



Unaudited Condensed Interim Consolidated Financial Statements of

Alternate Health Corp.

Expressed in Canadian Dollars

For the six months period ended June 30, 2019 and June 30, 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	June 30, 2019	December 31, 2018
ASSETS		
Current assets		
Cash	\$ 2,010,835	\$ 3,902,769
Accounts receivable, net	839,395	62,988
HST receivable	93,352	68,602
Inventory/Supplies on hand	1,235,946	17,053
Prepaid expenses and deposits	587,374	817,579
	<u>4,766,902</u>	<u>4,868,991</u>
Non-current assets		
Long term investments (Note 3)	2,769,478	2,572,043
Right to use – capital leases	813,033	-
Property and equipment (Note 5)	770,291	650,507
Intangible assets (Note 6)	21,352,026	1,520,863
	<u>25,704,827</u>	<u>4,473,413</u>
Total non-currents assets		
	<u>\$ 30,471,730</u>	<u>\$ 9,612,404</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,837,736	\$ 5,407,360
Convertible note (Note 4)	1,095,314	-
Current portion of consideration due for acquisition (Note 12)	10,312,556	-
Current portion of development fees payable (Note 7)	75,000	75,000
	<u>18,320,606</u>	<u>5,482,360</u>
Non-current liabilities		
Convertible note (Note 4)	1,674,360	2,519,083
Lease liability	838,527	-
Non-current portion of consideration due for acquisition (Note 12)	12,108,755	-
Development fees payable to related party (Note 7)	566,022	536,134
	<u>33,508,269</u>	<u>8,537,577</u>
Total liabilities		
	<u>33,508,269</u>	<u>8,537,577</u>
Shareholders' equity		
Share capital (Note 8)	43,667,876	43,667,876
Warrants (Note 8)	4,367,912	4,263,621
Share-based reserve (Note 8)	3,730,806	3,730,806
Equity Component – Convertible Note	270,993	270,993
Deficit	(54,117,418)	(49,802,217)
Accumulated other comprehensive income	(1,014,624)	(1,056,252)
	<u>(3,036,573)</u>	<u>1,074,827</u>
Total shareholders' equity		
	<u>(3,036,573)</u>	<u>1,074,827</u>
	<u>\$ 30,471,730</u>	<u>\$ 9,612,404</u>

See accompanying notes to the unaudited condensed interim consolidated financials.

Alternate Health Corp.

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

	Three month period ended June 30	Three month period ended June 30	Six month period ended June 30	Six month period ended June 30
	2019	2018	2019	2018
Revenue	\$1,931,112	\$507,664	\$1,944,847	\$680,159
Cost of Goods Sold	613,170	-	613,170	-
Gross Margin	1,317,942	507,664	1,331,677	680,159
Operating Expenses				
Advertising and promotion	17,372	60,971	41,221	106,177
Accretion-Convertible note (Note 4)	133,833	-	254,283	-
Amortization-Capital Leases	107,830	-	215,513	-
Depreciation and Amortization	133,675	264,327	213,419	552,950
Bad Debts	-	1,708,655	-	1,728,433
Consulting fees	263,567	585,710	725,746	1,341,939
Interest on long term liabilities	192,037	83,578	305,672	98,522
Lab Supplies	-	29,2420	-	683,520
Management fees	-	810,138	-	-
Office and general	116,083	262,344	282,231	602,454
Professional fees	642,480	1,323,593	1,242,369	1,724,298
Rent and occupancy	126,721	248,709	444,055	508,841
Salaries and other benefits	879,932	1,133,787	1,489,751	2,534,859
Share -based compensation	-	-	-	471,345
Travel	49,696	-	53,442	-
Utilities	29,348	116,916	34,399	239,418
	2,692,664	6,891,148	5,302,101	10,592,756
Loss before undernoted items and income taxes	-1,374,722	-6,383,484	-3,970,424	
Other expenses/(income)				
Write-down of property & equipment (Note 5)	164,850	-	527,629	-
Gain (Loss) on foreign exchange	449	19,132	14,530	17,937
Fair value change on long-term investments	507,690	-2,324,433	-197,435	-2,764,776
	672,989	-2,305,301	344,724	-2,764,776
Loss before income taxes	-2,074,711	-4,078,183	-4,315,148	-7,147,821
Income taxes (recovery)				
Current	-	-	53	32
Deferred	-	-	-	-
	-	-	53	32
Net Loss	-2,074,711	-4,078,183	-4,315,201	-7,147,853
Other comprehensive income				
Foreign currency translation differences for foreign operations	12,023	-3,659	41,628	-223,756
Net unrealized loss on investments available for sale	-	2,781,768	-	750,859
Other comprehensive loss (income)	12,023	2,778,109	41,628	750,859
Total comprehensive loss	-2,086,734	-6,856,292	-4,356,829	-7,898,712
Basic and diluted loss per share	(\$0.03)	(\$0.08)	(\$0.06)	(\$0.14)
Average weighted number of shares	67,752,095	52,718,812	67,752,095	52,718,812

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 June 30, 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	124,999	57,916	-	-	-	-	-	-	57,916
Issuance of warrants	-	-	250,000	104,291	-	-	-	-	104,291
Net and other comprehensive income (loss)	-	-	-	-	-	-	41,628	(4,315,201)	(4,273,573)
Balance at March 31, 2019	67,752,095\$	43,725,792	4,805,855\$	4,367,912\$	3,730,806	\$ 270,993\$	(1,014,624)\$	(54,117,418)	\$ (3,036,539)

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	June 30, 2019	June 30, 2018
Cash provided from (used in)		
Operating activities		
Net loss	\$ (4,315,148)	\$ (7,147,821)
Accretion of convertible note	254,283	-
Amortization of capital leases	215,513	-
Depreciation and amortization of equipment and intangible assets	213,419	552,950
Interest accrued on development fees payable and convertible note	29,888	-
Share-based payments	123,041	839,361
Fair value change on long-term investment	197,435	-
Write-down of property and equipment	527,629	-
Gain on sale of long-term investment	-	(2,709,352)
Finance expense	-	(447,554)
Change in non-cash working capital items (Note 9)	1,072,132	2,499,063
Cash used in operating activities	(1,681,808)	(6,413,353)
Investing activities		
Proceeds from sale of long-term investment	-	3,865,931
Proceeds from sale of property and equipment	33,408	-
Purchase of property and equipment	(214,773)	(64,304)
Cash from (used in) investing activities	(181,366)	3,801,627
Financing activities		
Development fees paid to related party	-	29,888
Issuance of Convertible note	-	1,300,000
Cash from financing activities	-	1,329,888
Effect of movement of exchange rates	(28,760)	138,496
Decrease in cash	(1,891,934)	(1,143,342)
Cash, beginning of period	3,902,769	1,443,862
Cash, end of period	\$ 2,010,835	\$ 300,520

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 six months ended June 30, 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”). Due to changes in the reimbursement policies of United States insurance companies and the related legal environment, Alternate Health exited the medical laboratory business in October 2018.

On May 2, 2019, AHC acquired 100% of the outstanding shares of Blaine Labs, a leading manufacturer and distributor of FDA-registered and cGMP-certified dermatological products.

Blaine Labs has 23 years of experience in FDA-registered and cGMP pharmaceutical manufacturing and distribution, with over 50 product SKUs available from major retailers, including Walmart, Amazon, CVS and Walgreens. Blaine Labs’ product line includes topical creams, tinctures and gels used both for cosmetic purposes and to manage pain and eliminate fungus. Blaine Labs also manufactures and distributes Hempnesic, a leading hemp-based pain management cream. The Company is currently developing an extensive line of hemp-based CBD products.

The Company’s head 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 and 2536 Lincoln Blvd., Venice, CA, 90291.

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, clinical research and continuing education programs.

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

2. Basis of Preparation

These unaudited condensed interim consolidated financial statements for the six months ended June 30, 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

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

For the six months ended June 30, 2019 and 2018

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.

3. Long term Investments

	June 30, 2019	December 31, 2018
National Access Cannabis Corp. (i)	\$ 1,692,300	\$ 1,494,865
High Times Holding Corp (ii)	1,077,178	1,077,178
Total long-term investments	\$ 2,769,478	\$ 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 six-months ended June 30, 2019 the Company did not sell any common shares. As at June 30, 2019 the Company has assessed the fair value of its investment at \$1,692,300. The shares have been pledged as collateral for the Note Payable (Note 4).

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.

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For the six months ended June 30, 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 3). 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	394,327
Interest	78,000
Balance at June 30, 2019	<u>\$ 1,095,314</u>

Alternate Health Corp.

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

For the six months ended June 30, 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 was 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 of 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	65,064
Interest	58,748
Foreign exchange	8,342
Balance at June 30, 2019	<u>\$ 1,674,360</u>

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

For the six months ended June 30, 2019 and 2018

5. Property and equipment

	Office Furniture & Equipment	Computer Equipment & Software	Leasehold Improvements	Lab Equipment	Total
Cost					
December 31, 2017	\$ 115,421	\$ 176,308	\$ 132,436	\$ 6,451,851	\$ 6,876,016
Additions	-	3,071	-	-	3,071
Disposals	(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 – Acquired					
Blaine Labs	-			732,484	732,484
Disposals	(95,182)	(190,604)		(365,859)	(1,231,927)
Sold assets	-	-	(102,535)	(33,408)	(519,432)
Foreign currency translation	(2,042)	(2,541)	(260)	2,113	(9,868)
June 30, 2019	\$ 26,320	\$ -	\$ 40,400	\$ 732,484	\$ 799,204
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)	(1,197,440)
Amortization	(947)	-	(2,099)	(22,055)	(25,101)
Disposals	20,143	(131,405)	34,904	1,022,223	1,208,675
Currency translation	(216)	(1,225)	(301)	(13,305)	(15,047)
June 30, 2019	\$ (14,533)	\$ -	\$ (14,380)	\$ -	\$ (28,913)
Net Book Value					
December 31, 2018	\$ 90,031	\$ 62,965	\$ 96,311	\$ 401,200	\$ 650,507
June 30, 2019	\$ 11,787	\$ -	\$ 26,020	\$ 732,484	\$ 770,291

Alternate Health Corp.

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

For the six months ended June 30, 2019 and 2018

6. Intangible assets

	Software Development Costs	Licensing Rights	Software Distribution Rights	Continuing Medical Education	Goodwill Blaine Labs	Customer Relationships	Total
Cost							
December 31, 2017	\$ 732,190	\$ 863,688	\$ 350,000	\$ 201,506	\$ -	\$ 240,800	\$ 3,082,314
Additions	-	241,000	-	-	-	-	241,000
Write-down	-	-	-	-	-	-	(689,702)
Translation	-	-	-	-	-	-	(4,428)
December 31, 2018	732,190	1,104,688	350,000	201,506	-	240,800	2,629,185
Additions	-	-	-	-	19,958,904	-	19,958,904
Write-down	-	-	-	-	-	-	-
Translation	-	-	-	-	-	-	-
June 30, 2019	\$ 732,190	\$ 1,104,688	\$ 350,000	\$ 201,506	\$ 19,958,904	\$ 240,800	\$ 22,588,089
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
June 30, 2019	\$ 328,262	\$ 452,377	\$ 107,922	\$ 106,701	\$ -	\$ 240,800	\$ 1,236,062
Net Book Value							
December 31, 2018	\$ 440,648	\$ 701,470	\$ 259,579	\$ 119,164	\$ -	\$ -	\$ 1,520,863
June 30, 2019	\$ 403,928	\$ 652,311	\$ 242,078	\$ 94,806	\$ 19,958,904	\$ -	\$ 21,352,026

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

For the six months ended June 30, 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 June 30, 2019 is \$242,522 (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.
- (c) 83,332 common shares were issued in consideration of various consulting services.

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.

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

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For the six months ended June 30, 2019 and 2018

- 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.

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
Exercised	-	-
Expired	(180,000)	-
Balance December 31, 2018	3,555,855	4,263,621
Issuance for services rendered	250,000	104,291
Expired	(200,000)	-
Balance, June 30, 2019	3,605,855	\$ 4,367,912

Warrants outstanding and exercisable at December 31, 2018

	Remaining life (months)	Weighted average exercise price	Expiry date
50,000	9	2.45	December 6, 2019

Alternate Health Corp.

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For the six months ended June 30, 2019 and 2018

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

3,605,855		\$ 1.38	
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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%).

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 June 30, 2019 were 67,752,812 (December 31, 2018 – 52,718,812).

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 June 30, 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	300,000	1.96
Exercised	(1,902,500)	1.19
Options Outstanding and exercisable at December 31, 2018	1,270,000	2.95

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Granted	-	-
Expired	60,000	1.96
Options outstanding and exercisable at June 30, 2019	1,210,000	\$ 2.95

8. Shareholders' equity, continued

The following table summarizes additional disclosures on the stock options outstanding at June 30, 2019:

Exercise price (\$)	Number outstanding & exercisable	Remaining average life (months)	Fair value at time of issue (\$)
4.00	460,000	39.5	1,477,520
2.90	270,000	43.5	698,667
2.00	120,000	47.1	173,285
2.20	300,000	49.1	391,557
	1,210,000		

The fair value of the options granted during the three-months ended June 30, 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	June 30, 2019	June 30, 2018
Accounts receivable	\$ (276,407)	\$ 1,641,750
HST receivable	(24,750)	22,379
Income taxes receivable	-	(6,650)
Inventory/Supplies on hand	(287,292)	149,707
Prepaid expenses and deposits	230,205	(220,696)
Accounts payable and accrued liabilities	1,430,376	905,923
	\$ 1,072,132	\$ 2,499,063

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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>

11. Related party transactions

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

	June 30, 2019	June 30, 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.

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

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	June 30, 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. Acquisition of Blaine Labs

On May 2, 2019 Alternate Health Corp acquire Blaine Labs Inc., a leading manufacturer and distributor of FDA-approved and cGMP-certified dermatological products, with over 50 SKUs currently available in major retailers, including Walmart, Amazon, CVS and Walgreens. The Purchase agreement between Alternate Health Corp and Dr. Blaine calls for Alternate Health Corp to purchase 100% of the Blaine Labs' shares for consideration as follows: (1) the delivery of 7,145,000 AHC common shares and the number of AHC common shares equal to \$2,500,000 (Two Million, Five Hundred Thousand U.S. Dollars) based on AHC's closing share price on the Canadian Securities Exchange ("CSE") upon delivery of the Audited Financials and final Due Diligence items; (2) \$5,000,000 (Five Million U.S. Dollars) in cash payments. The cash payments will be paid as follows: \$1,000,000 (One Million U.S. Dollars) upon the delivery of the Audited Financials and final Due Diligence items, \$2,000,000 (Two Million U.S. Dollars) within six months of the Closing Date and the remaining \$2,000,000 (Two Million U.S. Dollars) on or before 12 months from the Closing Date. All stock shares will be subject to securities restrictions as set forth by the CSE or Securities Regulators; and (3) \$10,000,000 (Ten Million U.S. Dollars) in deferred payments ("Deferred Payments") derived from 75% of ongoing net profits generated by Blaine Labs from non-CBD related products until fully paid except that any unpaid balance on the five year anniversary of the Closing Date shall be paid in AHC common stock.

Dr. Blaine will maintain a royalty free and perpetual exclusive ownership of the Company's current product formulations ("Formulations") and grant AHC exclusive rights to those Formulations.

AHC has exclusive rights to manufacture and distribute any Company products, developed on or before the Closing Date and AHC owns all formulations and products developed by the Company post-Closing.

Alternate Health Corp is evaluating the allocation for the purchase price. The detailed allocation requires the Company to undertake certain valuation work specifically as it relates to the equipment and other current assets. The details of the these and other

Alternate Health Corp.

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

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aspects of the purchase price allocation are not yet firmly established.

Summary Financial Information for Blaine Labs for the two months ended June 30, 2019:

Revenue	\$ 1,890,854
Cost of Goods Sold	613,170
Operating Cost	<u>522,804</u>
Income before tax	754,880

Total Assets	\$ 4,314,305
Total Liabilities	1,063,628
Total Equity	3,250,677

13. Contingencies

Litigation

The Company and its wholly-owned US subsidiary, Alternate Health USA, 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. 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. 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.

Alternate Health Corp.

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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.

14. Subsequent Events

On June 14, 2019, Alternate Health issued a press release announcing that the Company had reached an agreement with Alpha Blue Ocean for a \$5 million financing facility. In July, two tranches of financing were completed. The details are as follows:

On July 5, 2019, Alternate Health closed the first tranche of the Financing, the Company issued to European High Growth Opportunities Securitization Fund (“EHGO”) a convertible debenture (the “Debenture”) in the principal amount of \$200,000 and share purchase warrants (the “Warrants”) exercisable to acquire up to 3,121,212 common shares of the Company (the “Shares”) for a period of three years at a price of \$0.33 per Share. The Debentures are subject to a hold period of four months and one day from issuance.

On July 17, 2019, Alternate Health closed the second tranche of the Financing, the Company issued to European High Growth Opportunities Securitization Fund (“EHGO”) a convertible debenture (the “Debenture”) in the principal amount of \$500,000 and share purchase warrants (the “Warrants”) exercisable to acquire up to 227,272 common shares of the Company (the “Shares”) for a period of three years at a price of \$0.33 per Share. The Debentures are subject to a hold period of four months and one day from issuance.