



Condensed Interim Consolidated Financial Statements of

Alternate Health Corp.

Unaudited - Expressed in Canadian Dollars

For the three month period ended March 31, 2017 and March 31, 2016

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 Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditors.

Alternate Health Corp.

Condensed Interim Consolidated Statement of Financial Position

As at March 31, 2017 with comparative figures for the twelve month period ending Dec 31, 2016

Unaudited - Expressed in Canadian Dollars

	Mar 31	Dec 31
	2017	2016
ASSETS		
Current assets		
Cash	\$ 11,026,546	\$ 570,003
Accounts receivable	2,648,541	-
Due from Alternate Health Labs Inc. (note 12)	-	248,540
HST receivable	24,175	24,471
Prepaid expenses and deposits	710,644	44,666
	<u>14,409,906</u>	<u>887,680</u>
Other assets		
Convertible note receivable (note 4)	665,200	-
Investments (note 5)	8,126,423	-
Equipment (note 6)	2,776,874	7,204
Intangible assets (note 7)	4,296,301	1,001,928
Equipment in process	28,963	-
Deferred income taxes	587,220	431,220
	<u>\$ 30,890,887</u>	<u>\$ 2,328,032</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,784,509	\$ 265,088
Income taxes payable	408,719	-
Current portion of deferred revenue	115,361	167,195
Current portion of leases payable	586,620	-
	<u>3,895,209</u>	<u>432,283</u>
Long-term liabilities		
Development fees payable to related party (note 8)	506,528	538,200
	<u>4,401,737</u>	<u>970,483</u>
Shareholders' equity (note 9)		
Share capital (note 9)	27,252,383	3,035,219
Warrants (note 9)	110,810	29,000
Share-based reserve (note 9)	818,100	818,100
Deficit	(1,692,143)	(2,524,770)
	<u>26,489,150</u>	<u>1,357,549</u>
	<u>\$ 30,890,887</u>	<u>\$ 2,328,032</u>

See accompanying notes to interim condensed financial statements

Alternate Health Corp.

Condensed Interim Consolidated Statement of Operations and Comprehensive Loss

For the period from January 1, 2017 to March 31, 2017 with comparative figures for the three month period ending Mar 31, 2016

Unaudited - Expressed in Canadian Dollars

	Three month period ended March 31 2017	Three month period ended March 31 2016
Revenue (note 12)	\$ 3,870,882	\$ 43,720
Operating expenses		
Amortization of equipment	74,103	616
Amortization of intangibles	48,884	18,305
Consulting Fees	999,448	9,764
Interest	18,328	16,819
Lab Supplies	582,134	-
Loan interest	18,499	-
Loss (gain) on foreign exchange	(175,306)	5,153
Office and general	150,627	11,295
Professional fees	391,388	15,229
Management fees (note 10)	809,763	-
Rent and occupancy	229,007	30,462
Research and development	212,982	-
Sales and marketing	1,021,804	-
Salaries and related	656,210	10,043
	<u>5,037,871</u>	<u>117,686</u>
Loss before undernoted items and income taxes	<u>(1,166,989)</u>	<u>(73,966)</u>
Other comprehensive income		
Income from equity accounted for investment (note 5)	583,009	-
	<u>(583,980)</u>	<u>(73,966)</u>
Income taxes		
Current	220,298	-
Future	(156,000)	-
	<u>64,298</u>	<u>-</u>
Net and comprehensive earnings	<u>\$ (648,278)</u>	<u>\$ (73,966)</u>
Basic Loss per share	<u>(0.0178)</u>	<u>(0.0025)</u>
Diluted Loss per share	<u>(0.0167)</u>	<u>(0.0024)</u>

See accompanying notes to interim condensed financial statements

ALTERNATE HEALTH CORP.

Statement of Changes in Shareholders Equity

Unaudited – expressed in Canadian dollars

March 31, 2017

		Number of shares #	Share capital \$	Number of warrants #	Warrants \$	Share- based reserve \$	Deficit \$	Total Shareholders' equity \$
Balance at December 31, 2015		29,945,000	1,028,400	525,000	-	-	(771,523)	256,877
Issuance of common shares with warrants		31,250	20,000	31,250	5,000	-	-	25,000
Net and comprehensive loss							(70,498)	(70,498)
Balance at March 31, 2016		29,976,250	\$1,048,400	556,250	\$5,000	\$-	\$(842,021)	\$211,379
Balance at December 31, 2016	Note 9	32,916,236	3,035,219	606,250	29,000	818,100	(2,524,770)	1,357,549
Opening equity adjustment on reverse takeover							(49,967)	(49,967)
Issuance of:								
common shares January 11, 2017	a	1,920,000	-					-
common shares for debt settlement, January 11, 2017	b	350,355	350,355					350,355
common shares for intangible assets, January 11, 2017	c	350,000	350,000					350,000
common shares for intangible assets, March 2, 2017	d	2,968,506	2,968,506					2,968,506
common shares for consulting services, January 31, 2107	e	612,600	612,600					612,600
common shares re 20% purchase of equity interest, March 3, 2017	f	4,557,150	4,557,150					4,557,150
common shares for debt settlement, April 13, 2017	g	800,387	2,653,283					2,653,283
common shares for consulting services, January 11, 2017	h	1,000,000	1,000,000					1,000,000
common shares for future services, January 11, 2017, shares held in escrow	i	500,000						
common shares for future services, January 31, 2017, shares held in escrow	j	250,000						
warrants for consulting services, January 8, 2017	k			180,000	81,810			81,810
Exercise of warrants for shares, one for one, March 23, 2017	l	400,000	600,000	(400,000)	-			600,000
common shares, January 20, 2017	m	2,914,354	3,992,810					3,992,810
common shares, March 6, 2017	n	2,328,940	7,132,460					7,132,460
Retained earnings pick up on business acquisition	a						1,530,872	1,530,872
Net and comprehensive loss							(648,278)	(648,278)
Balance at March 31, 2017		51,868,528	\$27,252,383	386,250	\$110,810	\$818,100	\$(1,692,143)	\$26,489,150

Alternate Health Corp.

Condensed Interim Consolidated Statement of Cash Flows

For the period from January 1, 2017 to March 31, 2017 with comparative figures for the three month period ending Mar 31, 2016

Unaudited - Expressed in Canadian Dollars

	March 31	March 31
	2017	2016
Operating activities		
Net and comprehensive loss	\$ (648,278)	\$ (73,966)
Amortization of equipment	74,103	616
Amortization of deferred charges	48,884	18,305
Equity earnings, not generating cash	(583,009)	-
Future tax recognition not providing cash	(156,000)	-
Share based compensation charge not requiring cash	1,694,410	-
Change in non-cash working capital items (note 9)	(205,395)	12,674
Cash provided by (used in) operating activities	224,715	(42,371)
Investing activities		
Convertible note receivable (note 4)	(665,200)	-
Purchase of equipment	(21,037)	-
Equipment in process	(28,963)	-
Purchase of Hightimes Holdings Corp shares	(332,982)	-
Internally generated intangible assets	(24,752)	-
Cash on acquisition of subsidiary	8,226	-
Cash provided by (used in) investing activities	(1,064,708)	-
Financing activities		
Issuance of share capital	11,125,270	25,000
Long-term liability	-	16,819
Share subscription receivable	-	19,000
Warrants exercised	600,000	-
Lease payments	(397,062)	-
Development fee payments	(31,672)	-
Cash provided by (used in) financing activities	11,296,536	60,819
Increase (decrease) in cash	10,456,543	18,448
Cash, beginning of period	570,003	429,946
Cash (bank indebtedness), end of period	\$ 11,026,546	\$ 448,394

See accompanying notes to interim condensed financial statements

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

Unaudited – expressed in Canadian dollars

March 31, 2017

1. Nature of operations

Alternate Health Corp. (“AHC” and “Company”) (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 BC by a Plan of Arrangement granted under the Act. It subsequently changed its name to Alternate Health Corp. On November 23, 2015 the Company 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. (See Note 2 Reverse Take-Over of Alternate Health Corp.)

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 2745 N. Dallas Parkway, Suite 460, Plano, Texas, 75093.

Alternate Health Corp. is a diverse healthcare company that uses its expertise in technology and data analytics to revolutionize patient care and research in the emerging medical cannabis industry. With American Medical Association-approved 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 to blood analysis and toxicology labs, to 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). These condensed unaudited interim financial statements were approved by the Board of Directors on May 29, 2017.

2. Reverse Take-Over of Alternate Health Corp.

On December 22, 2016, the Company completed a Share Exchange Agreement (“SEA”) between the Company, Alternate Health Inc. (“AHI”), and the shareholders of the AHI. The SEA was conditional upon obtaining approval from the Canadian Securities Exchange (“CSE”) for listing the shares of the Company on or before December 15, 2016. The Company obtained the conditional listing from the CSE on December 1, 2016. Pursuant to the agreement, the Company acquired all the issued and outstanding shares of AHI. The former shareholders of AHI, exchanged their common shares held for common shares of the Company on a one for one basis and exchanged all of the outstanding warrants on a one for one basis. In total, the Company issued 32,519,636 common shares and 606,250 replacement warrants. These replacement warrants all have an exercise price of \$1.50 with varying expiry dates.

Final approval for listing from CSE was received on January 19, 2017 and the Company’s stock commenced trading on January 24, 2017.

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

Unaudited – expressed in Canadian dollars

March 31, 2017

2. Reverse Take-Over of Alternate Health Corp. (continued)

As a result of the SEA, the former shareholders of AHI controlled 98.80% voting shares of the Company. Although the SEA transaction resulted in the legal acquisition of AHI by the Company, the transaction constituted a reverse take-over (“RTO”) of AHC and has been accounted for as a reverse take-over transaction for accounting purposes. The operating activities of the Company prior to the SEA did not meet the definition of a business according to the definition in IFRS 3, and accordingly this reverse take-over transaction does not constitute a business combination. The transaction was accounted for as the purchase of AHC’s net assets by AHI. The net asset purchase price was classified as an equity settled share-based payment, under IFRS 2.

The fair value of the consideration paid was determined based on a private placement that was announced on December 23, 2016. The treasury order for this private placement of 2,914,354 common shares were authorized for issue as of January 20, 2017 at a price of \$1.50 per share. Prior to the SEA, the total fair value of AHC's common shares outstanding was calculated to be \$594,900 and the fair value of AHC's net assets prior to the SEA were nominal and were determined to be nil. The difference between the fair value of the consideration paid and the fair value of net assets of AHC of \$594,900 has been recognized as a listing expense in the consolidated statement of loss and comprehensive loss for year ended December 31, 2016. In addition, the transaction cost of the RTO was \$107,919 and was expensed in 2016.

3. Basis of Preparation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and under the historical cost method, except for certain financial instruments measured at fair value. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the years ended December 31, 2016 and December 31, 2015 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 3 to the Company’s consolidated financial statements for the years ended December 31, 2016 and December 31, 2015.

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 interim consolidated financial statements are disclosed in note 4 of the Company’s consolidated financial statements as at and for the years ended December 31, 2016 and December 31, 2015.

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

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4. Convertible note receivable

On March 18, 2017, the Company purchased a US \$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 is convertible into Apri Health common stock or other Apri Health securities, as the case may be, at a conversion rate that is 80% of the common stock price of Apri Health, or equivalent securities, as determined at the time of a sale of a majority of Apri Health’s common stock to a third party or an initial public offering. In the event that Apri Health does not sell a majority of its common stock or complete an initial public offering during the term of the Apri Note, the Company may convert the Apri Note at its option at a conversion price that is equivalent to the common share price realized by Apri Health at the most recent capital financing immediately prior to the conversion date. The Apri Note has a five-year maturity and bears interest at 0.1% interest per annum. In connection with the purchase of the Apri Note, the Company entered into a technology development agreement with Apri Health on February 1, 2017, whereby Apri will license its data analytics engine to the Company and assist with the development and implementation of customized data analytic solutions for the Company and its customers.

Apri is considered a related party of the Company because the companies have a common Director that has significant influence over the operations of both entities.

5. Investments

	March 31, 2017	December 31, 2016
a) Clover Trail Capital LLC		
Purchase of 20% equity in Clover Trail Capital LLC	\$ 7,210,433	-
Equity earnings pick up, 3 months ended March 31, 2017	583,009	-
Carrying amount of equity accounted for entities	7,793,442	-
b) Hightimes Holding Corp – carried at cost		
55,525 Class A commons shares	332,984	-
Total Investments	\$ 8,126,423	-

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

Unaudited – expressed in Canadian dollars

March 31, 2017

6. Equipment

Cost

	Office Equipment	Software	Leasehold Improvements	Lab Testing Equipment	Total
Balance December 31, 2015	\$ 13,438	\$ -	\$ -	\$ -	\$ 13,438
Additions	-	-	-	-	-
Balance December 31, 2016	13,438	-	-	-	13,438
Additions in the 3 months ended March 31, 2017	98,134	147,096	42,183	2,698,267	2,985,680
Balance March 31, 2017	\$ 111,572	\$ 147,096	\$ 42,183	\$ 2,698,267	\$ 2,999,118

Accumulated Amortization

	Office Equipment	Software	Leasehold Improvements	Lab Testing Equipment	Total
Balance December 31, 2015	\$ 3,769	\$ -	\$ -	\$ -	\$ 3,769
Amortization, 2016	2,465	-	-	-	2,465
Balance December 31, 2016	6,234	-	-	-	6,234
Brought forward on acquisition	-	-	-	141,906	141,906
Amortization, 3 months ended March 31, 2017	3,114	12,410	2,349	56,231	74,104
Balance March 31, 2017	\$ 9,348	\$ 12,410	\$ 2,349	\$ 198,137	\$ 222,244

Net Carrying Amounts

Dec 31, 2016	\$ 7,204	\$ -	\$ -	\$ -	\$ 7,204
March 31, 2017	\$ 104,724	\$ 147,096	\$ 42,183	\$ 2,482,871	\$ 2,776,874

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

Unaudited – expressed in Canadian dollars

March 31, 2017

7. Intangible assets

	Software Development Costs	CBD Continuing Medical & Other	Other Acquired Software Distribution Rights	Total
Cost				
Balance December 31, 2015	\$ 732,190	\$ -	\$ -	\$ 732,190
Additions	-	86,592	350,000	436,592
Balance December 31, 2016	\$ 732,190	\$ 86,592	\$ 350,000	\$ 1,168,782
Additions, 3 month ended March 31, 2017	-	3,343,259	-	3,343,259
Balance March 31, 2017	\$ 732,190	\$ 3,429,851	\$ 350,000	\$ 4,512,041
Accumulated Amortization				
Balance December 31, 2015	\$ 73,219	\$ -	\$ -	\$ 73,219
Amortization	73,218	-	20,417	93,635
Balance December 31, 2016	\$ 146,437	\$ -	\$ 20,417	\$ 166,854
Amortization, 3 months ended March 31, 2017	18,306	21,830	8,750	48,886
Balance March 31, 2017	\$ 164,743	\$ 21,830	\$ 29,167	\$ 215,740
Net Book Value				
December 31, 2016	\$ 585,753	\$ 86,592	\$ 329,583	\$ 1,001,928
March 31, 2017	\$ 567,447	\$ 3,408,020	\$ 320,833	\$ 4,296,301

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

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March 31, 2017

8. Development fees payable to related party

Fees payable to corporate shareholder, DC NetCast Media Group Inc., (a related party by virtue of common controlling shareholders) are interest bearing and have specified terms of repayment. The Company agreed to pay \$523,500 to modify the intellectual property to conform to certain territorial regulatory and market requirements. Terms of repayments are \$75,000 annually commencing January 31, 2018 with a balloon payment of the outstanding balance of principal and 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 total amount and accrued interest has been repaid. The amount of interest accrued to Dec 31, 2016 is \$89,700 (accrued to March 31, 2017 – \$108,828). 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:

	March 31, 2017	December 31, 2016
Authorized		
Unlimited number of common shares without par value		
Issued share capital		
51,868,528 common shares (2016 – 32,916,236)	\$ 26,902,028	\$ 3,035,219

Changes in share capital:

	Number	Amount
Balance December 31, 2015	29,945,000	\$ 1,028,400
(i) Issuance of common shares with warrants	31,250	20,000
(ii) Issuance of common shares with warrants	150,000	96,000
(iii) Issuance of shares - acquisition of distribution rights	437,500	350,000
(iv) Issuance of common shares	1,055,886	1,055,886
(v) Redemption of shares and warrants	(100,000)	(80,000)
(vi) Issuance in exchange for service	1,000,000	20,000
Net issuance (net redemption) of shares on RTO (note 2)	396,600	544,933
Balance December 31, 2016	32,916,236	\$ 3,035,219

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

Unaudited – expressed in Canadian dollars

March 31, 2017

9. Shareholders' equity (continued)

- (i) On March 21, 2016, the Company completed various private placements for 31,250 units. Each unit consisted of one common share of the Company and one share purchase warrant, at a price of \$0.80 per unit, for proceeds of \$25,000 (common share fair value of \$20,000 and warrant fair value of \$5,000). Each warrant has an exercise price at \$1.50 into a common share for a period 18 months from closing.
- (ii) On April 11, 2016, the Company completed a private placement for 150,000 units. Each unit consisted of one common share of the Company and one share purchase warrant, at a price of \$0.80 per unit, for proceeds of \$120,000 (common share fair value of \$96,000 and warrant fair value of \$24,000). Each warrant has an exercise price at \$1.50 into a common share for a period of 18 months from closing.
- (iii) On June 10, 2016, the Company issued 437,500 shares at a price of \$0.80 per share to VIP-Patient LLC in consideration for the payment of \$350,000 for certain distribution rights (notes 13 and 16 (b)).
- (iv) In April, May and July 2016 the Company completed various private placements for 1,055,886 common shares at a price of \$1 for proceeds of \$1,055,886.
- (v) On July 18, 2016 the Company repurchased for cancellation 100,000 units of the original 525,000 units issued on November 23, 2015. The units consisted of 1 common share and 1 warrant and were repurchased at their original issue price of \$0.80 per unit or a total \$80,000.
- (vi) On October 1, 2016, the Company issues 1,000,000 shares at a price of \$0.02 per share to three consultants for the consideration for their consulting services.

The following shares and warrants were issued in the 3 months ended March 31, 2017 and are detailed on the Statement of Changes in Equity, and are described more fully as follows:

- a) 1,920,000 shares on January 11, 2017 for the purchase of 100% of the issued and outstanding shares of Alternate Health Labs Inc. (“AHL”). See also note 11.
- b) 350,355 shares on January 11, 2017 to settle debts owned by Alternate Health Labs Inc. to Dr. Michael Murphy.
- c) 350,000 shares on January 11, 2017 to Dr. Michelle Riello for the purchase of testing process commercialization rights and cannabidiol, CBD, THC certification programs
- d) 2,968,506 shares on March 2, 2017 for the purchase of a worldwide renewable license agreement for a non-pharmaceutical sublingual technology system for the delivery of CBD and THC.
- e) 612,600 shares on January 31, 2017 for the provision of certain consulting services rendered to the company.
- f) 4,557,150 shares on March 2, 2017 for a 20% interest in Clover Trail Capital LLC, a company that in turn owns a 40% interest in Sun Clinical Laboratories LLC which refers toxicology and blood samples to AHL for screening. The purchase also required the issuance of a note payable for US\$1,993,750.
- g) 800,387 common shares on March 24, 2017 to settle a note payable on the purchase of the 20% equity interest in Clover Trail Capital LLC
- h) 1,000,000 shares on January 11, 2017 for the provision of certain sales and marketing services rendered to the Company.
- i) 500,000 shares on January 11, 2017 for the provision of certain sales and marketing services to be rendered to the Company at a future date – these shares held in escrow pending the provision of the agreed services.

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

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March 31, 2017

9. Shareholders' equity (continued)

- j) 250,000 shares on January 31, 2017 for the provision of certain sales and marketing services to be rendered to the Company at a future date – these shares held in escrow pending the provision of the agreed services.
- k) 180,000 purchase warrants on January 8, 2017 in exchange for services rendered. The warrants were valued at \$81,810 using a Black Scholes analysis.
- l) 400,000 purchase warrants were exercised on March 23, 2017 to purchase 400,000 common shares at \$1.5 each for total proceeds of \$600,000.
- m) 2,914,354 shares on January 20, 2017 in a private placement providing proceeds net of fees of \$2,914,354.
- n) 2,328,940 shares on March 6, 2017 in a private placement providing proceeds net of fees of \$7,132,460.

Share-based Reserve:

During the 2016 year the Company issued 1,800,000 (2017 - \$nil) share purchase options which were determined to have a value of \$818,100 (2017 - \$nil), and the amount was expensed during the 2016 year.

Warrants:

	Number	Amount
Balance December 31, 2015	525,000 \$	-
Cancellation of warrants	(100,000)	-
Issuance in a private placement, March 31, 2016	31,250	5,000
Issuance in a private placement, April 11, 2016	150,000	24,000
Balance December 31, 2016	606,250 \$	29,000
Issuance for services rendered, January 8, 2017	180,000	81,810
Exercised, March 23, 2017	(400,000)	-
Balance, March 31, 2017	386,250 \$	110,810

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

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9. Shareholders' equity (continued)

Warrants outstanding	Exercise price	Warrants exercisable at March 31, 2017	Expiry date
25,000	\$ 1.50	25,000	March 23, 2017
31,250	1.50	31,250	September 21, 2017
150,000	1.50	150,000	October 11, 2017
180,000	1.00	180,000	July 8, 2018

The warrants issued in the 2015 fiscal year were determined to have no material fair value, and accordingly there is no reserve in the statement of changes in equity for these warrants.

The fair value of the warrants issued in 2016 and the 3 months ended March 31, 2017 has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate 0.56%; no expectation of any dividend yield; and estimated volatility of 101.01%. The fair value of these warrants at time of issue were \$29,000 and \$81,810 respectively.

Stock Options and share-based compensation:

On December 22, 2016, the Company granted 1,800,000 stock options to directors, employee and consultants to purchase shares of the Company at an exercise price of \$1.00 per share. These options remain outstanding and exercisable as at December 31, 2016 and March 31, 2017, and all have an expiry date of June 22, 2018.

The fair value of these options 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%; expected dividend yield of \$nil; estimated volatility of 97.98%. The fair value of these options at time of issue were \$818,100 and the Company recognized the full amount of \$818,100 as stock-based compensation expense to directors, employee and consultants in its 2016 fiscal year. No options were granted in the 3 months ended March 31, 2017.

Earnings (loss) per share:

Basic loss per share is calculated based on the weighted average number of common shares outstanding for the period, which, for the period ended Mar 31, 2017, was 36,516,999 shares (Mar 31, 2016 – 29,976,250).

Fully diluted loss per share is calculated based on the weighted average number of common shares including stock options and warrants outstanding for the period, which, for the period ended Mar 31, 2017, was 38,054,970 shares (Mar 31, 2016 – 30,501,250).

ALTERNATE HEALTH CORP.

Notes to Condensed Interim Consolidated Financial Statements

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March 31, 2017

10. Changes in non-cash working capital accounts

	March 31 2017	March 31 2016
Accounts receivable	\$ (612,344)	\$ -
Prepaid expenses and deposits	(526,634)	593
Accounts payable and accrued liabilities	608,074	41,435
HST receivable	296	7,670
Income taxes payable	408,719	-
Current portion of deferred revenue	(51,834)	(43,719)
Due to/from shareholders	(31,672)	6,695
	\$ (205,395)	\$ 12,674

11. Related party transactions

- (a) During the year ended December 31, 2016 and 3 months ended March 31, 2017, the Company incurred the following transactions with companies having directors and officers in common:

	March 31, 2017	December 31, 2016
Interest expense	\$ 18,328	\$ 67,275
Key management personnel and board of directors - share-based compensation (non-cash)	50,000	477,225

- (b) Included in the prepaids expenses and deposits is an advance of \$126,374 (Dec 31, 2016 - \$20,926) to DCNetcast Media Group Inc., a company that holds a significant shareholding in the Company.

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11. Related party transactions (continued)

- (c) The company is related to Sun Clinical Laboratory, LLC and LMK Management LLC by virtue of the controlling shareholder of these companies having significant influence over the operations of the Company. Transactions and balances with these related parties are as follows:

	March 31, 2017	December 31, 2016
Revenue from Sun Clinical Laboratory, LLC	\$ 1,181,227	-
Accounts receivable from Sun Clinical Laboratory, LLC	371,449	-
Management fee to LMK Management LLC	579,001	-
Management fee payable owing to LMK Management LLC	1,534,164	-

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, is 49% of the toxicology screen reference fee profits. Toxicology screen reference fee profits are calculated by multiplying the number of monthly screens processed times a mutually agreed screen fee less all monthly fixed and variable expenses.

Accounts payable and accrued liabilities include accrued management fees payable of \$1,534,164 (Dec 31, 2016 – nil).

- (d) The company is related to Apri Health, Inc. by virtue of having a director and officer in common. During the first quarter of 2017, the Company entered purchased a US \$500,000 convertible debenture issued by Apri Health, Inc. See note 4 for further details on this transaction.

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12. Acquisition of Alternate Health Labs, Inc. (AHL)

On April 27, 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 lab to be owned by a subsidiary of the Company and to be managed by LMK Management LLC ("LMK"), an affiliate of Murphy. Murphy incorporated AHL and the agreement as amended set a purchase price of \$1,920,000 for 100% of the shares of AHL to be paid by the issuance of 1,920,000 common shares of the Company to Murphy. The purchase was closed effective January 1, 2017. Simultaneously the Company completed a debt for shares transaction with Murphy settling his US\$267,383 shareholder loan to AHL for the issuance of 350,355 common shares. Under the LDA, LMK manages the laboratory and earns a management fee equal to 49% of toxicology screening operating income. Toxicology screening operating income is calculated by multiplying the number of monthly screens processed times a mutually agreed screen fee, initially ranging from USD\$100 to \$120 depending on the screen test, less all monthly fixed and variable expenses.

The Company is evaluating the allocation of the purchase price. The detailed allocation requires the Company to undertake certain valuation work specifically as it relates to the lab equipment leases, and the details of this and other aspects of the purchase price allocation are not yet available.

Summary Financial Information for Alternate Health Labs Inc. at March 31, 2017

Total assets	\$6,486,652
Total liabilities	\$2,972,891
Retained earnings	\$1,530,872
1st quarter revenue	\$3,697,212
1st quarter net operating costs	\$3,114,034
1st quarter income before taxes	\$ 583,178

13. Subsequent events

(a) Stock Options and Warrants

1) Effective April 14, 2017 the Company granted 580,000 stock options to directors, officers and consultants to acquire common shares of the Company at \$4.00 per share. The options have a five year term from the date of issue.

2) Effective April 14, 2017 the Company granted warrants in conjunction with various officer employment agreements to purchase 867,544 common shares of the Company at a price of \$3.91 per share for a period of five years from the date of issue.

3) 18,344 warrants to purchase the Company's shares at \$1.50 per share were exercised and closed on April 12, 2017 for proceeds of \$27,501, and 6,666 were exercised on May 19, 2017 for proceeds of \$9,999.

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Notes to Condensed Interim Consolidated Financial Statements

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13. Subsequent events (continued)

(b) National Access Cannabis Corp

On April 7, 2017, the Company entered into a Convertible Debenture Purchase agreement with National Access Cannabis Corp. (“NAC”), a British Columbia company that operates medical Cannabis clinics across Canada and is in the process of going public via a reverse takeover of a capital pool company. The Company purchased convertible debentures in the principle amount of \$400,000. The debentures bear an annual interest rate of 10% and require the issuer to pay the principle sum of \$400,000 on or before the earlier of (a) August 30, 2017 in cash, or (b) conversion to common shares of National Access Cannabis, calculated at 20% below the share price on the closing of a proposed offering. Additionally, interest shall be forgiven upon the closing of the common share offering if it occurs.

On May 8, 2017, the Company also completed a private purchase of 2,000,000 common shares of NAC at \$.22 per share for total consideration of \$440,000.

(c) Alturas Ventures Agreement

On January 21, 2017, the Company entered into an agreement with the Alturas Indian Rancheria (“the Tribe”) to provide operational consulting services, product technology and information technology to a company to-be-formed by the Tribe to grow hemp, process hemp into cannabidiol (“CBD”) powder and oil, and manufacture CBD products, (“Alturas Ventures”). These discussions continue as both parties consider and work through the detail deliverables of the agreement.