



ANNUAL REPORT

2016

MESSAGE FROM THE PRESIDENT

Dear Shareholders:

On behalf of the Board of Directors of AlliancePharma, I am pleased to present the annual report for the fiscal year ended July 31, 2016. Our efforts in 2016 were devoted towards the execution of our growth strategy and the elaboration of the next phases of our strategic plan. We have created a solid foundation to enable our potential and future growth into the Pharmacy Services sector and the Pharmaceutical Communications sector.

AlliancePharma is a leading solution and service provider to the Canadian pharmaceutical market. Through a solid network and group of companies, it provides services and distributes generic drugs to most pharmacies in Quebec. It also provides training and communication services to leading Canadian pharmaceutical industry participants.

Values

We are engaged in a transformational process to deliver enhanced value to our customers, clients and shareholders. There are 3 strategic axes for our service deployment:

- *Innovation:* All AlliancePharma companies have challenged the status quo. We all propose products, added-value services or processes seen as key differentiators in the industry.
- *Integrity:* Our team sets a precedent in our industry, and our leadership is accompanied by a responsibility to establish new ethical rules and ensure healthy functioning all across the company.
- *Customer satisfaction:* The result of our actions must be concrete for our clients and patients. Our unique approach creates a positive movement, a contagious pride around us.

2016 Acquisitions

Pharmapar and BIOMED Pharma

The acquisition of these two companies allows us to offer a significant presence to pharmacies in Quebec by offering molecules and value-added services. It also gives us the opportunity to access the Canadian generic drug market.

liV Agency

This company specializes in medical education with health professionals and has an impact on the quality of life and longevity of Canadian patients. liV works with innovative pharmaceutical companies across the Canadian marketplace.

PRO J Pharma

The acquisition of PRO J Pharma adds an additional team of laboratory technicians and pharmacists to the pharmacy replacement division. This enhances the offer of service throughout the Province of Quebec.

Financial partners

Persistence Capital Partners is a private equity fund dedicated solely to the healthcare sector. We are delighted that Persistence supports the growth of our company since June 2016. Both managing partners are providing the necessary guidance in various medical and financial aspects of our business; their involvement has just been tremendous so far.

We are also pleased that National Bank of Canada has decided to become our privileged bank and financial partner. Its dedicated Health Group provides AlliancePharma with key financial support both in terms of operational and long-term debt financing to support our organic and M&A growth.

Futures Plans

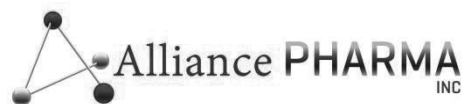
Going forward, we will remain focussed on adding specific services to the pharmaceutical market by taking advantage of our current portfolio or by adding missing best-in-class products or services through acquisitions. Raising additional funds to execute such a plan will not only be required, but will act as a catalyst vis-a-vis our action plan. These actions will always be taken with the objective of increasing shareholders' value. We, at AlliancePharma, are all committed to improve health in every possible way.

Finally, I would like to thank, my fellow board members for their very much appreciated work and various inputs over the last year.

Sincerely,

Marc Lemieux
President & CEO

December 8, 2016



Consolidated Financial Statements of

AlliancePharma Inc.

Years ended July 31, 2016 and 2015

Management's Report

July 31, 2016 and 2015

Management's Statement of Responsibility for Financial Information

The consolidated financial statements contained in this Annual Report are the responsibility of Management, and have been prepared in accordance with International Financial Reporting Standards. Where necessary, Management has made judgments and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

The consolidated financial statements have been examined by the Company's independent auditors, Guimond Lavallée Inc., and they have issued their report thereon.

The Board of Directors is responsible for overseeing Management in the performance of its responsibilities for financial reporting. The Board of Directors exercises its responsibilities through the Audit Committee, which is comprised of three independent directors. The Audit Committee meets from time to time with Management and the Company's independent auditors to review the consolidated financial statements and matters relating to the audit. The Company's independent auditors have full and free access to the Audit Committee. The consolidated financial statements have been reviewed by the Audit Committee, who recommended their approval by the Board of Directors.

(signed)
Marc Lemieux
President and Chief Executive Officer

(signed)
Bruno Dumais, CPA, CA
Chief Financial Officer

Thetford Mines,
November 28, 2016

INDEPENDENT AUDITORS' REPORT

To the shareholders of ALLIANCEPHARMA INC.,

We have audited the accompanying consolidated financial statements of ALLIANCEPHARMA INC., which comprise the consolidated statements of financial position as at July 31, 2016 and July 31, 2015, and the consolidated statements of loss and comprehensive loss, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ALLIANCEPHARMA INC. as at July 31, 2016 and July 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).



Chartered Professional Accountants Corporation

Brossard (Quebec)
November 28, 2016

¹ CPA auditor, CA permit No. A128615

AlliancePharma Inc.
Consolidated statements of financial position
(in Canadian dollars)

	Note	At July 31, 2016	At July 31, 2015
ASSETS			
Current assets			
Cash		164,143	510,003
Trade and other receivables	7	1,244,617	1,329,650
Prepaid expenses		98,455	28,136
Income taxes receivable		188,303	118,353
Loans receivable	8	120,942	108,870
		1,816,460	2,095,012
Non-Current assets			
Property and equipment	9	89,767	51,486
Intangible assets	10	2,058,439	2,416,612
Goodwill	10	2,291,930	1,697,153
Deferred tax assets	15	712,455	298,561
		5,152,591	4,463,812
TOTAL ASSETS		6,969,051	6,558,824
LIABILITIES			
Current liabilities			
Bank indebtedness	11	240,688	493,610
Trade and other payables	12	1,933,091	1,101,499
Note payable, without interest	14	140,000	-
Current income tax liabilities		-	37,139
Current portion of long-term debt	13, 28	2,273,110	766,272
Demand loan presented under current liabilities	13	2,082,619	-
		6,669,508	2,398,520
Non-Current liabilities			
Long-term debt	13, 28	583,220	3,468,207
Note payable, without interest	14	-	138,696
Deferred tax liabilities	15	579,550	307,920
		1,162,770	3,914,823
TOTAL LIABILITIES		7,832,278	6,313,343
EQUITY (DEFICIENCY)			
Equity (Deficiency) attributable to shareholders	28	(879,636)	197,978
Equity attributable to non-controlling interests		16,409	47,503
TOTAL EQUITY (DEFICIENCY)		(863,227)	245,481
TOTAL LIABILITIES AND EQUITY		6,969,051	6,558,824
Commitments	25		
Subsequent events	28		

The accompanying notes are an integral part of the consolidated financial statements

On behalf of the Board:

(signed)
Marc Lemieux, Director

(signed)
Michael W. Kinley, Director

AlliancePharma Inc.
Consolidated statements of loss and comprehensive loss
Years ended July 31, 2016 and 2015

<i>(In Canadian dollars, except per share amounts)</i>	Note	2016	2015
Revenues	19	7,946,639	5,516,834
Cost of revenues	20	6,522,009	4,341,228
		1,424,630	1,175,606
Administrative expenses	21	2,329,855	1,173,714
Cost of public listing	2	-	662,840
Share-based compensation		-	379,160
		2,329,855	2,215,714
Loss before the following:		(905,225)	(1,040,108)
Depreciation of property and equipment	9	15,176	5,056
Amortization of intangible assets	10	472,646	69,080
Loss from operating activities		(1,393,047)	(1,114,244)
Accreted interest	14	1,304	6,091
Finance costs	22	246,000	50,424
Net finance costs		247,304	56,515
Loss before income tax		(1,640,351)	(1,170,759)
Income tax expense	15, 23	(140,884)	98,883
Net loss and comprehensive loss for the year		(1,499,467)	(1,269,642)
Net loss attributable to:			
Equity holders of AlliancePharma Inc.		(1,468,373)	(1,282,895)
Non-controlling interests		(31,094)	13,253
		(1,499,467)	(1,269,642)
Loss per share			
Basic loss per share	17	(0.06)	(0.10)
Diluted loss per share	17	(0.05)	(0.09)

The accompanying notes are an integral part of the consolidated financial statements.

AlliancePharma Inc.

Consolidated statements of changes in Equity (Deficiency)

Years ended July 31, 2016 and 2015

	Total Equity (Deficiency) attributable to shareholders								Non- controlling interests	Total equity (deficiency)	
	Number of shares (notes 16 & 28)	Share capital (note 18)	Contributed surplus (note 18)	Convertible debentures (note 18)	Warrants (note 18)	Premium on convertible		Equity (Deficiency)			Total
						shares	(Deficiency)				
<i>(in Canadian dollars)</i>											
Balance at July 31, 2014	106	106	-	-	-	-	-	(1,408,333)	(1,408,227)	3,000	(1,405,227)
Dividends	-	-	-	-	-	-	-	-	(75,000)	-	(75,000)
Company's balance prior RTO	6,400,000	399,738	155,107	-	-	-	-	(75,000)	(75,000)	-	(323,297)
Shares issued for debt settlement	1,200,000	60,000	-	-	-	-	-	(878,142)	(323,297)	-	(323,297)
Share consolidation on 3 to 1 basis	(5,066,666)	-	-	-	-	-	-	-	60,000	-	60,000
RTO Adjustments	-	(459,738)	(155,107)	-	-	-	-	-	-	-	-
Shares of Alliance exchanged on RTO	(106)	(106)	-	-	-	-	-	878,142	263,297	-	263,297
Shares issued in exchanged for retractable shares	10,810,000	1,621,500	-	-	-	-	-	-	(106)	-	(106)
Share of Company issued for RTO	7,190,000	380,063	-	-	-	-	-	-	1,621,500	-	1,621,500
Debtenture issued for RTO	-	-	-	43	-	-	-	-	380,063	-	380,063
Shares issued in concurrent financing, net of financing charges	2,031,600	162,293	-	-	134,947	-	-	-	43	-	43
Premium on convertible shares	-	-	-	-	-	(1,621,406)	1,621,406	-	297,240	-	297,240
Issuance of options - Spons or compensation	-	-	34,040	-	-	-	-	-	-	-	-
Shares issued under a financing agreement	650,000	97,500	-	-	-	-	-	-	34,040	-	34,040
Shares issued under a sponsorship agreement	124,500	29,258	(10,583)	-	-	-	-	-	97,500	-	97,500
Stock options exercised	100,000	27,300	(12,300)	-	-	-	-	-	18,675	-	18,675
Shares issued under a consulting agreement	950,000	142,500	-	-	-	-	-	-	15,000	-	15,000
Shares to be issued	83,500	19,623	(7,098)	-	-	-	-	-	142,500	-	142,500
Business combination	-	-	-	-	-	-	-	-	12,525	-	12,525
Fair value of options issued	-	-	345,120	-	-	-	-	-	31,250	31,250	31,250
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	(1,282,895)	345,120	-	345,120
Balance at July 31, 2015	24,472,934	2,480,037	349,179	43	134,947	(1,621,406)	(1,144,822)	(1,282,895)	13,253	(1,269,642)	(1,269,642)
Warrants exercised	540,001	171,773	-	-	(36,774)	-	-	-	197,978	47,503	245,481
Shares issued for business acquisition	556,000	255,760	-	-	-	-	-	-	134,999	-	134,999
Net loss and comprehensive loss for the year	-	-	-	-	-	-	-	(1,468,373)	255,760	-	255,760
Balance at July 31, 2016	25,568,935	2,907,570	349,179	43	98,173	(1,621,406)	(2,613,195)	(1,468,373)	(31,094)	(1,499,467)	(1,499,467)
Balance at July 31, 2016	25,568,935	2,907,570	349,179	43	98,173	(1,621,406)	(2,613,195)	(879,636)	16,409	(863,227)	(863,227)

The accompanying notes are an integral part of the consolidated financial statements.

AlliancePharma Inc.
Consolidated statements of cash flows
Years ended July 31, 2016 and 2015

<i>(In Canadian dollars)</i>	Note	2016	2015
Cash flows from operating activities			
Net loss for the year		(1,499,467)	(1,269,642)
Adjustments for:			
Depreciation of property and equipment	9	15,176	5,056
Amortization of intangible assets	10	472,646	69,080
Share-based payment transactions	18	-	379,160
Deferred income tax	15, 23	(140,884)	9,359
Cost of public listing		-	662,840
Financing fees		6,076	6,454
		(1,146,453)	(137,693)
Changes in non-cash working capital items (i)	27	504,324	(523,399)
		(642,129)	(661,092)
Cash flows from investing activities			
Additions to property and equipment	9	(31,744)	(899)
Additions to intangible assets	10	(98,804)	(23,324)
Increase in loan receivable		(12,072)	(38,113)
Business combination, net of cash acquired (ii)	6	(380,760)	(2,820,688)
		(523,380)	(2,883,024)
Cash flows from financing activities			
Cash acquired on reverse transaction		-	3,975
Cash acquired on business combination	6	(17,886)	-
Proceeds from long-term debt (ii)		1,401,011	3,050,000
Repayment of long-term debt		(751,313)	(80,589)
Proceeds from issuance of units (iii)		-	297,240
Proceeds from issuance of shares (iv)		390,759	-
Proceeds from exercise of share options		-	27,525
Bank indebtedness acquired from a business combination	6	75,000	344,124
Long-term debt acquired from a business combination	6	50,000	-
(Decrease) Increase in the bank indebtedness		(327,922)	149,486
Proceeds from issuance of shares under a sponsorship agreement		-	18,675
		819,649	3,810,436
Net (decrease) increase in cash		(345,860)	266,320
Cash, beginning of the year		510,003	243,683
Cash, end of year		164,143	510,003
Supplemental information			
Interest paid		(190,491)	(27,987)
Other non-cash items:			
(i) Dividend declared		-	(75,000)
(ii) Long-term debt	13	-	1,247,667
(iii) Retractable class "E" shares	2	-	(1,621,500)
(iii) Premium on convertible shares	2	-	(1,621,406)
(iii) Cost of public listing		-	(662,840)
(iv) Issuance of shares	6	255,760	-

The accompanying notes are an integral part of the consolidated financial statements.

(Tabular amounts in Canadian dollars, unless otherwise noted)

1. Reporting entity

AlliancePharma Inc. (the "Company") is incorporated under the Business Corporations Act (Québec). The Company is a publicly traded company listed on the TSX Venture Exchange ("TSX-V") under the symbol "APA". The Company's head office is 300-1197 Notre-Dame East, Thetford Mines, Québec, G6G 2V2.

The consolidated financial statements of the Company as at and for the years ended July 31, 2016 and 2015 comprise the Company and its subsidiaries. The Company is a provider of pharmacy personnel replacement and vocational training services.

2. Reverse acquisition (RTO)

On January 8, 2015, the Company closed its qualifying transaction (the "Transaction") with AlliancePharma Inc. ("Alliance Operations"), a Quebec-based, health industry personal placement company. Following the completion of the Transaction, Alliance Operations became a wholly-owned subsidiary of the Company.

Prior to the Transaction, the Company was a capital pool company as defined in the policies of the TSX-V and had not commenced commercial operations and had no assets other than cash and other receivables. The Transaction constituted its "Qualifying Transaction", as defined by the policies of the TSX-V. As part of the Transaction, the Company completed a shares-for-debt transaction pursuant to which \$60,000 of debt was converted into 1,200,000 pre-consolidation common shares. The Company also consolidated its common shares on the basis of three (3) to one (1) and changed its name to AlliancePharma Inc.

AlliancePharma also amalgamated with a wholly-owned subsidiary of the Company, with all outstanding shares of AlliancePharma being exchanged for 18,000,000 common shares of the Company and a debenture convertible into 5,000,000 additional shares of the Company valued at \$43. Following the completion of the Transaction, the Company has an aggregate of 22,564,934 common shares outstanding, including 18,000,000 common shares issued to former holders of AlliancePharma shares, or a 79.77% interest in the Company at that time.

The Company also completed a concurrent private placement of 2,031,600 units at a price of \$0.15 per unit, each unit being comprised of one common share and one common share purchase warrant entitling the holder thereof to acquire one additional common share at a price of \$0.25 until January 8, 2017.

Although the Transaction resulted in AlliancePharma becoming a wholly-owned subsidiary of the Company, the Transaction constitutes a reverse acquisition of the Company in-as-much as the former shareholders of AlliancePharma own a substantial majority of the issued and outstanding common shares of the resulting corporation. For accounting purposes, AlliancePharma is considered the accounting acquirer and the Company the accounting acquire.

As the Company did not meet the definition of a business under guidance from IFRS 3, the reverse acquisition does not constitute a business combination and accordingly, the reverse acquisition has been accounted for in accordance with guidance provided in IFRS 2, "Share-Based Payment". As Alliance Operations is deemed to be the acquirer for accounting purposes, its assets and liabilities and operations since incorporation are included in the condensed interim consolidated financial statements at their historical carrying value. The Company's results of operations are included from the date of the transaction onwards.

The value of the consideration paid was determined based on the fair value of the net assets of the Company acquired on January 8, 2015, which was computed as \$380,000.

3. Basis of preparation**a) Statement of compliance**

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors on November 28, 2016.

(Tabular amounts in Canadian dollars, unless otherwise noted)

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following material item in the consolidated statements of financial position:

- assets and liabilities acquired in business combinations are measured at fair value at acquisition date.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("C\$"), which is the Company's functional currency.

d) Use of estimates and judgments

The preparation of the accompanying consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates and assumptions are based on management's best estimates and judgments.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the financial statements of future periods.

Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business acquisition;
- Note 10 – Determining estimates and assumptions related to impairment tests for long-lived assets and goodwill;
- Note 15 – Assessing recoverability of future tax assets using forecast of future profits depends on many factors including the Company's ability to generate such profits and the implementation of effective tax planning strategies;
- Note 16 & 18 – Establishing the estimates and assumptions related to the characteristic included in valuation model (Black & Scholes) for estimating fair value for warrants and shares-based payments transactions.

4. Change in accounting policy

During the year ended July 31, 2016, the management determined that the customer relationships intangible asset had a finite life. This intangible asset should be amortized on a straight-line basis over a 10 years useful life. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the useful life of this intangible asset.

As required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Company recognized prospectively the effect of this accounting estimate change.

For the year ended on July 31, 2016, the Company recognized an amortization expense of \$118,600 related to customer relationships.

5. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated. The accounting policies have been applied consistently by Group entities.

(Tabular amounts in Canadian dollars, unless otherwise noted)

a) **Basis of consolidation**

i) **Business combinations**

The Company measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

ii) **Subsidiaries**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company.

The Corporations subsidiaries, as at July 31, 2016 and 2015 are:

Name	Nature of services	2016	2015	Type of arrangements	Accounting method
Campus Elitis Pharma Inc.	Training	80%	80%	Subsidiary	Consolidation
Elitis Pharma Inc.	Pharmacist Services	100%	100%	Subsidiary	Consolidation
Alliance Pharma Operations Inc.	Pharmacist Services	100%	100%	Subsidiary	Consolidation
Pro-J Pharma Inc.	Pharmacist Services	100%	n.a.	Subsidiary	Consolidation
9287396 Canada Inc.	Pharmacist Services	100%	100%	Subsidiary	Consolidation
9321-5317 Quebec Inc.	Pharmacist Services	100%	100%	Subsidiary	Consolidation
Alliance Pharma SENCRL	Pharmacist Services	99%	99%	Subsidiary	Consolidation

iii) **Transactions eliminated on consolidation**

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements.

iv) **Non-controlling interests**

Non-controlling interests represent equity interests in the subsidiary owned by outside parties. The share of net assets of the subsidiary attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity.

All significant intercompany transactions and balances have been eliminated.

b) **Financial instruments**

i) **Non-derivative financial assets and liabilities**

The Company initially recognizes loans and receivables, investment in equity securities, debt issued, and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets designated at fair value through income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net

(Tabular amounts in Canadian dollars, unless otherwise noted)

basis or to realize the asset and settle the liability simultaneously.

The Company has classified non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash, trade and other receivables (excluding sales tax receivable) and loans receivable.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an available-for-sale financial asset is derecognized, the gain or loss accumulated in the fair value reserve is reclassified to income or loss. The Company has not recorded any available-for-sale financial assets.

The Company has the following non-derivative financial liabilities: bank indebtedness, trade and other payables (excluding sales tax payable), long-term debt, demand loan presented under current liabilities and note payable. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

ii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

All transactions with owners are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

iii) Compound financial instrument

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in income or loss. On conversion, the financial liability is reclassified to equity with no gain or loss recognized in income or loss.

c) Property and equipment

Property and equipment are accounted for at cost less accumulated depreciation and accumulated impairment losses.

(Tabular amounts in Canadian dollars, unless otherwise noted)

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized in net income or loss.

Depreciation is based on the cost of an asset less its residual value and is recognized in income or loss over the estimated useful life of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The depreciation method and useful lives are as follows:

Categories	Method	Useful lives
Furniture and fixtures	Straight-line	5 years
Computer equipment	Straight-line	5 years
Leasehold improvements	Straight-line	5 years
Vehicle	Straight-line	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment are reviewed for impairment in accordance with IAS 36 *Impairment of Assets* when there are indicators that the carrying value may not be recoverable.

d) Intangible assets

i) Goodwill

Goodwill that arises upon business combinations is included in intangible assets. Goodwill is not amortized and is measured at cost less accumulated impairment losses.

ii) Other finite life intangible assets

Other intangible assets consist of customer relationships, training courses, software and web site. Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized on a straight-line basis over the following estimated useful lives:

Categories	Useful lives
Customer relationships	10 years
Training courses	5 years
Software	5 years
Web site	3 years

Useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Customer relationships are tested for impairment yearly on July 31. Tests are also carried out when events or circumstances indicate a possible impairment. Any impairment loss is charged to earnings (loss) in the period it arises.

e) Impairment

i) Financial assets

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account

(Tabular amounts in Canadian dollars, unless otherwise noted)

against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated on July 31 of each year.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs (usually a Group's operating segment), that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses and impairment reversals are recognized in income or loss.

f) Share-based payment transactions

The grant date fair value of equity share-based payment awards granted to employees or consultants is recognized as an administrative expense, with a corresponding increase in contributed surplus, over the period that the employees or the consultants unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service condition at the vesting date.

g) Revenue recognition

The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when there exists persuasive evidence or an arrangement, the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. All revenue is recognized net of any related sales taxes.

h) Finance income and finance costs

Finance income comprises interest income on funds invested, available-for-sale financial assets, dividend income, and bargain purchase gains on business acquisitions. Interest income is recognized as it accrues in income or loss, using the effective interest method.

(Tabular amounts in Canadian dollars, unless otherwise noted)

Finance costs comprise interest expense on bank indebtedness and long-term debt, unwinding of the discount on provisions and impairment losses recognized on financial assets (other than trade receivables).

Fair value gains or losses on derivative financial instruments and on contingent considerations, and foreign currency gains and losses are reported on a net basis as either finance income or cost.

i) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its Class "A" common shares. Basic EPS is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of Class "A" common shares outstanding during the period, adjusted for own shares held, if any.

Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of Class "A" common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential Class "A" common shares, which comprise convertible debentures in shares, warrants and stock options.

k) Employee benefits

Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences, and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

The Company contributes to state-run defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees. The costs of benefits for defined contribution plans are expensed as they are incurred. The Company has no legal or constructive obligation to pay any further amounts.

(Tabular amounts in Canadian dollars, unless otherwise noted)

The pension plan expense during the year amounts to the following:

	2016	2015
Total presented under cost of revenue	30,426	5,174
Total presented under administrative expenses	2,104	373
	32,530	5,547

l) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 7, Financial Instruments ("IFRS 7")

IFRS 7 clarifies that the additional disclosure required by the amendments to *IFRS 7, Disclosure – offsetting financial assets and financial liabilities* is not specifically required for all interim periods, unless required by IAS 34. The amendment is effective January 1, 2016 with early adoption permitted. The Company has not yet adopted this standard and management has not yet determined the impact of this standard.

IFRS 9 - Financial Instruments ("IFRS 9")

In November 2009 the IASB issued IFRS 9, Financial Instruments ("IFRS 9 (2009)"), and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, Financial Instruments (2013) ("IFRS 9 (2013)"). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. The Company does not intend to adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its consolidated financial statements for the annual period beginning on August 1, 2016.

IFRS 10, Consolidated Financial Statements ("IFRS 10") and IAS 28, Investments in Associates and Joint Ventures (2011) ("IAS 28")

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Company does not expect that these amendments will have a significant impact to the Company's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15, which will replace IAS 18, *Revenue*, and will become effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning August 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16, Leases ("IFRS 16")

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor,

(Tabular amounts in Canadian dollars, unless otherwise noted)

IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 is not expected to have a material impact on amounts recorded in the consolidated financial statements of the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”)

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the consolidated financial statements, the use and presentation of subtotals in the statements of net income or loss and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the consolidated financial statements to enhance understandability. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved consolidated financial statement disclosures. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on August 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IAS 7 – Disclosure initiative (Amendments to “IAS 7” Statement of Cash flows)

These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IAS 12 – Income Taxes (“IAS 12”)

The amendments to this standard relate to the recognition of deferred tax assets and liabilities, with the latter also being subject to a 'probable profits' test. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

IAS 16 – Property, plant and equipment (“IAS 16”) and IAS 38 – Intangible assets (“IAS 38”)

Amendment to IAS 16 and IAS 38 clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It also clarifies that revenue is not an appropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective from January 1, 2016.

IAS 19 – Employee Benefits (“IAS 19”)

IAS 19 was amended by the IASB on November 13, 2013. The amendments provide additional guidance to IAS 19 Employee Benefits on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The amendments are effective for annual periods beginning on or after July 1, 2014. The adoption of these amendments is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

IAS 19 was further amended on July 30, 2014. The amendments to IAS 19 clarify the application of the requirements of IAS 19 on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments is not expected to have an impact on the Company's results of operations, financial position or disclosures.

(Tabular amounts in Canadian dollars, unless otherwise noted)

6. Business acquisitions*Acquisition of Pro-J Pharma Inc.*

Effective June 1, 2016, the Company completed the acquisition of 100% of the shares of Pro-J Pharma Inc. ("Pro-J") for a total consideration of \$255,760. The purchase was concluded with a share capital issuance of 556,000 common shares of the Company at a price of \$0.46 per share. There was no cash component in the transaction.

The acquisition was in line with the Company's growth strategy and to be a leading company in the pharmacist replacement industry in Quebec.

As at the approval and authorization date to issue the consolidated financial statements, the Company has not finalized the purchase price allocation. Thus, the allocation of the purchase price was initially based on the Company's estimates, subject to the completion of a third party valuation. The acquisition was accounted for by the Company using the acquisition method set out in IFRS 3, *Business Combinations* and the balance sheet and the results of operations of Pro-J have been consolidated with the Company as of June 1, 2016.

The following is a summary of the estimated net assets acquired at fair value:

Net assets acquired:	
Working capital ⁽¹⁾	(326,399)
Property and equipment	21,713
Software	12,671
Web site	2,998
Goodwill ⁽²⁾	594,777
Assumed long-term debt	(50,000)
Total Net assets acquired	255,760
Consideration:	
Shares	255,760
Total	255,760

⁽¹⁾ The Company expects to collect all the acquired gross contractual amounts receivable at the date of acquisition. The acquired accounts receivable consist of trade receivable for a total of \$232,827 as at June 1, 2016.

⁽²⁾ Goodwill represents the result of the price paid for the Company's shares and the net assets acquired. Thus, the results of the final purchase price allocation presented above could differ following the third party valuation.

The Company recorded \$17,900 as professional fees in conjunction with the acquisition.

The impact of the acquisition on revenue and the net loss is presented below:

	2016
Revenues	165,209
Net loss	(27,753)

The table below shows the Company's revenues and net loss for the year ended July 31, 2016 as if the acquisition of Pro-J had taken place on August 1, 2015:

	2016
Revenues	1,201,146
Net loss	(183,935)

The actual and pro forma net loss includes the additional amortization of intangible assets, financing costs and additional charges arising from the acquisitions, net of related tax effects.

The supplementary pro forma information is based on estimates and assumptions that are deemed reasonable. This supplementary pro forma information is not necessarily representative of the Company's future consolidated financial results or results that would have been achieved if the business acquisition had taken place on

AlliancePharma Inc.**Notes to the consolidated financial statements****Years ended July 31, 2016 and 2015***(Tabular amounts in Canadian dollars, unless otherwise noted)*

August 1, 2015.

Acquisition of Elitis Pharma Inc.

During the year ended July 31, 2015, the Company completed the acquisition of 100% of the shares of Elitis Pharma Inc. ("Elitis") for a total consideration of \$3,842,996 as at June 1, 2015. The acquisition was in line with the Company's growth strategy. The acquisition was accounted for under the purchase method and its operating results have been included in these consolidated financial statements since the date of acquisition. The allocation of the purchase price was based on a third party valuation. The cash component of \$2,800,000 on the closing of the transaction was financed by a new Credit facility. The Company will also make deferred payments totaling \$1,247,667, payable as follows: \$97,667 after 6 months, \$200,000 after 12 months, \$250,000 after 18 and 24 months and \$225,000 after 30 and 36 months. These payments are subject to interest payment using an annual rate of 3% during the first year, 5% during the second year and 8% during the last year.

As stipulated in the purchase agreement, the total consideration has been reduced by \$307,004 to consider the working capital reduction after 60 days. The Company recorded \$204,671 as other receivable and reduced the deferred payments to consider the impacts of the reduction.

As part of the Transaction, the Company has paid a finder's fee of 950,000 common shares for the acquisition and 650,000 common shares and \$24,000 for the Credit Facility.

7. Trade and other receivables

	2016	2015
Trade receivables	1,080,470	1,059,352
Sales tax receivable	129,294	54,004
Other receivables	34,853	216,294
	1,244,617	1,329,650

The Company's exposure to credit risk related to trade and other receivables is disclosed in note 24.

8. Loans receivables

	2016	2015
Loans, without interest		
Company under common control	120,942	108,817
Directors	-	53
	120,942	108,870

AlliancePharma Inc.
Notes to the consolidated financial statements
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(Tabular amounts in Canadian dollars, unless otherwise noted)
9. Property and equipment

	Note	Leasehold improvements	Computer equipment	Furniture and fixtures	Vehicle	Total
Cost						
Balance at July 31, 2014		5,634	1,653	14,937	-	22,224
Other additions		-	899	-	-	899
Additions through business combination	6	-	40,737	-	-	40,737
Balance at July 31, 2015		5,634	43,289	14,937	-	63,860
Additions through business combination	6	-	5,103	16,610	-	21,713
Other additions		-	7,749	-	23,995	31,744
Balance at July 31, 2016		5,634	56,141	31,547	23,995	117,317
Depreciation						
Balance at July 31, 2014		2,708	496	4,114	-	7,318
Depreciation for the year		845	2,588	1,623	-	5,056
Balance at July 31, 2015		3,553	3,084	5,737	-	12,374
Depreciation		1,127	9,071	3,778	1,200	15,176
Balance at July 31, 2016		4,680	12,155	9,515	1,200	27,550
Net carrying amounts						
At July 31, 2015		2,081	40,205	9,200	-	51,486
At July 31, 2016		954	43,986	22,032	22,795	89,767

10. Intangible assets

	Note	Training courses	Software	Web site	Customer relationships	Total	Goodwill
Cost							
Balance at July 31, 2014		-	-	12,440	-	12,440	-
Additions through business combination	6	90,711	1,162,271	12,876	1,186,000	2,455,858	1,697,153
Other additions		525	16,399	6,400	-	23,324	-
Balance at July 31, 2015		91,236	1,182,670	31,716	1,186,000	2,491,622	1,697,153
Additions through business combination	6	-	12,671	2,998	-	15,669	594,777
Other additions		-	68,768	30,036	-	98,804	-
Balance at July 31, 2016		91,236	1,264,109	64,750	1,186,000	2,606,095	2,291,930
Amortization							
Balance at July 31, 2014		-	-	5,930	-	5,930	-
Amortization		10,867	53,376	4,837	-	69,080	-
Balance at July 31, 2015		10,867	53,376	10,767	-	75,010	-
Amortization		53,359	289,943	10,744	118,600	472,646	-
Balance at July 31, 2016		64,226	343,319	21,511	118,600	547,656	-
Net carrying amounts							
At July 31, 2015		80,369	1,129,294	20,949	1,186,000	2,416,612	1,697,153
At July 31, 2016		27,010	920,790	43,239	1,067,400	2,058,439	2,291,930

Goodwill impairment test

For the purpose of impairment testing, goodwill is allocated to the Company's operating segments which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes. The Company has one significant CGU: Pharmacist Services. The Company performed its goodwill impairment tests as at July 31, 2016 and 2015.

(Tabular amounts in Canadian dollars, unless otherwise noted)

As a result of the impairment test, the Company concluded that no impairment charge was required. The recoverable amount of the CGU was determined based on the value-in-use approach using a discounted cash flow model. The significant key assumptions are based on the forecasted cash flows based on a period of 5 years. For the first year of the model, the budgeted revenues and expenses for 2017 were used. Revenue and expense growth / decrease rate were as follows year 1 – (1.0%), years 2, 3, 4 and 5 – 2.0%. The growth / decrease rate of the projections reflects management expectation that the sales will grow, starting in year 2, at least at the pace of inflation and the expenses reflects no significant growth and a provision for increased cost resulting from inflation. The discounted cash flow model was established using a discount rate of 11.40%, which was based on the weighted average cost of capital before tax which assumes a cost of equity between 14.8% and 15.2% and a cost of debt of 7.7%. A terminal value based on the Gordon growth model was used at the end of year 5.

As part of the impairment testing, management performed a sensitivity analysis using various discount rates as well as a sensitivity analysis for changes in each of the following assumptions: revenue growth and operating costs. As at July 31, 2016, using the key assumptions described above, a discount rate of approximately 13% would be required in order for the Pharmacist Services CGU's recoverable amount to be equal to its carrying amount. Also, using the key assumptions described above, a decrease rate of approximately 1.0% would be required starting in year 2 in order for the Pharmacist Services CGU's recoverable amount to be equal to its carrying amount. Based on the estimated FVLCD and sensitivity analysis performed, management concluded that the Pharmacist Services was not impaired as at July 31, 2016.

11. Bank indebtedness

The Company has authorized operating credits totaling \$1,500,000, bearing interest at the Canadian prime rate plus 1.25%, and renewable annually. The loan is secured by a first mortgage on the Company's present and future accounts receivable and on the Company's current and future tangible and intangible properties.

12. Trade and other payables

	2016	2015
Trade payables and accrued expenses	1,120,560	425,377
Salaries and vacations payable	401,926	377,927
Other accruals	7,939	82,747
Sales tax payable	227,006	140,448
Advance from a shareholder, without interest	100,660	-
Dividend payable	75,000	75,000
	1,933,091	1,101,499

The Company's exposure to liquidity risk related to trade and other payables is disclosed in note 24.

AlliancePharma Inc.
Notes to the consolidated financial statements
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13. Long-term debt

This note provides information about the contractual terms of the Company's interest-bearing long-term debts, which are measured at amortized cost. The Company's exposure to interest rate and liquidity is disclosed in note 24.

	2016	2015
Long-term debt from Business Development Bank of Canada bearing interest at prime rate \$3,125 and maturing in September 2016.	25,000	43,750
Long-term debt from Business Development Bank of Canada bearing interest at prime rate \$1,560 and maturing in February 2021.	75,000	-
Promissory note, bearing interest at 24% calculated and compounded quarterly, cancellable principal and interest upon issuance of securities under a subscription agreement net of transaction costs of \$201,680 (notes 16 and 28).	1,298,320	-
Loan from Scotia Bank bearing interest at 5.73%, repayable by monthly installments of \$401 including interest, and maturing in May 2023.	27,152	-
Long-term debt from Business Development Bank of Canada bearing interest at prime rate plus 4%, repayable monthly by installment of \$830, and maturing in October 2021 with a first payment of \$1,030 in November 2016	50,000	-
Loan from Bank of Montreal, bearing interest at prime rate plus 1.95%, repayable by of \$36,310, and maturing in June 2022, net of transaction costs of \$33,595 ⁽ⁱ⁾	2,513,477	2,943,062
Acquisition balance payments bearing interest between 5% and 8%, repayable by bi-annual installments varying between \$225,000 and \$250,000, maturing in May 2018 (note 6).	950,000	1,247,667
	4,938,949	4,234,479
Less: current portion of long-term debt	2,273,110	766,272
Less: demand loan presented under current liabilities	2,082,619	-
	583,220	3,468,207

⁽ⁱ⁾ The loan is secured by a first charge of all assets of the Company and a \$1,000,000 personal guarantee from two directors. The loan is subject to certain covenants regarding the maintenance of financial ratios as of July 2016. As of July 31, 2016 the financial ratios have not been complied with (see note 28).

The payable amounts for the next five years, as of July 31, are as follows:

	2016	2015
Less than 1 year (see note 28)	4,355,729	766,272
Between 1 and 5 years	572,375	3,111,775
More than 5 years	10,845	356,432
	4,938,949	4,234,479

14. Note Payable

The changes in the carrying value of the note payable as at July 31 are as follows:

	2016	2015
Beginning balance	138,696	132,605
Accreted interest	1,304	6,091
	140,000	138,696
Less: current portion of note payable	(140,000)	-
	-	138,696

AlliancePharma Inc.
Notes to the consolidated financial statements
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15. Deferred tax assets and liabilities

The income tax expense reported differs from the amount computed by applying Canadian income tax rates to income before income taxes. The reasons for the difference and the related tax effects are as follows:

	2016	2015
Net income (loss) before income taxes	(1,640,351)	(1,170,759)
Statutory income tax rate	26.9%	26.9%
Expected income tax recovery	(441,255)	(314,934)
Adjustments :		
Tax effect of non-deductible stock option compensation	-	101,994
Tax effect of non-deductible costs to becoming a public company	26,260	178,304
Tax effect of non-deductible professional fees	1,380	53,157
Tax effect on permanent differences	34,427	2,006
Tax effect of other temporary differences	238,304	81,815
Income tax reduction arising from loss carry forward from a prior year	-	(3,459)
Income tax expense	(140,884)	98,883

The tax effects of temporary differences and net operating losses that give rise to future income tax assets and liabilities are as follows:

	2016	2015
Future income tax assets		
Net operating losses carried forward	781,665	244,064
Tax basis of capital assets in excess of carrying value	77,567	193,179
Financial expenses	18,165	-
	877,397	437,243
Less: valuation allowance	(164,942)	(138,682)
	712,455	298,561
Future income tax liabilities		
Net operating losses carried forward	579,550	307,600
Financial expenses	-	320
	579,550	307,920

The Company has accumulated non-capital losses for income tax purposes related to its continuing operations that expire as follows:

Year of expiry	
2028	40,480
2029	54,883
2030	125,452
2031	241,273
2032	235,662
2033	287,328
2034	401,420
2035	364,636
2036	1,154,276
Total	2,905,410

(Tabular amounts in Canadian dollars, unless otherwise noted)

16. Share capital and other components of equity

Share capital

The Company's share capital consists only of fully paid Class "A" common shares, voting and participating.

During the year, the Company entered into a subscription agreement that provided for the issuance of Series A Preferred Shares. The creation and issuance of the new preferred shares (the "Preferred Shares") needed to be approved by the Shareholders of the Company at a Special Meeting of shareholders (see note 28). The Series A Preferred Shares to be issued are convertible into Class A Shares of the Company anytime up to June 29, 2020 at a conversion price of \$0.35 per share. Furthermore, the Series A Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Company. The Series A Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Class A Shares on an "as converted" basis. As at July 31, 2016, the Company received subscription for 40,000 series A preferred shares and 11,428,571 warrants for an aggregate purchase price of \$4,000,000; the issuance of the preferred shares and the warrants remained contingent to the finalization of the acquisition of Pharmapar Inc., Agence L.I.V. Inc. and Pro-J, Pharma Inc. As additional consideration, the Company also issued to the subscriber 11,428,571 warrants entitling the holder to purchase one additional common shares of the Company for each warrant, at an exercise price of \$0.69 per common share for a period of five years from closing. Concurrently, with the execution of the subscription agreement, the Company received first pre-payment of \$1,500,000, recorded as a promissory note (see note 13).

The common shares entitle the holders thereof to one vote per share. The holders of the common shares are entitled to receive dividends as declared from time to time. Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Company, the holders of the common shares are entitled to receive the remaining property of the Company upon its dissolution, liquidation or winding-up.

At July 31, 2016, a total of 12,600,000 outstanding Class A common shares are held under an escrow agreement and are to be released on a staged basis as follows: January 8, 2017: 2,700,000, July 8, 2017: 2,700,000, and January 8, 2018: 7,200,000.

Contributed surplus

The contributed surplus account is used to record amounts arising from the issuance of share-based payment awards and the value of the warrants issued in relation to various financings.

Convertible debentures

The convertible debentures were issued at the time of the reverse acquisition with a face value of \$750,000 and a fair value of \$43 based on net assets being transferred, are automatically convertible into 5,000,000 Class A common shares at such time as the conversion of the debenture will result in at least 20% of issued and outstanding Class A common shares being held by holder other than a promoter, an insider, an associate or an affiliate with the debenture holder. The convertible debentures are held by key management personnel. As at July 31, 2016, \$525,000 worth of convertible debentures remains held in escrow and are to be released in stages as follows: January 8, 2017: \$112,500, July 8, 2017: \$112,500, January 8, 2018: \$300,000.

Warrants

On January 7, 2015, the Company issued 2,031,600 warrants. The fair value of these warrants was calculated using Black-Scholes pricing model using a share price of \$0.15, exercise price of \$0.25, risk free rate of 0.97%, volatility of 110%, vesting immediately, and life of 2 years from date of grant resulting in a fair value of \$138,352, less transaction fees of \$3,405. Each Warrant will entitle its holder to purchase one common Share at a price of \$0.25 at any time until the two year anniversary of the date of their issuance.

AlliancePharma Inc.**Notes to the consolidated financial statements****Years ended July 31, 2016 and 2015***(Tabular amounts in Canadian dollars, unless otherwise noted)*

The following is a continuity of the warrants outstanding at July 31, 2016:

	Number of warrants	Weighted average exercisable price
Balance, beginning of year	2,031,600	0.25
Exercised	540,001	0.25
Balance, end of year	1,491,599	0.25

Of the warrants outstanding at July 31, 2016, a total of 1,000 (2015 – 1,000) are held by key management personnel. During the year, no warrants (2015 – 2,031,600) were issued and 540,001 (2015 – nil) were exercised.

The following table presents the details of the issued and outstanding warrants as at:

Exercise price	As at July 31, 2016		As at July 31, 2015	
	Expiry date	Number	Expiry date	Number
0.25	January 7, 2017	1,491,599	January 7, 2017	2,031,600

Dividends

In 2016, the Company declared no dividend (2015 – \$75,000).

17. Loss per share**Basic loss per share**

The calculation of basic net loss per share was based on the net loss attributable to Class A common shareholders of \$1,468,373 (2015 – loss of \$1,282,895) and a weighted average number of Class A common shares of 24,698,476 (2015 – 12,897,930).

Diluted loss per share

The calculation of diluted loss per share was based on the loss attributable to Class A common shareholders of \$1,468,373 (July 31, 2015 – loss of \$1,282,895) and a weighted average number of Class A common shares outstanding after adjustment for the effects of all dilutive Class A common shares calculated as follows:

	2016	2015
Weighted average number of Class A common shares	24,698,476	12,897,930
Dilutive effect:		
Stock options and warrants	4,652,053	1,210,280
Weighted average number of diluted Class A common shares	29,350,529	14,108,210

18. Share-based payment arrangements**Stock option plan**

The Company offers a stock option plan for the benefit of certain of its directors, employees, consultants and persons conducting investor relations activities. On January 6, 2016, the shareholders approved an amendment to the stock option plan, increasing the total number of shares which may be issued under the plan to not exceed 4,894,868 options (2015 – ten percent (10%) of the number of issued and outstanding shares of the Company from time to time). The exercise price payable for each option is determined by the Board of Directors at the date of grant, and may not be less than the market price of the common share at the closing price of the TSX-V the day preceding the grant date for a minimum amount of \$0.10 (2015 – \$0.15) per option. The options vest over a 2-year period (2015 – immediate at each grant) with no more than 33.33% of the options vesting in any twelve (12) month period, except for persons conducting investor relations activities which options may vest in stages over twelve (12) months with no more than 25% of the options vesting in any three month period at the sole discretion of the Board of Directors.

AlliancePharma Inc.
Notes to the consolidated financial statements
Years ended July 31, 2016 and 2015
(Tabular amounts in Canadian dollars, unless otherwise noted)

The table below summarizes the changes in the outstanding stock options:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	2,575,000	0.15	-	-
Granted	-	-	2,675,000	0.15
Exercised	-	-	(100,000)	0.15
Balance, end of the year	2,575,000	0.15	2,575,000	0.15
Options exercisable, end of year	2,575,000	0.15	2,575,000	0.15

The following table summarizes information about stock options outstanding and exercisable at July 31, 2016:

	Options outstanding		Options exercisable
Exercise price	Number of options	Weighted average remaining contractual life (in years)	Number of options
0.15	2,325,000	3.6	2,325,000
0.20	250,000	3.8	250,000
	2,575,000	3.6	2,575,000

Of the options outstanding at July 31, 2016, a total of 900,000 (2015 – 900,000) are held by key management personnel. The weighted average share price at the date of exercise for stock options exercised in 2016 was \$nil (2015 – \$0.55).

The fair value of the stock options granted during the year was estimated using the Black-Scholes option pricing model and the following weighted average assumptions:

	2016	2015
Average expected option life	-	5 years
Risk-free interest rate	-	1.10%
Expected stock price volatility	-	122%
Average dividend yield	-	0%
Weighted average fair value of options granted	-	\$0.13

The weighted average share price at the date of exercise of these options in 2016 was \$nil (2015 – \$0.32).

Broker's options units

The table below summarizes the changes in the outstanding broker's options units:

	2016		2015	
	Number of units	Weighted average exercise price	Number of units	Weighted average exercise price
Balance, beginning of year	192,000	0.15	-	-
Granted	-	-	400,000	0.15
Exercised	-	-	(208,000)	0.15
Balance, end of year	192,000	0.15	192,000	0.15
Units exercisable, end of year	192,000	0.15	192,000	0.15

The weighted average share price at the date of exercise in 2016 of these units was \$nil (2015 – \$0.40).

AlliancePharma Inc.**Notes to the consolidated financial statements****Years ended July 31, 2016 and 2015***(Tabular amounts in Canadian dollars, unless otherwise noted)*

The following table summarizes information about broker's options units outstanding and exercisable at July 31, 2016:

		Options outstanding	Options exercisable
Exercise price	Number of units	Weighted average remaining contractual life (in years)	Number of options
0.15	192,000	0.44	192,000
	192,000	0.44	192,000

The fair value of the broker's units options granted during the year was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2016	2015
Average expected units life	-	2 years
Risk-free interest rate	-	0.97%
Expected stock price volatility	-	110%
Average dividend yield	-	0%
Weighted average fair value of options granted	-	\$0.09

19. Revenues

	2016	2015
Replacement pharmacists	7,541,971	5,148,138
Sponsorship	283,071	169,726
Training	20,922	165,570
Technical consultations	88,101	7,500
Other	12,574	25,900
	7,946,639	5,516,834

20. Cost of revenues

Cost of revenues includes compensation and related employee benefits for a total amount of \$5,866,277 (2015 - \$3,631,284).

21. Administrative expenses

	2016	2015
Salaries and fringe benefits	399,146	373,774
Repairs and maintenance	9,489	11,417
Rental fees	70,333	28,435
Travel	79,867	16,869
Meals and entertainment	25,092	17,188
Advertising	25,023	10,521
Supplies and office expenses	179,822	42,681
Telecommunications	20,578	8,851
Professional fees	992,263	439,956
Management fees	499,169	214,760
Regulatory and filing fees	29,073	9,262
	2,329,855	1,173,714

AlliancePharma Inc.**Notes to the consolidated financial statements****Years ended July 31, 2016 and 2015***(Tabular amounts in Canadian dollars, unless otherwise noted)***22. Finance costs**

	2016	2015
Interest expenses	201,292	38,571
Bank charges	44,708	11,853
	246,000	50,424

23. Income tax expense

	2016	2015
Current	-	89,524
Deferred	(140,884)	9,359
	(140,884)	98,883

24. Financial instruments and financial risk management**Classification of financial instruments**

The carrying amounts of the Company's financial assets and liabilities by category are as follows:

Financial assets classified as loans and receivables

	2016	2015
Cash	164,143	510,003
Trade and other receivable (excluding sales tax receivable)	1,115,323	1,275,646
Loan receivable	120,942	108,870
	1,400,408	1,894,519

Financial liabilities recognized at amortized cost

	2016	2015
Bank indebtedness	240,688	493,610
Trade and other payables (excluding sales tax payable)	1,706,085	961,051
Note payable	140,000	-
Long-term debt	4,938,949	4,234,479
	7,025,722	5,689,140

Fair value

Fair value is the estimated amount that parties dealing at arm's length would accept to exchange in settlement of a financial instrument based on the current market for instruments with the same risk, principal and maturity date. These fair value estimates are affected by assumptions made about the amount and timing of estimated future cash flows, discount rates and terms of the contract. As a result, the fair values are not necessarily the net amounts that would be realized if such financial instruments were settled.

The Company has determined that the carrying amount of its short-term financial assets and liabilities, including, trade and other receivables, bank overdraft and, trade and other payables, approximates their fair value because of the relatively short periods to maturity of these instruments.

Management believes that no significant change occurred in the risk of these instruments.

Fair value hierarchy

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and may not be determined with precision. A three-tier fair value hierarchy prioritizes the inputs used in measuring fair value. These tiers include:

(Tabular amounts in Canadian dollars, unless otherwise noted)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Company's cash and bank indebtedness are considered level 1.

The Company does not have other financial assets and liabilities that are measured at fair value on a recurring basis.

Risks

In the normal course of its operations and through its financial assets and liabilities, the Company is exposed to the following risks:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives and processes for managing risk, and the Company's capital management. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Company's management identifies and analyzes the risks faced by the Company, sets appropriate risk limits and controls, and monitors risks and adherence to limits. Risk management is reviewed regularly to reflect changes in market conditions and the Company's activities.

The Board of Directors has overall responsibility of the Company's risk management framework. The Board of Directors monitors the Company's risks through its audit committee. The audit committee reports regularly to the Board of Directors on its activities. The Company's audit committee oversees how management monitors and manages the Company's risks.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Company's trade receivables. The Company grants credit to its customers in the ordinary course of business. Management believes that the credit risk of trade receivables is limited due to the following reasons:

- No single customer accounts for more than 10% of the Company's revenue;
- Approximately 94% (2015 – 90%) of the Company's trade receivables are not past due or 30 days or less past due.

Impairment losses

The aging of trade receivables at the reporting date was:

	Total 2016	Impairment 2016	Total 2015	Impairment 2015
Not past due	898,373	-	833,158	-
Past due 1 – 30 days	118,238	-	115,164	-
Past due 31 – 60 days	40,649	-	87,037	-
Past due more than 60 days	23,210	-	23,993	-
	1,080,470	-	1,059,352	-

The impaired trade receivables are mostly due from customers that are experiencing financial difficulties. Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of past due trade receivables.

(Tabular amounts in Canadian dollars, unless otherwise noted)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Cash inflows and cash outflows requirements from Company's entities are monitored closely and separately to ensure the Company optimizes its cash return on investment. Typically, the Company ensures that it has sufficient cash to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Company monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools. In addition, the Company maintains a credit facility, which has \$1,259,312 availability at July 31, 2016 (2015 – \$1,500,000).

The following are the contractual maturities of the financial liabilities, including estimated interest payment:

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	240,688	-	-
Trade and other payables	1,933,091	-	-
Note payable	140,000	-	-
Long-term debt	3,262,953	628,389	11,528
	5,576,732	628,389	11,528

c) Market risk**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market-interest rates. The Company does not use financial derivatives to reduce its exposure to risk. Company's management considers minimal its interest rate risk.

The Company's exposure to interest rate risk is summarized as follows:

Cash	Fixed interest rates
Trade and other receivables	Non-interest bearing
Loans receivables	Non-interest bearing
Bank indebtedness	Fixed interest rates
Trade and other payables	Non-interest bearing
Note payable	Non-interest bearing
Long-term debt	Fixed and variable interest rates

d) Capital management

For the purposes of capital management, capital consists of share capital and retained earnings of the Company. The Company's objectives when managing capital are:

- To ensure proper capital investment in order to provide stability and competitiveness to its operations;
- To ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions;
- To maintain an appropriate debt level so that there are no financial constraints on the use of capital; and
- To maintain investors, creditors and market confidence.

The Company seeks to maintain a balance between the highest returns that might be possible with higher level of borrowings and the advantages and security by a sound capital position.

The Company's loan agreement requires monitoring two ratios on a quarterly basis, starting July 31, 2016. The first is a ratio of total debt to earnings before interest, income taxes, depreciation, amortization and other extraordinary items ("adjusted EBITDA"). The second is a ratio of adjusted EBITDA and capital and interest

AlliancePharma Inc.**Notes to the consolidated financial statements****Years ended July 31, 2016 and 2015***(Tabular amounts in Canadian dollars, unless otherwise noted)*

installments required over the course of a 12-month period. These ratios are measured on a consolidated last twelve-month basis and must be kept below a certain threshold so as not to breach a covenant in the Company's syndicated bank. At July 31, 2016, the Company is not in compliance with its financial covenants

	Requirement	As at July 31, 2016
Debt service coverage ratio [ratio of EBITDA adjusted EBITDA from acquisitions and extraordinary items to interest and capital payments payable over 12 months]	>1.25:1	(0.26)
Funded debt-to-equity ratio [ratio of total debt plus letters of credit and some other long-term liabilities to EBITDA, including last twelve months adjusted EBITDA from acquisitions]	< 3.25:1	17.36

(i) Effective as of July 31, 2016.

The Company has sufficient liquidity to continue both its operations but will require additional financing to support its acquisition strategy.

Upon maturity of the Company's long-term debt, the Company's management and its Board of Directors will assess if the long-term debt should be renewed at its original value, increased or decreased based on the then required capital need, credit availability and future interest rates.

There were no changes in the Company's approach to capital management during the year and 2015.

25. Commitments

The Company entered into operating leases expiring on various dates through August 2021, with respect to lease vehicle, real estate and other. The total future minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
Less than 1 year	88,679	81,653
Between 1 and 5 years	174,666	256,633
More than 5 years	2,070	-
	265,415	338,286

The Company also rents part of the office which is under operating leases expiring on April 30, 2018 and which represent minimum lease revenues under a non-cancellable operating lease are as follows:

	2016	2015
Less than 1 year	4,590	4,705
Between 1 and 5 years	3,443	8,452
More than 5 years	-	-
	8,033	13,157

In 2016, an amount of \$84,227 (2015 – \$38,547) was recognized as an expense in respect of operating leases.

26. Related parties

The Company's related parties include companies under common control as well as key management personnel.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. The transactions are measured at value of the consideration given or received, which has been established and agreed by the parties. Outstanding balances are usually settled in cash.

All balances of advances receivable and due are measured at fair value and occurred in the normal course of business.

AlliancePharma Inc.**Notes to the consolidated financial statements****Years ended July 31, 2016 and 2015***(Tabular amounts in Canadian dollars, unless otherwise noted)***Transactions with key management personnel**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of the Company's Board of Directors and corporate officers. Remuneration attributed to key management personnel is set out in the following table:

	2016	2015
Officers and directors		
Short-term compensation and related employee benefits	872,018	214,760
Share-based compensation ⁽¹⁾	-	122,680

⁽¹⁾ Corresponds to the cost of the stock options granted recognized in profit or loss over the vesting period.

The Company has the following amounts owing to key management personnel as at July, 31 2016:

	2016
Loans receivable	120,942
Trade and other payables	(420,004)
Note payable, without interest	(140,000)
	(439,062)

27. Changes in non-cash working capital items

	2016	2015
Trade and other receivables	191,815	(362,728)
Income tax receivable	(107,089)	(234,921)
Prepaid expenses	(65,319)	720
Trade and other payables	484,917	92,524
Deferred Revenue	-	(18,994)
	504,324	(523,399)

28. Subsequent events

On July 4, 2016, the Company entered into a \$4 million private placement (the "Private Placement") and entered into definitive agreements to acquire Pharmapar Inc. ("Pharmapar"), and Agence L.I.V. Inc. ("LIV"). The Private Placement included the subscription for 40,000 of a series of preferred shares to be created by the Company (the "Series A Preferred Shares"). The Private Placement was subject to certain conditions, including final approval by the TSX Venture Exchange and the creation and issuance of the new preferred shares. The creation and issuance of the new preferred shares needed to be approved by the Shareholders of the Company at a Special Meeting of shareholders. The Series A Preferred Shares to be issued are convertible into Class A Shares of the Company anytime up to their expiration date at a conversion price of \$0.35 per share. Furthermore, the Series A Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Corporation. The Series A Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Class A Shares on an "as converted" basis.

In the event of a change of control of the Company, and any time after June 29, 2020, the subscriber may demand that the Corporation redeem its Series A Preferred Shares at a redemption price equal to the greater of (i) the subscription price of the Series A Preferred Shares plus a preferred return equal to 24%, compounded annually from June 30, 2016, less any amounts previously distributed as dividends and (ii) their fair market value. In the event of liquidation, holders of Series A Preferred Shares will be entitled to receive, in priority to holders of other shares of the Corporation, an amount per Series A Preferred Share equal to the product of three times the subscription price less any amounts previously distributed as dividends.

As additional consideration pursuant to the Private Placement, the subscriber has received 11,428,571 warrants entitling it to purchase one Common Share of the Company per warrant, for a total of 11,428,571 Common Shares

(Tabular amounts in Canadian dollars, unless otherwise noted)

at an exercise price of \$0.69 per Common Share, at any time in the five years following the investment closing date. Concurrently, with the execution of the subscription agreement, the Company received first pre-payment of \$1,500,000, recorded as a promissory note (see note 13).

On August 23, 2016, the Company completed the acquisition of Pharmapar and LIV and entered into a new credit facility of approximately \$14.5 million. The acquisition of Pharmapar from its shareholders consisted of a total cash consideration of \$8,500,000, the issuance of 8,888,889 common shares of Alliance and deferred payments totaling \$1,600,000, payable in cash in five equal annual installments of \$320,000. The Pharmapar and the LIV acquisitions will significantly expand the Company's scope of services, particularly in the Pharmacy Services and Pharmaceutical Solutions Markets. The acquisition of LIV from its shareholders consisted of a total cash consideration of \$5,000,000 and the issuance of 3,833,333 common shares of Alliance. The purchase price was financed by secured credit financing facility granted to the Company by National Bank of Canada ("National Bank") and by a \$2.5 million second pre-payment of the subscription agreement related with the Private Placement. The 5-year secured term loan from National Bank will bear interest at prime rate plus a spread varying between 0.50% - 1.70% per annum based on certain leverage ratios. The Company also repaid its existing loan from Bank of Montreal valued \$2,513,477 as of July 31, 2016. The Company is currently in the process of completing the purchase price allocation for both acquisitions which it expects to be included in the interim consolidated financial statements for the first quarter of fiscal 2017. The operating results will be included in the Company's consolidated financial statements from the date of acquisition. In connection with these transactions, the Company incurred \$222,488 of acquisition related costs for Pharmapar and \$152,128 for LIV in 2016 for professional fees paid to lawyers, consultants and advisors, to be charged to operations in the first quarter of fiscal 2017.

On September 28, 2016, the shareholders of the Company, during a Special Meeting of shareholders, agreed to amend the articles of incorporation of the Company to remove the existing Class B Shares and Class C Shares and create the Preferred Shares. The creation of the Preferred Shares allowed the conversion of the promissory note and the issuance of the Series A Preferred Shares, in accordance with the terms of the Private Placement.



Management Discussion and Analysis of

AlliancePharma Inc.

For the years ended July 31, 2016 and 2015

The following management's discussion and analysis (the "MD&A") objective is to help the reader better understand the activities of ALLIANCEPHARMA Inc. ("Alliance" or the "Company"), and the highlights of its consolidated financial situation. It explains the consolidated financial situation and the results for the three-month period (the "Fourth quarter") and the year ended July 31, 2016 and the comparison of the Company's consolidated statement of financial position as at July 31, 2015.

The MD&A has been prepared in accordance with Regulation 51-102 and should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended July 31, 2016 and the related notes thereto.

The audited consolidated financial statements and this MD&A have been reviewed by the Audit Committee and approved by the Company's Board of Directors on November 28, 2016. Unless otherwise indicated, all the amounts in this MD&A are in Canadian dollars.

The context otherwise required, all references to "AlliancePharma", "Company", "our", "us", "we" refers to AlliancePharma Inc. as consolidated with its subsidiaries. Further information about the Company, its properties, projects, annual and quarterly reports are available for consultation on the website of SEDAR at the following address: www.sedar.com.

FORWARD LOOKING STATEMENTS

Some statements contained in this MD&A, specially the opinions, the projects, the objectives, the strategies, the estimates, the intent and the expectations of the Company that are not historical data, are forward looking statements. Such statements can be recognized by the terms "forecast", "anticipate", "consider", "foresee" and other terms and similar expressions. The statements are based on information available at the time they are made, on assumptions established by the management and on the management expectation, acting in good faith, concerning future events and concerning, by their nature, known and unknown risks and uncertainties mentioned herein (see the section Risks and uncertainties). The real results for the Company could differ in an important way of those which state or that these forward looking statements show the possibility for. Consequently it is recommended not to trust unduly these statements. The statements do not reflect the potential incidence of special events which could be announced or take place after the date of this MD&A. Except if the applicable legislation requires it, the Company does not intend to update these prospective statements to reflect, in particular, new information or future events, and it is by no means committed doing so.

REPORTING ENTITY, NATURE OF OPERATIONS AND SCOPE OF ACTIVITIES

The Company is domiciled in Canada, incorporated under the *Canada Business Corporations Act*. Its shares are listed for trading on the TSX Venture Stock Exchange under the symbol APA.

Alliance is a provider of pharmacy personnel replacement and vocational training services. It has developed a strong and growing base of active clients with the direct involvement of replacement pharmacists and technical assistants, and focuses on delivering a tier-one placement platform making it possible to target and connect the right providers, in the right places, at the right times and for the right price. The Company is currently among the leaders in job placement service in the health industry in the Province of Quebec. The management evaluated that the Company owns approximately 75 % of the recruitment market of this region. The Company has increased its presence in the Montreal area further to the acquisition of Elitis. The Company does not conduct business outside of the Province of Quebec since the legislation is different in each province of Canada, although penetration of those markets is being considered by the Company.

The pharmacy staffing market is in continuous expansion. The Company estimates that around 100 new pharmacies opened in the Province of Quebec in the last few years and this tendency should remain the same for a few more years. Therefore, the market for the recruitment and the needs of pharmacy owners for temporary pharmacists staffing will be in progression. In addition to the increased number of pharmacies, many pharmacies now offer prolonged opening hours. As discussed in the industry section, these prolonged hours create a demand for the services of the Company.

The Company's placement platform was developed in-house by the Company's management through the ongoing availability and direct involvement of approximately 600 pharmacists and 200 technical assistants. These professionals provide the Company with their availabilities for replacement and formation, giving the Company access to their skills and knowledge on an as needed basis. The Company believes that the experience of its management team and their

extensive network provide it with a distinct competitive advantage.

Currently, the Company is specialized in recruitment of three different types of employees which are:

- Pharmacists, representing more than 85% of the firm recruitment revenues
- Laboratory technicians, a fast-growing sector
- Professional services and training staff.

In addition to recruitment, the Company also provides trainings for pharmacists and pharmacy owners on various topics. Those specialized trainings are provided to improve efficiencies across every services provided by pharmacists. These activities are all similar in terms of customers, geographical representation, services provided, or required workforce, and since Management oversees these activities as a whole entity, and were all accounted for into one operating segment.

THE INDUSTRY

The market for replacement pharmacists and technical assistants has been in existence for more than twenty years and the demand being limited. Over the last ten years, the combination of an aging population, the availability of various new medications, the increase if the number of prescriptions, and the extension of the opening hours led have contributed to increase the demand for replacement pharmacists.

Since Bill n°41, an act to amend the Pharmacy Act, was approved in June 2015, the Industry now have to react and insure Quebec Pharmacist will remain qualified to perform a number of services that were traditionally reserved to physicians. Under Bill n°41 in its current version, pharmacists with the relevant trainings would be permitted to extend prescriptions, subject to certain limitations, prescribe medications when no diagnosis is required in certain circumstances, and prescribe and interpret certain laboratory tests. Bill n°41 was originally sponsored by Yves Bolduc, the Minister of Health and Social Services at the time it was introduced and was adopted by the National Assembly of Quebec on December 8, 2011. The Bill n°41 and related regulations were to come into force September 3, 2013, but given the ongoing negotiation regarding certain issues, its implementation has been postponed. An order in council was issued on August 22, 2013 to defer the coming into force of the Bill was finally approved in June 2015.

Although Bill n°41 expands the field of contribution of pharmacists, it could give rise to major implementation issues. One of the issues that is still in debate and could greatly affect the company business relates to the remuneration of pharmacists for the new services they would provide. Negotiations between the provincial government and the Quebec Association of Pharmacy Owners are still ongoing on this point. While pharmacists believe that they should be remunerated for the provision of additional services due to the higher operating costs incurred by having to perform additional services, the provincial government has taken the position that only certain new services should be remunerated (namely, the prescription of medications for conditions that have already been diagnosed or that do not require a diagnosis, and the adjustment of prescriptions) and that the other services should be provided for free. Currently, when the same services are performed by physicians, the latter are remunerated by the Régie de l'assurance maladie du Québec.

The industry will also have to manage the consequences of recently announced Bill n°28 which could allow the government of Quebec to unilaterally reduce pharmacists' fees by an estimated \$177,000,000. Reducing fees by this amount could make it difficult for pharmacists to provide additional services like the ones provided under Bill n°41 should it come into force. Even existing services may have to be scaled back. The announced cuts may result in reduced pharmacy opening hours and demand for pharmacists and technicians as well as reduced investments by pharmacies.

At this point, management of the Company can't predict nor assess the actual consequences to the industry and the change which could occur as a result of the recently approved Bill n°41 and possibly Bill n°28.

In addition to the general factors above, management of the Company believes that the industry faces several challenges, including:

- Growth in the number of pharmacies
- Establishment of the two-pharmacist work mode
- Extension of the opening hours
- Rapidly changing and highly-fragmented environment
- The increase of the Graduated Pharmacists.

MAJOR EVENTS

On July 4 2016, the Company announced that it has entered into definitive agreements to acquire of Pro-J-Pharma Inc. ("Pro-J-Pharma") , Pharmapar Inc. ("Pharmapar") and Agence L.I.V. Inc. ("liV") and has entered into a \$4 million private placement from Persistence Capital Partners ("PCP"), a private equity fund specializing in health care.

Each of these businesses will add to Alliance's core competencies:

- Pro-J-Pharma, a firm specializing in personnel placement in pharmacies will broadens the Company's current personnel placement services for pharmacies and extends its geographic reach within Quebec;
- Pharmapar, a generic pharmaceutical distribution company, will open the door to pharmaceutical distribution for Alliance;
- liV, a medical communication agency, will open the door to branded pharmaceuticals for Alliance through education and medical communication.

Following these acquisitions, the Company has regrouped its activities into two segments to better reflect its focus on its customers:

- Pharmacy Services, which provides a range of services to pharmacies and pharmacists, including staffing, generic medication, and related services; and
- Pharmaceutical Solutions, which provides a range of medical communications, training and other services to pharmaceutical firms in Canada.

Given liV's pan-Canadian clients, these transactions represented the beginning of a strategy to broaden the Company's activities outside Quebec.

In order to finance these transactions, the Company entered into an agreement with PCP, Canada's leading private equity fund exclusively focused on high-growth opportunities in Canadian healthcare, to invest \$4 million into AlliancePharma. Concurrently, with the execution of the subscription agreement, the Company received first pre-payment of \$1,500,000, recorded as a promissory note.

PCP is a Montreal-based private equity fund that targets investment opportunities with strong growth potential in the healthcare sector. With its in-depth industry knowledge and operational experience in health care, PCP aims for long-term capital appreciation by identifying and developing attractive investment opportunities in the Canadian healthcare field. Concurrent with this announcement, Mr. Stuart M. Elman Managing Partner of PCP has agreed to join the board of directors of AlliancePharma.

PCP entered into an agreement to subscribe for 40,000 Class A preferred shares of the Company (the "Preferred Shares") the creation and issuance of which was approved by the shareholders of the Company at a special meeting of shareholders held on September 30, 2016. Marc Lemieux, Isabelle Bégin, and Gestion Isamar Adstock Inc., who hold a total of approximately 71% of the issued and outstanding common shares of the Company, had undertaken to vote in favor of the creation and issuance of the Preferred Shares.

The Preferred Shares are convertible into common shares of the Company anytime up to their expiration date at a conversion price of \$0.35 per share. Assuming full conversion of the Preferred Shares, a total of 11,428,571 common shares are issuable to PCP.

The Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Company. The Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Common Shares on an "as converted" basis.

In the event of a change of control of the Company, and any time after June 29, 2020, PCP may demand that the Company redeem its Preferred Shares at a redemption price equal to the greater of (i) the subscription price of the Preferred Shares plus a preferred return equal to 24%, compounded annually from the date of their issuance, less any amounts previously distributed as dividends and (ii) their fair market value. In the event of a liquidation, holders of Preferred Shares will be entitled to receive, in priority to holders of other shares of the Company, an amount per Preferred Share equal to the product of three times the subscription price less any amounts previously distributed as dividends.

As additional consideration, PCP received 11,428,571 warrants entitling it to purchase one AlliancePharma common share per warrant, for a total of 11,428,571 common shares at an exercise price of \$0.69 per common share, at any time in the five years following the investment closing date.

As long as (i) the Preferred Shares remain issued and outstanding or (ii) PCP owns, directly or indirectly, 10% or more of the issued and outstanding common shares on a fully diluted basis, PCP will have certain governance rights, including the right to appoint directors, pro-rata pre-emptive participation rights of future share issuances, as well as certain registration rights.

Closing of the PCP investment was subject to certain conditions, including final approval by the TSX Venture Exchange which was received on October 21, 2016, and the creation and issuance of the Preferred Shares.

HIGHLIGHTS FOR THE FOURTH QUARTER AND THE YEAR ENDED JULY 31, 2016

BUSINESS ACQUISITION

The Company completed the acquisition of 100% of the shares of Pro-J for a total consideration of \$255,760. The acquisition was in line with the Company's growth strategy and to be a leading company in the pharmacist replacement industry in Quebec. The acquisition was accounted for under the purchase method and its operating results have been included in the consolidated financial statements since the date of acquisition. The allocation of the purchase price was initially based on the Company's best estimates, subject to the completion of a third party valuation. The purchase was concluded with a share capital emission of 556,000 common shares of the Company at a price of \$0.46 per share. There was no cash component in the transaction.

FIERCE PRICE COMPETITION

Competition on price from competitors has impacted results in the first nine months of the fiscal year. Such reduction in price was required from pharmacy owners who were experiencing financial difficulties further to the decision from the Quebec Government to impose a 4.3% levy on professional fees from the pharmacists. Competitors are still promoting lower hourly rates for replacement pharmacists and the situation is expected to remain same until the uncertainty about allowed level of transfers from pharmaceutical companies will have been set by the Quebec Government by legislation which is expected by mid-June. The Company also had to counterbalance the negative effects on the market from the large availability of graduates since the graduating class of 2015 was considered the equivalent of 2 normal class sizes.

UNCERTAINTY ABOUT PROFESSIONAL ALLOWANCES

Negotiation about professional allowances has been considerably reduced between the Quebec Government and various stakeholders (pharmacists, banners, and distribution companies) causing serious uncertainty and financial stress to pharmacy owners. Such situation had a negative impact on revenue and operating costs for the Company during the Fourth quarter caused by lower selling prices offered in order to accommodate the industry during such a turmoil period.

FINANCIAL PERFORMANCE

For the Fourth quarter ended July 31, 2016, the Company has generated \$2,098,178 of sales with a contribution margin of 20%. Revenue decreased by \$31,092 or 1%, as compared to the same period from the previous year; the decrease was mainly driven by lower demand for replacement pharmacist caused by the uncertainty from Bill n°28 partially offset by the recently completed acquisition partially. The contribution margin increased \$143,642 as compared to the same period from the previous year as a consequence of the realignment of the prices paid to the replacement pharmacist with the market.

For the year ended July 31, 2016, the Company has generated \$7,946,639 of sales with a contribution margin of 18%. Revenue increased by \$2,429,805 or 44%, as compared to the previous year; the increase was mainly driven by the recently completed acquisition partially offset by the negative impacts from the price compression initiated by competitors. Revenues were also impacted by a larger availability of graduated pharmacists in spring 2015 following the graduation of two classes this year as compared to none in spring 2014. The contribution margin increased \$249,024 as compared to the same period from the previous year but decreased as a percentage as a consequence of the integration costs related with the Elitis acquisition and a more expensive compensation structure at Elitis.

Administrative costs reached \$2,329,855 for the year ended July 31, 2016, an increase of \$1,156,141 as compared with the previous fiscal year while the Company was still operating as a private Company with limited overhead costs. The increase also considers large non-recurring professional fees to support the acquisition, strategic planning and related financing activities underway. Cost of public listing of \$662,840 considered during the previous fiscal year largely impacted the financial performance for the year ended on July 31, 2015. Finance costs of \$247,304, an increase of

\$190,789 as compared with \$56,515 from the previous year, were mainly driven by the interest fees related with the long-term debt contracted at the time of the acquisition.

The net loss and the comprehensive loss for the Fourth quarter ended on July 31, 2016 was \$ 1,049,649 or \$ 0.04 per share, compared to a loss of \$650,933 or \$ 0.03 per share during the previous year. The net loss and the comprehensive loss for the year ended on July 31, 2016 was \$ 1,499,467 or \$ 0.06 per share, compared to a loss of \$1,269,642 or \$ 0.10 per share for the previous fiscal year.

Selected Financial Information

The following table summarizes the Company's selected key financial data taken from the statements of loss for the periods ended July 31, 2016 and 2015 as well as the consolidated statement of financial position as at July 31, 2016, and July 31, 2015.

(unaudited) (in \$)	For the three months ended July 31,		For the years ended July 31	
	2016	2015	2016	2015
Revenues	2,098,178	2,129,270	7,946,639	5,516,834
Cost of revenue	1,673,762	1,851,194	6,522,009	4,341,228
Administrative expenses	1,308,609	553,122	2,329,855	1,173,714
Cost of public listing	-	19,543	-	662,840
Depreciation of property plant and equipment	4,879	2,326	15,176	5,056
Amortization of intangibles assets	193,827	65,303	472,646	69,080
Share-based compensation	-	160,040	-	379,160
Net finance costs	60,253	47,159	247,304	56,515
Net loss	(1,049,649)	(650,933)	(1,499,467)	(1,269,642)
Net loss per share	(0.04)	(0.03)	(0.06)	(0.10)

(unaudited) (in \$)	At July 31,	At July 31,
	2016	2015
Net cash	(76,545)	16,393
Working capital, excluding net cash	(4,776,543)	(319,901)
Total assets	6,969,051	6,504,820
Total liabilities	7,832,278	6,259,339
Net equity (deficit)	(863,227)	245,841

Statement of financial position as at July 31, 2016

As at July 31, 2016, total assets of the Company were at \$6,969,051 an increase of \$410,227 when compared to July 31, 2015. The increase in the total assets is mostly related with the recently completed acquisition.

Management estimates that the working capital deficiency at the end of the Fourth quarter will be resolved by the Private Placement and debt financing related with the acquisition combined with improvements in operating expenses will provide the Company with adequate funding in order to meet its short-term obligations and to continue its ongoing efforts in order to grow the business.

Financing activities for the year ended July 31, 2016)

During the year ended July 31, 2016, \$819,649 was provided in the financing activities mainly driven by the issuance of a promissory note relative to a private placement to be completed in the first quarter of 2017, reduced by repayment of the long-term debt related to the Elitis acquisition.

Investing activities for the year ended July 31, 2016

During the year ended July 31, 2016, a net amount of \$523,380 was used in the investing activities mainly driven by the recently completed acquisition of Pro-J.

Selected quarterly data

Operating results for each of the last 8 quarters are presented in the table below. The data related to these quarters were prepared in the same manner as that of the audited financial statements for the fiscal year ended July 31, 2015.

(in \$)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	2,098,179	1,562,911	1,607,998	2,677,551	2,129,270	1,172,571	1,123,512	1,091,481
Net Income (loss)	(1,049,649)	(184,026)	(289,343)	23,551	(650,933)	75,049	(754,290)	60,532
Net Income (loss) per share	(0.04)	(0.01)	(0.01)	0.00	(0.03)	0.00	(0.03)	571

Related Party Transactions and Commercial Objectives

The Company's related parties include companies under common control as well as key management personnel.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. The transactions are measured at value of the consideration given or received, which has been established and agreed by the parties. Outstanding balances are usually settled in cash.

All balances of advances receivable and due are measured at fair value and occurred in the normal course of business.

Transactions with key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of the Company's Board of Directors and corporate officers. The key management personnel received a total remuneration of \$872,018 (2015– \$337,440). As of July 31, 2016, an amount of \$439,062 was still payable to key management personnel.

Off Balance sheet agreements

The Company has not concluded any off balance sheet agreements.

Obligations and contractual commitments

The Company entered into operating leases expiring on various dates through December 2019, with respect to rolling stock, real estate and other. The total future minimum lease payments under non-cancellable operating leases are as follows:

Less than 1 year	88,679
Between 1 and 5 years	174,666
More than 5 years	2,070
	265,415

The Company also rents part of the office which is under operating leases expiring on July 31, 2018 and which represent minimum lease revenues under a non-cancellable operating lease are as follows:

Less than 1 year	4,590
Between 1 and 5 years	3,443
More than 5 years	-
	8,033

SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board ("IASB"). The consolidated financial statements were approved and authorized for issue by the Board of Directors on November 28, 2016.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material item in the statements of financial position:

- assets and liabilities acquired in business combinations are measured at fair value at acquisition date.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars ("C\$"), which is the Company's functional currency.

Use of estimates and judgments

The preparation of the accompanying consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, the disclosures about contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates and assumptions are based on management's best estimates and judgments.

Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Actual results could differ from these estimates. Changes in those estimates and assumptions resulting from changes in the economic environment will be reflected in the financial statements of future periods.

Information about critical judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 4 – Establishing the fair value of assets and liabilities, intangible assets and goodwill related to business acquisition;
- Note 10 – Determining estimates and assumptions related to impairment tests for long-lived assets and goodwill;
- Note 15 – Assessing recoverability of future tax assets using forecast of future profits depends on many factors including the Company's ability to generate such profits and the implementation of effective tax planning strategies;
- Note 16 & 18 – Establishing the estimates and assumptions related to the characteristic included in valuation model (Black & Scholes) for estimating fair value for warrants and shares-based payments transactions.

Change in accounting policy

During the year ended July 31, 2016, the management determined that the customer relationships intangible asset had a finite life. This intangible asset should be amortized on a straight-line basis over a 10 years useful life. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the useful life of this intangible asset.

As required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, the Company recognized prospectively the effect of this accounting estimate change.

For the year ended on July 31, 2016, the Company recognized an amortization expense of \$118,600 related with customer relationships.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated

financial statements, unless otherwise indicated. The accounting policies have been applied consistently by Group entities.

Basis of consolidation

Business combinations

The Company measures goodwill as the fair value of the consideration transferred including the fair value of liabilities resulting from contingent consideration arrangements, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at fair value as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the policies adopted by the Company.

The Corporations subsidiaries, as at July 31, 2016 and 2015 are:

Name	Nature of services	2016	2015	Type of arrangements	Accounting method
Campus Elitis Pharma Inc.	Training	80%	80%	Subsidiary	Consolidation
Elitis Pharma Inc.	Pharmacist Services	100%	100%	Subsidiary	Consolidation
Alliance Pharma Operations Inc.	Pharmacist Services	100%	100%	Subsidiary	Consolidation
Pro-J Pharma Inc.	Pharmacist Services	100%	n.a.	Subsidiary	Consolidation
9287396 Canada inc	Pharmacist Services	100%	100%	Subsidiary	Consolidation
9321-5317 Quebec inc	Pharmacist Services	100%	100%	Subsidiary	Consolidation
Alliance Pharma SENCRL	Pharmacist Services	99%	99%	Subsidiary	Consolidation

ii) Transactions eliminated on consolidation

Intra-Company balances and transactions, and any unrealized income and expenses arising from intra-Company transactions, are eliminated in preparing the consolidated financial statements.

iii) Non-controlling interests

Non-controlling interests represent equity interests in the subsidiary owned by outside parties. The share of net assets of the subsidiary attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity.

All significant intercompany transactions and balances have been eliminated.

Financial instruments

i) Non-derivative financial assets and liabilities

The Company initially recognizes loans and receivables, investment in equity securities, debt issued, and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets designated at fair value through income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position

when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has classified non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash, trade and other receivables (excluding sales tax receivable) and loans receivable.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an available-for-sale financial asset is derecognized, the gain or loss accumulated in the fair value reserve is reclassified to income or loss. The Company has not recorded any available-for-sale financial assets.

The Company has the following non-derivative financial liabilities: bank indebtedness, trade and other payables (excluding sales tax payable), long-term debt and note payable. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

ii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares, stock options and warrants are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

All transactions with owners are recorded separately within equity. Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

iii) Compound financial instrument

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognized in income or loss. On conversion, the financial liability is reclassified to equity with no gain or loss recognized in income or loss.

Property and equipment

Property and equipment are accounted for at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from

disposal with the carrying amount of property and equipment, and are recognized in net income or loss.

Depreciation is based on the cost of an asset less its residual value and is recognized in income or loss over the estimated useful life of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The depreciation method and useful lives are as follows:

Categories	Method	Useful lives
Furniture and fixtures	Straight-line	5 years
Computer equipment	Straight-line	5 years
Leasehold improvements	Straight-line	5 years
Vehicle	Straight-line	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property and equipment are reviewed for impairment in accordance with IAS 36 *Impairment of Assets* when there are indicators that the carrying value may not be recoverable.

Intangible assets

i) Goodwill

Goodwill that arises upon business combinations is included in intangible assets. Goodwill is not amortized and is measured at cost less accumulated impairment losses.

ii) Other finite life intangible assets

Other intangible assets consist of customer relationships, training courses, software and web site. Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized on a straight-line basis over the following estimated useful lives:

Categories	Useful lives
Customer relationships	10 years
Training courses	5 years
Software	5 years
Web site	3 years

Useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Customer relationships are tested for impairment yearly on July 31. Tests are also carried out when events or circumstances indicate a possible impairment. Any impairment loss is charged to earnings (loss) in the period it arises.

Impairment

i) Financial assets

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

ii) Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventoried supplies and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If

any such indication exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated on July 31 of each year.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs (usually a Group's operating segment), that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, if any, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Impairment losses and impairment reversals are recognized in income or loss.

Share-based payment transactions

The grant date fair value of equity share-based payment awards granted to employees or consultants is recognized as an administrative expense, with a corresponding increase in contributed surplus, over the period that the employees or the consultants unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service condition at the vesting date.

Revenue recognition

The Company's normal business operations consist of the provision of pharmacist replacements and training services. All income relating to normal business operations is recognized as services are rendered, when the amount of revenue and income can be reliably measured and in all probability the economic benefits from the transactions will flow to the Company, excluding sales taxes. Consideration received prior to the services being rendered is deferred as a liability under "Deferred revenues" in the consolidated statement of financial position.

Finance income and finance costs

Finance income comprises interest income on funds invested, available-for-sale financial assets, dividend income, and bargain purchase gains on business acquisitions. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Finance costs comprise interest expense on bank indebtedness and long-term debt, unwinding of the discount on provisions and impairment losses recognized on financial assets (other than trade receivables).

Fair value gains or losses on derivative financial instruments and on contingent considerations, and foreign currency gains and losses are reported on a net basis as either finance income or cost.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its Class "A" common shares. Basic EPS is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of Class "A" common shares outstanding during the period, adjusted for own shares held, if any.

Diluted EPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of Class "A" common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential Class "A" common shares, which comprise convertible debentures in shares, warrants and stock options.

Employee benefits

Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences, and bonuses. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset.

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

The Company contributes to state-run defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees. The costs of benefits for defined contribution plans are expensed as they are incurred. The Company has no legal or constructive obligation to pay any further amounts.

The pension plan expense during the year amounts to the following:

	2016	2015
Total presented under cost of revenue	30,426	5,174
Total presented under administrative expenses	2,104	373
	32,530	5,547

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing the consolidated financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 7, Financial Instruments ("IFRS 7")

IFRS 7 clarifies that the additional disclosure required by the amendments to *IFRS 7, Disclosure – offsetting financial assets and financial liabilities* is not specifically required for all interim periods, unless required by IAS 34. The amendment is effective January 1, 2016 with early adoption permitted. The Company has not yet adopted this standard and management has not yet determined the impact of this standard.

IFRS 9 - Financial Instruments ("IFRS 9")

In November 2009 the IASB issued IFRS 9, Financial Instruments ("IFRS 9 (2009)"), and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, Financial Instruments (2013) ("IFRS 9 (2013)"). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. The Company does not intend to adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its consolidated financial statements for the annual period beginning on August 1, 2016.

IFRS 10, Consolidated Financial Statements ("IFRS 10") and IAS 28, Investments in Associates and Joint Ventures (2011) ("IAS 28")

In September 2014, the IASB announced certain amendments to IFRS 10 and IAS 28 that resolved certain inconsistencies in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments provide that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The amendments will be effective from annual periods commencing on or after January 1, 2016. The Company does not expect that these amendments will have a significant impact to the Company's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15, which will replace IAS 18, *Revenue*, and will become effective for annual periods beginning on or after January 1, 2018 and is available for early adoption. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning August 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 16, Leases ("IFRS 16")

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 is not expected to have a material impact on amounts recorded in the consolidated financial statements of the Company.

IAS 1 – Presentation of Financial Statements ("IAS 1")

In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the consolidated financial statements, the use and presentation of subtotals in the statements of net income or loss and comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the consolidated financial statements to enhance understandability. The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. These amendments will not require any significant change to current practice, but should facilitate improved consolidated financial statement disclosures. The Company intends to adopt these amendments in its financial statements for the annual period beginning on August 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IAS 7 – Disclosure initiative (Amendments to IAS 7 Statement of Cash flows)

These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

IAS 12 – Income Taxes

The amendments to this standard relate to the recognition of deferred tax assets and liabilities, with the latter also being subject to a 'probable profits' test. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

IAS 16 – Property, plant and equipment ("IAS 16") and IAS 38 – Intangible assets ("IAS 38")

Amendment to IAS 16 and IAS 38 clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. It also clarifies that revenue is not an appropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The amendments are effective from January 1, 2016.

IAS 19 – Employee Benefits ("IAS 19")

IAS 19 was amended by the IASB on November 13, 2013. The amendments provide additional guidance to IAS 19 Employee Benefits on the accounting for contributions from employees or third parties set out in the formal terms of a defined benefit plan. The amendments are effective for annual periods beginning on or after July 1, 2014. The adoption of these amendments is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

IAS 19 was further amended on July 30, 2014. The amendments to IAS 19 clarify the application of the requirements of IAS 19 on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments is not expected to have an impact on the Company's results of operations, financial position or disclosures.

FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

Risks

In the normal course of its operations and through its financial assets and liabilities, the Company is exposed to the following risks:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives and processes for managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout the consolidated financial statements.

Risk management framework

The Company's management identifies and analyzes the risks faced by the Company, sets appropriate risk limits and controls, and monitors risks and adherence to limits. Risk management is reviewed regularly to reflect changes in market conditions and the Company's activities.

The Board of Directors has overall responsibility of the Company's risk management framework. The Board of Directors monitors the Company's risks through its audit committee. The audit committee reports regularly to the Board of Directors on its activities. The Company's audit committee oversees how management monitors and manages the Company's risks.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Company's trade receivables. The Company grants credit to its customers in the ordinary course of business. Management believes that the credit risk of trade receivables is limited due to the following reasons:

- No single customer accounts for more than 10% of the Company's revenue;
- Approximately 94% (2015 – 90%) of the Company's trade receivables are not past due or 30 days or less past due.

Impairment losses

The aging of trade receivables at the reporting date was:

	Total 2016	Impairment 2016	Total 2015	Impairment 2015
Not past due	898,373	-	833,158	-
Past due 1 – 30 days	118,238	-	115,164	-
Past due 31 – 60 days	40,649	-	87,037	-
Past due more than 60 days	23,210	-	23,993	-
	1,080,470	-	1,059,352	-

The impaired trade receivables are mostly due from customers that are experiencing financial difficulties. Based on historic default rates, the Company believes that no impairment allowance is necessary in respect of past due trade receivables.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

Cash inflows and cash outflows requirements from Company's entities are monitored closely and separately to ensure the Company optimizes its cash return on investment. Typically, the Company ensures that it has sufficient cash to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The Company monitors its short and medium-term liquidity needs on an ongoing basis using forecasting tools.

The following are the contractual maturities of the financial liabilities, including estimated interest payment:

	Less than 1 year	Between 1 and 5 years	More than 5 years
Bank indebtedness	240,688	-	-
Trade and other payables	1,933,091	-	-
Note payable	140,000	-	-
Long-term debt	3,262,953	628,389	11,528
	5,576,732	628,389	11,528

OTHER RISKS AND UNCERTAINTIES

The following are other risk factors facing the Company.

Competition - The pharmacist's replacement industry has grown rapidly over last 10 years and so did number of competitors. Because companies can enter such industry with very little capital or technical expertise, there are a large number of regional and local replacement companies in the industry. The Company faces competition from these businesses in the markets and regions it currently serves.

Legislation - The industry is trying to adapt to recent changes and obligations under Bill n°41 and n°28. These bills do impact day-to-day operations of pharmacists but will also impact significantly their overall compensation.

Operating Environment - The Company is subject to changes in its general operating environment. The Company is

exposed to the following elements affecting its operating environment: the availability of pharmacists, sufficient qualified personnel to provide specialized training, and the average compensation offered on the market.

General Economic Conditions - Demand for replacement pharmacists is closely linked to the state of the health industry and overall economy. Consequently, a decline in general economic growth could adversely affect the Company's performance.

Interest Rate Fluctuations - Changes in interest rates may result in fluctuations in the Company's future cash flows related to interest payment of its long-term debt.

Acquisitions and Integration Risks - Historically, acquisitions have been a part of the Company's growth strategy. This year has shown a major acquisition for the Company. Acquisitions involve numerous risks, including potential loss of customers, key employees, and service providers of the acquired company.

Key Personnel - The future success of the Company will be based in large part on the quality of its management and key personnel. The loss of key personnel could have a negative effect on the Company. There can be no assurance that the Company will be able to retain its current personnel or, in the event of their departure, to attract new personnel of equal quality.

Loan Default - The Company's current credit facilities and financing agreements impose certain covenant requirements. There is a risk that such loans may go into default if there is a breach in complying with such covenants and obligations which could result in the Company being unable to pay dividends to shareholders, and in lenders realizing on their security and causing the Company to lose some or all of its assets. As at July 31, 2016, the Company would not have been in compliance with all of its debt covenants and obligations.

Credit Facilities - The Company's credit facilities and financing agreement mature on various dates. There can be no assurance that such credit facilities or financing agreements will be renewed or refinanced, or if renewed or refinanced, that the renewal or refinancing will occur on equally favorable terms to the Company.

Credit Risks - The Company provides services to clients primarily in Quebec. The concentration of credit risk to which the Company is exposed is limited due to the significant number of customers that make up its client base and their distribution across different geographic areas. Furthermore, no client accounted for more than 10% of the Company's total accounts receivable for the period ended on July 31, 2016.

Availability of Capital - The Company's future growth may be dependent on the Company's ability to fund a portion of its capital expenditures and working capital with the current credit facilities and financing agreement. The Company may be required to reduce dividends or sell additional shares in order to accommodate these items. There can be no assurance that sufficient capital will be available on acceptable terms to the Company for necessary or desirable capital expenditures or that the amount required will be the same as currently estimated.

CAPITAL MANAGEMENT

For the purposes of capital management, capital consists of share capital and retained earnings of the Company. The Company's objectives when managing capital are:

- To ensure proper capital investment in order to provide stability and competitiveness to its operations;
- To ensure sufficient liquidity to pursue its growth strategy and undertake selective acquisitions;
- To maintain an appropriate debt level so that there are no financial constraints on the use of capital; and
- To maintain investors, creditors and market confidence.

The Company seeks to maintain a balance between the highest returns that might be possible with higher level of borrowings and the advantages and security by a sound capital position.

The Company's loan agreement requires monitoring two ratios on a quarterly basis. The first is a ratio of total debt to earnings before interest, income taxes, depreciation, amortization and other extraordinary items ("adjusted EBITDA"). The second is a ratio of adjusted EBITDA and capital and interest installments required over the course of a 12-month period. These ratios are measured on a consolidated last twelve-month basis and must be kept below a certain threshold so as not to breach a covenant in the Company's syndicated bank. At July 31, 2015, the Company was not in compliance with its financial covenants and received from its lender a confirmation about its acceptance not to exercise its right to request the reimbursement of the loan and its termination except if an important unfavorable event were to occur.

	Requirement (i)	At July 31, 2016
Debt service coverage ratio [ratio of EBITDA adjusted from acquisitions and extraordinary items to interest and capital payments payable over 12 months]	>1.25:1	(0.26)
Funded debt-to-equity ratio [ratio of total debt plus letters of credit and some other long-term liabilities to EBITDA, including last twelve months adjusted EBITDA from acquisitions]	< 3.25:1	17.36
(i) Effective as of July 31, 2016.		

The Company has sufficient liquidity to continue both its operations but will require additional financing to support its acquisition strategy.

Upon maturity of the Company's long-term debt, the Company's management and its Board of Directors will assess if the long-term debt should be renewed at its original value, increased or decreased based on the then required capital need, credit availability and future interest rates.

There were no changes in the Company's approach to capital management during the year.

SUBSEQUENT EVENTS

On July 4, 2016, the Company entered into a \$4 million private placement (the "Private Placement") and entered into definitive agreements to acquire Pharmapar Inc. ("Pharmapar"), and Agence L.I.V. Inc. ("LIV"). The Private Placement included the subscription for 40,000 of a series of preferred shares to be created by the Company (the "Series A Preferred Shares"). The Private Placement was subject to certain conditions, including final approval by the TSX Venture Exchange and the creation and issuance of the new preferred shares. The creation and issuance of the new preferred shares needed to be approved by the Shareholders of the Company at a Special Meeting of shareholders. The Series A Preferred Shares to be issued are convertible into Class A Shares of the Company anytime up to their expiration date at a conversion price of \$0.35 per share. Furthermore, the Series A Preferred Shares are entitled to vote as a separate class of shares and are also entitled to vote on an "as converted" basis at any special or general meeting of the shareholders of the Corporation. The Series A Preferred Shares shall not be entitled to any fixed dividend entitlement, but shall participate in all dividends declared on the Class A Shares on an "as converted" basis.

In the event of a change of control of the Company, and any time after June 29, 2020, the subscriber may demand that the Corporation redeem its Series A Preferred Shares at a redemption price equal to the greater of (i) the subscription price of the Series A Preferred Shares plus a preferred return equal to 24%, compounded annually from June 30, 2016, less any amounts previously distributed as dividends and (ii) their fair market value. In the event of liquidation, holders of Series A Preferred Shares will be entitled to receive, in priority to holders of other shares of the Corporation, an amount per Series A Preferred Share equal to the product of three times the subscription price less any amounts previously distributed as dividends.

As additional consideration pursuant to the Private Placement, the subscriber has received 11,428,571 warrants entitling it to purchase one Common Share of the Company per warrant, for a total of 11,428,571 Common Shares at an exercise price of \$0.69 per Common Share, at any time in the five years following the investment closing date. Concurrently, with the execution of the subscription agreement, the Company received first pre-payment of \$1,500,000, recorded as a promissory note.

On August 23, 2016, the Company completed the acquisition of Pharmapar and LIV and entered into a new credit facility of approximately \$14.5 million. The acquisition of Pharmapar from its shareholders considered a total cash consideration of \$8,500,000, the issuance of 8,888,889 common shares of Alliance and the deferred payments totaling \$1,600,000, payable in cash in five equal annual installments of \$320,000. The acquisition of LIV from its shareholders considered a total cash consideration of \$5,000,000 and the issuance of 3,833,333 common shares of Alliance. The Pharmapar and the LIV acquisitions will significantly expand the Company's scope of services, particularly in the Pharmacy Services and Pharmaceutical Solutions Markets. The purchase price was financed by secured credit financing facility granted to the Company by National Bank of Canada ("National Bank") and by a \$2.5 million second pre-payment of the subscription agreement related with the Private Placement. The 5-year secured term loan from National Bank will bear interest at prime rate plus a spread varying between 0.50% - 1.70% per annum based on certain leverage ratios. The Company also repaid its existing loan from Bank of Montreal valued \$2,513,477 as of July 31, 2016. The Company is currently in the process of completing the purchase price allocation for both acquisitions which it expects to be included in the interim consolidated financial statements for the first quarter of fiscal 2017. The operating results will be included in the

Company's consolidated financial statements from the date of acquisition. In connection with these transactions, the Company incurred \$222,488 of acquisition related costs for Pharmapar and \$152,128 for LIV in 2016 for professional fees paid to lawyers, consultants and advisors.

On September 28, 2016, the shareholders of the Company, during a Special Meeting of shareholders, agreed to amend the articles of incorporation of the Company to remove the existing Class B Shares and Class C Shares and create the Preferred Shares. The creation of the Preferred Shares allowed the conversion of the promissory note and the issuance of the Series A Preferred Shares, in accordance with the terms of the Private Placement.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was prepared as of the date shown in the header of this document. Additional information relating to the Company can be found on the website www.sedar.com and on our website www.alliancepharmainc.ca.

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