



Management Discussion and Analysis of

**Alternate Health Corp.**

For the three-month period ended March 31, 2018

Dated: May 30, 2018

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## 1. FINANCIAL HIGHLIGHTS

The financial highlights for Alternate Health for the periods indicated are as follows:

(Canadian dollars except where indicated)	First Quarter		
	2018	2017	\$ Change
<b>Financial Performance Metrics</b>			
Operating revenues	172,495	4,305,448	(4,132,953)
Operating expenses	3,701,610	9,682,247	(5,980,637)
Operating income (loss)	(3,529,115)	(5,376,799)	1,847,684
Other income (expense) and Income Taxes	459,443	2,876,147	(2,416,704)
Net income (loss)	(3,069,672)	(2,500,652)	(569,020)
EBITDA <sup>(1)</sup>	(2,766,073)	(424,166)	(2,341,907)
Basic earnings (loss) per share	\$ (0.06)	\$ (0.05)	\$ (0.01)

(1) EBITDA (earnings before interest, taxes, depreciation and amortization) is a non-IFRS financial measure.

## 2. INTRODUCTION AND KEY ASSUMPTIONS

This management discussion and analysis of financial position and results of operations (“**MD&A**”) is prepared as at May 30, 2018. This MD&A should be read in conjunction with Alternate Health Corp’s (“**AHC**” or the “**Company**”) consolidated financial statements and notes for the first quarter of 2018. All financial information has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board (“**IASB**”) and interpretations of the IFRS Interpretations Committee (“**IFRIC**”).

Management is responsible for the preparation and integrity of the consolidated financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management is also responsible for ensuring that information disclosed externally, including the consolidated financial statements and (“**MD&A**”), is complete and reliable.

All dollar amounts included herein and in the following MD&A are expressed in Canadian dollars except where noted.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements contained in this document constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: fluctuation in the prices for services provided to the Company, foreign operations and foreign government regulations, competition, uninsured risks, capitalization requirements, commercial viability, changes in the laws impacting the Company’s business and obligations, including in respect of its indirect exposure to cannabis-based operations and the

requirement for obtaining permits and licenses for the Company's operations in the jurisdictions in which it operates.

### 3. OVERVIEW

AHC (formerly 1017344 BC Ltd) was incorporated on October 29, 2014 under the Business Corporations Act of British Columbia ("Act"), and on April 15, 2015 became a public company reporting issuer initially in Alberta and British Columbia by a Plan of Arrangement granted under the Act. Prior to November 23, 2015, the Company had no material assets nor operating business. It subsequently changed its name to Alternate Health Corp. On November 23, 2015, AHC entered into a Share Exchange Agreement ("SEA") with Alternate Health Inc. ("AHI") which was completed on December 22, 2016 and was accounted for as a reverse takeover of AHC by AHI. After closing the SEA, AHI became a wholly owned subsidiary of AHC and the former shareholders of AHI owned 98.8% of Alternate Health Corp.

**Alternate Health Inc** was incorporated on July 6, 2010 under the Business Corporations Act of Ontario, Canada as 1828720 Ontario Ltd and was inactive until June 19, 2014 when it changed its name to Alternate Health Inc. It was then established as a medical services company with interest in promoting both traditional (i.e. physicians) and non-traditional (i.e. chiropractors, Naturopaths) solutions to modern healthcare. It initially focused on the licensing and development of medical records and patient management software as more fully described below and has subsequently expanded its services.

Because AHI is deemed to be the accounting acquirer, the consolidated financial statements of AHC (the legal parent) are presented as a continuation of the financial statements of AHI (the operating company which is considered the accounting acquirer). Additional historical information on AHI is included in the Company's November 29, 2016 Prospectus filed in its issuer profile on [sedar.com](http://sedar.com).

#### DESCRIPTION OF BUSINESS

Alternate Health Corp. (CSE: AHG, OTCQB: AHGIF) is an international medical cannabis/hemp CBD company that uses best in class technology, research, education, production and laboratories to increase the awareness, regulatory compliance, and appropriate usage of cannabinoids in modern medical practices. The Company is strategically positioned in all facets of the medical cannabis value chain through the innovative integration of proprietary technology and know-how, acquisitions and partnerships, deep direct knowledge of and experience with improving patient outcomes, and management expertise.

Alternate Health is well positioned to reinvest internal operating cash flow in its platform over the long term, creating an attractive investment profile for its shareholders. The Company's executive headquarters is San Antonio with operations in Los Angeles, and Toronto.

##### *Software Technology Platform*

AHC holds an exclusive license in Canada and non-exclusive license in the United States for the VIP-Patient Electronic Medical Records & Practice Management System ("VIP-Patient") and owns the CanaCard Controlled Substance and Patient Management System ("CanaCard" or "CPMS" "CannaPass" in the United States).

AHC licensed VIP-Patient complete with a unique billing interface for the Canadian market (plus options for other foreign territories), and successfully completed its active beta testing stage. VIP-Patient is the result of assistance from both legal experts and physicians with previous Electronic Medical Records ("EMR")

experience providing valuable input as to the development, inter-operability<sup>1</sup> and resulting functionality of the patient records management system that became VIP-Patient.

AHC owns the rights to "CanaCard" or the "CanaCard Patient Management System", based on patent pending licensed technology. By adapting an actual medical process to examine all patients, the CanaCard system is a legal and effective method to provide safe and secure access to controlled substances for qualified patients and will provide third party monitoring and reporting for all parties involved, including government regulators. AHC has modified this technology for application with medical cannabis in the Canadian market and has recently modified CanaCard for the US market where it is called CannaPass. The Company began installing the CanaCard system in National Access Cannabis clinics in the third quarter of this year and is currently beta testing CannaPass in Florida where it is also called Florpass. Effective November 1, 2017 its software platform was significantly enhanced with the acquisition of a Blockchain Mobile Payment application (See Subsequent Events).

#### *Alternate Health Labs Inc. ("AHL")*

The Company is in the Clinical Laboratory business. A clinical laboratory receives and independently analyzes samples of biological material for various toxins, primarily drugs. A toxicology screen refers to the various tests that determine the type and approximate amount of legal and illegal drugs a person has taken. Typical services include blood testing, saliva testing and urine testing. AHC believes the laboratory service industry offers the Company an exceptional opportunity to use technology, data and patient volume to explore and implement innovative solutions that will improve patient care and laboratory integrity while building long term and sustainable value for AHC. In January 2017, AHC acquired 100% of Alternate Health Labs, Inc., a company that owned and operated a reference laboratory in San Antonio Texas. The lab was owned by Dr Michael Murphy an experienced operator who agreed to manage the lab for a management fee following the sale of AHL to the Company. Dr. Murphy subsequently became a director and then CEO of the Company. (Refer to 2017 Transaction Progress Summary-Alternate Health Labs)

#### *Alternate Health Life Sciences*

The Company's Alternate Health Life Sciences operations entail the discovery, research, education t, delivery systems , and payment processing for medical cannabis/CBDs and include:

- License holder of medical cannabis/Cannabidiol ("CBD") medication delivery systems, including transdermal patches and dissolvable sublingual tablets for nutraceutical application.
- Research & Development activities demonstrating health benefits and expanding additional uses for medical cannabis/CBDs.
- Development of patent rights including medical cannabis/CBD efficiency testing, data research and future method patents around treatment protocols of various illnesses and conditions.
- Development of proprietary nutraceutical formulations and mechanisms to support the delivery of medical cannabis/CBDs.
- Payment processing systems to support the sale of medical cannabis and CBD (Cannabinol)

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<sup>1</sup> Interoperability refers to a healthcare system's ability to connect with other systems and devices in order to exchange data and interpret that shared data. This is a key requirement for any EMR and a feature of the AHC software offerings.

#### 4. RESULTS OF OPERATIONS AND TRANSACTIONS SUMMARY

The following table and discussion compares results of Alternate Health Corp. for the periods presented.

(Canadian dollars except where indicated)	First Quarter		
	2018	2017	\$ Change
<b>Results of operations</b>			
<b>Total revenues</b>	<b>172,495</b>	<b>4,305,448</b>	<b>(4,132,953)</b>
<b>Operating expenses</b>			
Advertising and promotion	45,206	18,520	26,686
Depreciation and Amortization expense	288,623	394,567	(105,944)
Bad debts	19,778	434,566	
Consulting fees (note 10 & 12)	756,229	4,151,149	(3,394,920)
Interest on long term liabilities	14,944	36,827	
Lab supplies	391,100	534,342	(143,242)
Management fees (note 10)	(810,138)	809,763	(1,619,901)
Office and general	250,389	162,203	
Professional fees	400,704	1,964,706	(1,564,002)
Rent and occupancy	260,132	205,876	
Repairs and maintenance	83,309	22,360	
Research and development	6,415	251,508	
Salaries and other benefits	1,401,072	656,209	744,863
Share-based compensation (note 12)	471,345	-	471,345
Utilities	122,502	39,651	82,851
<b>Total operating expenses</b>	<b>3,701,610</b>	<b>9,682,247</b>	<b>(5,502,264)</b>
<b>Operating income (loss)</b>	<b>(3,529,115)</b>	<b>(5,376,799)</b>	<b>1,847,684</b>
<b>Non-operating income (expense)</b>			
Bargain Purchase on lab acquisition	-	2,246,396	
Gain/(loss) on foreign exchange	1,195	111,624	
Investment income	458,280	-	
Income from equity accounted for investment	-	583,009	(583,009)
<b>Net income (loss) before income taxes</b>	<b>(3,069,640)</b>	<b>(2,435,770)</b>	<b>(633,870)</b>
Income taxes	32	64,882	(64,850)
<b>Net income (loss) for the period</b>	<b>(3,069,672)</b>	<b>(2,500,652)</b>	<b>(569,020)</b>
<b>Basic earnings (loss) per share</b>	<b>\$ (0.06)</b>	<b>\$ (0.05)</b>	<b>\$ (0.01)</b>

#### OVERVIEW

Alternate Health Labs began operations in earnest as a Medicare lab in the first quarter 2018 after obtaining a Medicare license in late 2017. Lab billings were slow as the company takes a new approach to the market but marketing deals are being made that will drive volume in future quarters.

### Revenue

Revenue for the first quarter ended March 31, 2018 and 2017 was \$172 and \$4,305 thousand respectively. The large year-over-year decrease in revenue is due to the transition from the fully implemented reference lab model that had been running steady-state for a year in 2017 to a start-up Medicare lab in the early stages of developing service contracts to drive sample volume. Management feels confident that the relationships that are forming and the contracts we are securing will drive much higher sample volumes and their related revenues in the coming quarters.

### Operating Costs

Operating costs for the quarter ended March 31, 2018 and 2017 were \$3,701 thousand and \$9,682 thousand respectively. The large year-over-year decrease is due to non-cash expenses in 2017 related to issuance of stock for consulting and professional fees.

- The decrease of \$105,944 in Amortization and Depreciation is primarily due to the write down of certain intangible assets for the 2017 audit.
- The decrease of \$143,242 in Lab supplies is directly related to the Laboratory business and are largely variable relative to sales volume.
- The decrease of \$3,394 thousand in Consulting fees is a result of one-time expenses in 2017 related to non-cash stock issuance. The decrease of \$1,564 thousand in Professional fees is similarly related to 2017 non-cash stock issuance expense.
- Salaries increased \$744,863 due to expanded operations. Of this increase, \$1,926 thousand was due to Laboratory salaries.
- Management fees related to the lab management are based on the operating income or loss of the lab business. In 2017, the profitable lab resulted in substantial management fees. In 2018, the management contract requires MLM to share in the losses, which are applied to the accrued management fees (note 10b of the Consolidated Financial statements). This swing results in the \$1,619 thousand expense reduction.

## 4.1 SUMMARY OF QUARTERLY RESULTS

Following is a summary of the Company's financial results for the eight most recently completed quarters.

For the quarter ended	Revenue \$	Operating Expense \$	Net Income (Loss) \$	Earnings (loss) per Share
June 2016	44,701	180,798	-145,027	\$0.00
September 2016	54,912	268,573	-213,661	(\$0.01)
December 2016	40,213	1,106,759	-1,324,062	(\$0.06)
March 2017	3,870,882	5,037,871	-648,278	(\$0.02)
June 2017	7,242,198	10,944,099	-3,701,901	(\$0.07)
September 2017	1,709,388	4,163,494	-2,352,949	(\$0.05)
December 2017	432,322	11,633,597	-19,431,682	(\$0.34)

March 2017	172,495	3,701,610	-3,069,672	(\$0.05)
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The Laboratory business began in earnest in Q1 and begins to create the right relationships and develop its customer base. Management remains confident in the long-term profitability of the Laboratory business and the efficacy of our restructuring efforts.

The large decrease (\$7,931,987) in operating expense in the first quarter of 2018 is a result of the following factors:

- Q4 2017 showed consulting fees of \$3,117 thousand related to consulting fees
- Q4 2017 showed an increase in compensation expense of \$1,349 thousand related to Black Scholes recalculations.
- Q4 2017 showed much higher professional fees of \$1,203,305 related to audit adjustments.
- Q4 showed \$819 thousand higher depreciation/amortization cost related to audit adjustments.

The large decrease (\$16,162,010) in net loss is due to the decrease in operating expense and a couple items related to 2017 Audit adjustments:

- An impairment on intangible assets of \$12,219 thousand
- A bargain purchase gain of the acquisition of Alternate Health Labs in the amount of \$2,226 thousand.

## 5. LIQUIDITY, CAPITAL RESOURCES AND OUTLOOK

At March 31, 2018, the Company had net positive working capital of \$2,082,572. Current assets totaled \$4,705,748 compared to current liabilities of \$2,623,176. In addition, Alternate Health holds marketable securities available for sale with a fair market value of \$4,596,075 at 31 March 2018.

### 5.1 FINANCIAL POSITION

The following table provides a condensed consolidated statement of financial position of Alternate Health as at March 31, 2018 and as at December 31, 2017.

(Canadian dollars)	March 31, 2018	December 31, 2017	\$ Change
<b>Assets</b>			
Cash	502,530	1,443,862	(941,332)
Other current assets	4,203,218	4,222,746	(19,528)
Current assets	4,705,748	5,666,608	(960,860)
Convertible note receivable	665,200	665,200	-
Investments	4,929,057	5,082,277	(153,220)
Equipment	6,182,111	6,148,090	34,021



Intangible assets	2,403,537	2,367,722	35,815
Deferred income taxes	-	-	-
<b>Total assets</b>	<b>18,885,653</b>	<b>19,929,897</b>	<b>(1,044,244)</b>
<b>Liabilities</b>			
Current liabilities	2,623,176	3,347,100	(723,924)
Development fees payable to related party	491,303	476,359	14,944
<b>Total liabilities</b>	<b>3,114,479</b>	<b>3,823,459</b>	<b>(708,980)</b>
<b>Total shareholders' equity</b>	<b>15,771,174</b>	<b>16,106,438</b>	<b>(335,264)</b>
<b>Total liabilities and shareholders' equity</b>	<b>18,885,653</b>	<b>19,929,897</b>	<b>(1,044,244)</b>

Movements in current assets and current liabilities are described in section 6.2 "Working Capital" of this MD&A.

There were few substantial moves related to the balance sheet in Q1 2018. The reduction in cash of \$941 thousand was a result of a reduction in current liabilities of \$708 thousand.

## 5.2 WORKING CAPITAL AND OTHER LIQUID SECURITIES

The following table provides information on Alternate Health's working capital balances as at March 31, 2018 and as at December 31, 2017.

(Canadian dollars)	March 31, 2018	December 31, 2017	\$ Change
Cash, cash equivalents and short-term investments	\$ 502,530	\$ 1,443,862	\$ (941,332)
Accounts receivable	2,677,799	2,748,567	(70,768)
Other current assets	1,525,419	1,474,179	51,240
<b>Total current assets</b>	<b>4,705,748</b>	<b>5,666,608</b>	<b>(960,860)</b>
Accounts payable and accrued liabilities	2,548,176	3,272,100	(723,924)
Other current liabilities	75,000	75,000	-
<b>Total current liabilities</b>	<b>2,623,176</b>	<b>3,347,100</b>	<b>(723,924)</b>
<b>Net working capital</b>	<b>\$ 2,082,572</b>	<b>\$ 2,319,508</b>	<b>\$ (236,936)</b>
Other current liabilities	4,596,075	4,749,295	(153,220)
<b>Net working capital &amp; Marketable securities</b>	<b>\$ 6,678,647</b>	<b>\$ 7,068,803</b>	<b>\$ (390,156)</b>

The net working capital of \$2,082,572 at March 31, 2018, decreased slightly from \$2,319,508 at December 31, 2017 due primarily to the use of cash to fund operations. Accounts receivable of \$2,677,799 consists primarily from Alternate Health Labs' customers. Other current assets primarily consist of prepaid consulting, prepaid maintenance and insurance and security deposits for facilities and utilities.

### 5.3 Consolidated cash flow movements

The following table provides information on Alternate Health's consolidated cash flow for the quarter ended March 31, 2018 and the same period last year.

(Canadian dollars)	First Quarter		
	2018	2017	\$ Change
Net loss	(3,069,672)	(2,500,652)	(569,020)
Depreciation and amortization expense	288,623	394,567	(105,944)
Share-based payments	471,345	5,192,169	(4,720,824)
Gain on sale of investment	(458,280)	-	(458,280)
Bargain purchase on acquisition	-	(2,246,396)	2,246,396
Income from equity accounted for investment	-	(583,009)	583,009
Finance expenses	14,944	-	14,944
Deferred tax	-	(156,000)	156,000
Change in non-cash working capital items	(591,083)	36,375	(627,458)
<b>Net cash flows used by operating activities</b>	<b>\$ (3,344,123)</b>	<b>\$ 137,054</b>	<b>\$ (3,481,177)</b>
Proceeds from sale of listed equities	2,419,465	-	2,419,465
Cash on acquisition of subsidiary	-	8,295	(8,295)
Purchase of property and equipment	(25,908)	-	(25,908)
Additions to intangible assets	-	(86,592)	86,592
Purchase of Hightimes Holding Corp shares	-	(332,982)	332,982
Issuance of Convertible note receivable	-	(665,200)	665,200
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 2,393,557</b>	<b>\$ (1,076,479.00)</b>	<b>\$ 3,470,036</b>
Advances to related party	-	(243,813)	243,813
Development fees payable to related party	-	67,275	(67,275)
Issuance of share capital	-	11,892,547	(11,892,547)
Equipment lease payments	-	(379,062)	379,062
<b>Net cash provided by (used in) financing activities</b>	<b>-</b>	<b>11,336,947</b>	<b>(11,336,947)</b>
<b>Effect of movement of exchange rates</b>	<b>9,234</b>	<b>59,021</b>	<b>(49,787)</b>
<b>Increases in cash</b>	<b>\$ (941,332)</b>	<b>\$ 10,456,543</b>	<b>\$ (11,397,875)</b>

In the first quarter of 2018, net cash used in operating activities of \$3,344,123 increased compared to \$137,054 used in 2017. The increase in net cash used in operating activities was mainly due to the impact of 2017 audit adjustments. The higher loss is related to the reduction in revenues year-over-year

The Company received \$2,419,465 in proceeds from the sale of marketable securities held as an investment. These funds were used to maintain operations while we seek additional sample volume to return the labs business to profitability.

### 5.4 SHARE INFORMATION

The Company's share capital consists of the following:

Authorized: Unlimited common shares

Issued: 52,681,278 common shares

3,112,500 stock options outstanding convertible into common shares. 1,782,500 have an exercise price of \$1.00; 120,000 have an exercise price of \$2.00; 330,000 have an exercise price of \$2.90; the balance of

580,000 have an exercise price of \$4.00. 175,000 options expire on February 1, 2018; 1,125,000 options expire on June 22, 2018; 602,500 options expire August 9, 2018; 460,000 options expire April 14, 2022; 330,000 options expire August 5, 2022; 120,000 expire December 2, 2022; and 300,000 options expire February 2, 2023.

1,297,544 outstanding common share purchase warrants convertible into common shares. Of the total outstanding, 180,000 at an exercise price of \$1.00 expire on July 8, 2018; 200,000 at an exercise price of \$3.05 expire June 15, 2019; 50,000 at an exercise price of \$2.40 expire December 6, 2019; and 867,544 at an exercise price of \$3.91 expire on April 14, 2022.

## 5.5 OUTLOOK

The Company's primary near term focus for the 1<sup>st</sup> half of 2018 is (1) the roll out of its CanaCard/CannaPass software platform in Canada and the United States including its recently acquired Blockchain Mobile Payment Application and (2) the growth of its Clinical Toxicology laboratory business. Both activities are expected to contribute positive cash flow; processing and licensing fees from its software platform and net revenue after costs from processing toxicology samples. CannaPass, Alternate's cannabis -specific electronic medical record system, coupled with its Blockchain Mobile Payment application provide a much-needed payment solution and point of sale technology to the Cannabis industry with full transparency for government transaction tracking and reporting. Alternate's platform can also accept crypto currencies in its electronic wallet. Later in 2018 the Company intends to focus on the utilization and further development of its intellectual property for delivering CBD into patient's bodies for its medical benefits.

## 6. OFF BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements.

## 7. RELATED PARTY TRANSACTIONS

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

	2018	2017
Interest expense	\$ 14,944	\$ 18,328
Key management personnel and board of director's cash-based compensation included in consulting fees	224,160	16,548
Key management personnel and board of director's cash-based compensation included in salaries and benefits	82,264	206,292
Key management personnel and board of director's share-based compensation (non-cash)	\$ 471,345	-

The Company incurred the following consulting fees:

- (i) Consulting services of \$75,840 paid to Support Your Buds LLC, a company related by way of common directors and common significant shareholders.
- (ii) Consulting services of \$40,680 paid to DC Netcast Media Group Inc., a company related by way of common directors and common significant shareholders.
- (iii) Consulting services of \$90,000 paid to a company related by way of common directors and common significant shareholders.
- (iv) Consulting services of \$17,640 to various directors, officers or shareholders of the Company.

- (b) The Company is related to Sun Clinical Laboratory, LLC and LMK Management LLC by virtue of the controlling shareholder of these companies being a director and shareholder of the Company. The Company is also related to Sun Clinical Laboratory through its indirect ownership via Clover (Note 11). Transactions and balances with these related parties are as follows:

	2018	2017
Revenue from Sun Clinical Laboratory, LLC	\$ -	\$ 1,181,227
Management fees to LMK Management LLC	(810,138)	571,001

Included in accounts receivable are amount owing by Sun Clinical Laboratory LLC for \$941,409 as at March 31, 2018 (December 31, 2017 - \$948,707).

Management fees to LMK Management LLC are included in the management fees on the Consolidated Statement of Loss and Comprehensive Loss. As at December 31, 2017, included in accounts payable and accrued liabilities are amounts owing to LMK Management LLC for \$1,184,507 (December 31, 2017 - \$2,026,514). The management fee paid to LMK Management LLC, is 49% of the Laboratory screen fee profits. Laboratory 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.

These transactions are in the normal course of operations and have been valued in these consolidated 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 arm's length market rates<sup>3</sup>

- (c) Due from related parties

	3/31/2018	12/31/2017
D.C. Netcast Media Group Inc.	\$ 48,142	\$ 48,142
Support Your Buds LLC	160,000	160,000
	\$ 208,142	\$ 269,466

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. have no fixed terms of repayment, are unsecured and carry no interest.

Support Yours Buds LLC is a company controlled by a Director and 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) The Company has a convertible note receivable from Apri Health, Inc., which is related by

virtue of having a director and officer in common at the time of purchase (Note 3). The director of Apri Health is no longer related to the Company as at December 31, 2017.

- (e) 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 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 the equity basis and recorded equity earnings of nil for the three months ended March 31, 2018 (March 31, 2017 - \$583,009) and received a cash income distribution of \$nil for the three months ended March 31, 2018 and 2017. As at December 31, 2017, the investment has been written off as a result of changes to reimbursement policies by health insurance companies resulting in the conversion of Alternate's lab from a reference laboratory to a full clinical laboratory .

## **8. SUBSEQUENT EVENTS**

As of May 30, 2018, management is not aware of any subsequent event(s) that would materially change the 2018 first quarter financial reporting results.

## **9. ACCOUNTING POLICIES**

Alternate Health's accounting policies are as disclosed in Note 4 to the 2017 annual consolidated financial statements. There have been no material changes to Alternate Health's accounting policies from what was disclosed at that time.

## **10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company's financial instruments are exposed to certain financial risks, including liquidity risk, interest rate risk, currency risk and credit risk. The Company's exposure to these risks and its methods of managing the risks remain consistent.

### 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 financing capital is hindered, whether because of a downturn in market conditions, generally, or related to matters specific to the Company. The Company is exposed to this risk mainly with respect to its accounts payable and accrued liabilities, development fees payable and commitments.

The Company has sustained losses since incorporation and has financed these losses through the issuance of equity offerings. Management believes that it has sufficient cash and access to a marketable security in the upcoming year to meet all its contractual obligations and fund any potential operating losses, which may occur.

The table below represents non-derivate financial liabilities by maturity based on the remaining period from December 31, 2017 to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows:

	<b>Total</b>	<b>Under 1 year</b>	<b>1-3 years</b>	<b>After 3 years</b>
Accounts payable and accrued liabilities	\$ 2,548,176	\$ 2,548,176	\$ -	\$ -
Development fee payable	551,359	75,000	476,359	-
Commitments	1,793,000	768,000	699,000	326,000
	<b>\$ 5,616,459</b>	<b>\$ 4,115,100</b>	<b>\$ 1,175,359</b>	<b>\$ 326,000</b>

#### Interest rate risk

Interest rate risk consists of:

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

Interest rate risk is a risk that the future cash flows of a financial instrument may fluctuate due to changes in market conditions. The Company's interest rate risk is related its convertible note receivable, which bears interest at 4.5% per annum and the deferred development fee payable, which bears interest at 15% per annum. The Company does not have any assets or liabilities with a variable interest rate, which minimizes the Company's exposure to fluctuations in interest rates. There have been no changes to the risk exposure from the prior year.

#### Foreign currency risk

Foreign currency risk is created by fluctuations in the fair value or cash flows of financial instruments due to changes in foreign exchange rates and exposure because of the Company's US operations.

Although the Company is headquartered in Canada, the majority of the Company's revenues are in the U.S. As a result of the Company's acquisition of AHL, the Company expects to have a greater exposure to US dollar fluctuation than in prior years.

Although management has deemed it not appropriate to utilize currency hedges, currency risk is managed by maintaining operations in the local currency, therefore avoiding foreign currency translations at the entity level. This decentralization acts as a natural hedge. Management continues to monitor this risk and may mitigate this risk with derivatives should the impact become material or effect the Company's business plan.

#### Foreign exchange sensitivity analysis:

An appreciation (depreciation) of the Canadian dollar against the U.S. dollar would have resulted in an increase (decrease) of \$99,906 in the Company's net loss because of the Company's net exposure to currency risk through its current assets and liabilities denominated in U.S. dollars. This analysis is based on a foreign currency exchange rate variance of 5%, which the Company considered to be reasonably possible at December 31, 2017.

#### Fair value

IFRS 7 Financial Instruments: Disclosures requires disclosure of a three-level hierarchy ("FV hierarchy") that reflects the significance of the inputs used in making fair value assessments, measurements and disclosures. Fair values of assets and liabilities included in Level 1 are determined by referring to quoted price in an active market for identical assets or liabilities. Assets and liabilities included in Level 2 are those whose valuations are determined using

inputs other than quoted prices for which all direct or indirect significant outputs are observable. Level 3 valuations are those based on inputs that are unobservable and significant to the overall fair value measurement.

As at December 31, 2017 and December 31, 2016, the carrying amount of cash, accounts receivable, HST receivable, due from related parties and accounts payable and accrued liabilities approximately their fair value due to their short-term nature. The carrying value of the development fees payable to related party approximates its fair value as its interest payable on outstanding amounts approximates the Company's current cost of debt.

During the year ended December 31, 2017, there were no transfer between any levels.

#### Credit risk

Credit risk is the risk that one party to a financial asset will cause a financial loss for the Company by failing to discharge an obligation. The Company's credit risk arises primarily from the Company's cash, accounts receivable, convertible note receivable and investments. The Company provides credit to its customers in the normal course of its operations.

Credit risk with cash is minimized by ensuring this financial asset is placed with financial institutions with high credit ratings.

Currently, the clinical laboratory business operates as a stand-alone laboratory, which is subject to credit risk from insurance companies, clinics, and patients. The portion of the accounts receivable due from individual patients and insurance companies ("customer") comprises the largest portion of credit risk. At December 31, 2017, receivables due from patients represent approximately 100% (2016 – Nil%) of accounts receivable, net. As a result, Management has devised a methodology to determine credit risk and reserve against estimates of collectability based on the credit profile of the customers. Management assesses the collectability of accounts receivable balances by considering factors such as historical collection experience, credit of the customer, the age of the account receivable balance, any regulatory and economic conditions and trends that may affect the customer's ability to pay. Actual results may differ from those estimates. As at December 31, 2017, the allowance for doubtful accounts was \$328,272 (2016 - \$nil).

The aging of trade receivables at the reporting date was:

	<b>Total</b>	<b>Under 30 days</b>	<b>30-90 days</b>	<b>Over 90 days</b>
Trade receivable	\$ 2,677,799	\$ 688,373	\$ 95,772	\$ 1,893,654

HST receivable is comprised of refundable taxes receivable from the Canada Revenue Agency ("CRA"). Refundable taxes are subject to review by CRA, which may delay receipt. Management believes that the risk of the CRA failing to deliver payment to the Company is minimal.

The credit risk on the convertible note receivable is limited to the carrying amount of \$665,200 (2016 - \$Nil).

## 11. RISK FACTORS

The following is a cautionary discussion of risks, uncertainties and assumptions that we believe are significant to our business, financial condition and financial results. In addition to the factors discussed elsewhere in the Company's filings, the following are some of the important factors that, individually or in the aggregate, we believe could make our results differ materially from those described in any forward-looking statements. It is impossible to predict or identify all such factors and, as a result, you should not consider the following factors to be a complete discussion of risks, uncertainties and assumptions

### *U.S. Cannabis Activities*

On October 16, 2017, the Canadian Securities Administrators published Staff Notice 51-352 Issuers with U.S. Marijuana Related Activities (the "Staff Notice") which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the U.S. as permitted within a particular state's regulatory framework. All issuers with U.S. cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents. The Company's involvement in U.S. marijuana-related activities is ancillary and the Company is not involved in cultivation or distribution although it may do so in the future. The Company's U.S. marijuana-related activities include continuing education programs involving the endocannabinoid system and cannabidiol and expansion of its patient management software CanaPass into the United States, including FlorPass (Florida) and StatePass in New York, to manage end-to-end transactions involved with providing safe access to medical and recreational cannabis which includes a payment application.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale, and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations, investors are cautioned that in the United States, cannabis is largely regulated at the state level. But it should be noted that in spite of the permissive regulatory environment of medical cannabis in many states within the United States, cannabis continues to be categorized as a controlled substance under the US federal Controlled Substances Act and as such, violates federal law in the United States.

Also, under U.S. federal law it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from marijuana sales or any other Schedule I substance. Canadian banks are also hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering or conspiracy.

The United States Congress has passed appropriation bills each of the last four years that have not appropriated funds for prosecution of cannabis offenses of individuals who are in compliance with state medical cannabis laws. American courts have construed these appropriations bills to prevent the federal government from prosecuting individuals when those parties comply with state law. However, because this conduct continues to violate federal law, American courts have observed that should Congress, at any time, choose to appropriate funds to fully prosecute the Controlled Substances Act, any individual or business- even those who have fully complied with state law- could be prosecuted for violations of federal law.

Violations of federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities, or divestiture. The Company is not aware of any non-compliance with U.S. federal law; however, if the Company was found to be non-compliant, this could have a material adverse



effect on the Company, including its reputation and ability to conduct business, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of such matters or its final resolution.

#### *Additional Requirements for Capital*

Substantial additional financing may be required and no assurances can be given that the Company will be able to raise the additional capital that it may require for its anticipated future development. Any additional equity financing may be dilutive to investors and debt financing, if available, may involve restrictions on financing and operating activities. There is no assurance that additional financing will be available on terms acceptable to the Company, if at all. If we are unable to obtain additional financing as needed, the Company may be required to reduce the scope of its operations or anticipated expansion.

#### *Volatility of Stock Price and Market Conditions*

The market price of the Common Shares may be subject to wide fluctuations in response to factors such as actual or anticipated variations in its results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of our stock even if we are successful in maintaining revenues, cash flows or earnings.

#### *Competition*

The healthcare information systems and the continuing education and consumer products markets are highly competitive on both a local and a national level. The Company believes that the primary competitive factors in this market are:

- quality service and support;
- price;
- product features, functionality and ease of use;
- ability to comply with new and changing regulations;
- ongoing product enhancements; and
- reputation and stability of the vendor.

The electronic medical records ("EMR") marketplace in Canada is currently dominated by Telus Health and the Company will face substantial competition from Telus and other established competitors, which have greater financial, technical, and marketing resources than it does. The Company's competitors may also have a larger installed base of users, longer operating histories or greater name recognition. There is also substantial competition in the US marketplace. There can be no assurance that the Company will successfully differentiate its current and proposed products from the products of its competitors, or that the marketplace will consider the products of the Company to be superior to competing products.

#### *Risk of Safeguarding Against Security & Privacy Breaches*

A security or privacy breach could:

- expose the Company to additional liability and to potentially costly litigation;
- increase expenses relating to the resolution of these breaches;
- deter potential customers from using our services; and
- decrease market acceptance of electronic commerce transactions.

The Company cannot assure that the use of applications designed for data security and integrity will address changing technologies or the security and privacy concerns of existing and potential customers.

Although the Company requires that agreements with service providers who have access to sensitive data include confidentiality obligations that restrict these parties from using or disclosing any data except as necessary to perform their services under the applicable agreements, there can be no assurance that these contractual measures will prevent the unauthorized disclosure of sensitive data. If the Company is unable to protect the security and privacy of our electronic transactions and data, our business will be materially adversely affected.

#### *High Degree of Product Concentration*

Substantially all of the Company's currently anticipated revenues will be derived from a limited number of products and services, namely CanaCard /CanaPass EMR software and toxicology testing. Consequently, the Company's performance will depend on establishing and maintaining market acceptance of these products and services, as well as enhancing the performance of such products and services to meet the evolving needs of customers. The Company, like other entities involved in a rapidly evolving new industry, faces the risk that our products and services may not prove to be commercially successful or may be rendered obsolete by further scientific and technological developments. There can be no assurances that the Company will establish and maintain a position at the forefront of emerging technological trends. Any reduction in anticipated future demand or anticipated future sales of these products or any increase in competition could have a material adverse effect on our business prospects, operating results, or financial condition.

#### *Difficulty to Forecast*

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada and changing US environment. A failure in the demand for services to materialize as a result of competition, regulatory and technological change or other factors could have a material adverse effect on our business, results of operations and financial condition.

#### *Material Impact of PIPEDA/HIPAA Legislation on the Issuer's Business*

Regulations under PIPEDA/HIPAA governing the confidentiality and integrity of protected health information are complex and are evolving rapidly. As these regulations mature and become better defined, the Company anticipates that they will continue to directly impact our business. Achieving compliance with these regulations could be costly and distract management's attention from its operations. Any failure on the Company's part to comply with current or future regulations could subject it to significant legal and financial liability, including civil and criminal penalties. In addition, development of related federal and state regulations and policies regarding the confidentiality of health information or other matters could positively or negatively affect our business.

#### *Key Personnel*

Our future success will depend, in large part, upon our ability to retain key management personnel and to attract and retain additional qualified marketing, sales and operational personnel to form part of the Company's technical and customer services support center. The Company may not be able to enlist, train, retain, motivate and manage the required personnel. Competition for these types of personnel is intense. Failure to attract and retain personnel, particularly marketing, sales and operational personnel as well as consultants, could make it difficult for the Company to manage its business and meet its objectives.

#### *Lengthy and Variable Sales Cycle*

The Company will have difficulty in forecasting the timing of revenue from sales of its products because its customers may invest substantial time, money and other resources researching their needs and available competitive alternatives before deciding to purchase our products and services. Typically, the

larger the potential sale, the more time, money and resources will be invested by customers. As a result, it may take many months after the first contact with a customer before a sale can actually be completed, which may delay the Company's ability to recognize revenue and generate cash.

During these long sales cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled, including:

- purchasing decisions may be postponed, or large purchases reduced during periods of economic uncertainty;
- the Company, or its competitors, may announce or introduce new products or services;
- budget and purchasing priorities of customers may change.

If these events were to occur, sales of the Company's products or services may be cancelled or delayed, and the Company's revenue, business and operating cash flows would be adversely affected.

#### *Market Uncertainty*

The Company's success depends to a significant degree on its ability to develop the market and gain acceptance for its products and services. There is no assurance that a significant market will develop for CanaCard Practice Management Software ("CPMS"). There can be no assurances that the commercial applications and markets for the Company's products will develop. To manage such development, the Company must continue to expand its existing resources and management information systems and must attract, train, and motivate qualified marketing, management, technical and administrative personnel. There can be no assurance that the Company will be able to achieve these goals.

#### *Management of Growth*

The Company may be subject to growth-related risks including pressure on its internal systems and controls. Our ability to manage growth effectively will require us to continue to implement and improve operational and financial systems. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects. The Company may experience growth in the number of its employees and the scope of its operating and financial systems, resulting in increased responsibilities for the Company's personnel, the hiring of additional personnel and, in general, higher levels of operating expenses. In order to manage its current operations and any future growth effectively, the Company will also need to continue to implement and improve its operational, financial and management information systems and to hire, train, motivate and manage its employees. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth.

#### *Pricing policies*

The competitive market in which we operate could force the Company to reduce its prices. If its competitors offer large discounts on their EMR systems or processing fees and toxicology testing services. In order to gain market share, the Company may need to lower its prices and offer other favorable terms in order to compete successfully. Such changes could reduce profit margins and have an unfavorable impact on its operating results. Some of the Company's competitors could offer products and services that compete with ours as part of a long-term pricing strategy or offer price guarantees or product implementation. With time, these practices could limit the prices the Company may charge for its products

and services. If the Company cannot offset these price reductions with a corresponding increase in sales volume or decreased expense, the decreased revenues from products and services could unfavorably affect its profit margins and its operating results.

*The Company's Inability To Protect Its Proprietary Rights Could Adversely Affect Its Competitive Position*

The Company licenses proprietary technology. The licensors may be required to modify the design of the product, modify their license arrangements with the Company, or litigate challenges to their technology, all of which may have an adverse business effect on the Company.

## **11.1 CONTINGENCIES**

### **Litigation**

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. The suit alleges various causes of action including fraud and fraudulent non-disclosure. The Company and its legal counsel are in the early stages of reviewing the claims, but management believes that they have no merit and intends to vigorously defend the action. The claims made are similar to claims made to Sun by another insurance company which were all dismissed including allegations of fraud

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 consulting arrangements. 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.

### **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 licensing arrangements. 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.

## **12. NON-IFRS FINANCIAL MEASURES**

The Company occasionally utilizes financial measures not calculated in accordance with generally accepted accounting principles in Canada ("IFRS") in order to provide investors with an alternative method for assessing our operating results in a manner that enables investors to more thoroughly evaluate our financial performance. We also believe these Non-IFRS measures provide investors with an expanded baseline for modeling Alternate Health's future financial performance.

Management uses these Non-IFRS financial measures to make operational and investment decisions, to evaluate the Company's performance, to forecast and to determine compensation. Further, management utilizes these performance measures for purposes of comparison with its business plan and individual

operating budgets and allocation of resources. We believe that our investors should have access to, and that we are obligated to provide, the same set of tools that we use in analyzing our results. These Non-IFRS measures should be considered in addition to results prepared in accordance with IFRS but should not be considered a substitute for or superior to IFRS results. We have provided definitions below for certain Non-IFRS financial measures, together with an explanation of why management uses these measures and why management believes that these Non-IFRS financial measures are useful to investors. In addition, we have provided tables to reconcile the Non-IFRS financial measures utilized to IFRS financial measures.

The Non-IFRS financial measures described below do not have any standardized meaning under the Company's generally accepted accounting principles (IFRS) and therefore may not be compatible to similar measures presented by other companies.

### Adjusted Non-IFRS Measures

Our Non-IFRS measures adjust IFRS Net income, Net income per share - diluted, and EBITDA for non-cash stock-based compensation expense for employees and partners and fees incurred for listing the Company's shares on the Over the Counter ("OTC") market exchange in the United States and other non-recurring expenses. In the tables that follow, we provide a reconciliation of these adjusted Non-IFRS measures to IFRS Net income, Net income per share - diluted and EBITDA.

### Adjusted EBITDA

Alternate Health uses adjusted EBITDA as a means to assess the overall financial performance of its business without the effects of interest, taxes, depreciation, amortization, non-cash share-based compensation and non-recurring expenses as these items may distort the analysis of certain business trends and hinder comparative analysis with other healthcare businesses competing in our markets.

The following table reconciles IFRS Net income (loss) to adjusted EBITDA for the comparative periods presented.

(Canadian dollars)	First Quarter		
	2018	2017	\$ Change
<b>Net loss - IFRS</b>	<b>\$ (3,069,672)</b>	<b>\$ (2,500,652)</b>	<b>\$ (569,020)</b>
<b>Add back (as reflected on AHC consolidated statement of operations):</b>			
Depreciation and amortization	288,623	394,567	(105,944)
Interest expense	14,944	36,827	(21,883)
Income tax	32	64,882	(64,850)
<b>EBITDA</b>	<b>\$ (2,766,073)</b>	<b>\$ (2,004,376)</b>	<b>\$ (761,697)</b>
<b>Add back non-cash and non-recurring expenses:</b>			
Non-cash stock based compensation	-	119,758	(119,758)
Non-recurring public company listing expenses	-	57,508	(57,508)
Non-cash, non-recurring share compensation to partners	471,345	1,612,600	(1,141,255)
<b>Adjusted EBITDA</b>	<b>\$ (2,294,728)</b>	<b>\$ (214,510)</b>	<b>\$ (2,080,218)</b>