



Unaudited Condensed Interim Consolidated Financial Statements of

Alternate Health Corp.

Expressed in Canadian Dollars

For the three months period ended March 31, 2019 and March 31, 2018
(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee of the Board of Directors. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants Canada for a review of condensed interim consolidated financial statements by an entity's auditors.

Alternate Health Corp.

Unaudited Condensed Interim Consolidated Statement of Financial Position (in Canadian Dollars)

As at	March 31, 2019	December 31, 2018
ASSETS		
Current assets		
Cash	\$ 1,835,721	\$ 3,902,769
Accounts receivable, net	59,698	62,988
HST receivable	78,864	68,602
Supplies on hand	-	17,053
Prepaid expenses and deposits	765,633	817,579
	<u>2,739,916</u>	<u>4,868,991</u>
Non-current assets		
Long term investments (Note 3)	3,277,168	2,572,043
Right to use – capital leases	938,414	-
Property and equipment (Note 5)	417,989	650,507
Intangible assets (Note 6)	1,473,852	1,520,863
	<u>6,107,422</u>	<u>4,473,413</u>
Total non-currents assets		
	<u>\$ 8,847,339</u>	<u>\$ 9,612,404</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,669,977	\$ 5,407,360
Convertible note (Note 4)	977,935	-
Current portion of development fees payable (Note 7)	75,000	75,000
	<u>6,722,912</u>	<u>5,482,360</u>
Non-current liabilities		
Convertible note (Note 4)	1,661,598	2,519,083
Lease liability	951,768	-
Development fees payable to related party (Note 7)	551,078	536,134
	<u>9,887,356</u>	<u>8,537,577</u>
Total liabilities		
	<u>9,887,356</u>	<u>8,537,577</u>
Shareholders' equity		
Share capital (Note 8)	43,686,626	43,667,876
Warrants (Note 8)	4,367,913	4,263,621
Share-based reserve (Note 8)	3,730,806	3,730,806
Equity Component – Convertible Note	270,993	270,993
Deficit	(52,069,707)	(49,802,217)
Accumulated other comprehensive income	(1,026,647)	(1,056,252)
	<u>(1,040,017)</u>	<u>1,074,827</u>
Total shareholders' equity		
	<u>(1,040,017)</u>	<u>1,074,827</u>
	<u>\$ 8,847,339</u>	<u>\$ 9,612,404</u>

See accompanying notes to the unaudited condensed interim consolidated financial statements

Alternate Health Corp.

Unaudited Condensed Interim Consolidated Statement of Loss and Comprehensive Loss
(in Canadian Dollars)

For the three-month period ended	March 31, 2019	March 31, 2018
Revenue	\$ 13,735	\$ 172,495
Operating expenses		
Advertising and promotion	23,849	45,206
Accretion – convertible note (Note 4)	120,450	-
Amortization – capital leases	107,683	-
Depreciation and amortization of equipment and intangible assets (Note 5,6)	79,744	288,623
Bad debts	-	19,778
Consulting fees (Notes 8 & 11)	462,179	756,229
Interest on long term liabilities	113,635	14,944
Lab supplies	-	391,100
Management fees	-	(810,138)
Office and general	106,161	250,389
Professional fees	599,889	400,704
Rent and occupancy	317,334	260,132
Repairs and maintenance	849	83,309
Research and development	259	6,415
Salaries and other benefits	609,819	1,401,072
Share-based compensation (Note 8)	-	471,345
Travel	3,746	-
Utilities	63,837	122,502
Operating expenses	2,609,436	3,701,610
Loss before undernoted items and income taxes	(2,595,702)	(3,529,115)
Other expenses/(income)		
Write-down of property and equipment (Note 5)	(362,779)	-
Gain / loss on foreign exchange	(14,081)	(1,195)
Fair value change on long-term investments (Note 3)	705,125	-
Investment income	-	(458,280)
	328,265	(459,475)
Loss before income taxes	(2,267,436)	(3,069,640)
Income taxes (recovery)		
Current	53	32
Deferred	-	-
	53	32
Net loss	(2,267,490)	(3,069,672)
Other comprehensive income (loss)		
Foreign currency translation differences for foreign operations	29,605	220,097
Net unrealized gain on marketable securities	-	1,807,153
Other comprehensive income	29,605	2,027,250
Total comprehensive loss	\$ (2,237,885)	\$ (1,042,422)
Basic and diluted loss per share (Note 8)	\$ (0.03)	\$ (0.06)
Average weighted number of shares	67,668,763	52,681,141

The accompanying notes are integral to these consolidated financial statements

Alternate Health Corp.

Unaudited Condensed Interim Consolidated Statement of Changes in Equity (in Canadian Dollars)

For the three-month period ended March 31, 2019 and 2018

	Number of shares	Share capital (Note 8)	Number of warrants	Warrants (Notes 8)	Share-based reserve (Note 8)	Equity Component Convertible Note	Accumulated other comprehensive income	Deficit	Total Shareholders' equity
Balance at December 31, 2017	52,631,278	36,670,560	1,297,544	3,032,300	3,320,101	-	2,043,024	(28,959,547)	16,106,438
Issuance of common shares and warrants	50,000	122,500	-	-	-	-	-	-	122,500
Issuance of shares held in escrow	-	113,313	-	-	-	-	-	-	113,313
Stock-based compensation	-	-	-	-	471,345	-	-	-	471,345
Expiry of stock options	-	79,538	-	-	(79,538)	-	-	-	-
Net and other comprehensive loss	-	-	-	-	-	-	2,027,250	(3,069,672)	(1,042,422)
Balance at March 31, 2018	52,681,278	36,985,911	1,297,544	3,032,300	3,711,908	-	4,070,274	(32,029,219)	15,771,174
Balance at December 31, 2018	67,627,096	43,667,876	4,555,855	4,263,621	3,730,806	270,993	(1,056,252)	(49,802,217)	1,074,827
Issuance of common shares	41,667	18,750	-	-	-	-	-	-	18,750
Issuance of warrants	-	-	250,000	104,291	-	-	-	-	104,291
Net and other comprehensive income (loss)	-	-	-	-	-	-	29,605	(2,267,490)	(2,237,885)
Balance at March 31, 2019	67,668,763\$	43,686,626	4,805,855\$	4,367,912\$	3,730,806	\$ 270,993\$	(1,026,647)\$	(52,069,707)	\$ (1,040,017)

The accompanying notes are integral to these consolidated financial statements

Alternate Health Corp.

Unaudited Condensed Interim Consolidated Statement of Cash Flows (in Canadian dollars)

For the three-months ended	March 31, 2019	March 31, 2018
Cash provided from (used in)		
Operating activities		
Net loss	\$ (2,267,490)	\$ (3,069,672)
Accretion of convertible note	120,450	-
Amortization of capital leases	107,683	-
Depreciation and amortization of equipment and intangible assets	79,744	288,623
Interest accrued on development fees payable and convertible note	14,944	14,944
Share-based payments	123,041	471,345
Fair value change on long-term investment	(705,125)	-
Write-down of property and equipment	362,779	-
Gain on sale of long-term investment	-	(458,280)
Change in non-cash working capital items (Note 9)	324,643	(591,083)
Cash used in operating activities	(1,839,330)	(3,344,123)
Investing activities		
Proceeds from sale of long-term investment	-	2,419,465
Proceeds from sale of property and equipment	33,408	-
Purchase of property and equipment	(214,773)	(25,908)
Cash from (used in) investing activities	(181,366)	2,393,557
Financing activities		
	-	-
Cash from financing activities	-	-
Effect of movement of exchange rates	(46,352)	9,234
Increase in cash	(2,067,048)	(941,332)
Cash, beginning of period	3,902,769	1,443,862
Cash, end of period	\$ 1,835,721	\$ 502,530

Supplemental cash flow information (note 9)

The accompanying notes are integral to these consolidated financial statements

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

1. Nature of operations

Alternate Health Corp. (“AHC”) (formerly 1017344 BC Ltd) was incorporated on October 29, 2014 under the Business Corporations Act of British Columbia (“the Act”), and on April 15, 2015 became a public company reporting issuer in Alberta and British Columbia by a Plan of Arrangement granted under the Act. It subsequently changed its name to Alternate Health Corp. On November 23, 2015, the AHC entered into a Share Exchange Agreement with Alternate Health Inc. (“AHI”) which was completed on December 22, 2016 and was accounted for as a reverse takeover of AHC by AHI. On January 1, 2017, AHC acquired 100% of the outstanding shares of Alternate Health Labs, Inc. (“AHL”) (Note 18).

The Company’s registered office is located at Suite 200, 99 Yorkville Avenue, Toronto, Ontario, Canada M5R 3K5 and its executive offices are located at 7373 Broadway Street, Suite 307, San Antonio, TX 78209.

Alternate Health Corp. and its subsidiaries (collectively “Alternate Health” or the “Company”) are a diverse healthcare provider that uses its expertise in technology and data analytics for patient care and research in the emerging medical cannabis industry. Through its subsidiaries, Alternate Health offers services ranging from medical practice and controlled substance management software, blood analysis and toxicology labs, clinical research and continuing education programs.

The Company is in the initial growth stage of the business life cycle and has not yet reached a profitable level of operations. Until the Company reaches profitability, its ability to continue as a going concern is dependent upon the availability of operating funds and long-term financing. Management is continuing to address the need to increase revenue, control costs, and obtain working capital and long-term financing. During the current year the Company incurred a net loss of \$2,267,490 and the Company’s current liabilities exceeded its current assets by \$3,982,996. These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern.

The Company’s common shares are listed on the Canadian Securities Exchange (Stock Symbol: AHG and OTC in the United States (Stock Symbol: AHGIF).

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

2. Basis of Preparation

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019 and 2018 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed interim consolidated financial statements do not include all the disclosures required by International Financial Reporting Standards (“IFRS”) for the annual consolidated financial statements and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the years ended December 31, 2018 and 2017 which have been prepared in accordance with IFRS as issued by the IASB. The accounting policies and methods adopted are consistent with those disclosed in Note 4 to the Company’s consolidated financial statements for the years ended December 31, 2018 and 2017.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the condensed interim consolidated financial statements are disclosed in Note 3 of the Company’s consolidated financial statements as at and for the years ended December 31, 2018 and 2017.

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

3. Long term Investments

	March 31, 2019	December 31, 2018
National Access Cannabis Corp. (i)	\$ 2,199,990	\$ 1,494,865
High Times Holding Corp (ii)	1,077,178	1,077,178
Total long-term investments	\$ 3,277,168	\$ 2,572,043

- (i) During 2017, the Company acquired 7,221,000 common shares of National Access Cannabis Corp, a health care service provider that specializes in prescribing medical cannabis and provides members with ongoing education and care. During 2017, the Company also sold 132,500 common shares for proceeds of \$57,780. As of December 31, 2017, the Company assessed the fair value of its investment at \$4,749,295 and recognized an unrealized gain of \$3,145,500 in other comprehensive income.

In accordance with adoption of IFRS 9 (Note 2i), the Company reclassified \$3,145,000 from other comprehensive income to deficit.

During the three-months ended March 31, 2019 the Company did not sell any common shares. As at March 31, 2019 the Company has assessed the fair value of its investment at \$2,199,990. The shares have been pledged as collateral for the Note Payable (Note 7).

The assessment is based on Level 1 inputs under the fair value hierarchy as the common shares are publicly traded.

- (ii) In March 2017, the Company subscribed for 59,525 Class A common shares of High Times Holding Corp., a publication and resource for cannabis culture, for a cost of \$332,982. During fiscal 2018 there was a forward split of 1.93 per share, resulting in the Company holdings 114,935 Class A common shares.

As of December 31, 2018, management has estimated the fair value to be \$1,077,178 (2017 - \$332,982). This assessment is based on Level 2 inputs under the fair value hierarchy, as there were other financing transactions within a similar series completed in December 2018.

The Company re-measures investments carried at FVTPL immediately prior to sale, the combined fair value gain on re-measurement of both investments sold and still held as at March 31, 2019 was \$705,125.

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

4. Convertible Notes

June 22, 2018 Issuance

On June 22, 2018 the Company entered into agreements to issue \$1.3 million in convertible notes (the “Notes”) plus 1,688,000 warrants (the “Warrants”). The Notes have a term of eighteen months from the date of issue and bear simple interest of 12% per annum, payable on a quarterly basis in arrears. Interest and principal under the Notes are convertible into the common shares of the Company at the option of the holder at \$0.77 per common share during the term of the Notes. The Notes are secured by the pledge of 2.8 million common shares of National Access Cannabis Corp (Note). The Company has the right to pay interest on the Notes in cash or shares.

Each warrant is exercisable to acquire one common share at an exercise price of \$0.77 per share until June 22, 2021. The fair value of these warrants was estimated at \$551,239 (Note 13), at the date of the issuance of the note using the Black-Scholes option pricing model with the following assumptions: Share price – \$0.68, Annualized volatility – 80%; Risk-free interest rate – 2.00%; Dividend yield – 0%; and Expected life – 3 years.

For accounting purposes, the convertible debentures were separated into their liability and equity components using the effective interest method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 15% for convertible debentures without the conversion feature. The fair value of the equity component of the conversion feature was determined as the difference between the face value of the convertible debenture and the fair value of the liability component.

Total issuance costs of \$626,239 is comprised of the fair value of the warrants issued of \$551,239 and cash costs of \$75,000. \$47,193 of the issuance costs have been allocated to the equity component of the convertible note.

	Convertible note
Balance at December 31, 2017	\$ -
Face value of debt upon issuance	1,300,000
Less: Value of conversion option allocated to equity	(97,967)
Less: Issuance costs allocated to debt component	(579,046)
Initial balance of debt component	<u>622,987</u>
Accretion	276,948
Interest	78,000
Balance at March 31, 2019	<u>\$ 977,935</u>

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

4. Convertible Notes, continued

August 31, 2018 Issuance

On August 31, 2018 the Company entered a non-brokered private placement (the “Private Placement”) of unsecured convertible notes (the “Notes”) in the aggregate principal amount of \$1,762,425 (US \$1,350,000), maturing and payable on the date that is three years from the date of issuance. The Notes shall bear simple interest at a rate of 10% per annum. Interest is payable by the Company on a quarterly basis in arrears. The first interest payment will be September 30, 2018 and subsequent interest payment dates during the term will be December 31, March 31 and June 30. At the Noteholders’ option, the Notes may be converted into common shares at a price of \$ 0.59 per common share, subject to the policies of the Canadian Securities Exchange. Included in the convertible note placement is a US\$775,000 (note 17) subscription by Dr. Michael Murphy, Chairman and CEO the Company.

For accounting purposes, the convertible debentures were separated into their liability and equity components using the effective interest method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 18% for convertible debentures without the conversion feature. The fair value of the equity component of the conversion feature was determined as the difference between the face value of the convertible debenture and the fair value of the liability component.

	Convertible note
Balance at December 31, 2017	\$ -
Face value of debt upon issuance	1,762,425
Less: Value of conversion option allocated to equity	(220,219)
Initial balance of debt component	<u>1,542,206</u>
Accretion	48,610
Interest	58,748
Foreign exchange	12,034
Balance at March 31, 2019	<u>\$ 1,661,598</u>

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

5. Property and equipment

	Office Furniture & Equipment	Computer Equipment & Software	Leasehold Improvements	Lab Testing Equipment	Total
Cost					
December 31, 2017	\$ 115,421	\$ 176,308	\$ 132,436	\$ 6,451,851	\$ 6,876,016
Additions	-	3,071	-	-	3,071
Impairment on PP&E	(4,102)	(16,412)	(6,132)	(3,388,287)	(3,414,933)
Sold Assets	-	-	-	(1,789,856)	(1,789,856)
Foreign currency translation	12,225	30,178	16,891	94,355	153,649
December 31, 2018	123,544	193,145	143,195	1,368,063	1,827,947
Additions	-	-	-	323,555	323,555
Impairment on PP&E	(137)	(2,770)	-	(365,859)	(368,766)
Sold assets	-	-	-	(33,408)	(33,408)
Foreign currency translation	-	-	-	2,113	2,113
March 31, 2019	\$ 120,598	\$ 178,701	\$ 139,633	\$ 1,224,812	\$ 1,663,744
Accumulated Amortization					
December 31, 2017	\$ (18,575)	\$ (56,091)	\$ (14,470)	\$ (638,790)	\$ (727,926)
Amortization	(13,534)	(68,252)	(30,633)	(625,319)	(737,738)
Sold Assets	-	-	-	322,073	322,073
Foreign currency translation	(1,404)	(5,837)	(1,781)	(44,827)	(53,849)
December 31, 2018	(33,513)	(130,180)	(46,884)	(966,863)	(1,177,440)
Amortization	(3,318)	(11,581)	(5,889)	(14,116)	(34,904)
Foreign currency translation	(172)	(985)	(243)	(12,010)	(13,410)
March 31, 2019	\$ (37,003)	\$ (142,746)	\$ (53,017)	\$ (1,012,989)	\$ (1,245,755)
Net Book Value					
December 31, 2018	\$ 90,031	\$ 62,965	\$ 96,311	\$ 401,200	\$ 650,507
March 31, 2019	\$ 83,595	\$ 35,955	\$ 86,617	\$ 211,823	\$ 417,989

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

6. Intangible assets

	Software Development Costs	Licensing Rights	Software Distribution Rights	Continuing Medical Education	CLIA Lab License	Customer Relationships	Total
Cost							
December 31, 2017	\$ 732,190	\$ 863,688	\$ 350,000	\$ 201,506	\$ 694,130	\$ 240,800	\$ 3,082,314
Additions	-	241,000	-	-	-	-	241,000
Write-down	-	-	-	-	(689,702)	-	(689,702)
Translation	-	-	-	-	(4,428)	-	(4,428)
December 31, 2018	732,190	1,104,688	350,000	201,506	-	240,800	2,629,185
Additions	-	-	-	-	-	-	-
Write-down	-	-	-	-	-	-	-
Translation	-	-	-	-	-	-	-
March 31, 2019	\$ 732,190	\$ 1,104,688	\$ 350,000	\$ 201,506	\$ -	\$ 240,800	\$ 2,629,185
Accumulated Amortization							
December 31, 2017	\$ 230,998	\$ 168,688	\$ 55,417	\$ 18,689	\$ -	\$ 240,800	\$ 714,592
Amortization	60,544	234,530	35,004	63,654	-	-	393,733
December 31, 2018	291,542	403,218	90,421	82,343	-	240,800	1,108,325
Amortization	18,360	7,720	8,750	12,180	-	-	47,010
March 31, 2019	\$ 309,903	\$ 410,938	\$ 99,171	\$ 94,523	\$ -	\$ 240,800	\$ 1,155,335
Net Book Value							
December 31, 2018	\$ 440,648	\$ 701,470	\$ 259,579	\$ 119,164	\$ -	\$ -	\$ 1,520,863
March 31, 2019	\$ 422,287	\$ 693,750	\$ 250,829	\$ 106,984	\$ -	\$ -	\$ 1,473,851

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

7. Development fees payable

The development fees payable are payable to a party related by virtue of the controlling shareholder of the party being a Director and significant shareholder of the Company. Terms of repayments are \$75,000 annually commencing January 31, 2018 with a balloon payment of the outstanding balance of principal and all accrued interest on August 31, 2020. Interest on any unpaid amounts will accrue effective September 1, 2015 at an annual rate of fifteen percent (15%) until the principal and accrued interest has been repaid. Accrued interest as at March 31, 2019 is \$227,578 (December 31, 2018 - \$212,634). The balance owing may be prepaid in whole or in part at any time and from time to time with no prepayment penalty.

8. Shareholders' equity

Authorized – Unlimited number of common shares without par value

The following shares, options and warrants were issued during fiscal 2019 and are summarized on the Statement of Changes in Equity, and are described more fully as follows:

- (a) 41,667 common shares were issued in consideration of various consulting services.
- (b) 250,000 common share purchase warrants valued at \$104,291 were issued in consideration of various consulting services. The warrants were valued using the Black Scholes pricing model.

The following shares and warrants were issued in 2018:

- (a) During 2018, 185,000 common shares previously issued and held in escrow were released at a value of \$453,250 for services received in fiscal 2018 and recorded within consulting fees.
- (b) 360,000 stock options valued at \$410,705 were issued in consideration for consulting services rendered to the Company. The options were valued using the Black Scholes pricing model.
- (c) During 2018, a total of 200,000 common shares valued at \$241,000 were issued for the purchase of software licencing intangible assets.
- (d) 125,001 common shares with a fair value of \$73,751 were issued in consideration of various consulting services.
- (e) 15,420,817 common shares were issued in private placement providing proceeds of \$6,229,315.
- (f) 750,000 common share purchase warrants valued at \$218,019 were issued in consideration of various consulting services. The warrants were valued using the Black Scholes pricing model.
- (g) 1,688,311 common share purchase warrants valued at \$551,239 were issued in conjunction with the convertible note (Note 7).
- (h) 750,000 common shares that were held in escrow were returned to Treasury.
- (i) 1,000,000 common share purchase warrants valued at \$462,063 were issued in consideration for FourTwenty, Inc., a Company owned by a Director of the Company (Note 16). The warrants were valued using the Black Scholes pricing model.

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

8. Shareholders' equity, continued

The following shares and warrants were issued in 2017:

- (a) In January 2017, a total of 2,270,355 common shares were issued in consideration for the purchase of 100% of the issued and outstanding shares of Alternate Health Labs Inc. (“AHL”) and to settle debts owed by AHL to Dr. Michael Murphy (Note 18).
- (b) During 2017, a total of 5,243,294 common shares were issued in a private placement providing proceeds of \$11,504,003 less share issuance costs of \$638,052.
- (c) During 2017, a total of 3,418,506 common shares were issued in consideration for commercialization licensing rights, cannabidiol, CBD & THC certification programs, and a renewal license agreement for non-pharmaceutical sublingual technology system, and other related consulting services.
- (d) During 2017, a total of 1,297,544 common share purchase warrants were issued in consideration of various consulting services; 581,250 common share purchase warrants were exercised resulting in the issuance of 581,250 common shares providing proceeds of \$871,875.
- (e) During 2017, a total of 1,030,000 stock options were issued in consideration for various consulting and other services; 17,500 stock options were exercised resulting in the issuance of 17,500 common shares providing proceeds of \$17,500.
- (f) During 2017 a total of 4,557,150 common shares were issued in consideration for a 20% equity interest in Clover Trail Capital LLC, a company that in turn owns a 40% equity interest in Sun Clinical Laboratories LLC, which referred toxicology and blood samples to AHL for screening. The purchase also included the issuance of a note payable for USD\$1,993,750 which was subsequently extinguished through the issuance of an additional 800,387 common shares.
- (g) During 2017, a total of 2,641,600 common shares were issued in consideration for various consulting and other services rendered to the Company. Of these common shares, a total of 935,000 common shares were held in escrow pending the provision of the agreed services.

Alternate Health Corp.

Notes to Unaudited Condensed Interim Consolidated Financial Statements (in Canadian dollars)

For the three months ended March 31, 2019 and 2018

8. Shareholders' equity, continued

Warrants:

	Number	Amount
Balance December 31, 2017	1,297,544	\$ 3,032,300
Issuance with convertible note (Note 5)	1,688,311	551,239
Issuance for services rendered	750,000	218,019
Issuance for Four Twenty, Inc. (Note16)	1,000,000	462,063
Exercised	-	-
Expired	(180,000)	-
Balance December 31, 2018	4,555,855	4,263,621
Issuance for services rendered	250,000	104,291
Balance, March 31, 2019	4,805,855	\$ 4,367,912

Warrants outstanding

and exercisable at December 31, 2018	Remaining life (months)	Weighted average exercise price	Expiry date
200,000	3.5	3.05	June 15, 2019
50,000	9	2.45	December 6, 2019
1,688,311	26	0.77	June 23, 2021
250,000	31	0.42	October 30, 2021
250,000	32	0.42	November 30, 2021
250,000	33	0.42	December 30, 2021
250,000	34	0.42	January 30, 2022
867,544	36.5	3.91	April 14, 2022
1,000,000	54.5	0.57	October 15, 2023
4,805,855		\$ 1.38	

Alternate Health Corp.

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8. Shareholders' equity, continued

The fair value of the warrants issued in 2019 for services rendered has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk free interest rate 2.17% (2017 – 1.66%); expected dividend yield 0% (2017 – 0%); and estimated volatility of 91% (2017 – 98%). The fair value of these warrants at time of issue were \$104,291.

Loss per share:

Basic loss per share is calculated based on the weighted average number of common shares outstanding which for the three-months ended March 31, 2019 were 67,668,763 (December 31, 2018 – 54,162,456).

For the periods presented, all stock options and warrants are considered anti-dilutive when the Company is in a loss position; therefore, diluted loss per share is equal to basic loss per share.

Stock options and warrants have been excluded from the diluted earnings per share as these instruments are anti-dilutive.

Share-based reserve and stock options:

A summary of the stock options outstanding and exercisable under the plan as of March 31, 2019 and changes during the periods are as follows:

	Options	Weighted Price
Options outstanding and exercisable at December 31, 2017	2,812,500	\$ 1.88
Granted	360,000	1.96
Exercised	(1,902,500)	1.19
Options Outstanding and exercisable at December 31, 2018	1,270,000	2.95
Granted	-	-
Expired	-	-
Options outstanding and exercisable at March 31, 2019	1,270,000	\$ 2.95

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8. Shareholders' equity, continued

The following table summarizes additional disclosures on the stock options outstanding at March 31, 2019:

Exercise price (\$)	Number outstanding & exercisable	Remaining average life (months)	Fair value at time of issue (\$)
0.74	60,000	56.1	19,147
4.00	460,000	39.5	1,477,520
2.90	330,000	43.5	698,667
2.00	120,000	47.1	173,285
2.20	300,000	49.1	391,557
	1,270,000		

The fair value of the options granted during the three-months ended March 31, 2019 has been estimated at the date of grant using the Black Scholes option pricing model with the following weighted-average assumptions: risk free interest rate of 2.56% (2017 - 1.69%); expected dividend yield of nil% (2017 - nil%); estimated volatility of 72.0% (2017 – 57.7% to 98.0%).

9. Supplemental cash flow information

As at	March 31, 2019	March 31, 2018
Accounts receivable	\$ 3,291	\$ 70,768
HST receivable	(10,262)	(2,409)
Income taxes receivable	-	(3,691)
Supplies on hand	17,053	15,000
Prepaid expenses and deposits	51,946	53,173
Accounts payable and accrued liabilities	262,617	(723,924)
	\$ 324,643	\$ (591,083)
	March 31, 2019	March 31, 2018
Other significant non-cash transactions		
Issuance of common shares for goods and services	\$ 18,750	\$ 575,750
Warrants issued as transaction costs	104,291	-

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10. Commitments

The Company entered into lease agreements for office facilities in USA. Minimum annual commitments for the next five years are as follows (USD):

2019	\$	961,208
2020		591,402
2021		517,177
2022		449,726
2023		262,800
	\$	<u>2,782,314</u>

FourTwenty, Inc

During fiscal 2018, the Company acquired a 100% interest in FourTwenty, Inc (“FourTwenty”), for consideration of 1,000,000 common share purchase warrants. The purchase also includes a ten-year management agreement providing the management fee equal to 20% of the net revenue associated with the commercial cannabis activities in California. Prior to the Company’s purchase of FourTwenty, its controlling member, George Mull, became a director and officer of the Company and as a result is a related party. The Company recorded the fair value of the purchase within research and development as the purpose of the acquisition was to develop the Company’s presence in the California cannabis market.

11. Related party transactions

(a) The Company incurred the following transactions with companies having directors and officers in common:

	March 31, 2019	March 31, 2018
Interest expense	\$ 118,154	\$ 14,944
Key management personnel and board of directors’ cash-based compensation included in consulting fees	554,492	224,160
Key management personnel and board of directors’ cash-based compensation included in salaries and benefits	112,290	82,264
Key management personnel and board of directors’ share-based compensation (non-cash)	\$ -	\$ 471,345

The Company incurred the following consulting fees with related parties included in the table above:

- (i) Consulting services of \$101,651 paid to a company related by way of common directors and common significant shareholders.
- (ii) Consulting services of \$171,135 paid to a company related by way of common directors and common significant shareholders.
- (iii) Consulting services of \$281,707 to various directors, officers or shareholders of the Company.

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11. Related party transactions, continued

(b) Included in accounts payable and accrued liabilities are amounts owing to related parties by way of common directors and common significant shareholders:

	March 31, 2019	December 31, 2018
LMK Management LLC	2,144,094	2,144,094
MLM Holdings	695,468	635,856
Cannabinoid SCI	278,080	218,080
KLC Holdings	181,140	145,214
Support Your Buds	337,799	278,187
Directors & Officers	323,962	304,092
	<u>3,960,542</u>	<u>3,725,523</u>

12. Contingencies

Litigation

The Company and its wholly-owned US subsidiary, AHU, have been named by way of counterclaim, as counter-defendants, in a claim filed in federal court in California, by a third party with whom the Company had entered into an agreement for consulting services as part of the issuance of 2,968,506 in common shares as consideration. The counterclaimant is alleging various causes of action and is seeking, among other things, that the Company dismiss its original claim against the third party, special and general damages, costs, and removal of any restrictions on transfer of shares of the Company held by the third party. The Company believes the counterclaim has no merit and intends to vigorously defend the action, as well as pursue its original claim against the third party for, among other things, return of the shares previously issued to the third party.

On April 18, 2018, AHL was named in a multi party lawsuit by a health insurance company that was not a customer of AHL but of Sun Clinical Laboratory, LLC, a related party to AHL (Note 17). The suit alleges various causes of action including fraud and fraudulent non-disclosure. The Company is currently reviewing the allegations and claims by the health insurance company. The receipt and evaluation of the claims are in the early stages and as a result, management has determined that it is not clear whether there is an obligation as a result of past events and a reliable estimate of a potential payment, if any, is not yet determinable. Management intends to vigorously defend against these claims.

On June 11, 2018, AHL was named in a multi party lawsuit by a health insurance company that was not a customer of AHL but of Sun Clinical Laboratory, LLC, a related party to AHL (Note 17). The suit alleges various causes of action including fraud and fraudulent non-disclosure. The Company is currently reviewing the allegations and claims by the health insurance company. The receipt and evaluation of the claims are in the early stages and as a result, management has determined that it is not clear whether there is an obligation as a result of past events and a reliable estimate of a potential payment, if any, is not yet determinable. Management intends to vigorously defend against these claims.

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12. Contingencies, continued

On December 26, 2018, AHU, was named in a lawsuit alleging that the plaintiff, a terminated former employee, was owed back pay, certain other contract promises, and damages for alleged harassment by a prior employee of AHU. There has been an early mediation and the demand of the Plaintiff of \$200,000 was rejected by AHU. Management intends to vigorously defend against these claims.

Arbitration

The Company and two wholly-owned subsidiaries, Alternate Health, Inc., and Alternate Health USA Inc. have been named by way of counterclaim, as counter-respondents, in a claim filed in an arbitration in California, by a third party with whom the Company had entered into a worldwide renewable license agreement as part of the issuance of 2,968,506 in common shares as consideration. The counterclaimant is alleging various causes of action and is seeking, among other things, that the Company dismiss its original claim against the third party, special and general damages, costs, and removal of any restrictions on transfer of shares of the Company held by the third party. The Company believes the counterclaim has no merit and intends to vigorously defend the action, as well as pursue its original claim against the third party for, among other things, return of the shares previously issued to the third party.

13. Subsequent Events

- a) In May, the company announced the acquisition of Blaine Labs for US\$20 Million. On closing, as consideration for the sale, Dr. Blaine will receive (1) 7,145,000 AHC common shares plus the number of AHC common shares equal to US\$2.5 million based on AHC's closing share price on day of closing, and (2) US\$ 5 million in cash payments (US\$1 million payable at closing and US\$4 million before the first anniversary of the closing date, and (3) US\$10 million in deferred payments payable principally from future net profits derived from existing products sales to existing customers. Any outstanding deferred payment balance at the end of year three will be paid in AHC common shares. The agreement is expected to close by July and is subject to final due diligence.
- b) In May, the Company announced that it will form a joint venture agreement to target Mexican and Latin American CBD market. Under the agreement, the parties will be establishing a Mexican corporation with the name of Alternate Health Latin America S. de. R. L. de. C.V. ("AHLA"). The company will be 55% owned by Alternate Health and 45% by Oltecate. AHC will source products in California to be imported by Oltecate using its Licenses for distribution by AHLA. On closing, as consideration for granting AHLA exclusive distribution rights for product imported with its licenses, Federico Cabo, owner of Oltecate Enterprises, will receive 1,500,000 common shares of Alternate Health Corp. Mr. Cabo will provide logistic capabilities and an estimated 18,000 square foot warehouse to the company moving forward, and provide sales management and regulatory support on an ongoing basis.
- c) In May, the Company announced a strategic focus on CBD extraction, product development, and distribution; moving away from previously announced business plans related to the California's adult-use cannabis industry. Alternate Health's focus on value-added products and services led

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the Company to explore opportunities in California's craft cannabis industry, including extraction, product development and distribution. The Company has developed and acquired assets in this sector, including licenses and cannabis products and brands. But Alternate Health has held off commercializing these assets, assessing developments in local California regulations and the relationship between state governments and federal enforcement. The Company believes it is best to focus the extraction and software assets, including inventory management and point-of-sale, towards the CBD industry. Currently, the black market continues to be strong, while state legislation remains weak. These factors have created an uncertain industry, prone to misrepresentation. Alternate Health is currently evaluating the best options for either restructuring or selling assets to move the Company's business completely in line with a CBD focus.