

ALTERNATE HEALTH CORP.

Form 51-102F4

Business Acquisition Report

ITEM 1 IDENTITY OF COMPANY

1.1 Name and Address of Company

Alternate Health Corp.
2745 North Dallas Parkway
Suite 460
Plano, Texas
75093

1.2 Executive Officer

Michael English, Chief Financial Officer of Alternate Health Corp. (“AHG” or the “Company”), is knowledgeable about the acquisition of Alternate Health Labs Inc. (“Labs”) in respect of which this business acquisition report (“Report”) has been filed. Mr. English can be reached in writing to the address noted in section 1.1 above, or by e-mail at m.english@alternatehealth.ca.

ITEM 2 DETAILS OF ACQUISITION

2.1 Nature of Business Acquired

The Company’s non-offering prospectus dated November 29, 2016 (the “Prospectus”) filed with the Ontario Securities Commission disclosed information about Labs and the Company’s agreement to acquire 100% of the issued share capital of Labs (the “Labs Acquisition”), a private company formed under the laws of Delaware. The lab development agreement dated April 27, 2016 (and addendums dated August 16, 2016 and October 24, 2016) related to the Labs Acquisition were also filed on SEDAR on October 4, 2016 and November 23, 2016, respectively.

Labs’ assets are primarily comprised of a toxicology lab and leases to a CLIA licensed facility and equipment leases.

Further details of the Labs Acquisition are contained in the Prospectus filed on SEDAR and the Company’s news release of January 13, 2017 and material change report of January 23, 2017 announcing the closing of the Labs Acquisition.

2.2 Acquisition Date

The Company completed the acquisition of 100% of the share capital of Labs on January 11, 2017.

2.3 Consideration

On January 11, 2017, the Company issued 1,920,000 common shares at a deemed price of \$1.00 per share to Dr. Murphy in consideration of the Labs Acquisition.

2.4 Effect on Financial Position

The effect of the Labs Acquisition on the Company's financial position is outlined in the unaudited pro forma consolidated financial statements in the section titled "ITEM 3 FINANCIAL STATEMENTS AND OTHER INFORMATION".

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

The Labs Acquisition did not involve an informed person, associate or affiliate of the Company (as defined in National Instrument 51-102).

2.7 Date of Report

March 27, 2017

ITEM 3 FINANCIAL STATEMENTS AND OTHER INFORMATION

This Business Acquisition Report includes the following financial statements which are incorporated by reference from the Prospectus:

- (a) audited financial statements of Labs for the period from incorporation on May 9, 2016 to August 31, 2016, which comprise the statement of financial position as at August 31, 2016 and the statements of earnings and changes in equity and cash flows for the period from incorporation on May 9, 2016 to August 31, 2016;
- (b) an unaudited pro forma statement of financial position combining the unaudited interim statement of financial position of the Company as at September 30, 2016, with the unaudited interim statement of financial position of Alternate Health Inc. ("AHI") as at September 30, 2016 and the audited statement of financial position of Labs as at August 31, 2016, giving effect to the Labs Acquisition and acquisition of AHI as if they had occurred on September 30, 2016;
- (c) an unaudited pro forma statement of operations combining the unaudited statement of operations for the Company for the six month period ended September 30, 2016, with the unaudited statement of AHI for the six month period ended September 30, 2016 and the audited statement of operations for Labs for the period from incorporation on May 9, 2016 to August 31, 2016, giving effect to the Labs Acquisition and acquisition of AHI as if they had occurred on September 30, 2016;

This Business Acquisition Report includes the following financial statements which are attached hereto:

- (d) unaudited interim financial statements of Labs as at November 30, 2016, which comprise the statement of financial position as at November 30, 2016 and the statements of income and other comprehensive income, and changes in equity and cash flows for the three month period and six month period ended November 30, 2016.

ALTERNATE HEALTH LABS INC.

Interim Financial Statements of

November 30, 2016
(Unaudited)

ALTERNATE HEALTH LABS INC.

Table of Contents

November 30, 2016
(Unaudited)

Index to Unaudited Interim Financial Statements

	<u>Page</u>
Interim Statement of Financial Position	1
Interim Statement of Income and Other Comprehensive Income	2
Interim Statement of Changes in Equity	3
Interim Statement of Cash Flows	4
Notes to Interim Financial Statements	5

ALTERNATE HEALTH LABS INC.

Interim Statement of Financial Position

As at November 30, 2016

(Unaudited)

	Nov 30 2016
ASSETS	
Current assets	
Cash	\$ 57,940
Accounts receivable (Notes 3, 10 & 13)	2,285,112
Prepaid expenses and deposits	151,087
Share subscription receivable	1
	<u>2,494,140</u>
Other assets	
Equipment (Note 4)	2,347,433
	<u>\$ 4,841,573</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued liabilities (Note 10)	\$ 1,625,923
Loan payable (Notes 5 & 14)	241,675
Income taxes payable	301,794
Current portion of finance leases payable (Note 8)	1,192,592
	<u>3,361,984</u>
Long-term liabilities	
Due to shareholder (Note 6)	359,069
	<u>3,721,053</u>
Shareholders' equity	
Share capital (Note 7)	1
Retained earnings	1,120,519
	<u>1,120,520</u>
	<u>\$ 4,841,573</u>

See accompanying notes to financial statements

ALTERNATE HEALTH LABS INC.

Interim Statement of Income and Other Comprehensive Income

For the three and six month periods ended November 30, 2016
(Unaudited)

	Three month period ended Nov 30 2016	Six month period ended Nov 30 2016
Revenue (Notes 8, 10 & 13)	\$ 2,994,411	\$ 5,249,965
Operating expenses		
Amortization	72,536	141,907
Interest	33,633	81,201
Office and general	115,840	210,060
Other management fees	153,583	394,688
Professional fees	35,735	50,460
Related party management fees (Note 10)	858,219	1,404,337
Rent	194,923	310,737
Salaries and related benefits	241,942	391,452
Shop supplies	375,056	767,438
Subcontract	11,795	24,760
	<u>2,093,262</u>	<u>3,777,040</u>
Income before undernoted item	901,149	1,472,925
Other expenses		
Gain (loss) on foreign exchange	(53,910)	(50,612)
Income before provision for income taxes	847,239	1,422,313
Income taxes		
Current	113,527	301,794
Net income	<u>\$ 733,712</u>	<u>\$ 1,120,519</u>

See accompanying notes to financial statements

ALTERNATE HEALTH LABS INC.

Interim Statement of Changes in Equity

For the period ended November 30, 2016
(Unaudited)

	Share capital	Retained earnings	Total
Beginning balance	\$ -	\$ -	\$ -
Net Income	-	1,120,519	1,120,519
Share issuance	1	-	1
Closing balance as at November 30, 2016	\$ 1	\$ 1,120,519	\$ 1,120,520

See accompanying notes to financial statements

ALTERNATE HEALTH LABS INC.

Interim Statement of Cash Flows

For the three and six month periods ended November 30, 2016
(Unaudited)

	Three month period ended Nov 30 2016	Six month period ended Nov 30 2016
Operating activities		
Net income	\$ 733,712	\$ 1,120,519
Adjustments for		
Amortization	72,536	141,907
Change in non-cash working capital items (Note 9)	(740,999)	(266,808)
Cash provided by (used in) operating activities	65,249	995,618
Investing activities		
Purchase of equipment	(31,146)	(337,392)
Cash provided by (used in) investing activities	(31,146)	(337,392)
Financing activities		
Advances from shareholders	8,714	359,069
Repayment of long-term debt and obligations under finance lease	(417,947)	(959,356)
Issuance of shares	-	1
Cash provided by (used in) financing activities	(409,233)	(600,286)
Increase (decrease) in cash	(375,130)	57,940
Cash, beginning of period	433,070	-
Cash, end of period	\$ 57,940	\$ 57,940

See accompanying notes to financial statements

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

1. Nature of operations

Alternate Health Labs Inc. (“AHL” or “the Company”) was incorporated on May 9, 2016 under the Delaware General Corporation Law. The address of the Company's corporate office and its principal place of business is 1051 E Nakoma Dr, San Antonio, TX 78216, USA.

The Company commenced operations effective on June 1, 2016, and operates in the medical services sector including operating a toxicology laboratory that receives samples of biological material for screening.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on March 27, 2017.

2. Summary of significant accounting policies

Statement of Compliance with International Financial Reporting Standards:

These unaudited interim financial statements have been prepared in accordance with International Accounting Standards 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

(a) Basis of presentation

These interim financial statements have been prepared on a historical cost basis, and should be read in conjunction with the Company’s annual audited financial statements which will be prepared in accordance with IFRS as issued by the IASB.

(b) Functional and presentation currency

The Company's functional is the United States dollar and the reporting currency as determined by management, is the Canadian dollar.

(c) Foreign exchange

Transactions in currencies other than the reporting currency are translated into the functional currency using the exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end exchange rate with the resulting gains and losses being recognized in the statements of operations and comprehensive loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated.

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

2. Summary of significant accounting policies, continued

(d) Cash and cash equivalents

Cash and cash equivalents is defined as cash on hand, cash on deposit, and short term deposits with maturity dates of less than 90 days, net of cheques issued and outstanding at the reporting date.

(e) Use of estimates and judgments

The preparation of these financial statements requires management to make certain judgments, estimates and assumptions about the carrying amounts of assets and liabilities, revenue and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the review affects both current and future periods.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Impairment of assets: When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

Accounts receivable: The Company carries trade accounts receivable at cost net of an allowance for doubtful accounts which provides for any uncertainty of collection. Judgment is required on the evaluation of future probable events that might impact a customer's ability or intention to make full payment of these accounts.

Depreciation: Depreciation is calculated to amortize the cost, less estimated residual value, of property and equipment on a declining balance or a straight-line basis over their expected useful lives.

Taxes: The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

2. Summary of significant accounting policies, continued

(f) Revenue recognition

Revenue in the ordinary course of business is measured at the fair value of the consideration received or receivable.

The Company recognizes revenue when the product has been shipped or the services have been provided to the customer, the sales price is fixed and determinable and collectability is reasonably assured.

(g) Equipment

Equipment are recorded at cost. The company provides for amortization using the declining balance method at rates designed to amortize the cost of the equipment over their estimated useful lives. The annual amortization rate is as follows:

Asset	Method	Rate
Lab testing equipment	Straight-line	10 years
Office equipment	Straight-line	10 years
Leasehold improvements	Straight-line	3 years
Computer hardware and software	Straight-line	3 years

(h) Current income tax

Current tax expense is the expected tax payable or receivable based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

2. Summary of significant accounting policies, continued

(i) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. The Company classifies financial instruments as either held-to-maturity, available-for-sale, fair value through profit or loss (“FVTPL”), loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and other financial liabilities, are measured at amortized cost. Available-for-sale instruments are measured at fair value unless they are unlisted with no active market. In that case, they are measured at cost. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the statement of comprehensive income (loss).

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Financial assets and liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below; their classification depends on the purpose for which the financial instruments were required or issued, their characteristics and the Company's designation of such instruments.

The Company had made the following classifications: (i) Cash is classified as a financial asset at fair value through profit or loss; (ii) Accounts receivable and other receivables are classified as loans and receivables and are recorded at amortized cost; and, (iii) Accounts payable and accrued liabilities, are classified as other liabilities and measured at amortized cost using the effective interest method.

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

2. Summary of significant accounting policies, continued

(j) Impairment of non-financial assets

The Company reviews its tangible and intangible assets for indications of impairment at the end of each reporting period or when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any indication of impairment exists, the asset's recoverable amount is estimated. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the assets belong. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment loss is recognized when the carrying amount of an asset, or its CGU, exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In determining the value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss. Where an impairment loss subsequently reverses the carrying amount of the asset or CGU is increased by the revised estimate of its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of such impairment loss is also recognized in profit or loss.

No impairment of non-financial assets have been recorded for the year ended November 30, 2016.

(k) Finance leases

Lease agreements that effectively transfer substantially all the risks and rewards of ownership of the leased assets to the Company are classified as finance leases. Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly as an expense. Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a 10 year straight-line basis over the shorter of their estimated useful life or the term of the agreement.

3. Accounts receivable

All amounts in accounts receivable are current assets. No amount is past due and no amount is considered doubtful.

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

4. Equipment

	2016 Cost	2016 Accumulated amortization	2016 Net
Lab testing equipment	\$ 2,215,984	\$ 110,882	\$ 2,105,102
Office equipment	98,134	4,580	93,554
Leasehold improvements	27,910	2,325	25,585
Computer hardware & software	147,312	24,119	123,193
	<u>\$ 2,489,340</u>	<u>\$ 141,906</u>	<u>\$ 2,347,434</u>

The total future minimum lease payments of the financed leased lab testing equipment is \$1,192,592 (note 12). \$1,192,592 is due in the 12 month ending Nov 2017 (present value of \$1,089,125) and \$nil is due thereafter.

5. Loan payable

	Nov 30 2016
Loan payable to Alternate Health Inc.	<u>\$ 241,675</u>

The above balance is unsecured, non interest bearing and is due on demand. The parent company of Alternate Health Inc. has obtained control of the Company effective January 1, 2017 through an aquisition transaction.

6. Due to shareholder

The amount due to the shareholder is non-interest bearing, has no security and has no specific repayment terms. The shareholder has indicated that there will be no request for repayment of this amount during the next fiscal year, and accordingly this amount has been classified as a non-current liability in the accompanying financial statements. (See note 14 - subsequent events)

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

7. Share capital

	Nov 30 2016
Authorized	
100 common shares	
Issued	
1 common share	\$ 1

8. Revenue

The revenue for the three month period ending Nov 30, 2016 was generated by processing 22,253 lab samples (six month period ending Nov 30, 2016 39,784 samples) at \$US100 per sample.

9. Change in non-cash working capital items

	Three month period ended Nov 30 2016	Six month period ended Nov 30 2016
Accounts receivable	\$ (1,561,166)	\$ (2,285,112)
Prepaid expenses and deposits	(16,950)	(151,087)
Share subscription receivable	-	(1)
Accounts payable and accrued liabilities	717,725	1,625,923
Income taxes payable	113,527	301,794
Loan payable	5,865	241,675
	\$ (740,999)	\$ (266,808)

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

10. Related party transactions and key management compensation

The company is related to Sun Clinical Laboratory, LLC and LMK Management LLC by virtue of common control. Transactions and balances with these related parties are as follows:

	Three months ended Nov 30 2016	Six months ended Nov 30 2016
Revenue from Sun Clinical Laboratory, LLC	\$ 1,231,411	\$ 2,610,453
Accounts receivable from Sun Clinical Laboratory, LLC	694,414	302,980
Management fee to LMK Management LLC (key management compensation)	858,219	1,404,338
Management fee payable to LMK Management LLC	\$ 1,438,521	\$ 546,119

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties and are at rates typical of arms length market rates. The management fee paid to LMK Management LLC a related party to the shareholder by virtue of common control, is 49% of the toxicology screen reference fee net income. Toxicology screen reference fee net income is calculated by multiplying the number of monthly screens processed times a mutually agreed screen fee less all monthly fixed and variable expenses. This compensation is considered to be key management compensation.

11. Commitments

The company has entered in to a lease agreement for a office facility at 1051 E Nakoma Dr, San Antonio, Texas for three years ending May 31, 2019 and lease agreements for laboratory testing equipment ending September 2017. Future minimum lease payments for the annual rent, including estimated common area expenses and equipment leases are as follows:

	Equipment lease	Premises lease
next 12 months	\$ 1,192,592	\$ 411,173
months 13 through 23	-	411,173
beyond 24 months	-	213,721
	\$ 1,192,592	\$ 1,036,067

The company has a ten year management agreement with LMK Management LLC, a related party to the shareholder, to pay a management fee of 49% of the toxicology screen reference fee net income (see note 10).

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

12. Financial risk factors

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

Credit risk

Credit risk is the risk of financial loss associated with the counterparty's inability to fulfill its payment obligations in accordance with the terms and conditions of its contract with the Company. Credit risk arises from cash and deposits with banks as well as credit exposure to outstanding receivables.

The Company's credit risk arises primarily from the Company's trade accounts receivable. The carrying amount of financial assets represents the maximum credit exposure to the Company.

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to capital sources is hindered, whether as a result of a downturn in market conditions generally, or related to matters specific to the Company. The Company generates cash flow primarily from its operating activities.

Interest rate risk

Interest rate risk consists of:

- a) the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, and
- b) to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities.

The Company's financial instruments and all non-interest bearing and hence fluctuations in market rates do not have an impact on the estimated fair values.

Foreign currency risk

The Company is exposed to significant foreign currency risk, as it conducts its business in United States dollars and reports in Canadian dollars and conducts no hedging or other strategies to eliminate the impact of fluctuating rates.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

ALTERNATE HEALTH LABS INC.

Notes to Interim Financial Statements

November 30, 2016

(Unaudited)

13. Economic dependence

During the period, 99% of the Company's revenue was earned from two customers, and as such may be considered to be economically dependent on these two customers. In addition 99% of outstanding trade accounts receivable balance at year end were from these two customers.

14. Subsequent events

On January 1, 2017, the shares of the company were purchased and, as of the date of the publication of these financial statements, are controlled by Alternate health Corp, a Canadian listed public company. On January 11, 2017 the shareholder loans that were outstanding to the shareholder of record of December 31, 2016 were settled by the issuance of 359,069 common shares of Alternate Health Corp.