may acquire licensing on its own, the Company may apply to become a license operator. The Company will not operate in jurisdictions which have not legalized marijuana, and does not intend on operating in jurisdictions which have legalized marijuana but have not developed and imposed a licensing regime for licensed operators.

In certain jurisdictions, and more specifically in the states with the residency requirements, the Company may conduct business in the value chain segments, which do not require a license from the requisite regulatory authorities. Such ancillary value chain segments do not directly handle, process, manufacture, cultivate or distribute cannabis products, and may include: unsecured lending, providing real estate to licensed operators, equipment leasing and providing non-cannabis raw materials (such as packaging, food ingredients, etc.) The focus of this strategy is to provide the services to licensed operators that are focused on extraction and processing of cannabis to enable them to attain a stronger competitive advantage in the market, while providing an acceptable economic return to the Company.

In certain circumstances the Company may pursue other value chain segments, such as operating a dispensary, in the states where the regulatory environment is unsuitable to earn an economic rate of return in the extraction/processing segment, given the Company's assessment. This aim of this strategy is to secure a foothold in such markets, through obtaining a license to operate a business that is not directly related to extraction/processing and then partner with another licensed operator who can operate in the extraction/processing space. The Company has employed this type of strategy in the State of Illinois, where it is working to obtain a dispensary license, but has also partnered with another licensed operator to be in a position to sell its products in Illinois.

Hemp-Infused Products Segment

In its Hemp-Infused Products Segment, the Company intends on developing, acquiring, manufacturing and distributing products infused with non-psychoactive constituent of the industrial hemp plant (less than 0.3% THC or as otherwise permitted by applicable law), which may be distributed in all 50 U.S. States. The Company will pursue a distribution strategy through networks of retail dispensaries where THC products are sold, head shops, vitamin stores and independent grocers via direct sales and distributors and is considering online sales, and multi-level marketing. Having access to the Company's expertise in manufacturing products from cannabis, these hemp-infused hard candies, chews, gummies and other products are expected to have a competitive edge in the market.

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Cole Memo Compliance

In a memorandum dated August 29, 2013, addressed to "All United States Attorneys" from James M. Cole, Deputy Attorney General (the "**Cole Memo**"), the U.S. Department of Justice acknowledged that certain U.S. States had enacted laws relating to the use of marijuana and outlined the U.S. federal government's enforcement priorities with respect to marijuana notwithstanding the fact that certain U.S. States have legalized or decriminalized the use, sale and manufacture of marijuana:

- Preventing the distribution of marijuana to minors;
- Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of marijuana from U.S. States where it is legal under state law in some form to other U.S. States;
- Preventing U.S. State-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
- Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
- Preventing marijuana possession or use on U.S. federal property.

There is no guarantee that the current presidential administration will not change its stated policy regarding the low-priority enforcement of U.S. federal laws that conflict with state laws. Additionally, any new U.S. federal government administration that follows could change this policy and decide to enforce the U.S. federal laws vigorously.

The Company's operations are compliant with the Cole Memo.

Business Developments

State of Illinois Developments

The Company opened its Dispensary in Effingham, IL., on September 20, 2016. The Company received its Approval under the Compassionate Use of Medical Cannabis Pilot Program Act (Illinois) ("CUMCPPA") to open and operate the Dispensary in August 2016. Immediately following the receipt of its Approval, the Clinic Effingham held a successful open house with over 100 attendees including local government and law enforcement officers.

The Company had previously intended on locating its Dispensary in Lawrenceville County but took steps to relocate to Effingham, IL in June 2016. Effingham County is located in the middle of ISP District 12 and has approximately twice the population of Lawrenceville County. The Effingham location provides significant additional patient access and is situated next door to a Veteran's Affairs Clinic. Its location is in the heart of central Illinois and is adjacent to the intersection of two major interstate highways: I-57 and I-70. Located approximately 50 miles North West of the original intended location in Lawrenceville, IL, the new location is within minutes of the Keller Drive exit and entrance ramps which provide full on-off interstate access in all directions. The Effingham location is a high traffic regional business and retail district with several major big box retailers within minutes. It is adjacent to a Veteran's Affairs Clinic which provides convenient access for an important patient group.

The Company had previously entered into a joint-venture agreement ("**JV Agreement**") with an Illinois investor group with ties to the medical marijuana industry to build and operate the Company's Dispensary in Effingham, Illinois, with the intention of the investor group acquiring a 50% interest in NHMD, the Company's wholly owned subsidiary, which owns and operates the Dispensary, and a 50% interest in SMHI, the Company's wholly owned subsidiary which holds the Company's real estate property in Lawrenceville, IL. Under the terms of the JV Agreement the Illinois investor group funded USD \$300,000 of the expenses and working capital required to complete and launch the

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Dispensary. In addition, this investor group provided the Company with a guarantee for half the Seller Take-Back Mortgage over the Company's property in Lawrenceville, IL, initially intended to be used for the Dispensary.

The Company also has entered into an agreement with an Illinois cannabis cultivation and extraction facility to develop a framework under which the extraction facility will manufacture and distribute Nutritional High's oils and edibles in Illinois. The cultivation and extraction facility is licensed with Illinois Department of Agriculture and was amongst the first of the companies to commence commercial cultivation and processing of cannabis products under the CUMCPPA. The Company has no immediate plans to expand production to Illinois under this agreement and will consider doing so in the future.

Colorado Project Update

The Company has made significant progress in establishing operations in Colorado. The Company engaged T.L. Printz Constructors in as the new general contractor to complete Phase I build-out of the facility in West Pueblo, CO, which is owned by the Company and leased to Palo Verde LLC ("Palo Verde"), which has now been completed. With Jim Frazier's leadership and T.L. Printz's assistance the Company significantly reduced costs in its build-out plans, which were funded from the proceeds of the Pueblo Facility re-financing (announced in the press release dated April 27, 2016). The Phase I build-out was focused on renovating the building to allow Palo Verde to process raw cannabis into solid and liquid cannabis concentrates and marijuana-infused products ("MIPs") such as vape pen cartridges and gel capsules.

Palo Verde has hired key personnel in preparation of the launch of its marijuana oils, extracts and edibles business, including a general manager/oil extraction specialist, and a salesperson. Phase I of the Pueblo build-out is now complete and Palo Verde's extraction equipment has been installed. The equipment will allow Palo Verde to use an extraction process that utilizes a combination of mechanical separation and short-path distillation to extract essential oils from raw cannabis into high purity product, dubbed as "Clear" in the industry. Final inspections by the relevant local authorities in Pueblo are almost complete and Palo Verde is expected to commence operations in short order.

Palo Verde plans to initially sell raw oil to other infused products manufacturers, and will subsequently launch sales of cannabis-infused products such as gelatine caps, vape pen cartridges and disposable vape pens. Concurrent with product introduction, the Company planned to re-model the Pueblo facility to enable Palo Verde to manufacture cannabis infused edible products.

The Company engaged a branding consultant to assist in developing packaging for an initial line of Jimi Hendrix-branded products, which would be the first product line to be introduced by Palo Verde in the State of Colorado. The consultant would also develop packaging for subsequent product lines, which would bear Nutritional High's branding.

California Expansion Strategy

On November 1, 2016, the company announced its expansion strategy in the State of California in anticipation of the introduction of the Adult Use of Marijuana Act on November 8, 2016. As an initial step of the California expansion strategy, the Company purchased and took delivery of equipment to facilitate cold ethanol extraction. The equipment would be stored at a warehouse in California pending installation once an appropriate facility is secured.

Acquisition 40% ownership of Aura Heath Corp.

On November 17, 2016, the company acquired a 40% equity interest in Aura Health Corp. ("AHC"), a private company based in Ontario, which owns and operates Green Global Properties Inc., a private company based in Delaware (the "Green Global"). The Company also advanced to AHC a term loan (the "Loan") to AHC in the principal amount of US\$120,000 (the "Principal Amount"), bearing 12% interest per annum. The Principal Amount and all accrued interest are due and payable on the second anniversary of the Loan (the "Maturity Date"). AHC is involved in the development and acquisition of medical marijuana health clinics in the United States. The medical health clinics test prospective patients, and where applicable and where it is legal to do so, issues medical-use certificates to qualifying patients in

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the United States. AHC, through Green Global, completed its first acquisition (the "First Acquisition") of a 30% ownership interest in a recently opened clinic in Las Vegas, Nevada from Sun Valley Holdings ("Sun Valley"), a private company based in Phoenix, Arizona. Sun Valley currently operates three wholly owned clinics in Arizona and is the largest clinic owner and operator in the state of Arizona.

The Company expects Aura to be an important partner in distribution of Nutritional High product in various key medical marijuana markets including Nevada and Florida, where additional clinics are planned. The exposure this relationship will provide for Nutritional High with medical marijuana patients, and will be an important component in the Company's product distribution channel.

Key Board and Management Changes

During the year ended July 31, 2016, the Company has made the following management changes:

On April 27, 2016, the Company appointed Jim Frazier as Chief Operating Officer of the Company. Jim Frazier has over 23 years of experience in the food industry and a proven track record of developing and implementing branded and private label programs and driving profits. He is also a well-known manufacturer of confectionaries for over 40 years.

On July 25, 2016 Jim Frazier replaced David Posner as the Company's Chief Executive Officer, who has been appointed as a Chairman of the Board. Mr. Posner has replaced Statis Rizas, who has resigned as a Chairman and the director of the Company.

On June 14, 2016, the Company appointed Amy Stephenson as Chief Financial Officer. Amy Stephenson has over 20 years of senior management and capital markets experience. She was former CFO of Bedrocan Cannabis Corp. and controller of Canopy Growth Inc. with a strong familiarity of the cannabis and hemp industries.

On June 16, 2016, the Company has appointed Robert Keeler as the Company's new independent director. Mr. Keeler has over 20 years of experience in the food manufacturing industry with specialty in USDA Food Production, HACCP Certified and GMP. He is currently the COO of Due, Sweet Chocolate, which is a vertically integrated manufacturer, wholesaler and retailer of unique, world-class dark chocolate creations.

Frankfurt Stock Exchange Listing and German Strategy Announcement

On May 24, 2016, the Company announced that its common shares commence trading on the Frankfurt Stock Exchange under the symbol "2NU". The Frankfurt Stock Exchange is the world's 10th largest stock exchange by market capitalization and the largest of Germany's seven stock exchanges.

On July 14, 2016, the Company announced its strategy regarding international expansion. Nutritional High's mandate is to capitalize on regulatory changes in jurisdictions where cannabis and cannabis derivative products are permitted by the requisite government authorities for medical or adult use. The Company continues to monitor the legislative environment in jurisdictions where a significant market potential exists. Nutritional High has identified Germany as being one of the markets where the regulatory change is currently underway.

On October 17, 2016, the Company announced the engagement of Soar Financial Partners to organize and arrange road shows for the Company in Germany. Soar Financial Partners, a brand of NorthStar Communications GmbH, is a provider of investor and public relations to companies looking for a foothold in the European capital markets.

Nutritional High aims to be at the forefront of legalization in Germany with a goal of bringing its proprietary manufacturing methods and high professional standards of approaching this new industry. The Company will bring its expertise in developing cannabis extract products which provide for different consumption methods and its knowledge of different extraction technologies to create leading products.

Launch of Jimi Hendrix Related Cannabis Products

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On August 31, 2016, the Company and Purple Haze Properties LLC ("PHP") announced the launch of Jimi Hendrix related cannabis-infused products, and the entry into an addendum to their license agreement ("Agreement") to provide for sub-licensing to third parties in Oregon and California.

To facilitate these sub-licensing arrangements, Nutritional High and PHP have entered into an amending agreement to their June 5, 2015, license agreement where Nutritional High acquired the exclusive rights to manufacture and distribute Gummy Bears, Hard Candies and Vitamin Water style beverages for Jimi's Cannabis Collection. Nutritional High can terminate these sublicensing arrangements when it decides to launch its own product offerings in those states.

Appointment of Boom Capital Markets Inc. to Provide Investor Relations Services

On September 1, 2016, the Company announced the engagement of Boom Capital Markets ("Boom Capital") to provide investor relations services. Boom Capital is an investor relations specialist in the micro-cap sector, focuses on introducing Canadian companies of merit to broader institutional and retail investors.

Key Financing Developments

On August 20, 2015, the Company issued 692,431 shares valued at \$51,932 as the final instalment on its initial licensing obligations to Purple Haze.

On September 7, 2015, the Company issued 406,668 shares valued at \$20,333 as compensation for services where the fair value of shares was determined based on the value of services received.

On October 5, 2015, 8,000 warrants were exercised for gross proceeds of \$400.

On October 23, 2015, a holder of the convertible debentures converted \$180,000 in convertible debentures into 3,000,000 common shares of the Company at a share price of \$0.06 per share.

On October 26, 2015, the Company issued 50,000 shares valued at \$2,500 as compensation for services where the fair value of shares was determined based on the value of services received.

On November 5, 2015, 1,600,000 warrants were exercised for gross proceeds of \$80,000.

On November 5, 2015, a holder of the convertible debentures converted \$100,000 in convertible debentures into 1,666,667 common shares of the Company at a share price of \$0.06 per share.

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

On November 17, 2015, 1,000,000 warrants were exercised for gross proceeds of \$50,000.

On December 2, 2015, the Company completed a non-brokered private placement of 4,200,000 units at \$0.05 per unit for gross proceeds of \$210,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share for a period of 18 months from the date of issuance.

On January 28, 2016, the Company has issued 2,822,700 shares to settle \$141,135.00 of debt, where the fair value of shares was determined based on the value of debts outstanding.

On January 31, 2016, the Company completed a non-brokered private placement of 800,000 units at \$0.05 per unit for gross proceeds of \$40,000. Each unit consisted of one common share and one half of one share purchase warrant, with each warrant exercisable into one common share at a price of \$0.07 per share for a period of 18 months from the date of issuance.

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On February 29, 2016 and on March 2, 2016, each of David Posner, Chairman and Director, and 1306413 Ontario Limited, respectively, advanced CAD \$15,000 (a total of \$30,000) to assist with cash flow needs. These loans were non-interest bearing and were repaid within three months.

On March 18, 2016, the Company issued 5,000,000 Common Shares at a price of USD \$0.05 per share to Purple Haze Properties LLC per the license agreement addendum with Purple Haze Properties LLC.

On March 22, 2016, 160,000 compensation options were exercised for \$4,000 for 160,000 Common Shares and 80,000 Unit Warrants.

On April 4, 2016, the Company through its subsidiary NHMDI entered into a restated letter agreement whereby the Company agreed to a work plan and earn-in with ILDISP, LLC ("ILDISP") where by ILDISP shall fund up to \$391,230 (USD 300,000) of the expenses necessary to complete the Company's dispensary in Illinois acceptable and approved by the Illinois Department of Financial and Professional Regulation ("IDFPR") and fund the first four months of working capital to earn a 50% joint-venture in the dispensary. For the USD 300,000, ILDISP shall receive from the Company:

- (i) An unsecured no interest promissory note in the amount of \$200,000;
- (ii) An unsecured convertible note in the amount of \$100,000;
 - Upon approval by the IDFPR convertible into 200 shares at \$500 per NHMDI shares;
 - Upon rejection by the IDFPR convertible into an unsecured promissory note issued by NHMDI with a maturity of six (6) years with no interest for the first four (4) years and 5% per annum thereafter.

As of the date of this MD&A, the USD 300,000 were fully funded.

On April 14, 2016, the Company issued warrants to purchase 3,333,334 Common Shares in connection with the Refinancing. The warrants are exercisable into Common Shares at a price of \$0.06 per share for a period of 18 months from issuance.

On April 19, 2016, the Company issued a promissory note in the amount of USD \$800,000 in connection with the Refinancing of which USD \$600,000 was advanced as of April 30, 2016.

On August 26, 2016, the Company announced that it has closed the first tranche of non-brokered private placement, consisting of 11,432,579 units ("Unit") for aggregate gross proceeds of \$400,140. The proceeds from the Offering will be used by the Company to fund the Company's Pueblo project, service debt and for general working capital purposes.

On September 12, 2016, the Company announced that it has closed the second tranche of non-brokered private placement, consisting of 11,445,960 Units at a price of \$0.035 per Unit for aggregate gross proceeds of \$400,609. The total number of Units issued pursuant to this Offering, together with the first tranche as announced on August 31, 2016, is 22,878,538 for aggregate gross proceeds of \$800,749. The Company has also completed a debt settlement in the amount of \$443,542 in exchange for 8,870,843 units ("DS Units") at a price of \$0.05 per DS Unit. Each DS Unit is comprised of one Common Share and one half (1/2) Common Share purchase warrant, exercisable at a price of \$0.07 per Common Share for a period of 18 months. 6,665,174 DS Units were issued to non-arm's length parties to settle the debts in the amount of \$333,258.

On November 8, 2016, the company has completed first tranche of the non-brokered private placement (the "Offering"), consisting of 7,658,710 units ("Units") at a price of \$0.15 per Unit to raise aggregate gross proceeds of \$1,148,806.50. Each Unit consists of one common share ("Common Share") of the Company and one-half of one Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder thereof to purchase a Common Share at \$0.22 per share for a period of 18 months from closing.

On November 18, 2016, the company closed the second tranche of the non-brokered private placement (the "Second Tranche"), consisting of 26,915,880 units ("Units") at a price of \$0.15 per Unit to raise aggregate gross proceeds of

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\$4,037,382, and together with the closing of the first tranche, an aggregate of 34,574,590 Units have been issued for aggregate total proceeds of \$5,186,189.

On November 24, 2016, the company has announced the closing of the final tranche of the non-brokered private placement (the "Final Tranche"), consisting of 2,061,631 units ("Units") at a price of \$0.15 per Unit to raise aggregate gross proceeds of \$309,245, and together with the closing of the previous tranches, an aggregate of 36,636,221 Units have been issued for aggregate total proceeds of \$5,495,433.15.

Overall Performance

As at July 31, 2016, the Company had assets of \$2,686,449 (2015 – \$1,972,588), liabilities of \$2,310,944 (2015 – \$1,142,249) and shareholders' equity of \$375,505 (2015 – \$830,339). During the year ended July 31, 2016, the Company incurred a net loss and comprehensive loss of \$2,303,684 (2015 – \$2,083,645).

At July 31, 2016, the Company had working capital deficiency of \$1,432,542 (2015 – working capital of \$116,437) and cash of \$111,786 (2015 – 19,567).

Selected Annual Information

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

	Year ended July 31, 2016	Year ended July 31, 2015	Period ended July 31, 2014
Revenue	608,277	210,762	-
Total expenses	(2,917,574)	(2,279,122)	(681,155)
Net loss	(2,309,297)	(2,068,360)	(681,155)
Foreign exchange translation	(5,613)	(15,285)	-
Net loss and comprehensive loss	(2,303,684)	(2,083,645)	(681,155)
Loss per share	(0.02)	(0.02)	(0.01)
Total assets	2,686,449	1,972,588	695,477
Total liabilities	2,310,944	1,142,249	220,150
Shareholders' Equity	\$ 375,505	830,339	475,327

Three-month period ended July 31, 2016

The Company incurred a net loss of \$1,057,167 or \$0.008 per Common Share for the three-month period ended July 31, 2016 compared with a net loss of \$699,055 or \$0.008 per Common Share for the same period ended July 30, 2015.

For the three-month period ended July 31, 2016, management and consulting fees decreased by \$112,183 to \$128,358 from \$240,541 in the same period in 2015, and consisted of services provided by FMI Capital Advisory Inc., for strategic advisory services, Branson Corporate Services Ltd. for financial accounting services, including CFO services, and the President and CEO of the Company.

For the three-month period ended July 31, 2016, professional fees, consisting of legal and audit fees, increased by \$86,756 to \$117,444 from \$30,688 for the comparable period in the prior year. The prior year included fees incurred for the going public transaction.

The Company earned \$126,366 in rental income on the Pueblo location for the three-month period ended July 31, 2016, and \$85,947 for the comparable period in the prior year. In the prior year, there was one less lease, and two leases commenced on January 1, 2015.

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Twelve-month period ended July 31, 2016

The Company incurred a net loss and comprehensive loss of \$2,303,684 or \$0.02 per Common Share for the twelve-month period ended July 31, 2016 compared to \$2,083,645 or \$0.2 per Common Share for the same period last year.

For the twelve month period ended July 31, 2016, management and consulting fees increased by \$207,820 to \$961,252 from \$753,432 in the same period in 2015, and consisted of services provided by FMI Capital Advisory Inc., for strategic advisory services, Branson Corporate Services Ltd. for financial accounting services, including CFO services, and the President and CEO of the Company.

For the twelve-month period ended July 31, 2016, professional fees, consisting of legal and audit fees, decreased by \$178,167 to \$290,642 from \$468,809 for the comparable period in the prior year. The prior year included fees incurred for the going public transaction.

The Company earned \$515,324 in rental income on the Pueblo location for the twelve-month period ended July 31, 2016, compared to \$202,270 for the same period last year. In the prior year, there was one less lease, and two leases commenced on January 1, 2015.

Selected financial information for the previous quarters as follows:

Quarter ended	Revenues	Net loss and comprehensive loss	Net loss per share
July 31, 2014	\$nil	\$(681,155)	\$(0.012)
October 31, 2014	\$nil	\$(385,006)	\$(0.005)
January 31, 2015	\$nil	\$(367,651)	\$(0.005)
April 30, 2015	\$nil	\$(631,933)	\$(0.005)
July 31, 2015	\$nil	\$(699,055)	\$(0.006)
October 31, 2015	\$nil	\$(361,348)	\$(0.003)
January 31, 2016	\$nil	\$(300,174)	\$(0.002)
April 30, 2016	\$nil	\$(584,995)	\$(0.004)
July 31, 2016	\$nil	\$(1,057,167)	\$(0.008)

Liquidity and Financial Position

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2016, the Company had current assets of \$299,115, current liabilities of \$1,731,657 and working capital deficiency of \$1,432,542.

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The following are the contractual maturities of financial liabilities at July 31, 2016:

	Total	Less Than 1 Year	1 to 2 Years	Greater than 2 Years
Accounts payable, accrued liabilities	\$1,029,164	\$1,029,164	-	-
Promissory note payable	\$1,004,999	\$702,493	\$302,506	-
Convertible debenture	\$271,821	-	\$271,821	-

Related Party Transactions and Key Management Compensation

NHL and FMICAI entered into an advisory and consulting agreement on May 1, 2014. FMICAI is a subsidiary of Foundation Financial Holdings Corp. ("**FFHC**"). FFHC is an entity in which an officer is a director of the Company. In consideration for services, NHL agreed to pay an initial advisory fee of \$35,000 and a monthly fee of \$8,000 commencing on May 1, 2014. An amendment to the agreement was entered into on October 27, 2014, to include a success fee of \$70,000, payable upon successful completion of the IPO, half of which was paid in Units and half of the success fee in cash. A further amendment to the agreement was entered into on September 11, 2015 to increase the monthly fee to \$16,000 effective January 1, 2015, for additional services to be rendered including ongoing executive management services, identifying qualifying real estate, assistance with licensing applications, implementing the business plan, seeking out state licensed providers, and assist in build-out of Pueblo facility. For the twelve-month period ended July 31, 2016, NHL was charged \$248,000 by FMICAI. At July 31, 2016, \$275,079 is included in accounts payable and accrued liabilities in relation to FMICAI.

NHL and Branson entered into a management services agreement on May 1, 2014. The management services agreement includes the provision of services of the Company's Chief Financial Officer. Branson is an entity in which FFHC is a 49.0% shareholder. In consideration for services the Company agreed to pay \$3,000 per month. An amendment to the agreement was entered into on October 1, 2014 to increase the fee to \$5,000 per month. A further amendment to the agreement was entered into on October 27, 2014, to include a success fee of \$30,000, which was paid upon the successful completion of the IPO. A further amendment to the agreement was entered into on March 1, 2015 to increase the fee to \$6,000 per month. For the twelve-month period ended July 31, 2016, the Company paid \$74,100 for management services provided by Branson. As at July 31, 2016, \$53,122 is included in accounts payable and accrued liabilities in relation to Branson.

For the twelve-month period ended July 31, 2016, Fogler, Rubinoff LLP ("**Fogler**") a law firm in which an officer and director of the Company is also a partner, provided \$81,537 of legal services, which are included in professional fees. As at July 31, 2016, \$27,101 due to Fogler is included in accounts payable and accrued liabilities.

During the twelve-month period ended July 31, 2016, \$264,816 salary was paid or accrued to the Chief Executive Officer, the Chief Operating Officer, the VP Product Development, and a Director. As at July 31, 2016, \$173,068 is included in accounts payable and accrued liabilities.

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For the twelve-month period ended July 31, 2016, the Company incurred interest of \$18,049 (2015 - \$8,136) under the subordinate convertible debenture. As at July 31, 2016, accrued interest owed to directors and officers were \$22,884.

These expenses have been measured at their exchange amount, being the amounts negotiated and agreed to by the parties to the transactions.

Disclosure of outstanding share data as of November 28, 2016

	Authorized	Outstanding
Voting or Equity securities issued and outstanding	Unlimited Common Shares	238,059,216 Common Shares
Securities convertible or exercisable into common shares		a) Options to acquire up to 11,720,000 Common Shares; b) 440,000 Series III Warrants; c) 1,169,500 Series IV Warrants d) 4,513,770 Unit IPO Warrants; e) 256,200 Compensation Options f) 400,000 Warrants- Transcend Capital Inc. g) 3,333,334 Warrants- Veterans Capital Corp. h) 5,716,290 Series VI Warrants i) 5,722,980 Series VII Warrants j) 4,435,422 Series VIII Warrants k) 18,318,111 Series IX Warrants

Subsequent events

- a. On August 15, 2016, the application for Medical Cannabis Processor Licence in Maryland was rejected, and the refund of deposit of property purchase USD\$5,000 was received on October 14, 2016. On October 19, 2016, NH Medicinals (Maryland) Inc. was formally dissolved.
- b. On August 24, 2016, 250,000 options exercisable at \$0.10 were forfeited. The options were fully vested at the time of forfeiture.
- c. On August 26, 2016, 11,432,580 units were issued in the first tranche of a private placement, at \$0.035 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.05 for 18

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months, with acceleration clause. In connection with the private placement, 22,857 compensation warrants were issued, exercisable at \$0.035 for 18 months.

- d. On September 1, 2016, the Company amended the revolving loan agreement due from Palo Verde LLC to extend the maturity date to February 28, 2017.
- e. On September 9, 2016, 11,445,960 units were issued in the second tranche of a private placement, at \$0.035 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.05 for 18 months, with acceleration clause. In connection with the private placement, 133,143 compensation warrants were issued, exercisable at \$0.035 for 18 months.
- f. On September 12, 2016, the Company entered into debt settlement agreements to settle \$615,809 of outstanding accounts payable, of which \$443,542 was settled with 8,870,844 units at a deemed price of \$0.05 per unit, and an additional \$172,267 was settled in cash. Each unit includes one common share and one half of a warrant with an exercise price of \$0.07 for 18 months from closing.
- g. Between October 5, 2016 and October 14, 2016, 6,168,330 warrants were exercised for \$0.07 per share, 2,500,000 warrants were exercised for \$0.06 per share and 1,176,520 warrants were exercised for \$0.05 per share, for a total of 9,994,850 common shares issued.
- h. On October 6, 2016, \$176,090 of convertible debt was converted into 2,934,830 of common shares, at \$0.06 per share.
- i. On October 7, 2016, 150,000 options were exercised at \$0.10 per share for a total of 150,000 common shares.
- j. Between October 11, 2016 and October 14, 2016, 584,260 warrants were issued, exercisable at \$0.07 per share for 5 months.
- k. On October 14, 2016, 100,000 warrants were exercised for \$0.07 per share for 100,000 common shares.
- l. Between October 17, 2016 and November 3, 2016, 3,126,637 warrants were exercised for \$0.10 per share, 5,049,680 warrants were exercised for \$0.07 per share, 1,250,000 warrants were exercised for \$0.06 per share, and 1,124,080 warrants were exercised for \$0.05 per share for a total of 10,550,397 common shares issued.
- m. Between October 17, 2016 and October 27, 2016, 562,040 warrants were issued, exercisable at \$0.07 per share for 5 months.
- n. On October 17, 2016, 3,120,000 options were issued for the price of \$0.135 per share, exercisable from time to time up but not after October 17, 2021.
- o. Between October 17, 2016 and November 7, 2016, 1,450,000 options were exercised for \$0.10 per share, 240,000 options were exercised for \$0.07 per share for a total of 1,690,000 common shares issued.
- p. On October 23, 2016, 400,000 options were cancelled for the price of \$0.10 per share.
- q. On November 8, 2016, 3,829,355 units were issued in the first tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
- r. Between November 7, 2016 and November 8, 2016, 600,000 warrants were exercised for \$0.07 per share for 600,000 common shares.
- s. On November 10, 2016, 8,000 warrants were exercised for \$0.05 per share, 4,000 warrants were exercised for \$0.07 per share for a total of 12,000 common shares.
- t. On November 11, 2016, 330,500 warrants were exercised for \$0.07 per share for 330,500 common shares.
- u. Between November 14, 2016 and November 15, 2016, 1,034,260 warrants were exercised for \$0.07 per share for 1,034,260 common shares.
- v. On November 17, 2016, the company closed the acquisition of 40% interest in Aura Health Corp. As part of

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- the acquisition the company has advanced in the amount of US\$ 120,000 in a form of a short-term loan.
- w. On November 18, 2016, 25,449,212 units were issued in the second tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
 - x. On November 22, 2016, 84,260 warrants were exercised for \$0.07 per share for 84,260 common shares.
 - y. On November 24, 2016, 7,357,655 units were issued in the third tranche of a non-brokered private placement, at \$0.15 per unit. Each unit includes one common share, and one half of a warrant with an exercise price of \$0.22 for 18 months.
 - z. On November 25, 2016, 150,000 options were exercised for 150,000 common shares for \$0.10 per share.

Off-Balance Sheet Arrangements

As of November 28, 2016, the Company has no off balance sheet arrangements.

Critical Accounting Estimates

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities. Actual results could differ from those estimates. The reported amounts and note disclosures reflect management's best estimate of the most probable set of economic conditions and planned course of action. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which these estimates are revised and in any future periods affected. Balances and transactions that are subject to a high degree of estimation are the continued use of the going concern assumption, the identification of separate components for revenue recognition purposes and estimates of costs to complete and other components leading to the percentage of completion determination for revenue recognition, valuation of income tax assets and research and development tax credits.

Information about such critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Company's consolidated financial statements is included with the Company's significant accounting policies for such balance and transactions in Note 3 to the Company's unaudited condensed interim financial statements for the period ended January 31, 2016. Changes in these estimates and assumptions could have a significant impact on the Company's financial statements.

Significant accounting policies

Share based payments

Share based payment transactions

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

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

Equity settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value of the equity

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instruments at the date on which they are granted.

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

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

Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of Common Shares outstanding during the period. The computation of diluted loss per share assumes conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. When there is a loss, no potential shares are included in the computation as they are anti-dilutive.

Financial assets

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

Financial assets classified as FVTPL are measured at fair value with realized gains and losses recognized through earnings. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. The Company classified loans and other receivables as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. At July 31, 2016, the Company has not classified any financial assets as available for sale or held to maturity.

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

Financial liabilities

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

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

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held

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for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At July 31, 2016, the Company had not classified any financial liabilities as FVTPL.

Cash

Cash in the statement of financial position is comprised of cash in bank and held in Company's lawyers trust account.

Related party transactions

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

Credit Risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, loan and other receivables. The Company has no significant concentration of credit risk arising from operations. The majority of the Company's cash is held in a trust account with the Company's lawyer. Remaining cash is held with a reputable Canadian chartered bank which is closely monitored by management. Management believes that the credit risk concentration with respect to financial instruments included in cash, loans and other receivables is minimal.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company has accumulated losses of \$5,049,062 and expects to incur further losses in the development of its business. As at July 31, 2016, the Company had a cash balance of \$111,786 and current liabilities of \$1,731,657.

Risk Factors

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

Limited Operating History

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

- risks that it may not have sufficient capital to achieve its growth strategy;

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- risks that it may not develop its product and service offerings in a manner that enables it to be profitable and meet its customers' requirements;
- risks that its growth strategy may not be successful;
- risks that fluctuations in its operating results will be significant relative to its revenues; and
- risks relating to an evolving regulatory regime.

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

Reliance on Securing Agreements with Licenses Producers

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

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

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

Regulation

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

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. The Company is currently in compliance with all such laws. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company's operations.

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

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

U.S. Federal Laws

Our business operation is dependent on state laws pertaining to the marijuana industry. Continued development of the marijuana industry is dependent upon continued legislative authorization of marijuana at the state level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of marijuana, which would negatively impact our proposed business.

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

As of November 28, 2016, 28 states, the District of Columbia and Guam allow their residents to use medical marijuana. Voters in the states of Colorado, Washington, Oregon, Alaska, California, Nevada, Massachusetts, and Maine have approved and have implemented or are implementing regulations to legalize cannabis for adult use. The state laws are in conflict with the Federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. The Obama administration has made numerous statements indicating that it is not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, there is no guarantee that the new Trump administration will not change the government's stated policy regarding the low-priority enforcement of federal laws. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to the Company and its stockholders, including the potential exposure to criminal liability.

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

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

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

Regulation that may hinder the Company's Ability to Establish and Maintain Bank Accounts

The U.S. federal prohibitions on the sale of marijuana may result in Licensed Operators being restricted from accessing the U.S. banking system and they may be unable to deposit funds in federally insured and licensed banking institutions. While the Company does not anticipate dealing with banking restrictions directly relating to its business, banking restrictions could nevertheless be imposed due to the Company's banking institutions not accepting payments from Licensed Operators. Licensed Operators at times do not have deposit services and are at risk that any bank accounts

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they have could be closed at any time. Such risks increase costs to the Company and Licensed Operators. Additionally, similar risks are associated with large amounts of cash at these businesses. These businesses require heavy security with respect to holding and transport of cash, whether or not they have bank accounts.

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

Product Liability, Operational Risk

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

Product Recalls

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

Uninsurable Risks

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

Additional Financing

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

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

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

Risks Affecting the Real Estate Industry

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

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

Taxes

U.S. federal prohibitions on the sale of marijuana may result in the Company not being able to deduct certain costs from its revenue for U.S. federal taxation purposes if the U.S. Internal Revenue Service determines that revenue sources of the Company are generated from activities which are not permitted under U.S. federal law.

Illegal Drug Dealer Could Pose Threats

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

Reliance on Management

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

Factors which may Prevent Realization of Growth Targets

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

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution;

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

Risks Associated with Increasing Competition

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

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

The Products Provided by the Company to Licensed Operators May Become Subject to Regulation Governing Food and Related Products

Should the Federal government legalize marijuana for medical or recreational use nation-wide, it is possible that the U.S. Food and Drug Administration ("FDA") would seek to regulate the products under the Food, Drug and Cosmetics Act of 1938. The FDA may issue rules and regulations including certified good manufacturing practices related to the growth, cultivation, harvesting and processing of medical marijuana and marijuana-infused products. Clinical trials may be needed to verify efficacy and safety of the medical marijuana. It is also possible that the FDA would require that facilities where medical marijuana is cultivated be registered with the applicable government agencies and comply with certain federal regulations. In the event any of these regulations are imposed, The Company cannot foresee the impact on its operations and economics. If the Company or the Licensed Operators are unable to comply with the regulations and or registration as prescribed by the FDA or another federal agency, the Company or the Royalty Producer may be unable to continue to operate in its current form or at all.

Environmental and Employee Health and Safety Regulations

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

Difficult to Forecast

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

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factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Holding Company

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

Management of Growth

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

Dividends

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

Currency Exchange Rates

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

Officers and Directors of the Company Own Significant Shares and Can Exercise Significant Influence

The officers and directors of the Company, as a group, own a substantial number of the outstanding common shares (on a fully diluted basis). As such, as shareholders, the officers and directors will be able to exert significant influence on matters requiring approval by shareholders, including the election of directors and the approval of any significant corporate transactions. The concentration of ownership may also have the effect of delaying, deterring or preventing a change in control and may make some transactions more difficult or impossible to complete without the support of these shareholders.

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

Joint venturers often have shared control over the operation of our joint venture assets, such as the joint-venture arrangement with Illinois investor group, and do not control all the decisions of the joint ventures. Therefore, joint venture investments may involve risks such as the possibility that a co-venturer in an investment might become bankrupt, be unable to meet its capital contribution obligations, have economic or business interests or goals that are inconsistent with our business interests or goals, or take actions that are contrary to our instructions or to applicable laws and regulations. In addition, we may be unable to take action without the approval of our joint venture partners,

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or our joint venture partners could take actions binding on the joint venture without our consent. Consequently, actions by a co-venturer or other third-party could expose us to claims for damages, financial penalties and reputational harm, any of which could have an adverse effect on our business and operations. In addition, we may agree to guarantee indebtedness incurred by a joint venture or co-venturer or provide standard indemnifications to lenders for loss liability or damage occurring as a result of our actions or actions of the joint venture or other co-venturers. Such a guarantee or indemnity may be on a joint and several basis with a co-venturer, in which case we may be liable in the event such co-venturer defaults on its guarantee obligation. The non-performance of such obligations may cause losses to us in excess of the capital we initially may have invested or committed under such obligations.

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

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

The joint venture might require a need for additional capital infusions which might create an obligation on the Company to make additional contributions, failing to do which may result in reduction of the Company's interest in NHMDI and SMHI. In addition, Illinois investor group's failure to contribute may create a greater need for the Company to contribute additional capital, which may not be available to the Company on favorable terms or at all. *Non-compliance with federal, provincial or state laws and regulations, or the expansion of current, or the enactment of new laws or regulations, could adversely affect the Company's Business.*

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

While cannabidiol ("**CBD**") can be found in certain strains of cannabis, which faces significant restrictions on use and distribution under the United States Controlled Substances Act ("**CSA**"), the Company is not sourcing CBD from cannabis at present.

While oil derived from industrial hemp stalk that has naturally occurring THC content equal to or less than 0.3% is excluded from the definition of marijuana under the CSA, there is no certainty that this exclusion could not be altered by court or governmental action or re-interpretation. There is no certainty that the United States Food and Drug Administration ("**FDA**") will not regulate the use of hemp oil as a drug and prohibit use as a dietary ingredient. There is no certainty that hemp oil will be considered a grandfathered dietary ingredient under the Dietary Supplement Health and Education Act of 1994 ("**DSHEA**"), or would otherwise be permitted for use under the DSHEA. The FDA has taken steps to pursue companies that manufacture hemp-infused products that make health and medical claims about their products, and may take steps to pursue companies that manufacture marijuana products. This may include Licensed Operators, which would adversely effect the Company's financial performance.

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The Company relies on the supply of hemp stalk oil extracts, which is imported into the United States from other countries, as the United States Drug Enforcement Administration ("DEA") has taken a position that CBD is a marijuana derivative and, therefore, a Schedule I drug. Currently, the definition of "marijuana" in the CSA does not include the plant's "mature stalks", which are used to create hemp (which only contains trace amounts of THC and has no psychoactive effect). Hemp stalk oil is not scheduled under the CSA and therefore, is also not under the enforcement authority of the DEA. Currently, the DEA does not take jurisdiction over hemp stalk oil products, but controls hemp cultivation, and companies that wish to cultivate hemp in the United States must apply for a permit with the DEA. If in future DEA takes jurisdiction to regulate hemp stalk oil products, the Company may become subject to additional licensing requirements, which may require additional capital. There is no assurance that the Company will be able to obtain any such licenses, or be eligible to apply for such licenses, which would adversely affect the Company's Business.

Internal Control over Financial Reporting

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

During the year ended July 31, 2016, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's President and Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at July 31, 2016 covered by this management's discussion and analysis, management of the Company, with the participation of the President and Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President and Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Cautionary Note Regarding Forward Looking Statements

This Management's Discussion and Analysis includes "forward-looking statements", within the meaning of applicable securities legislation, which are based on the opinions and estimates of Management and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words suggesting future outcomes or statements regarding an outlook. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include, without limitation: the intention to complete the listing; the description of the Company that assumes completion of the listing of its Common Shares; the intention

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to grow the business and operations of the Company; anticipated timing for the ability of the Company to agree to terms of royalty agreements with Licensed Operators; expected growth in the number of users of Medical Marijuana in Canada; the risk of foreign exchange rate fluctuations, the ability of the Company to fund the capital and operating expenses necessary to achieve its business objectives, the uncertainty associated with commercial negotiations and risks associated with international business activities, as well as those risks described in public disclosure documents filed by the Company. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in securities of the Company should not place undue reliance on these forward-looking statements.

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

Management's Responsibility for Financial Information

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

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

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

November 28, 2016

Jim Frazier
Chief Executive Officer

