



Unaudited Condensed Interim Consolidated Financial Statements of

Alternate Health Corp.

Expressed in Canadian Dollars

For the three and nine months period September 30, 2018 and 2017
(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	September 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash	\$ 493,623	\$ 1,443,862
Accounts Receivable, net (Note 11)	41,783	2,748,567
HST receivable	87,840	79,615
Income taxes receivable	139,733	135,491
Due from related parties (Note 11)	-	208,142
Supplies on hand	19,729	475,183
Prepaid expenses and deposits	1,044,457	575,748
	<u>1,827,165</u>	<u>5,666,608</u>
Non-current assets		
Convertible note receivable from related party (Notes 3 & 11)	665,200	665,200
Long term investments (Note 4)	3,097,072	5,082,277
Property and equipment (Note 6)	5,740,088	6,148,090
Intangible assets (Note 7)	2,474,771	2,367,722
Total non-current assets	<u>11,977,131</u>	<u>14,263,289</u>
	<u>\$ 13,804,296</u>	<u>\$ 19,929,897</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	\$ 5,119,145	\$ 3,272,100
Current portion of deferred revenue (Notes 8 & 11)	75,000	75,000
	<u>5,194,145</u>	<u>3,347,100</u>
Non-current liabilities		
Convertible note (Note 5)	2,006,244	-
Development fees payable to related party (Notes 8 & 11)	596,191	476,359
Total liabilities	<u>7,796,580</u>	<u>3,823,459</u>
Shareholders' equity		
Share capital (Note 9)	37,138,742	36,670,560
Warrants (Note 9)	3,328,053	3,032,300
Share-based Reserve (Note 9)	3,233,293	3,320,101
Contributed Surplus	1,141,114	-
Deficit	(40,180,550)	(28,959,547)
Accumulated other comprehensive income	1,347,063	2,043,024
Total shareholders' equity	<u>6,007,715</u>	<u>16,106,438</u>
	<u>\$ 13,804,296</u>	<u>\$ 19,929,897</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 and nine months ended September 30, 2018 and 2017

	Three months ended Sept 30, 2018	Three months ended Sept 30, 2017	Nine months ended Sept 30, 2018	Nine months ended Sept 30, 2017
Revenue	\$520,934	\$1,700,414	\$1,201,093	\$13,251,507
Operating expenses				
Advertising and promotion	18,722	71,523	124,899	147,821
Amortization and depreciation of equipment and intangible assets	323,151	263,861	876,101	1,090,972
Bad debts	1,663,892	(8,929)	3,392,325	429,084
Consulting fees (Note 11)	520,643	647,039	1,862,582	5,797,685
Interest on long term liabilities	67,277	16,603	165,800	78,130
Lab Supplies	467,432	(252,835)	1,150,951	1,960,672
Management fees (Note 11)	-	373,523	-	3,313,017
Office and general	(161,286)	321,971	279,641	790,828
Professional fees	48,392	236,734	1,772,690	2,763,790
Rent and occupancy	233,330	244,327	742,171	673,930
Repairs and maintenance	47,004	67,197	199,935	199,110
Research and development	52,580	152,816	61,176	637,600
Salaries and other benefits	1,153,485	1,070,763	3,688,345	2,946,652
Share-based compensation (Note 13)	22,698	1,117,667	494,043	5,472,233
Utilities	144,339	107,053	383,757	203,296
	4,601,659	4,429,313	15,194,416	26,504,820
Loss before undernoted items and income taxes	(4,080,725)	(2,728,899)	(13,993,323)	(13,253,313)
Other expenses/(income)				
Bargain purchase on Alternate Health Labs Inc acquisition (Note 12)	-	-	-	(2,246,396)
Gain (loss) on foreign exchange	(7,578)	82,813	10,360	32,097
Investment Income	-	-	(2,782,713)	-
Loss (Income) from equity accounted for investment (Note 4)	-	46,782	-	(411,603)
Allowance for recoverability of assets	-	1,267,183	-	1,267,183
Transaction costs	-	-	-	34,060
	(7,578)	1,396,778	(2,772,353)	(1,324,659)
Loss before income taxes	(4,073,147)	(4,125,677)	(11,220,970)	(11,928,654)
Income taxes (recovery)				
Current	1	(204,320)	33	(72,045)
Deferred	-	-	-	(156,000)
	1	(204,320)	33	(228,045)
Net loss	(4,073,148)	(3,921,357)	(11,221,003)	(11,700,609)
Other comprehensive income				
Foreign currency translation differences for foreign operations	1,512	(497,813)	(222,244)	(1,430,619)
Net unrealized loss on investments available for sale	(56,410)	-	918,205	-
Other comprehensive (income) loss	(54,898)	(497,813)	695,961	(1,430,619)
Total comprehensive loss	(4,128,046)	(4,419,170)	(10,525,042)	(13,131,228)
Basic and diluted loss per share (Note 9)	\$ (0.08)	\$ (0.08)	\$ (0.21)	\$ (0.24)
Average weighted number of shares	53,079,758	52,114,220	53,167,292	49,428,366

See accompanying notes to the unaudited condensed interim consolidated financial statements

Alternate Health Corp.

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

	Number of shares #	Share capital \$ (Note 9)	Number of warrants #	Warrants \$ (Notes 5 & 9)	Share-based reserve \$ (Note 9)	Contributed Surplus \$ (Note 9)	Accumulated other comprehensive income \$	Deficit \$	Total Shareholders' equity \$
Balance at December 31, 2016, previously restated	32,916,236	3,035,219	606,250	29,000	818,100	-	-	(2,524,770)	1,357,549
Comparative figures adjustment (Note 14)	-	49,967	-	-	200,000	-	-	(299,967)	(50,000)
Balance at December 31, 2016, restated	32,916,236	3,085,186	606,250	29,000	1,018,100	-	-	(2,824,737)	1,307,549
Issuance of common shares and warrants	18,052,292	32,342,995	-	-	(210,000)	-	-	-	32,132,995
Shares held in escrow	750,000	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	1,247,544	2,987,374	2,346,670	-	-	-	5,334,044
Exercise of warrants for common shares	481,250	734,875	(481,250)	(13,000)	-	-	-	-	721,875
Expiration of warrants	-	-	(25,000)	-	-	-	-	-	-
Exercise of stock options	7,500	10,909	-	-	(3,409)	-	-	-	7,500
Net and other comprehensive loss	-	-	-	-	-	-	(1,430,619)	(11,700,611)	(13,131,230)
Balance at September 30, 2017	52,207,278	36,173,965	1,347,544	3,003,374	3,151,361	-	(1,430,619)	(14,525,348)	26,372,733
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	2,006,060	1,813,508	-	-	-	-	-	-	1,813,508
Shares returned to Treasury	(750,000)	(1,125,000)	-	-	-	-	-	-	(1,125,000)
Issuance of shares held in escrow	-	339,939	-	-	-	-	-	-	339,939
Expiry of stock options	-	(560,264)	-	-	(580,850)	1,141,114	-	-	-
Stock-based compensation	-	-	-	-	494,043	-	-	-	494,043
Issuance of warrants	-	-	1,688,311	447,553	-	-	-	-	447,553
Net and other comprehensive income (loss)	-	-	-	-	-	-	(695,961)	(11,188,638)	(11,884,599)
Balance at September 30, 2018	53,887,338\$	37,138,743	2,805,855\$	3,328,052 \$	3,233,294\$	1,141,114\$	1,347,063 \$	(40,148,185)	\$ 6,007,716

See accompanying notes to the unaudited condensed interim consolidated financial statements

Alternate Health Corp.

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

For nine months ended	September 30, 2018	Sept 30, 2017 (restated – note 14)
Cash provided from (used in)		
Operating activities		
Net loss	\$ (11,221,003)	\$ (6,625,730)
Depreciation and amortization of equipment and intangible assets	876,101	405,153
Share-based payments	973,345	5,937,643
Gain on sale of long term investment	(2,709,352)	-
Bargain purchase on acquisition (Note 12)	-	-
Income from equity accounted for investment (Note 4)	-	(422,503)
Finance expense (Note 5)	(1,051,293)	48,216
Deferred tax	-	(989,445)
Change in non-cash working capital items (Note 10)	4,736,249	(2,161,956)
Cash provided by (used in) operating activities	(8,395,953)	(3,808,622)
Investing activities		
Proceeds from sale of long term investments	3,865,931	-
Purchase of National Access Corp	-	(1,636,920)
Cash on acquisition of AHL (Note 12)	-	8,226
Purchase of property and equipment	(414,032)	(737,248)
Additions to intangible assets	-	(593,036)
Income distribution from investment	-	265,500
Purchase of Hightimes Holdings Corp shares	-	(332,982)
Purchase of convertible note receivable (Note 3)	-	(665,200)
Cash provided by (used in) investing activities	3,451,899	(3,691,660)
Financing activities		
Warrants exercised	-	600,000
Development fees payable to related party	44,831	(50,000)
Issuance of share capital, net of share issuance costs	752,685	11,247,145
Issuance of Convertible notes (Note 5)	3,003,470	-
Equipment lease payments	-	(975,372)
Cash provided by financing activities	3,800,986	10,821,773
Effect of movement of exchange rates	192,829	-
Increase (decrease) in cash	(950,239)	3,321,491
Cash, beginning of period	1,443,862	570,003
Cash, end of period	\$ 493,623	\$ 3,891,494

See accompanying notes to the unaudited condensed interim consolidated financial statements

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

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, 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 12).

The Company’s registered office is located at 309-1485 6th Avenue, Vancouver, British Columbia, Canada, V6H 4G1 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 to revolutionize patient care and research in the emerging medical cannabis industry. With cannabis educational programs, software and patented delivery medical systems, Alternate Health is a leader in software applications and processing systems for the medical industry using proprietary technology platforms. 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. In leveraging the Company’s assets in exclusive patents and partnerships, Alternate Health’s goal is to be the global authority on the science, manufacturing and delivery methods for cannabidiol (CBD) and other cannabinoids derived from hemp and marijuana.

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 and nine months ended September 30, 2018 and 2017

2. Basis of Preparation

These unaudited condensed interim consolidated financial statements for the three and nine-months ended September 30, 2018 and 2017 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, 2017 and 2016 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, 2017 and 2016.

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, 2017 and 2016.

3. Convertible note receivable

On March 18, 2017, the Company purchased a USD\$500,000 convertible debenture issued by Apri Health, Inc. (“Apri Note”). Apri Health develops and implements data analytics and related data mining solutions for healthcare providers and other customers serving the healthcare market. The Apri Note has a five-year maturity and bears interest at 4.5% interest per annum. The Apri Note is convertible into Apri Health common stock or other Apri Health securities under the following conditions:

- If Apri Health notifies the Company of its intent to repay the Apri Note prior to the maturity date;
- If the Apri Note is outstanding at the maturity date; or
- If there is a significant capital raise or liquidation event. If the capital financing is in excess of USD\$10,000,000, the Company’s conversion feature is at the capital financing price times eighty percent.

The fair value of the conversion feature at the date of purchase and period end is considered immaterial.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

4. Long term Investments

	September 30, 2018	December 31, 2017
(i) National Access Cannabis Corp.	\$ 2,764,090	\$ 4,749,295
(ii) High Times Holding Corp	332,982	332,982
(iii) Clover Trail Capital LLC	-	-
Total long-term investments	\$ 3,097,072	\$ 5,082,277

- (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 the second quarter of 2018, the Company sold 1,822,000 common shares for proceeds of \$1,431,662. As of June 30, 2018, the Company has assessed the fair value of its investment at \$2,707,680 (December 31, 2017 - \$4,749,295) and recognized an unrealized loss of \$974,615 for the six months ended June 30, 2018 (June 30, 2017 - \$ nil) in other comprehensive income. 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. As of June 30, 2018, and December 31, 2017, management has estimated the fair value to approximate the cost. 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 June 30, 2018 and December 2017. In 2018, there was a forward split of 1.93 per share, resulting in the Company holdings 114,935 Class A common shares.
- (iii) Effective January 13, 2017 the Company acquired a 20% interest in Clover Trail Capital LLC ("Clover"), a company that in turn owns a 40% equity interest in Sun Clinical Laboratories LLC, an entity located in the US, which refers toxicology and blood samples to AHL for screening, for consideration of 4,557,150 common shares. 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. Subsequent to the Company's purchase of Clover, its controlling member, Dr. Michael Murphy, became a director and officer of the Company and as a result is a related party. The Company accounts for its investment in Clover, an investment subject to significant influence, on an equity basis and recorded equity earnings of nil for the three and nine-months ended September 30, 2018 (September 30, 2017 - \$422,503) and received a cash income distribution of \$nil for the three and nine months ended September 30, 2018 and 2017. Clover has minimal assets and liabilities as at September 30, 2018. As at December 31, 2017, the investment has been written down.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

5. Convertible Note

June 22, 2018 Issuance

On June 22, 2018 the Corporation entered into agreements to issue \$1.3 million in convertible notes (the “Notes”) plus 1.688 million warrants (the “Warrants”). The Notes have a term of eighteen months from the date of issue and bears 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 Corporation at the option of the holder at CDN\$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 4) with a fair value of \$2,707,680 as at June 30, 2018. The Corporation has the right to pay interest on the Notes in cash or shares.

Each warrant will be 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 \$447,554 (Note 9), 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 – 98%; Risk-free interest rate – 2.56%; Dividend yield – 0%; and Expected life – 3 years.

		Convertible note
Balance at December 31, 2017	\$	-
Face value of debt upon issuance – June 22, 2018		1,300,000
Less: Allocation to warrants and conversion feature		(447,554)
Amortization on discount		37,296
Fair value of debt on initial recognition at September 30, 2018	\$	889,742

August 31, 2018 Issuance

On August 31, 2018 the Corporation entered a non-brokered private placement (the “Private Placement”) of unsecured convertible notes (the “Notes”) under prospectus exemptions available under applicable securities legislation in the aggregate principal amount of \$1,703,470, maturing and payable on the date that is three years from the date of issuance (the “Maturity Date”). The Note 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 (or the first business day thereafter) and subsequent interest payment dates during the term will be December 31, March 31 and June 30 (or the first business day thereafter). At the Noteholders’ option, the Notes may be converted into common shares (the “Shares”) at a price of CDN \$0.59 per Share (the “Conversion Price”), subject to the policies of the Canadian Securities Exchange (the “Exchange”). Included in the convertible note placement is a US\$775,000 subscription by Dr. Michael Murphy, Chairman and CEO the Company.

		Convertible note
Balance at December 31, 2017	\$	-
Face value of debt upon issuance – August 31, 2018		1,703,470
Less: Allocation to warrants and conversion feature		(603,739)
Amortization on discount		16,771
Fair value of debt on initial recognition at September 30, 2018	\$	1,116,502

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

6. Property and equipment

	Office Furniture & Equipment	Computer Equipment & Software	Leasehold Improvements	Lab Testing Equipment	Total
Cost					
December 31, 2016	\$ 13,438	\$ -	\$ -	\$ -	\$ 13,438
Additions	12,793	64,307	112,505	608,740	798,345
Acquisition (Note 12)	95,977	122,285	25,443	6,322,315	6,566,020
Foreign currency translation	(6,787)	(10,284)	(5,512)	(479,204)	(501,787)
December 31, 2017	115,421	176,308	132,436	6,451,851	6,876,016
Additions	-	3,088	-	61,708	64,796
Foreign currency translation	(2,354)	(3,809)	(3,060)	(99,302)	(108,525)
September 30, 2018	\$ 113,067	\$ 175,587	\$ 129,376	\$ 6,414,257	\$6,832,287

Accumulated Amortization

December 31, 2016	\$ 6,234	\$ -	\$ -	\$ -	\$ 6,234
Amortization	12,688	58,066	14,979	661,285	747,018
Foreign currency translation	(347)	(1,975)	(509)	(22,495)	(25,326)
December 31, 2017	18,575	56,091	14,470	638,790	727,926
Amortization	10,198	51,481	21,061	301,401	384,141
Foreign currency translation	(299)	(1,729)	(511)	(17,329)	(19,869)
September 30, 2018	\$ 28,474	\$ 105,843	\$ 35,020	\$ 922,862	\$ 1,092,199

Net Book Value

December 31, 2017	\$ 96,846	\$ 120,217	\$ 117,966	\$ 5,813,061	\$ 6,148,090
Sept 30, 2018	\$ 84,593	\$ 69,744	\$ 94,357	\$ 5,491,395	\$ 5,740,088

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

7. Intangible assets

	Software Development Costs	Continuing Medical Education	Software Distribution Rights	Licensing Rights	CLIA Lab License	Customer Relationships	Total
Cost							
December 31, 2016	\$ 732,190	\$ 86,592	\$ 350,000	\$ -	\$ -	\$ -	\$ 1,168,782
Additions	-	114,914	-	2,522,660	-	-	2,637,574
Acquisition (Note 12)	-	-	-	-	743,343	1,626,834	2,370,177
Translation	-	-	-	-	(49,213)	-	(49,213)
Impairment of asset	-	-	-	(1,658,972)	-	(1,386,034)	(3,045,006)
December 31, 2017	732,190	201,506	350,000	863,688	694,130	240,800	3,082,314
Additions	-	-	-	367,500	-	-	367,500
Translation	-	-	-	-	(4,428)	-	(4,428)
September 30, 2018	\$ 732,190	\$ 201,506	\$ 350,000	\$ 1,231,188	\$ 689,702	\$ 240,800	\$ 3,445,387
Accumulated Amortization							
December 31, 2016	\$ 146,437	\$ -	\$ 20,417	\$ -	\$ -	\$ -	\$ 166,854
Amortization	73,218	18,689	35,000	168,688	-	240,800	547,738
December 31, 2017	230,998	18,689	55,417	168,688	-	240,800	714,592
Amortization	55,081	51,472	26,250	136,114	-	-	268,917
September 30, 2018	\$ 273,182	\$ 70,161	\$ 81,667	\$ 304,802	\$ -	\$ 240,800	\$ 970,612
Net Book Value							
December 31, 2017	\$ 501,192	\$ 182,817	\$ 294,583	\$ 695,000	\$ 694,130	\$ -	\$ 2,367,722
September 30, 2018	\$ 459,008	\$ 131,346	\$ 268,333	\$ 926,386	\$ 689,702	\$ -	\$ 2,474,775

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

8. 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 September 30, 2018 is \$197,690.50 (December 31, 2017 - \$152,859). The balance owing may be prepaid in whole or in part at any time and from time to time with no prepayment penalty.

9. Shareholders' equity

Share Capital:

	September 30, 2018	December 31, 2017
Authorized		
Unlimited number of common shares without par value		
Issued share capital		
53,887,338 common shares (2017 – 52,631,78)	\$ 37,138,743	\$ 36,670,560

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) In January 2017, a total of 350,000 common shares were issued in consideration for certain testing process commercialization licensing rights and cannabidiol, CBD, THC certification programs.
- (c) In January 2017, a total of 2,914,354 common shares were issued in a private placement providing proceeds of \$4,371,531 less share issuance costs of \$378,721.
- (d) In March 2017, a total of 2,968,506 common shares were issued in consideration for the purchase of a worldwide renewable license agreement for a non-pharmaceutical sublingual technology system for the delivery of CBD and THC and related consulting services.
- (e) In March 2017, a total of 2,328,940 common shares were issued in a private placement providing proceeds of \$7,132,472 less share issuance costs of \$259,331.
- (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) In November 2017, a total of 100,000 common shares were issued in consideration for certain software licensing rights.
- (h) 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.
- (i) During 2017, a total of 1,297,544 common share purchase warrants were issued in consideration for various consulting and other services rendered to the Company. 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 and nine months ended September 30, 2018 and 2017

9. Shareholders' equity, continued

- (j) During 2017, a total of 581,250 common share purchase warrants were exercised, resulting in the issuance of 581,250 common shares, providing proceeds of \$871,875.
- (k) During 2017, a total of 17,500 stock options were exercised, resulting in the issuance of 17,500 common shares, providing proceeds of \$17,500.
- (l) During 2017, a total of 1,030,000 stock options were issued in consideration for various consulting and other services rendered to the Company. The options were valued using the Black Scholes pricing model.

The following shares and warrants were issued in the nine months ended September 30, 2018 and are summarized on the Statement of Changes in Equity, and are described more fully as follows:

- (a) In January 2018, 46,250 of the total of 935,000 common shares held in escrow were released in consideration of \$113,313.
- (b) On January 2, 2018, 50,000 common shares were issued to Trident in consideration of \$112,500 for the purchase of software licencing intangibles.
- (c) In February 2018, 300,000 stock options were issued in consideration for consulting services rendered to the Company. The options were valued using the Black Scholes pricing model.
- (d) On April 1, 2018, 50,000 common shares were issued to Trident in consideration of \$122,500 for the purchase of software licencing intangibles.
- (e) In April 2018, 46,250 common shares held in escrow were released in consideration of \$113,312.
- (f) In June 2018, 1,688,311 common share purchase warrants were issued in conjunction with the convertible note.
- (g) In July 2018, 50,000 common shares were issued to Trident in consideration of \$122,500 for the purchase of software licensing intangibles; in addition, 83,334 common shares were issued in consideration of various consulting services.
- (h) In August 2018, a total of 1,772,726 common shares were issued in private placement providing proceeds of \$752,685.
- (i) In August 2018, 60,000 stock options were issued in consideration for consulting services rendered to the Company. The options were valued using the Black Scholes pricing model.
- (j) In September 2018, 750,000 common shares that were held in escrow were returned to Treasury.
- (k) In September 2018, 46,250 common shares held in escrow were released in consideration of \$113,312.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

9. Shareholders' equity, continued

Warrants:

	Number	Amount
Balance December 31, 2016	606,250	\$ 29,000
Issuance for services rendered	1,297,544	3,032,300
Exercised	(581,250)	(29,000)
Expired	(25,000)	-
Balance December 31, 2017	1,297,544	3,032,300
Issuance with convertible note (Note 5)	1,688,311	447,553
Exercised	-	-
Expired	(180,000)	-
Balance, September 30, 2018	2,805,855	\$ 3,678,853

Warrants outstanding and exercisable at September 30, 2018

Remaining life (months)	Weighted average exercise price	Expiry date
200,000	3.05	June 15, 2019
50,000	2.45	December 6, 2019
867,544	3.91	April 14, 2022
1,688,311	0.77	June 22, 2021
2,805,855	\$ 1.33	

The fair value of the warrants issued in 2017 has been estimated at the date of grant using the Black Scholes option pricing model with the following assumptions: risk free interest rate 0.83% - 2.49%; no expectation of any dividend yield; and estimated volatility of 98%. The fair value of these warrants at time of issue were \$3,032,300.

Loss per share:

Basic loss per share is calculated based on the weighted average number of common shares outstanding which for the three and nine months ended September 30, 2018 were 53,079,758 and 53,167,292 (51,811,884 and 48,063,184 for the three and six months ended June 30, 2017).

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.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

9. Shareholders' equity, continued

The following instruments have been excluded from the diluted earnings per share as these instruments are anti-dilutive:

	September 30, 2018	September 30, 2017
Issued stock options	1,270,000	2,702,500
Issued warrants	2,805,855	1,347,544
Total	4,075,855	4,050,044

Stock options and share based reserve:

A summary of the stock options outstanding and exercisable under the plan as of September 30, 2018 and December 31, 2017 and changes during the periods are as follows:

	Options	Weighted Price
Options outstanding and exercisable at December 31, 2016	1,800,000	\$ 1.00
Granted	1,030,000	3.41
Exercised	(17,500)	1.00
Options Outstanding and exercisable at December 31, 2017	2,812,500	1.00
Granted	360,000	2.20
Expired	(1,902,500)	1.00
Options outstanding and exercisable at June 30, 2018	1,270,000	\$ 2.57

The following table summarizes additional disclosures on the stock options outstanding at September 30, 2018:

Exercise price	Number outstanding & exercisable	Remaining average life (months)	Fair value at time of issue
\$ 0.74	60,000	59.0	\$ 22,698
4.00	460,000	42.5	1,477,520
2.90	330,000	46.5	698,667
2.00	120,000	50.0	173,285
2.20	300,000	52.0	471,345
	1,270,000		\$ 3,210,596

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

9. Shareholders' equity, continued

The fair value of the options granted during the nine months ended September 30, 2018 has been estimated at the date of grant using the Black Scholes option pricing model with the following assumptions: risk free interest rate of 2.56% (2017 - 0.83% to 2.49%); expected dividend yield of nil% (2017 - nil%); estimated volatility of 98.0% (2017 - 57.7% to 98.0%).

Included in share-based reserve:

	September 30, 2018	December 31, 2017
Balance at beginning of period	\$ 3,320,101	\$ 1,018,100
Fair value of options granted during the period	494,043	2,519,955
Exercise of stock options	-	(217,954)
Expiry of stock options	(580,850)	-
Balance at end of period	\$ 3,233,294	\$ 3,320,101

	September 30, 2018	December 31, 2017
Included in Contributed surplus		
Expiry of stock options	\$ 1,141,114	\$ -

10. Supplemental cash flow information

	September 30, 2018	September 30, 2017
<u>Change in non-cash working capital items</u>		
Accounts receivable	\$ 2,706,784	\$ (1,823,407)
HST receivable	(8,225)	(30,267)
Income taxes receivable	(4,242)	637,951
Due from related parties	208,142	-
Supplies on hand	455,454	(592,775)
Prepaid expenses and deposits	(468,709)	(516,596)
Accounts payable and accrued liabilities	1,847,045	318,640
Current portion of deferred revenue	-	(155,502)
	\$ 4,736,249	\$ (2,161,956)

	September 30, 2018	September 30, 2017
<u>Other significant non-cash transactions</u>		
Issuance of common shares for goods and services	\$ 688,250	\$ 20,257,948

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

11. Related party transactions

- (a) The Company incurred the following transactions with companies having directors and officers in common for the three and nine-months ended September 30, 2018:

	3 months ended Sept 30, 2018	9 months ended Sept 30, 2018
Interest expense	\$ 67,277	\$ 165,800
Key management personnel and board of director's cash-based compensation included in consulting fees	-	265,299
Key management personnel and board of director's cash-based compensation included in salaries and benefits	92,019	265,454
Key management personnel and board of director's share-based compensation (non-cash)	\$ 44,400	\$ 515,745

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

- (i) Consulting services of nil and \$101,662 for three and nine months ended September 30, 2018 (June 30, 2017 - \$nil) paid to a company related by way of common directors and common significant shareholders.
 - (ii) Consulting services of nil and \$55,997 for three and nine months ended September 30, 2018 (June 30, 2017 - \$nil) paid to a company related by way of common directors and common significant shareholders.
 - (iii) Consulting services of nil and \$90,000 for the three and nine months ended September 30, 2018 (June 30, 2017 - \$nil) paid to a company related by way of common directors and common significant shareholders.
 - (iv) Consulting services of nil and \$17,640 for the three and nine months ended September 30, 2018 (June 30, 2017 - \$ 16,548) to various directors, officers or shareholders of the Company.
- (b) The Company is related to Sun Clinical Laboratory, LLC and LMK Management LLC through Dr. Michael Murphy, the controlling shareholder of these companies who is also a director and significant shareholder of the Company. The Company is also related to Sun Clinical Laboratory, LLC through the significant influence of its equity investee (Note 4). Transactions and balances with these related parties are as follows:

	3 months ended Sept 30, 2018	9 months ended Sept 30, 2018
Revenue from Sun Clinical Laboratory, LLC	\$ -	\$ -
Management fees paid to (recovered from) LMK Management LLC	-	-

Included in accounts receivable are amounts owing by Sun Clinical Laboratory LLC for \$730,114 as at September 30, 2018 (December 31, 2017 - \$948,707). As of September 30, 2018, Alternate Health has reserved for this receivable along with all other Laboratory receivables recorded prior to January 1, 2018.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

11. Related party transactions, continued

Included in accounts payable and accrued liabilities are amounts owing to LMK Management LLC for \$1,559,582 (December 31, 2017 - \$2,026,514). The management fee paid to LMK Management LLC, is comprised of 49% of the profits generated by particular lab tests, which are calculated by multiplying the number of monthly tests times a mutually agreed fee less all monthly fixed and variable expenses.

These transactions are in the normal course of operations and have been recognized in these consolidated financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

(c) Due from related parties:

	September 30, December 31,	
	2018	2017
D.C. Netcast Media Group Inc.	\$	-\$ 48,142
Support Your Buds LLC		- 160,000
	\$	-\$ 208,142

DC Netcast Media Group Inc. is a company controlled by a Director and a significant shareholder of the Company. The amount due from DC Netcast Group Inc. has no fixed terms of repayment, is unsecured and carries no interest.

Support Yours Buds LLC is a company controlled by a significant shareholder of the Company. The amounts due from Support Your Buds LLC have no fixed terms of repayment, are unsecured and carry no interest.

(d) Effective January 13, 2017 the Company acquired a 20% interest in Clover Trail Capital LLC ("Clover"), a company that in turn owns a 40% equity interest in Sun Clinical Laboratories LLC, an entity located in the US which refers toxicology and blood samples to AHL for screening, for consideration of 4,557,150 common shares. The purchase also included the issuance of a note payable for US\$1,993,750 which was subsequently extinguished through the issuance of an additional 800,387 common shares.

Subsequent to the Company's purchase of Clover, its controlling member, Dr. Michael Murphy, became a director and officer of the Company and as a result is a related party. The Company accounts for its investment in Clover on an equity basis and recorded equity earnings of nil for the three and nine months ended September 30, 2018 (\$422,503 for the three and nine months ended June 30, 2017) and received a cash income distribution of \$nil for the three and nine months ended September 30, 2018 (\$265,500 for the three and nine months ended September 30, 2017). As at December 31, 2017, the investment has been written down.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

12. Acquisition of Alternate Health Labs, Inc.

In 2016, the Company entered a Lab Business Development Agreement ("LDA" agreement) with Dr. Michael Murphy ("Murphy") of San Antonio, Texas to establish and equip a licensed toxicology laboratory to be owned by a subsidiary of the Company. On January 1, 2017, the Company closed the transaction and acquired 100% of Alternate Health Labs Inc. ("AHL") from Murphy for total consideration of 2,270,355 common shares valued at \$3,481,326.

The acquisition of AHL was accounted for using the purchase method of accounting in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective January 1, 2017. Transaction costs associated with the transaction were minimal, have been expensed, and are included in the consolidated statement of loss.

The Company allocated the purchase price to the net identifiable assets and liabilities acquired based on their fair values at the time of the acquisition as follows:

Fair value of assets and liabilities recognized on acquisition:	
Current assets	\$ 2,185,275
Property and equipment	6,566,020
Intangible asset – customer relationships	1,626,834
Intangible asset – CLIA lab license	743,343
Current liabilities	(1,916,105)
Assumed lease liabilities	(995,619)
Deferred tax liability	(2,482,026)
	5,727,722
Bargain purchase arising on acquisition	(2,246,396)
	<u>\$ 3,481,326</u>

Under the LDA, the Company entered into a management agreement with LMK Management ("LMK"). LMK manages the laboratory and earns a management fee equal to 49% of the profits generated by particular lab tests, which are calculated by multiplying the number of monthly tests times a mutually agreed fee less all monthly fixed and variable expenses.

The customer relationships intangible relates to the fair value of the customer base for the reference laboratory. Subsequent to the acquisition, AHL converted from a reference laboratory to a full clinical laboratory. The customer relationships were subsequently written off July 1, 2017. The CLIA lab license relate to the licences required for the operation of laboratories in the US. The deferred tax liability relates primarily to temporary timing differences related to property and equipment and intangible assets. The bargain purchase arose as a result of the number of shares negotiated as consideration being negotiated a number of months prior to the final closing of the acquisition, with no adjustment clause related to operating performance up to the close date, which was stronger than originally anticipated during the negotiations.

The purchase price allocation has been finalized.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

13. Share-based compensation

Share-based compensation expenses comprises of:

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Fair value of stock options issued (Note 8)	\$ 22,698	\$ -	\$ 494,043	\$ -
Shares issued in exchange for services (Note 8)	-	4,202,756	-	4,354,566
	\$ 22,698	\$ 4,202,756	\$ 494,043	\$ 4,354,566

14. Comparative figures adjustments

In 2017, the Company discovered the following items, which required adjustment to the opening deficit as at December 31, 2016:

- (a) For the year ended December 31, 2016, the Company recorded the opening deficit for \$49,967 in the reverse takeover of AHC as a reduction of share capital. The share capital as at December 31, 2016 and the listing expense for the year ended December 31, 2016 were understated by \$49,967. As a result, net loss for year ended December 31, 2016 year is increased by \$49,967 and the deficit balance and share capital as at December 31, 2016 has been increased by \$49,967. The opening equity reported on the audited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 have been restated.
- (b) The Company issued 250,000 shares in 2017 to consultants for services rendered in 2016. The fair value of these shares should have been recorded at the value of the professional services rendered in the year ended December 31, 2016. Share-based reserve was understated by \$200,000 and consulting fees were understated by \$250,000. As a result, the net loss for year ended December 31, 2016 is increased by \$250,000 and as at December 31, 2016, deficit has been increased by \$250,000. The opening equity reported on the audited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 have been restated.

In addition, the unaudited condensed interim consolidated financial statements for the three and nine-months ended September 30, 2017 have been restated for the finalization of the purchase price allocation of the acquisition of Alternate Health Labs, Inc. (note 12) and certain adjustments resulted from the December 31, 2017 audit of the Company. Certain comparative figures have been reclassified to conform to the current period presentation.

Alternate Health Corp.

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

For the three and nine months ended September 30, 2018 and 2017

15. Contingencies

Litigation

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

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.