Aleafia Health
SCIENCE SEEDING WELLNESS

ALEAFIA HEALTH INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and twelve months ended December 31, 2021

Dated February 14, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2021

This Management's Discussion and Analysis ("MD&A") of Aleafia Health Inc. (the "Company" or "Aleafia Health") is dated February 14, 2022 and provides an analysis of the financial operating results for the three and twelve months ended December 31, 2021. Unless the context otherwise requires, "Aleafia Health" refers to Aleafia Health Inc. and the "Company" refers to Aleafia Health and its affiliates, subsidiaries and associated corporations. This MD&A should be read in conjunction with the Company's unaudited, consolidated financial statements for the three and twelve months ended December 31, 2021 and notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") for consolidated financial statements.

All amounts are in Canadian dollars unless otherwise specified. The MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51- 102") of the Canadian Securities Administrators. This MD&A, the consolidated financial statements, and press releases have been filed on SEDAR. Additional information is also available on the Company's website at www.AleafiaHealth.com. The common shares of the Company are traded on the Toronto Stock Exchange ("TSX") under the symbol "AH". The Company also has a class of convertible debentures (AH.DB) and three classes of warrants (AH.WT),(AH.WT.A), and (AH.WT.B) which trade on the TSX.

COMPANY OVERVIEW

Aleafia Health is a publicly traded corporation incorporated under the laws of Ontario. Aleafia Health's head and registered office is currently located at 85 Basaltic Road, Concord, Ontario and its corporate website is www.AleafiaHealth.com.

Aleafia Health is a federally licensed Canadian cannabis company offering cannabis health and wellness services and products in Canada. The Company owns and operates a virtual network of medical cannabis clinics staffed by physicians and nurse practitioners who have seen over 75,000 patients to date.

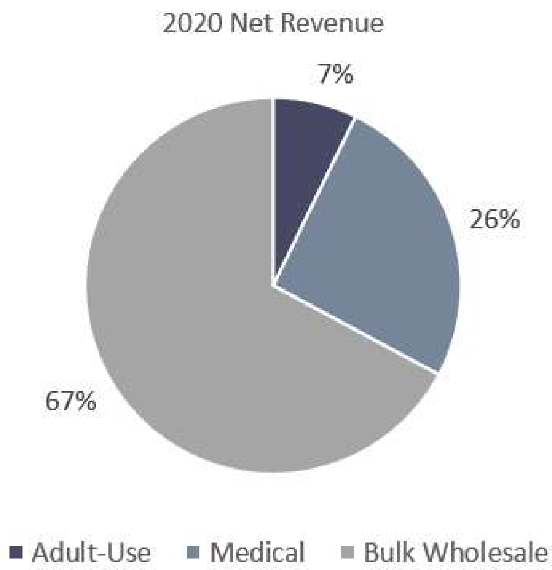
Aleafia Health owns three licensed cannabis production facilities and operates a strategically located distribution centre all in the province of Ontario, including the first large-scale, legal outdoor cultivation facility in Canadian history. The Company produces a diverse portfolio of cannabis derivative products including oils, capsules, edibles, sublingual strips, and vapes, for sale in Canada in the medical and adult-use markets, and in select international jurisdictions.

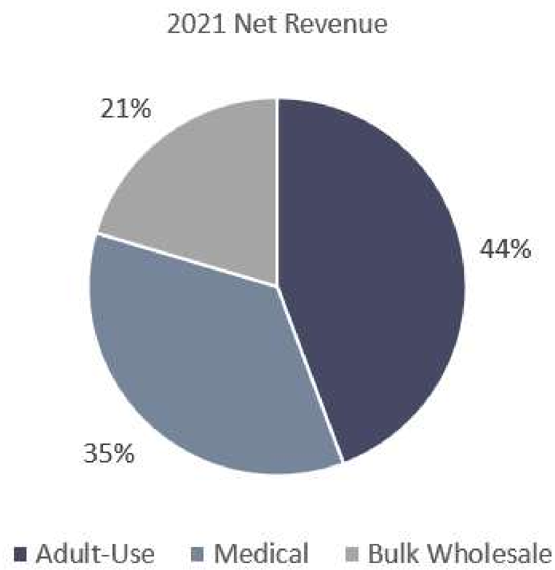
Strategy

The Company sells its products primarily through three sales channels: adult-use, medical, and international. Following the launch of the Company's Sunday Market house of brands, adult-use revenue includes cannabis revenue from five new brands, which have has enjoyed significant market success. The Company's strategy is now to tactically sell through the bulk wholesale sales channel where it is has excess product or product not suitable for its other sales channels, to maximize net realizable margin from its cultivation.

Historically, the bulk wholesale sales channel has been an important vertical for the Company as it allowed the Company to opportunistically sell cannabis, oils, distillate isolate and other cannabis input materials to maximize net realizable margin on our cultivation harvest. With the launch of the Company's adult-use Sunday Market House of Brands, and the improvement in the potency and quality of the Company's outdoor harvest, it is now able to utilize that flower feedstock to support its own branded cannabis products. The bulk wholesale sales channel represented 5% of Q4 2021 net revenue.

The below charts illustrate the percentage of total net revenue represented by each sales channel. Due to an increase in the Company's branded cannabis product portfolio, adult-use net revenue represents a meaningfully larger proportion of net revenue, relative to bulk wholesale net revenue. The adult-use and medical cannabis sales channels now account for a majority of net revenue.





Attain Top 10 Market Share Position in Canadian Adult-Use Market

The adult-use sales channel in Canada is now the Company's largest sales channel based on total net revenue, with distribution agreements and entrenched relationships in four provinces representing an estimated 65% of the Canadian population. The Company has rapidly gained market share, with the third largest change in market share rankings among Canadian Licensed Producers from Q1 2021 (#30th), when the Company launched its new adult-use brand portfolio, to Q4 2021 (#15th), according to data from Hifyre. Over the span of the last three quarters, the Company's market share has grown to where the Company is now in the top quartile of Canadian LPs. The adult-use channel represented 69% of the Company's Q4 2021 net revenue.

Leadership in Medical

The medical sales channel in Canada is core to the Company and supported by our medical ecosystem, offering the ability for new patients to be onboarded, consulted, prescribed, and delivered medical cannabis products in the same day in the Greater Toronto Area, Canada's most populous region. Aleafia Health's Emblem brand is used exclusively in the Company's medical sales channel and has a well-earned reputation for product excellence. With over 19,700 active patients with stable ordering patterns, this sales channel has a high level of recurring revenue.

The Company has an exclusive partnership with Unifor, a large union representing over 300,000 active members and 200,000 retirees, facilitating a first mover advantage into onboarding unionized employers to be able to provide their employees and retirees preferred access to our leading Canadian medical ecosystem. To date the Company has onboarded four unionized employers through its Unifor partnership. The Company recently launched a program targeted at the veteran market segment and entered the Quebec market during the reporting period. The medical sales channel represented 26% of Aleafia Health's Q4 2021 net revenue.

Well-Positioned for International Growth

In parallel to serving the Canadian medical market, the Company is well-positioned to benefit from the expansion of the global medical cannabis market. The Company's product has been successfully exported into key global markets including Germany, the United Kingdom and Australia. The Company grew its international net revenue by 168% in 2021 and can further develop this channel with an active pipeline of opportunities for 2022.

Adjusted EBITDA Profitability

Concurrently with the Company rapidly scaling its branded cannabis net revenue, it is focused on cost containment and strategic rationalizations to accelerate its path towards Adjusted EBITDA profitability. The Company completed a holistic review of its operations, shared services and organizational structure and evaluated total SG&A savings of $4.1 million in 2021, including:

- the reduction of its workforce by approximately 10% representing $1.9 million;
- the use of external consultants, legal counsel and advisors representing $1.7 million; and
- the wind down of leased spaces to consolidate operations representing $0.5 million.

The Company is driving towards further improving adult-use profit margins through portfolio optimization. This will align its portfolio with the best-selling products formats that deliver the strongest gross profit margins and enact moderate strategic price increases.

The Company is in the process of integrating its virtual, physical and third-party clinic platform to further improve its general and administrative and wages and benefits cost profile.

The Company believes it has the organizational infrastructure, and distribution relationships to facilitate the continued rapid growth in its branded cannabis net revenue to create operating leverage and attain breakeven profitability in the second half of 2022.

Adult-Use Brand Portfolio

Divvy is the Company's main value-oriented adult-use brand. It represents the majority of sales in the adult-use sales channel.

Divvy.

Divvy Cannabis brings frequent cannabis users good quality products at value-oriented price-points. With flower harvested from our hybrid greenhouse and outdoor operations, Divvy flower products includes pre-roll 12-packs, 14-gram flower and 10-gram milled flower pouches.

In addition, to Divvy, there are four other supporting brands serving distinct segments of the adult-use market.

KIN SLIPS	Kin Slips are cannabis-infused sublingual strips, an edible alternative that are discreet, precise, and provide rapid onset. Kin Slips are formulated with peppermint oil to deliver a fresh minty sensation. They are vegan, sugar-free, contain only natural ingredients, and come in roughly the size of a postage stamp.
BOGART'S KITCHEN	Bogart's Kitchen is home to unique edible creations. The Company makes edibles that taste great because deliciousness can be a trip all its own. Conceived in the kitchens of Aleafia Health's product innovation centre in Paris, Ontario, Bogart's Kitchen products are the result of extensive R&D and culinary artistry.
NOON & NIGHT	Noon & Night is a CBD-forward line of familiar wellness products ranging from bath bombs to the first of its kind in the Canadian market Omega CBD Soft Gels. Noon & Night is highly differentiated, filling a gap in the cannabis brand landscape with its exclusive focus on health and wellness conscious consumers.
NITH & GRAND	Nith & Grand proudly grows cannabis with character in our high-tech indoor facility situated in Paris, Ontario. Featuring hang dried, hand trimmed, long cured, small batch dried flower, and premium concentrates, Nith & Grand appeals to cannabis aficionados with discerning tastes.

Medical Brand Portfolio

The Company serves the Canadian medical cannabis market with the Emblem brand.

Emblem™

From our team of growers to our Client Care team, each member of the Company's team works toward giving patients the best medical cannabis experience. Emblem is the heart of Aleafia Health's unique medical cannabis ecosystem, as a trusted brand and secure ecommerce marketplace with a reputation for product excellence.

Product Portfolio

The Company currently produces a diverse portfolio of cannabis products which it sells into the provincial adult-use sales channels, to medical cannabis patients, to other Licensed Producers, and internationally to the Germany, United Kingdom and Australia medical-use markets. The Company continued its strategic expansion of its product portfolio, as outlined below. The Company aims to utilize its diverse craft indoor greenhouse and outdoor cultivation in high margin, unique product formats tailored to the various need-states of cannabis patients and consumers.

a) Dried Flower & Pre-rolls

The Company has undertaken an expansion of its dried flower and pre-roll offering, which represent the first and third largest product categories in the Canadian cannabis market, respectively, according to data from Hifyre. Driven by the continued ramp-up of its production facilities, Aleafia Health is able to deliver greater product availability, and new larger format stock-keeping-units ("SKU"). These include a pre-roll line extension with 12 pre-rolls each of 0.35 grams, and 14-gram flower pouches. Sales of these products and other new dried flower SKUs commenced during Q2 2021, under the newly launched brand Divvy.

b) Vape Cartridges

Vapes represent the second largest product category in the Canadian adult-use market. The Company's vape portfolio is inspired by Aleafia Health's portfolio of cultivars. The custom-made, unique terpene blends deliver robust flavours and consistent effects. In July 2021, the Company launched Live Resin vape cartridges, a product positioned to be a premium vape offering featuring a hydrocarbon extraction process utilizing fresh-frozen cannabis flower that preserves the strain's natural flavour, aroma and terpene profile.

c) Cannabis Oils

Cannabis oil products remain a core product category for wellness-oriented medical patients and adult-use consumers. Recent line extensions include the innovative Omega CBD Soft Gels which feature full-spectrum, single strain CBD extract, and are the first Canadian cannabis products to be suspended in fish oil containing omega-3.

d) Cannabis-Infused Sublingual Strips

Kin Slips, cannabis-infused sublingual strips, offer a fast onset time relative to other non-combustible cannabis products. Placed under the tongue, the active ingredients enter the bloodstream through the sublingual gland, delivering a typical onset time of 10 to 15 minutes (though individual experience may vary).

e) Edibles

During Q1 2021, the Company released its first cannabis edible product, soft chews, with two THC and one CBD-dominant offering. Further strengthening the edibles portfolio, Salted Caramel Pretzel Bites, Cluster Pucks and infused hot sauce were launched under the Bogart's Kitchen edibles brand.

f) Bath & Body

During Q2 2021, the Company launched Lavender Fizz CBD bath bombs along with the Freshly Minted Roll-on. The peppermint-scented roll-on is designed to provide a soothing, aromatic experience through local application on the hairline, neck, forehead and shoulders.

KEY DEVELOPMENTS

a) Appointment of Tricia Symmes as Chief Executive Officer

On February 7, 2022, the Company announced the appointment of Tricia Symmes as Chief Executive Officer. Symmes joined Aleafia Health as Chief Commercial Officer in August 2020 and led the design, build and launch into the branded adult-use market, where the Company recently entered the top 10 in key market categories. Symmes has extensive executive C-suite experience in the pharmaceutical, biotech, consumer-packaged, and cannabis industries in both North American and international markets. Before joining Aleafia Health, Symmes served as Chief Operating Officer and General Manager of multinational companies, including Alcon Canada and Novartis Pharmaceuticals, as well as General Manager at CX Industries, a wholly owned subsidiary of Entourage Health Corp. Symmes is one of the first female CEOs in the Canadian cannabis industry.

b) Branded Cannabis Represented 80% of 2021 Net Revenue

The Company launched 37 new SKUs since Q4 2020 and built five cannabis brands spanning value to premium craft. Divvy, an everyday consumer value brand, is consistently a top searched brand on OCS.ca.12 new product formats were launched in 2021, including: Craft Dried Flower, Milled Flower, 1g Distillate Vapes, Live Resin Vapes, Live Resin Diamond Sauce, Salted caramel Pretzel Bites, Cluster Pucks, Hot Sauce, Omega CBD Soft Gels, Bath Bombs, Freshly Minted Roll Ons and Topical Creams.

c) Significant Increases in Adult-Use Market Share

The Company is aggressively capturing market share. It had the third highest increase in market share rankings, climbing from #30 at Q1 2021 to #15th by Q4 2021, based on HiFyre data. It achieved top 10 among Canadian LPs in sales growth, with Q4 2021 retail sales 37% higher than Q3 2021. The Company's market share increased from 0.3% in Q1 2021 to 2.0% in Q4 2021. Over this period, the Company delivered strong retail sales pull through in each of the three major categories, with flower increasing approximately 1,400%, pre-roll increasing approximately 1,000% and vapes increasing approximately 200%. There is now more than 80% penetration at the retail store level, including 94% in Ontario and 84% in Alberta, and there are also supply agreements with Saskatchewan and British Columbia.

d) 2021 Outdoor Harvest

The Company completed the harvesting of its 2021 outdoor cannabis facility in Port Perry in the third quarter. A total of 11,600 kgs with an average THC potency of 22% will be allocated for sale in the adult-use market, primarily under Aleafia Health's everyday cannabis brand Divvy. By contrast, in 2020, the Company harvested only 500 kgs of THC dried flower which exceeded THC potency of 20%, a key threshold in the adult-use market. The material improvement in potency and yield is attributed to additional cultivars introduced in 2021, extensive R&D testing, along with improvements in site infrastructure.

e) $19M Credit Facility

The Credit Facility consists of a revolving receivables facility of up to $7 million and a term loan of $12 million. Both facilities are payable on the earlier of demand and two years from funding. The term loan was fully drawn by the Company upon closing, on December 24, 2021. The interest rate is in-line with the Company's existing credit facility and is payable monthly. The Credit Facility is secured primarily by way of first lien mortgages on the Company's Paris, Ontario and Grimsby, Ontario production facilities, and includes customary financial and restrictive covenants. The net proceeds from the Credit Facility will was used to repay $5 million in principal on the existing senior secured credit facility, announced on August 23, 2021, along with accrued interest and fees, and will be used for working capital and general corporate purposes.

FINANCIAL AND OPERATIONAL RESULTS

Highlights

	Three months ended		Twelve months ended	
($,000s)	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Gross revenue	11,981	15,663	43,079	45,673
Excise taxes	3,217	460	6,996	1,131

Net revenue[1]	8,764	15,203	36,083	44,542
Adjusted gross profit before fair value ("FV") adjustments on net cannabis revenue[1][3]	2,349	7,600	8,224	22,460
Adjusted gross margin before FV adjustments on net cannabis revenue[1][3]	27%	50%	23%	50%
Gross loss	(21,550)	(3,506)	(11,971)	(6,673)
Adjusted EBITDA[1][2]	(2,398)	2,260	(17,599)	6,870
Net loss	**(71,509)**	**(217,301)**	**(165,715)**	**(247,238)**

1. See *"Cautionary Statements Regarding Certain non-IFRS Measures"* section for term definition.
2. See "*Adjusted EBITDA*" section for reconciliation to IFRS equivalent.
3. See "*Revenue*" section for reconciliation to IFRS equivalent.

REVENUE & GROSS MARGINS

The Company generates revenue primarily from the sale of cannabis products through the Canadian adult-use, medical and international channels, and through business-to-business wholesale. Net revenue was $8.6 million for the three months ended December 31, 2021 ("Q4 2021"), a decline of 9% and 39% over the previous and prior year's quarters. This was primarily due to a decline in the sale of bulk wholesale cannabis.

	Three months ended			% Change	
($,000s, except operational results)	**Dec 31, 2021**	**Sep 30, 2021**	**Dec 31, 2020**	**Q/Q**	**Y/Y**
Cannabis net revenue[1][2]	8,617	9,486	14,121	(9%)	(39%)
Net adult-use cannabis revenue[1][2]	6,006	5,035	1,409	19%	326%
Net medical cannabis revenue[1][2]	2,159	2,506	2,717	(14%)	(21%)
Net bulk wholesale cannabis revenue[1][2]	452	1,945	9,995	(77%)	(95%)
Operational Results - Cannabis					
Adjusted gross margin before FV adjustments on adult-use cannabis net revenue[1][2]	27%	28%	31%	(4%)	(14%)
Adjusted gross margin before FV adjustments on medical cannabis net revenue[1][2]	36%	47%	48%	(25%)	(25%)
Adjusted gross margin before FV adjustments on wholesale cannabis net revenue[1][2]	56%	(169%)	66%	(133%)	(15%)
Average net selling price per gram of medical cannabis[1]	$5.03	$6.14	$7.97	(18%)	(37%)
Average net selling price per gram of adult-use cannabis[1]	$2.70	$6.69	$4.61	(60%)	(41%)
Average net selling price per gram of bulk wholesale cannabis[1]	$4.11	$1.26	$0.48	227%	752%
Kilograms sold	2,760	2,709	21,368	2%	(87%)

1. See *"Cautionary Statements Regarding Certain non-IFRS Measures"* section for term definition.
2. See *"Revenue"* section for reconciliation to IFRS equivalent.

Cannabis Operational Results

During Q4 2021, cannabis net revenue was $8.6 million, a decrease of 9% and 39% over the previous and prior year quarters, respectively, due a decline in bulk wholesale cannabis sales and partially offset by an increase in adult-use cannabis sales.

($,000s)	Adult-use Cannabis	Medical Cannabis	Bulk Wholesale Cannabis	Total
Three months ended Dec 31, 2021				
Gross revenue	8,975	2,407	452	11,834
Excise taxes	2,969	248	-	3,217
Net cannabis revenue	6,006	2,159	452	8,617
Cost of goods sold	4,692	1,503	220	6,415
Gross profit before FV adjustments[(1)]	1,314	656	232	2,202
Depreciation	309	111	23	443
Adjusted gross profit before FV adjustments[(1)]	1,623	767	255	2,645
Adjusted gross margin before FV adjustments[(1)]	27%	36%	56%	31%
Three months ended Sep 30, 2021				
Gross revenue	7,179	2,719	1,945	11,843
Excise taxes	2,144	213	-	2,357
Net cannabis revenue	5,035	2,506	1,945	9,486
Cost of goods sold	3,911	1,469	7,734	13,114
Gross profit before FV adjustments[(1)]	1,125	1,037	(5,789)	(3,628)
Depreciation	293	146	113	552
Adjusted gross profit before FV adjustments[(1)]	1,418	1,183	(3,294)	(694)
Adjusted gross margin before FV adjustments[(1)]	28%	47%	(169%)	(7%)
Three months ended Dec 31, 2020				
Gross revenue	1,665	2,921	9,995	14,582
Excise taxes	257	204	-	460
Net cannabis revenue	1,409	2,717	9,995	14,121
Cost of goods sold	1,178	1,831	4,594	7,603
Gross profit before FV adjustments[(1)]	231	887	5,140	6,257
Depreciation	210	406	1,492	2,108
Adjusted gross profit before FV adjustments[(1)]	441	1,292	6,632	8,365
Adjusted gross margin before FV adjustments[(1)]	31%	48%	66%	59%

1. See *"Cautionary Statements Regarding Certain non-IFRS Measures"* section for term definition.

Adult-use Cannabis

Net revenue & net revenue per gram

Net adult-use cannabis revenue during the three months ended December 31, 2021 was $6.0 million, an increase of 19% over the previous quarter and 326% over the prior year's quarter.

The sequential increase was primarily due to continued retail sales pull through from consumers for dried flower, vapes and pre-roll product formats, which are the three largest adult-use product categories. For Q4 2021, adult-use net revenue per gram equivalent sold was $2.70, compared to $6.69 in the previous quarter, and $4.61 in the prior year's quarter. The average net revenue per gram is lower due to price compression across the industry and the change in product mix towards the larger flower categories which generally sell for a lower price per gram equivalent than cannabis derivative products.

Gross profit & gross profit margin

During Q4 2021, adjusted adult-use cannabis gross profit before FV adjustments was \$1.6 million, compared to \$1.4 million and \$0.4 million in the previous and prior year's quarters, respectively. The increase was due to higher sales volume. Adjusted gross profit margin before FV adjustments was 27%, compared to 28% and 31% in the previous and prior year's quarter driven by lower average net revenue per gram.

Medical Cannabis

Net revenue & net revenue per gram

Medical cannabis net revenue for Q4 2021 was \$2.2 million, a 14% and 21% decrease over the previous quarter and prior year's quarter, respectively. The decline in net revenue is due to an overall contraction in the medical cannabis market in 2021 as overall script volume was down by approximately 23%. The Company's owned and virtual clinics captured market share with script volume up 3% over 2020 and its third-party clinics performed well with script volume up 41% over 2020. These volume gains were partially offset by price compression in the overall market. The Company believes it captured meaningful market share in 2021 with an increase in registered medical patients versus the overall Canadian market which declined, according to data from Health Canada. Management believes that the Company's medical cannabis ecosystem, which includes clinics and scheduled same day delivery, in addition to cannabis products, provides the company with a core competitive advantage. For Q4 2021, medical cannabis net revenue per gram equivalent sold was \$5.03, compared to \$6.14 and \$7.97 in the previous and prior year's quarters. This was due overall market price compression and a higher volume sales strategy.

Gross profit & gross profit margin

For Q4 2021, adjusted medical cannabis gross profit before FV adjustments was \$0.8 million, compared to \$1.2 million and \$1.3 million in the previous and prior year's quarters. Adjusted gross margin before FV adjustments was 36%, compared to 47% and 48% in the previous and prior year's quarters respectively. This decline was driven by lower average medical cannabis net revenue per gram equivalent sold.

Bulk Wholesale

Net revenue & revenue per gram

Net bulk wholesale revenue received from sales to cannabis licensed producers was \$0.5 million, compared to \$1.9 million and \$10.0 million in the previous and prior year's quarters, respectively. The decline is due to the Company's higher proportionate allocation of dried flower for sale in the adult-use sales channel.

Bulk wholesale net revenue per gram equivalent sold was \$4.11, compared to \$1.26 and \$0.48 in the previous and prior year's quarters. The increase was due to the sale of off-spec indoor flower in the previous and prior year's quarter.

Gross profit & gross profit margin

During Q4 2021, adjusted wholesale bulk cannabis gross profit before FV adjustments was \$0.3 million, compared to a loss of \$3.3 million and a profit of \$6.6 million in the previous and prior year's quarters, respectively. The decline was due to lower sales volume.

OPERATING EXPENSES

Operating expenses for the three months ended December 31, 2021 were $10.1 million, compared to $10.4 million in the prior year's quarter. The prior year's quarter included the Canada Emergency Wage Subsidy of $3.9 million, which reduced wages and benefits expense by the same amount. Notwithstanding this one-time payment, the Company has realized a significant reduction in operating expenses, through ongoing cost optimization and headcount reduction initiatives. Operating expenses are higher for the 12 months ended December 31, 2021 primarily due to the increase in bad debts expense of $10.0 million which relates to certain non-recurring transactions in the bulk wholesale sales channel.

	Three months ended		Twelve months ended	
($,000s)	**Dec 31, 2021**	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2020**
General and administrative	2,951	6,943	14,336	16,023
Wages and benefits	4,029	503	14,904	8,017
Amortization and depreciation	1,512	543	6,861	8,058
Share-based compensation expense	663	582	2,831	2,690
Bad debt expense	12	988	9,956	1,892
Business transaction costs	951	824	4,330	4,146
Total	10,118	10,383	53,218	40,826

ADJUSTED EBITDA

Adjusted EBITDA is widely used by industry participants and analysts to measure company performance. The Company considers adjusted EBITDA a key metric of operating performance and cash flow, to manage working capital, debt repayments and capital expenditures.

	Three months ended		Twelve months ended	
($,000s)	**Dec 31, 2021**	**Dec 31, 2020**	**Dec 31, 2021**	**Dec 31, 2020**
Net loss	**(71,509)**	**(217,301)**	**(165,715)**	**(247,238)**
Add back:				
Depreciation and amortization[1]	3,715	2,649	10,278	10,164
Interest expense, net	2,185	3,098	8,161	11,636
Income tax expense (recovery)	-	2,854	(2,854)	(2,540)
EBITDA	(65,609)	(208,700)	(150,130)	(227.978)
Inventory provision	17,266	-	19,648	16,973
FV changes in biological assets and changes in inventory sold	6,663	11,106	547	12,160
Share-based payments	663	582	2,831	2,690
Bad debt expense	12	988	9,956	1,892
Business transaction costs	951	824	4,330	4,146
Gain on sale of assets	-	(1,181)	(12,092)	(1,181)
Fair value through profit and loss adjustments	8,785	(877)	14,385	(943)
Impairment of intangible assets	-	22,116	53,093	22,116
Impairment of goodwill	-	177,476	11,314	177,476
Impairment of property, plant & equipment	28,800	-	28,800	-
Non-operating expense (income)	71	(74)	(281)	(481)
Adjusted EBITDA[(3)]	(2,398)	2,260	(17,599)	6,870

1. Includes non-cash depreciation expensed to cost of sales.
2. See "*Note 9*" of Q3 2021 Financial Statements for further discussion.
3. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition.

Net loss for the three months ended December 31, 2021 was $71.5 million compared to a net loss of $217.3 million over the prior year's quarter. This was primarily due to non-cash items, including a $17.3 million inventory provision and a $28.8 million impairment of property, plant and equipment.

Adjusted EBITDA for the three months ended December 31, 2021 was a loss of $2.4 million, compared to a profit of $2.3 million in the prior year's quarter. The decline over the prior year's quarter was primarily due to a decline in bulk wholesale cannabis sales, partially offset by cost containment, and cost rationalization initiatives. SG&A expenses declined from a peak of $14.8 million in Q2 2021 to $7.2 million in Q4 2021. There was certain marketing, consultant, brand development and product formulation costs related to the launch of the Company's Sunday Market House of Brands, most of which are nonrecurring in nature. In conjunction with the Company's focused cost containment and rationalizations, this has delivered a dramatically improved SG&A expense profile.

During the three months ended December 31, 2021, impairment indictors were identified and based on appraised values of its equipment and buildings, the Company recorded a non-cash impairment charge of $28.8 million. Additionally, there were fair value adjustments to the Company's investments resulting in a reduction in the carrying value thereof of $4.4 million.

HISTORICAL FINANCIAL RESULTS

	Three months ended			
($,000s)	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021
Net revenue	8,764	9,581	10,672	7,066
Net cannabis revenue	8,617	9,486	9,583	6,245
Adjusted gross profit before fair value ("FV") adjustments on net cannabis revenue	2,349	(3,553)	4,548	(921)
Adjusted gross margin before FV adjustments on net cannabis revenue[(1)]	31%	(7%)	49%	59%
SG&A expenses	6,980	7,005	9,165	6,896
Net loss	(71,509)	(82,922)	(36)	(11,248)
Basic and diluted earnings (loss) per share	($0.22)	($0.25)	($0.00)	($0.03)
Balance Sheet				
Working capital	(21,378)	4,144	21,154	52,478
Total assets	97,642	152,708	221,423	223,913
Total non-current financial liabilities	11,986	2,018	4,965	38,382

	Three months ended			
($,000s)	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
Net revenue	15,203	4,968	9,775	14,596
Net cannabis revenue	14,122	4,245	8,995	13,726
Adjusted gross profit before fair value ("FV") adjustments on net cannabis revenue	7,600	455	3,502	12,075
Adjusted gross margin before FV adjustments on net cannabis revenue[(1)]	59%	8%	33%	85%
SG&A expenses	7,446	6,484	6,504	5,594
Net loss	(217,301)	(19,761)	(4,020)	(6,156)
Basic and diluted earnings (loss) per share	($0.72)	($0.07)	($0.01)	($0.02)
Balance Sheet				
Working capital	37,882	51,441	74,666	67,686
Total assets	237,283	454,737	468,015	449,449
Total non-current financial liabilities	38,021	34,399	36,906	35,193

LIQUIDITY AND CAPITAL RESOURCES

The Company's' objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans while maintaining healthy liquidity reserves and access to capital for at least the next twelve months.

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. The Company manages liquidity risk through the management of its capital structure. At December 31, 2021 the Company's contractual obligations consist of accounts payable and accrued liabilities, credit facilities, convertible debt, and lease liability, which has a contractual maturity date within one year.

The following table sets forth the use of proceeds from the Company's equity offering completed over the last four quarters.

Date	Type	Gross Proceeds	Initially Intended Use of Proceeds	Actual Usage of Proceeds
March 9, 2021	Underwritten bought deal offering	$22.7 million	The Company expects to use the proceeds for general corporate purposes, which may include: (i) working capital; (ii) capital expenditures; and (iii) debt repayments.	$15.4M of the proceeds was applied towards operating expenses, $2M to working capital, $2M to capital expenditures, and $1.6M to interest on debt. All proceeds were used by June 30, 2021.

Cash Flow Highlights

A condensed consolidated cash flow statement of the Company is summarized below:

	Three months ended		Twelve months ended	
($,000s)	Dec 31, 2021	Dec 31, 2020	Dec 31, 2021	Dec 31, 2020
Cash balance, beginning of period	4,688	34,559	30,529	41,247
Cash used in operating activities	(3,122)	(6,221)	(32,663)	(7,629)
Cash provided by used in investing activities	(1,803)	(1,696)	(4,007)	(16,205)
Cash provided by (used in) financing activities	11,469	495	17,373	13,116
Cash balance, end of period	11,232	30,529	11,232	30,529

The Company's cash flow from operations consists of revenue generated from the sale of cannabis, consultation, and research services.

Operating Activities

Cash used in operating activities was $32.7 million for the twelve months ended December 31, 2021 compared to cash used in operating activities of $7.6 million for the twelve months ended December 31, 2020. Excluding working capital, the $24.7 million decrease in cash relates to an investment in operations to launch new products and support organic revenue growth. During the twelve months ended December 31, 2021 changes in working capital reflect a $7.9 million investment, compared to a recovery of $0.7 million dollars for the twelve months ended December 31, 2020.

Investing Activities

Cash used in investing activities was $4.0 million for the twelve months ended December 31, 2021 compared to $16.2 million for the twelve months ended December 31, 2020. Cash used in investing activities has declined significantly, due to the completion of significant capital projects at three of the Company's owed production facilities.

Financing Activities

Cash provided by financing activities was $17.4 million for the twelve months ended December 31, 2021 compared to cash provided by financing activities of $13.1 million for the twelve months ended December 31, 2020. This was a result of the full repayment of the $25.0 million Emblem convertible debt in February 2021, offset with $21.0 million in proceeds from the bought deal financing in March 2021, and $21.8 million from the two credit facilities during the fiscal year. The twelve months ending December 31, 2020, includes proceeds of $13.0 million from the issuance of common shares.

Contractual Obligations & Capital Expenditures

As of December 31, 2021, the Company had the following contractual obligations:

($,000s)	< 2 years	2-5 years	Total
Purchase commitments	605		605
Total	605	-	605

The purchase commitments all represent outstanding purchase orders to be fulfilled by vendors.

Convertible Debt

In June 2019, Aleafia Health issued 40,250 additional convertible debentures units (the "Debenture Units") for gross proceeds of $40.3 million. Each Debenture Unit consisted of one $1,000 principal amount of an unsecured convertible debenture of Aleafia Health and 680 common share purchase warrants, which debentures contained the following terms:

- a maturity date of June 27, 2022;
- an interest rate of 8.5% per annum; payable semi-annually;
- convertible at $1.55 per share until June 27, 2022 at the option of the holder; and
- Aleafia Health may accelerate the expiry date of the common share purchase warrants with not less than 30 days' notice, should the daily volume weighted average trading price of the outstanding common shares of Aleafia Health on the TSX be greater than $3.10 for 20 consecutive trading days.

During 2019, Debenture holders converted $2.9 million debentures to common shares. Accordingly, the remaining principal balance to be paid upon maturity is $37.4 million.

On December 31, 2021, the Company did not make a scheduled interest payment of $1.6 million and did not make the payment within the 30-day cure period, thereafter. The Company has entered into a Forbearance Agreement with Debenture holders representing 58% of the Debentures' aggregate principal amount outstanding (the "Holders"). The Forbearance Agreement's initial term extends to February 28, 2022, and the agreement automatically renews for 14-day periods thereafter unless notice to the contrary is provided. Under the Forbearance Agreement, the Holders, among other considerations, forebear in enforcing their rights or remedies against the Company under the Indenture and otherwise at law with respect to the non-payment of interest until the expiry of the Term. Under the Forbearance Agreement, the Holders and the Company have agreed to work expeditiously and in good faith to negotiate a potential transaction to amend the terms associated with the Convertible Debt. The accrued interest is recorded in accounts payable and accrued liabilities on the interim condensed statements of financial position.

Credit Facility – Long-term

In August 2021, the Company entered into a $10.0 million Credit Facility to fund working capital and general corporate purposes. The initial term of the loan was for one year due August 2022 and was subsequently amended in December 2021 to extend until December 2023. It bears interest at a rate of 12.45%. Accrued interest may either be paid monthly in arrears or upon maturity of the facility. The first six months following the amended agreement allows for interest to accrue. In addition, up to 1,000,000 common share purchase warrants with an exercise price of $0.32 were granted. The first tranche of 250,000 vested in November 2021.

Subsequent to quarter end, in January 2022, $5.0 million of principal along with accrued interest and fees were repaid. Up to 440,217 common share purchase warrants remain eligible to vest over the original vesting period of one year. As a result of the early payment, the first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities, were replaced with second liens and additionally secured with a first lien mortgage on the facility in Port Perry, Ontario.

Credit Facility - Current

In December 2021, the Company entered into a new loan agreement that provides for a term facility of $12.0 million and access to a revolving facility up to $7.0 million. The loans bear interest at a rate of the National Bank of Canada prime rate with a floor of 3.45% plus 9%, annually. The availability under the revolving facility is subject to an advance rate against certain accounts receivable balances. Both facilities are payable on the earlier of demand and two years from funding

The facility is secured by first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities and certain equipment and a general security agreement. The revolving facility was undrawn as at December 31, 2021.

Contingencies

In the ordinary course of business, from time to time, the Company may be involved in various claims related to its commercial and/or corporate activities. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to the interim condensed consolidated financial statements.

Certain of Emblem Corp.'s former executives have been named in a claim commenced March 20, 2015 in the Ontario Superior Court of Justice that also identifies Emblem Corp. and Emblem in relation to certain services provided to the Emblem Corp. parties by an individual. The plaintiff has claimed $10 million in damages. The claim is being contested and the action is currently at the discovery stage. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes its is unlikely to be impacted and accordingly, no amount has been provided for. A separate claim was also initiated by Tayts on March 22, 2019 in the Ontario Superior Court of Justice against Emblem and Emblem Corp. arising out of the same facts and seeking the same damages. The claim is contested but pleadings have not yet concluded.

On June 16, 2020 a class-action lawsuit was issued in Calgary, Alberta by Lisa Marie Langevin as the proposed representative plaintiff. The claim has been filed against most of the cannabis manufacturers in Canada and includes, among the many defendants, Emblem Corp. and Aleafia Health. The claim alleges that the THC and CBD levels in the products manufactured and/or sold by the defendants differed from what was represented on packaging, specifically alleging that THC and CBD levels were found to be significantly higher than indicated in some products while others may have had significantly lower levels. The action is seeking $500 million (or such other amount as may be proven at trial) for all Canadians who purchased medicinal cannabis products on or after June 16, 2010 as well as Canadians who legally purchased cannabis for recreational purposes on or after October 17, 2018. The claim also seeks $5 million in punitive damages. Ms. Langevin has not alleged that she ever purchased product from Emblem or Aleafia Health. The case is at an early stage and has not been certified as a class proceeding. The Company believes it has good defences to the claim and intends to vigorously defend the claim. Accordingly, at this stage no contingency has been provided for in respect of this claim.

Off-balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Outlook

During 2022, we are focused on building upon our success as a branded cannabis producer in the Canadian adult-use and medical markets, while continuing to advance the Company's international expansion efforts. Our overall objectives for fiscal year 2023 are as follows:

- Attain a top 10 market share position in the Canadian adult-use market based on retail sales pull through and deliver adult-use net revenue of between $35.0 and $40.0 million;
- Maintain a leadership position the medical market and deliver medical cannabis and clinic net revenue of between $15.0 and $18.0 million;
- Attain total net revenue of between $53.0 million and $63.0 million;
- Achieve gross profit margins before fair value adjustments of between 32.5 and 37.5%;
- Further rationalize costs and achieve operating leverage such that adjusted SG&A is between $25.0 million and $27.5 million;
- Deliver Adjusted EBITDA of between -$7.5 million and -$2.5 million; and
- Achieve Adjusted EBITDA breakeven by the second half of 2022.

We are pleased with the continued revenue growth trend and believe our initiatives to improve the cost structure will lead to an increase in cash flows and positive adjusted EBITDA. We remain focused on bringing innovative and differentiated cannabis products to Canadian consumers that deliver on our commitment of offering cannabis health and wellness services and products.

SUMMARY OF OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and issuable in series and an unlimited number of voting common shares. Subsequent to quarter end, 44,594 common shares were issued under the Company's share-based plans. The fully diluted number of common shares outstanding as the date hereof is 418,665,935, which includes 331,124,351 common shares, 56,463,651 warrants, 29,453,489 stock options, 1,095,083 restricted share units and 529,361 deferred share units.

RELATED PARTY TRANSACTIONS

Other than compensation and benefits paid to directors or key management personnel in the normal course of business, as further set out in Note 8 of our Q4 2021 Financial Statements, the Company had no transactions with its related parties (as defined under IFRS) during the reporting period.

FINANCIAL INSTRUMENTS

The table below summarizes the categories under IFRS 9 for the financial assets and financial liabilities:

($,000s)	Dec 31, 2021	Dec 31, 2020
Fair value through profit and loss(1)	15,933	37,149
Assets, amortized cost(2)	7,617	13,041
Liabilities, amortized cost(3)	83,389	80,135

1. Cash and cash equivalents, investments and marketable securities.
2. Trade and other receivable.
3. Accounts payable, lease liability, credit facilities and convertible debt.

The Company classifies its fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and
- Level 3 - Inputs that are not based on observable market data.

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by Level within the fair value hierarchy:

Fair value measurements using	Quoted prices in active markets for identical instruments	Significant other observable inputs	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	Total
	$	$	$	$
Cash	11,232	-	-	11,232
Marketable securities	2,310	-	-	2,310
Investments	-	-	2,391	2,391
Total	13,542	-	2,391	15,933

Financial Instruments Risk Management

Effective risk management is fundamental to the success of the organization and is recognized as key in the Company's overall approach to strategy management. The primary goals of the Company's risk management strategy are to ensure that the outcomes of risk-taking activities are consistent with the Company's strategies and risk appetite and that there is an appropriate balance between risk and reward to maximize shareholder value.

The Company has identified the following potential financial risk categories, in addition to those set out under the "*Risk Factors*" section of annual MD&A for the year ended December 31, 2020 and the Company's Annual Information Form:

a) Currency risk

The Company's revenues and expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary liabilities. The Company is attracting foreign investments and in future, the Company's financial assets and liabilities may comprise of foreign currency marketable securities, convertible notes, long term investments and promissory notes.

b) **Interest rate risk**

The Company is exposed to interest rate risk on the variable rate of interest paid on its secured credit facilities and the interest earned on its bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term nature and not material on its credit facilities based on low volatility in the referenced variable rate combined with the floor which was greater than stated rates as at December 31, 2021. The Company has not entered any derivative instruments to manage interest rate fluctuations.

c) **Credit risk**

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, trade and other receivables and short-term investments. The risk exposure is limited to their carrying values reflected on the statement of financial position.
To minimize the credit risk, the Company transacts with a high-quality financial institution for cash and cash equivalents and short-term investments. The Company performs a credit risk assessment on all potential new customers, international partners and wholesale counterparties, and on an ongoing basis reviews such risk assessment.

d) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has experienced recurring losses and has a cumulative deficit of $480.8 million. Cash flow from operations is negative due in part to the high rate of revenue growth the company has experienced which has driven a requirement for working capital and selling, general & administrative investment.

At December 31, 2021, the Company has total current assets of $50.0 million and total current liabilities of $71.4 million. Within its current asset base are cash and cash equivalents and marketable securities of $13.5 million.

The Company's objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to meet its financial obligations and execute its operating and strategic plans for at least the next twelve months. Management closely monitors the liquidity position. The Company manages liquidity risk by seeking out new debt and equity financing options, reviewing its capital structure to optimize the cost of capital, maintaining the continuity of equity and debt funding options, managing its non-cash current assets to ensure the timely conversion to cash, and putting in plans in place to meet its financial obligations as they come due.

The Company has multiple options to meet its liquidity needs including, converting its non-cash working capital to cash, issuance of common shares via its at-the-market equity financing program, issuing common shares via a public equity offering, and seeking out new debt financing options.

The Company's ability to meet its commitments to sustain operations and settle its obligations as they become due within the next twelve months and its exposure to liquidity risk is dependent on the Company's ability to:

- Refinance or amend the term of its convertible debentures and credit facility;
- Raise additional debt and equity financing; and

- Realize cash flow from operations which is subject to significant judgements and estimates, the most significant of which is the Company's sales projections and its ability to realize its assets and discharge its liabilities in the normal course of business.

While, the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to obtain sufficient financing in the future on terms favourable for the Company.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated Financial Statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. The Financial Statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the Financial Statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Going concern assumption

These interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and settlement of liabilities in the normal course of business as they come due in the foreseeable future.

The Company has experienced recurring losses, has a cumulative deficit of $480,784 (December 31, 2020 – $315,069) and a working capital deficiency of $21,378. In addition, the Company did not pay a scheduled interest payment on its convertible debentures on December 31, 2021 and is currently working under a Forbearance Agreement with its holders of the debentures, as noted above under "Convertible Debentures". These factors indicate that there are material uncertainties that cast significant doubt as to the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to achieve profitable operations and/or raise equity or debt financing. There is no assurance that any necessary future financing will be sufficient to sustain operations until such time that the Company can generate sufficiently profitable operations to support its requirements.

The Company's interim condensed consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern. Such adjustments could be material.

Biological assets and inventory

In calculating the value of biological assets and inventory, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields for the cannabis plants. In calculating final inventory values, management is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value.

Estimated useful lives and impairment considerations

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

Share-based compensation and warrants

In calculating the share-based compensation expense, key estimates such as the rate of forfeiture of options granted, the expected life of the option, the volatility of Aleafia Health's stock price and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key estimates such as the volatility of Aleafia Health's stock price, the value of the common share, and the risk-free interest rate.

DISCLOSURE AND INTERNAL CONTROLS

Disclosure Controls and Procedures

Aleafia Health's disclosure controls and procedures (DCP), as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109) are designed to provide reasonable assurance that information required to be disclosed in our filings is recorded, processed, summarized and reported within the time periods specified in securities legislation. They are also designed to provide reasonable assurance that all information required to be disclosed in these filings is accumulated and communicated to management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as appropriate, to allow timely decisions regarding public disclosure. Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of the DCP as of December 31, 2021 and based on the material weaknesses identified in Internal Control over Financial Reporting outlined below, concluded that the DCP were not effective as of December 31, 2021.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICFR), as defined in NI 52-109. ICFR means a process designed by or under the supervision of the CEO and CFO, and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes in accordance with IFRS, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company's financial position;
- are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Financial Statements.

All internal control systems have inherent limitations and therefore our ICFR can only provide reasonable assurance and may not prevent or detect misstatements due to error or fraud. Our management, including the CEO and CFO, conducted an evaluation of the effectiveness of our ICFR and concluded that a material weakness existed as of December 31, 2021 and concluded that ICFR were not effective as of December 31, 2021.

Material Weakness Identified

Management identified the following material weaknesses based on a reasonable possibility that the Company's ICFR will fail to prevent or detect a material misstatement.
IT General Controls: The Company did not maintain effective information technology general controls related to user access, change management, and service organization oversight processes that support the Company's financial reporting processes. This may adversely impact the effectiveness of business process controls that are dependent on these systems.
Management Review Controls: The Company did not consistently have documented evidence of review procedures and, due to resource limitations, did not always maintain segregation of duties between preparing and reviewing analyses, reconciliations and journal entries.

Material Weakness Remediation

IT General Controls: Management has determined that there were insufficient resources allocated to IT risk management to effectively implement and maintain IT General Controls. Management onboarded a new VP, Information Technology in the fourth quarter of 2020 who has taken responsibility of all IT related remediation. Additional resources were onboarded in the first half of 2021 to support user, change management, and service organization oversight activities.
Management Review Controls: The Company augmented the Finance team through the addition of a VP, Finance in June 2021, which will allow for a reassignment of preparation and review activities that currently lack effective segregation of duties. Management will formalize control evidence, review and retention practices to corroborate effective operation of controls.

Changes in Internal Control over Financial Reporting

With the exception of the material weakness identified there were no other changes in our internal control over financial reporting during the quarter that materially affected, or were reasonably likely to materially affect, our ICFR.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Forward Looking Information

Certain statements herein relating to the Company constitute "forward looking information", within the meaning of applicable securities laws, including without limitation, statements regarding future estimates, business plans and/or objectives, sales programs, forecasts and projections, assumptions, expectations, and/or beliefs of future performance, are "forward-looking information". Such forward-looking statements involve unknown risks and uncertainties that could cause actual and future events to differ materially from those anticipated in such statements. Forward looking statements include, but are not limited to, statements with respect to our market share, net revenue, net branded revenue, gross profit, gross profit margin, Adjusted SG&A, Adjusted EBITDA, and other financial outlook projections for 2022, our commercial operations, including production and / or sales of cannabis, quantities of future cannabis production, anticipated revenue in connection with such sales, and other Information that is based on forecasts of future results, estimates of production not yet determinable, and other key management assumptions. The following material factors or assumptions were used to develop the forward looking information: market size and growth of the Canadian adult-use and medical cannabis markets, retail store penetration, script trends, cultivation and processing capacity, costs of production, gross and net revenue per gram.

Actual results may differ materially from those expressed or implied by such forward looking statements and involve risk and uncertainties relating to: future cultivation yield and quality, actual operating performance of facilities, product launches, facility licenses and amendments, average selling prices, cost of goods sold, operating expenses, Adjusted EBITDA, regulatory changes in the Canadian and international markets, and other uninsured risks. The forward looking information was approved by Management as of February 14, 2022. The Company assumes no responsibility to update or revise forward-looking information to reflect new events or circumstances unless required by law. The forward looking information is provided for information purposes only and readers are cautioned that it may not be appropriate for other purposes. This presentation is provided for general information purposes only and does not constitute an offer to sell or solicitation of an offer to buy any security in any jurisdiction

Cautionary Statement Regarding Non-IFRS Measures

This MD&A contains non-IFRS financial performance measures which the Company believes provides users with relevant information regarding operation performance. These measures are not recognized or defined under IFRS, and as a result, they may not be comparable to the data presented by competitors. These non-IFRS measures include, but are not limited to:

- Cannabis net revenue is sale of cannabis revenue less excise taxes
    - Medical cannabis net revenue is net cannabis revenue for Canadian and international medical sales.
    - Adult-use cannabis net revenue is net cannabis revenue for Canadian adult-use sales.
    - Wholesale bulk cannabis net revenue is net cannabis revenue in sales to other LPs.
- Branded Cannabis Net Revenue is calculated as Adult-use cannabis net revenue, Medical cannabis net revenue, clinic and research revenue. It excludes wholesale bulk cannabis net revenue.
- Average net selling price of cannabis is calculated as cannabis net revenue divided by the total quantity of grams and grams equivalents sold during the reporting period.
    - Average net selling price of medical cannabis is medical cannabis net revenue divided by the total quantity of grams and grams equivalents sold in the medical market during the reporting period.
    - Average net selling price of adult-use cannabis is adult-use cannabis net revenue divided by the total quantity of grams and grams equivalents sold in the adult-use market during the reporting period.
    - Average net selling price of bulk wholesale cannabis is bulk wholesale cannabis net revenue divided by the total quantity of grams and grams equivalent sold to other LPs during the reporting period.
- Gross profit on clinic revenue is (i) clinic revenue, less (ii) doctor services
- Gross margin on clinic revenue is (i) gross profit on clinic revenue, divided by (ii) clinic revenue
- Gross profit before FV adjustments on cannabis revenue is calculated as cannabis net revenue, less (i) inventory expenses to cost of sales, and (ii) doctor services. Management believes that this

is a useful metric to assess the profitability of cannabis sales, as it eliminates the effects of non-cash FV changes in inventory and biological assets.

- Adjusted gross margin before FV adjustments on cannabis net revenue represents cash gross profit and gross margin on cannabis net revenue. It is calculated by subtracting from cannabis net revenue cost of goods sold, and adding back the depreciation component of cost of goods sold.
- Adjusted gross margin before FV adjustments on cannabis net revenue is calculated as adjusted gross profit before FV adjustments on cannabis net revenue, divided by cannabis net revenue. Adjusted gross profit and adjusted gross margin before FV adjustments on cannabis revenue are further broken down by consumer market:
    - Adjusted gross profit and adjusted gross margin before FV adjustments on medical cannabis revenue is adjusted gross profit and adjusted gross margin before FV adjustments on Canadian medical net revenue.
    - Adjusted gross profit and adjusted gross margin before FV adjustments on adult-use cannabis revenue is adjusted gross profit and adjusted gross margin before FV adjustments on adult-use net revenue.
    - Adjusted gross profit and adjusted gross margin before FV adjustments on wholesale bulk revenue is adjusted gross profit and adjusted gross margin before FV adjustments on wholesale bulk net revenue.
- Adjusted EBITDA is calculated as net income (loss), excluding (i) amortization and depreciation, (ii) fair value changes in biological assets and changes in inventory sold, (iii) share-based payments, (iv) bad debt expense, (v) business transaction costs, (vi) non-operating expenses (income), (vii) taxes, (viii) interest expenses, (ix) one-time sale of assets, and (x) unrealized gain (loss) on marketable securities.