Aleafia Health
SCIENCE SEEDING WELLNESS

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the three and fifteen months ended March 31, 2022

Dated June 27, 2022

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND FIFTEEN MONTHS ENDED MARCH 31, 2022

This Management's Discussion and Analysis ("**MD&A**") of Aleafia Health Inc. ("**Aleafia**", "**Aleafia Health**" or, collectively with its affiliates and subsidiaries, the "**Company**") is dated June 27, 2022 and provides an analysis of the financial operating results for the three and fifteen months ended March 31, 2022. The fifteen month period ended March 31, 2022 is referred to as "**Fiscal 2022**". This MD&A should be read in conjunction with the Company's audited, consolidated financial statements for the three and fifteen months ended March 31, 2022 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 (the "Company") 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.

The Company is a vertically integrated and federally licensed Canadian cannabis company offering cannabis health and wellness services and products in Canada. The Company also sells cannabis products destined for international markets, including Australia and Germany, to third parties. The Company owns and operates a virtual network of medical cannabis clinics staffed by physicians and nurse practitioners.

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

The common shares of the Company commenced trading on the Toronto Stock Exchange ("TSX") (symbol "AH"), on May 27, 2020.

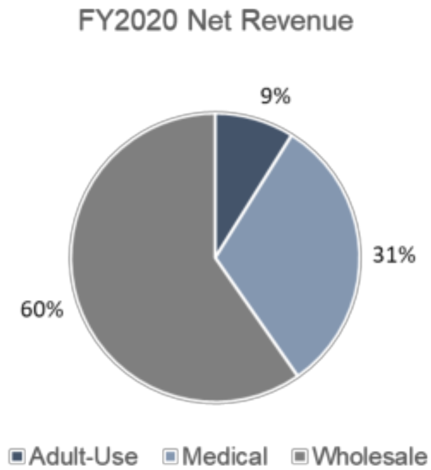
Corporate Strategy

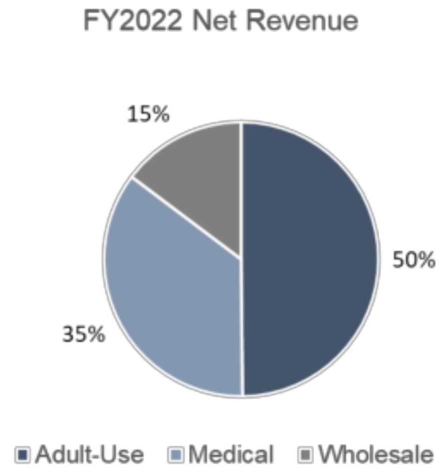
The Company sells its products primarily through three core sales channels: adult-use, medical, and international. Following the launch of the Company's Sunday Market house of brands in Q1 2021, adult-use revenue includes cannabis revenue from five new brands, which have seen significant market success.

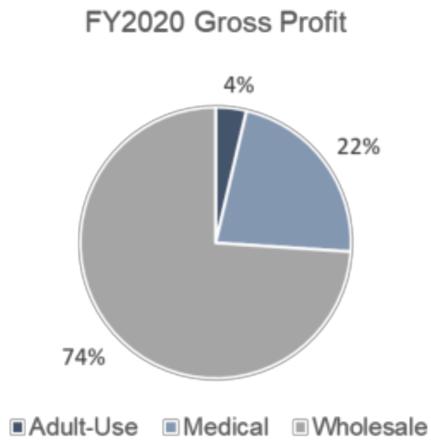
Historically, the bulk wholesale sales channel has been an important vertical for the Company as it allowed the Company to opportunistically sell cannabis flower, oils, distillate isolate and other cannabis input materials to maximize sales of the cultivation harvest. With the launch of the Company's adult-use Sunday Market House of Brands, and the improved 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 Company tactically sells through the bulk wholesale sales channel where it has excess product or product not suitable for its other sales channels, to maximize net realizable margin from its three cultivation sites.

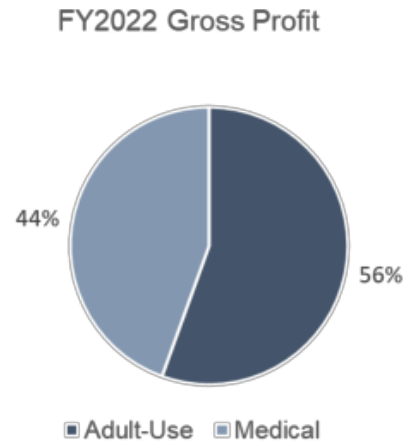
Within the branded cannabis products portfolio, the adult-use sales channel has experienced the highest growth in fiscal year 2022, and now accounts for the largest % of total net revenue. It grew from $1.7 million in net revenue in Q1 2021 to $5.5 million in net revenue in Q1 2022, a 34% compounded quarter growth rate over that period. The medical sales channel represents a stable growth, but higher margin revenue stream, driven by the recurring ordering patterns of our active patient base and referrals from third-party clinics. The international sales channel is our most recently added sales channel. It experienced 168% growth in fiscal year 2022 over fiscal year 2020, with sales into Australia and Germany. This sales channel has experienced the highest growth rate and also delivered the highest net realizable margin per gram of flower sold.

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 branded cannabis product portfolio, which includes adult-use, medical and international sales channels, now accounts for 85% of net revenue in fiscal year 2022 versus 40% in fiscal year 2020.









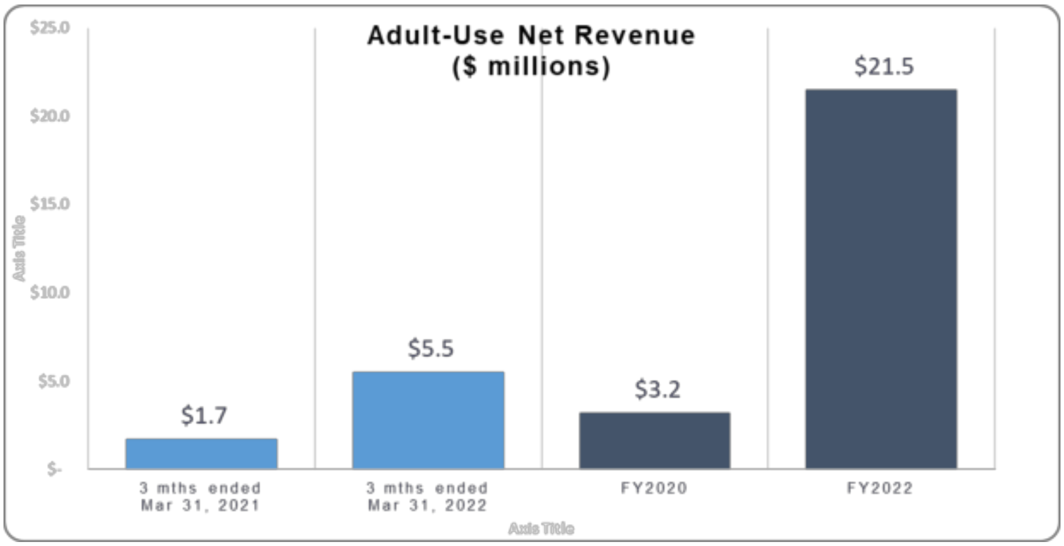
1. Increasing Market Share Position in Canadian Adult-Use Market

The Company launched its Sunday Market House of Brands in Q1 of 2021, anchored around Divvy, the everyday brand focused on delivering an exceptional value proposition to consumers. Divvy, an everyday consumer value brand, is consistently a top searched brand on OCS.ca. The other four brands under the adult-use portfolio, Nith & Grand, Noon & Night, Kin Slips, and Bogart's Kitchen, are niche brands targeted at specific consumer segments in the market and span from value to premium craft. 12 new product formats were launched in fiscal year 2022, 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.

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 – Ontario, Alberta, British Columbia and Saskatchewan – representing an estimated 65% of the Canadian population. The Company has over 100 provincial listings and 44 SKUs, including a full suite of dried flower, pre-roll, vape and cannabis derivative products. The Company's product portfolio and SKU listings are focused on the largest adult-use categories: flower, pre-roll, and vapes.

The Company markets its products through the use of an internal salesforce and is focused on gaining market share through the continued launch of innovative products in the largest product categories, mainly flower, pre-roll and vapes. The Company's internal sales and marketing team can respond to market trends in a dynamic and rapid fashion to drive sales velocity of its unique cannabis portfolio. The Company is focused on deepening its penetration in its existing core provincial markets, along with expanding into select other provincial markets.

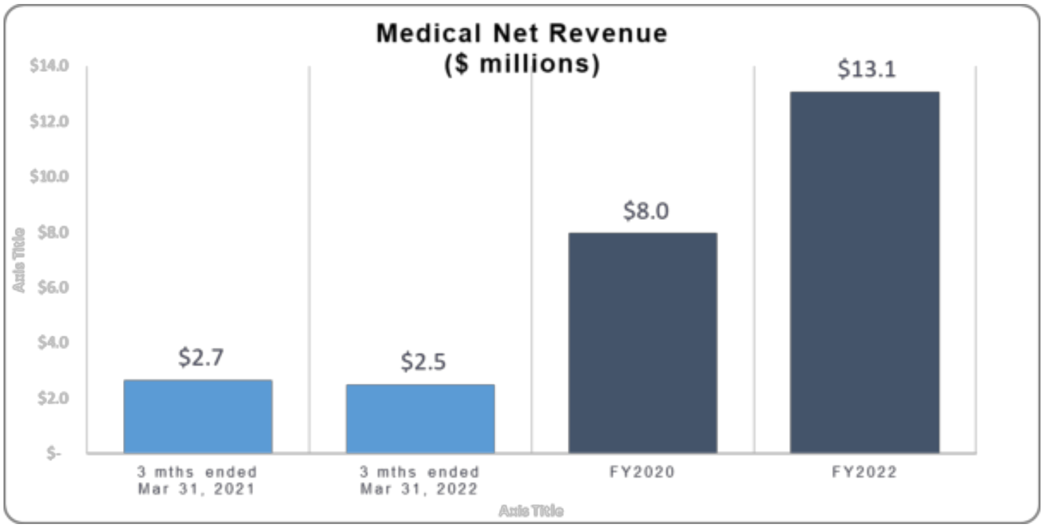
The Company has driven the second largest change in market share rankings among the top 20 Canadian Licensed Producers from Q1 2021 #28th, when the Company launched its new adult-use brand portfolio, to Q1 2022 #13th, and in the most recently available month June 2022 the Company attained 12th position, according to data from HiFyre based on the products and geographic regions (Ontario, Alberta, British Columbia, and Saskatchewan) Aleafia operates in. The adult-use channel represented 50% of the Company's fiscal year 2022 net revenue. The Company targets to become a top 10 Canadian LP measured by retail sales pull-through in its four core provincial markets in 2022.



2. 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. The Company delivers medical products through our physical clinics, our virtual clinic, through referrals from third-party clinics and resells to other Canadian LPs. With over 20,000 active patients with stable ordering patterns, this sales channel has a high level of recurring revenue.
We are able to deliver products the same day they are ordered 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.

The Company launched a program targeted at the veteran market segment and entered the Quebec market in Q4 2021. The medical sales channel includes revenue from: the sale of medical cannabis in the Canadian and international markets, clinic fees, and research revenue, and represented 35% of Aleafia Health's fiscal year 2022 net revenue.



3. 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 and the continued legalization of global recreational markets.

The Company is focused on expanding its international sales as it sees the opportunity to supply flower and cannabis derivative products in bulk-form to select international medical markets. Given the high regulatory and other barriers to entry of supplying these international jurisdictions, the Company enjoys an early mover advantage. The Company further sees expanding its international medical sales as a potential toehold should cannabis be legalized recreationally in the same international jurisdictions.

The Company's products have been successfully exported into key global markets including Germany and Australia. The Company grew its international net revenue by 168% in fiscal year 2022 over the prior year and is looking to further develop this channel with an active pipeline of opportunities for 2022.

4. Adjusted EBITDA[1] Profitability

Concurrently with the Company rapidly scaling its branded cannabis net revenue[2], it is focused on cost containment and strategic rationalizations to accelerate its path towards Adjusted EBITDA profitability. The Company sees achieving this inflection point in the near-term as an important and critical milestone, proving out the sustainability of its business model. Moreover, the Company is focused on longer term sustained, positive cash flow generation in-line with other consumer product goods sectors.

In Q3 2021, the Company completed a holistic review of its operations, shared services and organizational structure and evaluated total SG&A savings, which total over $10 million on an annualized basis, including:

- the reduction of its workforce by approximately 30% representing $7.8 million;
- reduction in use of external consultants, legal counsel and advisors representing $2 million; and
- the wind down of leased spaces to consolidate operations representing $0.5 million.

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[1] This is a Non-IFRS Measure. Please see page [21] for more information including its composition and reconciliation.
[2] This is a Supplementary Measure. Please see page [37] for its composition.

In Q4 2021 the Company completed a portfolio optimization to further improve adult-use profit margins. This aligned our portfolio with the best-selling products formats that deliver the strongest gross profit margins and executed moderate strategic price increases.

In February 2022, the Company provided an update on its cost rationalization strategy. The Company methodically reviewed its cost structure and optimized its talent and resources towards the sales channels which delivered the highest net realizable margin per gram of flower sold – its branded cannabis products.

In April 2022, the Company provided a corporate update on its ongoing cost containment initiatives, including identifying $4.4 million in annualized cost savings to be completed within the quarter. These initiatives have all been enacted as of the date of this document. The Company realigned its medical business. It assessed the process by which it operates and manages its medical business. As a result of this review, the Company integrated its virtual, physical and third-party clinic platform to further improve its general and administrative and wages and benefits cost profile while improving the patient experience through a more cohesive and consistent approach to managing patient interactions. Moreover, the Company overhauled its Grimsby, Ontario hybrid greenhouse and drove operational efficiencies and remapped its processes to allow its cultivation organization to meet anticipated growing throughput of greater than 18% THC potency flower ("**Usable Flower**"). The Company assessed procurement practices, resulting in a consolidation of certain vendors leading to cost efficiencies.

The Company believes it has the organizational infrastructure, including a core corporate shared services and distribution relationships to facilitate the continued rapid growth in its branded cannabis net revenue to create operating leverage and attain breakeven Adjusted EBITDA profitability in the second half of this fiscal year. In doing so, the Company believes it would be one of the first Canadian LPs of similar size, scale and operational footprint to attain breakeven profitability on a sustainable basis.

OUTLOOK

During Fiscal 2022, Aleafia 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; rationalizing its cost structure to drive profitability; and building its capacity to sustainably deliver Usable Flower. The Company's overall objectives for fiscal year 2023 are as follows[3]:

- Attain a top 10 market share position in its four, core provincial Canadian adult-use markets based on retail sales pull through and deliver annual adult-use net revenue of between $35.0 and $40.0 million;
- Maintain a leadership position in [the medical market and deliver medical net revenue of between $15.0 and $18.0 million;
- Attain total net revenue of between $53.0 million and $63.0 million;
- Achieve adjusted gross profit margins before fair value adjustments of between 32.5% and 37.5%;
- Maintain adjusted SG&A[4] of 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 in the second half of the fiscal year

The Company has been pleased with the continued revenue growth trend and believe our initiatives to improve the cost structure will continue to improve cash flow trends and lead to positive Adjusted EBITDA. The Company

[3] The foregoing projections are Forward Looking Information. Please see the cautionary statement on page [36].
[4] This is a Non-IFRS Measure. Please see page [20] for more information including its components and reconciliation.

remains focused on bringing innovative and differentiated cannabis products to Canadian consumers that deliver on the commitment of offering high quality cannabis wellness products at competitive prices.

Adult-Use Brand Portfolio

Divvy is the Company's main adult-use brand. It represents the majority of the Company's sales in the adult-use sales channel. In addition to Divvy, there are four other supporting brands serving distinct segments of the adult-use market.

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 include whole flower, milled flower, pre-rolls, vapes and oils.
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.

BOGART'S KITCHEN	Bogart's Kitchen is home to unique edible creations. 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 wellness conscious consumers.
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.

Medical Brand Portfolio

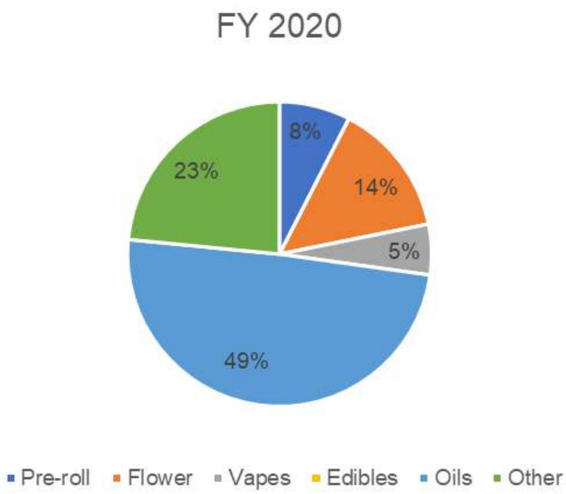
The Company serves the Canadian medical cannabis market with the Emblem brand.

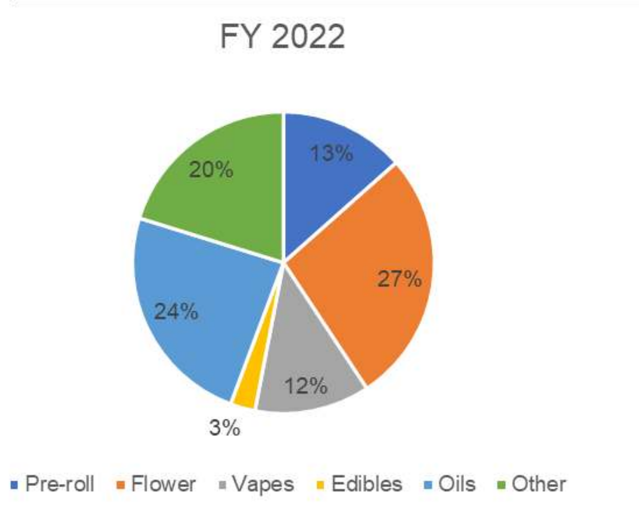
Emblem

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 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.





With the ramp-up of its Grimsby cultivation facility, and improvement in Usable Flower from its Port Perry outdoor facility, the proportion of sales generated by flower products has increased from 14% in FY 2020 to 27% in FY 2022.

a) Dried Flower

The Company has undertaken an expansion of its dried flower offering, which is the largest product category in the Canadian cannabis market, according to data from HiFyre. Driven by the continued ramp-up of its production facilities, the Company is able to deliver greater product availability, and new larger format stock-keeping-units ("SKU") including 14-gram and 28-gram flower pouches as well as a pre-ground milled offering. Sales of these products and other new dried flower SKUs commenced during Q2 2021, under the Divvy and Nith & Grand brands.

b) Pre-rolls

The Company has undertaken an expansion of its pre-roll offering, which represents the third largest product category in the Canadian cannabis market, according to data from HiFyre. The strong Port Perry 2021 harvest delivered record high potency, high terpene profile flower results, which when combined with the strategic outsourcing of pre-roll tin packaging, allows Aleafia Health to deliver significantly improved product availability, and new larger format SKUs including a 12-pack of 0.35 gram pre-rolls in a recognizable, reusable package. Sales of these products commenced during Q2 2021, under the Divvy brand. Most recently, the Company launched a 7-pack of 1 gram pre-rolls in the Alberta and Ontario markets (May 2022 and June 2022 respectively) which were well-received by consumers.

c) Vapes

Vapes represent the second largest product category in the Canadian adult-use market. The Company's vape portfolio is inspired by the Company's portfolio of cultivars. The custom-made, unique terpene blends of Divvy vapes deliver robust flavours and consistent effects. Additional Divvy SKUs, including new THC-dominant flavour profiles and a CBD dominant full-spectrum vape have been listed in Ontario and Alberta.

d) Cannabis Oils

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

e) Cannabis-Infused Sublingual Strips

Kin Slips, cannabis-infused sublingual strips, typically 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).

f) 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 as well as an infused hot sauce with well-known Canadian hot sauce maker Heartbeat Hot Sauce were launched under the Bogart's Kitchen edibles brand.

g) 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

Appointment of Matt Sale as Chief Financial Officer

On June 21, 2021, the Company announced the appointment of Matt Sale, Chief Financial Officer. Sale is a proven finance professional who brings over 15 years of progressively more senior leadership roles and accomplishments to Aleafia Health. Working within the investment banking groups of Raymond James and BMO Capital Markets, he has been a trusted financial advisor to some of Canada's most prominent publicly listed and private companies, helping execute their growth strategy, equity and debt financing transactions, and mergers & acquisitions.

$10 Million Credit Facility

On August 24, 2021 the Company announced the closing of a $10 million credit facility to provide it further financial capacity to pursue accretive growth opportunities. The credit facility was the first ever senior secured facility for the Company and was fully drawn down by the Company on closing.

2021 Outdoor Harvest

The Company completed the harvesting of its 2021 outdoor cannabis facility in Port Perry in the fourth quarter. A total of 11,600 kgs with an average THC potency of 22% was allocated for sale in the adult-use market, primarily under Aleafia Health's everyday cannabis brand Divvy in the pre-roll and milled flower categories. 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.

$19 Million Credit Facility

In December 2021, the Company closed a revolving receivables facility of up to $7 million and a term loan of $12 million (the "**Credit Facility**"). 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 were used to repay $5 million of the principal on the existing senior secured credit facility, which closed on August 24, 2021, along with accrued interest and fees, and was and will be, to the extent undrawn, used for working capital and general corporate purposes.

The existing senior secured facility was amended to extend the maturity date until December 24,2023 and changed the stated rate of interest to 12.45%. Additionally, second lien mortgages were granted against the Paris, Ontario and Grimsby, Ontario production facilities and a first lien mortgage on the Port Perry, Ontario facility.

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.

Amendment to $37.3 Million Convertible Debentures and $5.6 Million Equity Financing

On May 12, 2022 Aleafia announced an agreement in principle with the convertible debenture holder-nominated steering committee (the "**Steering Committee**") to amend certain key commercial terms of its unsecured convertible debentures set to mature on June 27, 2022 (the "**Convertible Debentures**"). The Company also entered into Subscription Agreements for units, comprising common shares and warrants, representing aggregate gross proceeds of $5.6 million on a private placement basis (the "**Private Placement**"). The amendment of the Convertible Debentures (the "**Debenture Amendments**") and the Private Placement were conditional on terms further described below (the Debenture Amendments and the Private Placement are referred to collectively as the "**Transaction**").

The Debenture Amendments entailed the exchange of the Convertible Debentures for new convertible debentures (the "**New Convertible Debentures**") issued in three equal, separate tranches, maturing in 2, 4 and 6 years from the date of issuance (the "**2024 Debentures**", "**2026 Debentures**", and "**2028 Debentures**", respectively). The interest rate remained at 8.5%, but the New Convertible Debentures have no mandatory cash interest payment for 24 months as interest will initially be paid-in-kind ("**PIK**") with additional New Convertible Debentures (the "**PIK Debentures**"), reducing near-term debt servicing requirements. The conversion price was significantly reduced to $0.25 for the 2024 Debentures, $0.30 for the 2026 Debentures, and $0.35 for the 2028 Debentures. The New Convertible Debentures were granted security against certain assets of the Company, but are fully subordinated to the Company's existing senior secured debt. The Company is precluded from incurring further senior secured indebtedness, subject to certain exceptions including to fund working capital, capital expenditures, and strategically accretive acquisitions. Debentureholders who approve the Debenture Amendments will receive a fee (the "**Consent Fee**") calculated as the amount of accrued interest on the existing Convertible Debentures between July 1, 2021 and the effective date of the Debenture Amendments, provided that Debentureholder Approval (described below) is obtained, payable in additional 2028 Debentures at par. The New Convertible Debentures are subject to a four month and one day hold commencing on the date of issuance in accordance with applicable Canadian securities laws (the "**Hold Period**"). The Company has applied to list the New Convertible Debentures on the Toronto Stock Exchange, and such listing will occur following the Hold Period, subject to customary listing conditions. The Debenture Amendments are expected to be completed by June 30, 2022 following approval of Debenture-holders by extraordinary resolution.

Private Placement

Under the Private Placement 68,151,515 units were issued at a price of $0.0825 each (the "**Issue Price**"). Each unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant. A warrant is exercisable into one common share at an exercise price of $0.1025 for a period of four years from the date of issuance. The expiry date of the warrants can be accelerated by the Company at any time and upon 30 days' notice, if the closing price of the common shares on the Toronto Stock Exchange (the "**TSX**") is greater than $0.165 for any 10 consecutive trading days following the date that is 4 months and one day after the date of issuance and prior to the expiry date of the Warrants. The completion of the Private Placement was conditional on (i) Debentureholder approval (ii) access to the full advance rate based on eligible receivables funding under the Company's December 2021 credit facility, (iii) granting additional security against certain assets of the Company in favour of the lenders under the Credit Facility entered into in August 2021, which are subordinated to the Company's December 2021 credit facility; and (iv) additional customary closing conditions. All of the securities issued in connection with the Private Placement will be subject to a customary four month and one day hold in accordance with applicable Canadian securities laws. The net proceeds from the Private Placement will be used to fund working capital and capital expenditures for the Company's continued growth, and other general corporate purposes. A finder's fee of 3,407,500 common shares was paid to a finder (the "**Finder's Shares**") in connection with the Private Placement The Private Placement was completed on June 24, 2022.

SELECTED ANNUAL INFORMATION

The following information has been prepared in accordance with IFRS in Canadian dollars. As a result of the Company changing its year end from December 31 to March 31 in 2022, the current period is for the fifteen months ended March 31, 2022 whereas the comparative periods are for the twelve months ended as noted below.

	Fifteen months ended	Twelve months ended	
($,000s) except per share amounts	Mar 31, 2022	Dec 31, 2020	Dec 31, 2019
Net revenue	43,122	36,275	16,351
Total cost of sales	33,965	15,572	8,788
Total operating expenses	53,388	40,826	49,977
Total other expenses	107,389	202,279	7,453
Net loss and comprehensive loss	(169,867)	(255,505)	(39,607)
Loss per share, basic and diluted	(0.52)	(0.88)	(0.18)
Total assets	92,6165	229,016	462,357
Total non-current liabilities	6,908	38,021	57,103

The fluctuations in reported results during the fifteen months ended March 31, 2022 resulted primarily from the following factors:

- Net revenue decreased because of a decline in wholesale revenue, which historically has been opportunistic. The decline in wholesale revenue was intentional as the Company transformed its strategy to focus on its branded cannabis product portfolio which increased over the prior year. Its branded cannabis net revenue spans both the adult-use and medical markets and delivers higher growth and higher net realizable margin than the wholesale sales channel. The adult-use sales channel delivered strong growth while the medical sales channel delivered what has historically been a sticky, recurring high-margin revenue base.

- Total other expenses which include impairments to goodwill, property, plant & equipment and intangible assets. For the fifteen months ended March 31, 2022, the total impairment charges were $93.2 million compared with the twelve months ended December 31, 2020 of $199.6 million.

OPERATIONAL AND FINANCIAL HIGHLIGHTS

($,000s)	Three months ended		Fifteen months ended	Twelve months ended	Twelve months ended	Twelve months ended
	31-Mar-22	31-Mar-21	31-Mar-22	31-Dec-20	31-Mar-22	31-Mar-21
Operating Results						
Kilograms Sold - Dried Flower	4,290	3,142	20,713	27,548	17,571	25,698
Avg Net Realized Price	1.64	2.25	2.08	1.32	2.05	1.12
Adult-Use Market Share %(1)	2.16%	0.48%	1.32%	0.56%	1.48%	0.46%
Adult-Use Market Share Ranking	13	30	17	29	15	29
Medical Use Orders	17,048	19,093	94,137	58,135	75,044	65,614
Medical Use Avg Order Value	$152	$141	$144	$145	$145	$145
Financial Results						
Revenue	10,734	7,510	53,813	37,406	46,303	30,083
Branded Cannabis Net Revenue	8,047	5,200	36,767	14,627	31,567	16,884
Net revenue(2)	7,039	7,066	43,122	36,275	36,056	28,745
Branded cannabis net revenue %	*100%*	*74%*	*85%*	*40%*	*88%*	*59%*
Adjusted gross profit before fair value ("FV") adj's						
Branded Cannabis profit $	2,851	2,135	13,889	5,116	10,179	5,722
Branded Cannabis profit %	35%	41%	38%	35%	32%	34%
Bulk Wholesale profit $	(1,918)	1,151	(4,732)	15,587	(5,882)	6,191
Bulk Wholesale profit %	-	62%	-74%	72%	-131%	52%
Total Gross profit $	933	3,286	9,157	20,703	4,297	11,913
Total Gross profit %	13%	47%	21%	57%	12%	41%
Adjusted EBITDA(2)(3)	(4,412)	(3,033)	(22,011)	5,115	(18,978)	(5,881)
Net Cash used in Operating Activities	(3,555)	(8,764)	(36,218)	(7,629)	(32,663)	(16,539)

1. Based on HiFyre data and includes Ontario, Alberta, Saskatchewan, and British Columbia
2. See "Cautionary Statements Regarding Certain non-IFRS Measures" section for term definition
3. See "Adjusted EBITDA" section for reconciliation to IFRS

Branded Cannabis

Aleafia completed its transformation in 2021 to a branded cannabis products company. Revenue of branded cannabis net revenue grew by 55% to $8.0 million in the quarter ended March 31, 2022 and by 87% to $31.6 million in the twelve months ended March 31, 2022 compared to the twelve months ended March 31, 2021. This was driven by growth in adult-use and medical cannabis sales, partially offset by a decline in clinic revenue.

The Company achieved growth in the adult-use channel with Canadian LP market share ranking reaching #13 compared to #28 a year earlier and market share % increasing from 0.48% to 2.16%. A focus on high velocity sales categories have been key to this successful growth. At the same time, the Company has been focusing on generating higher margins from its product portfolio, including portfolio optimization and cost rationalization.

With stable average order value ("AOV"), and growth in the number of orders, the Company increased its medical cannabis net revenue by 13% for the trailing twelve months ended March 31, 2022 compared to the twelve months ended March 31, 2021. This growth was realized despite an overall decline in the size of the market. The active patient base grew by 10.6% for the quarter and is 68% higher for the trailing twelve month period. Medical use orders were up 14% while average order values were maintained.

The branded cannabis net revenue represented 88% of the total net revenue in the twelve months ended March 31, 2022 compared to 59% in the twelve months ended March 31, 2021. The branded cannabis portfolio delivers a higher average net realized price per gram than the wholesale sales channel, explaining the increase in average net realized price.

The branded cannabis gross profit before fair value adjustments grew by 34% to $2.9 million in the quarter ended March 31, 2022 and by 78% to $10.2 million in the twelve months ended March 31, 2022 compared to the twelve months ended March 31, 2021. This increase was primarily driven by the increase in branded cannabis product sales, and the Company's focus on:

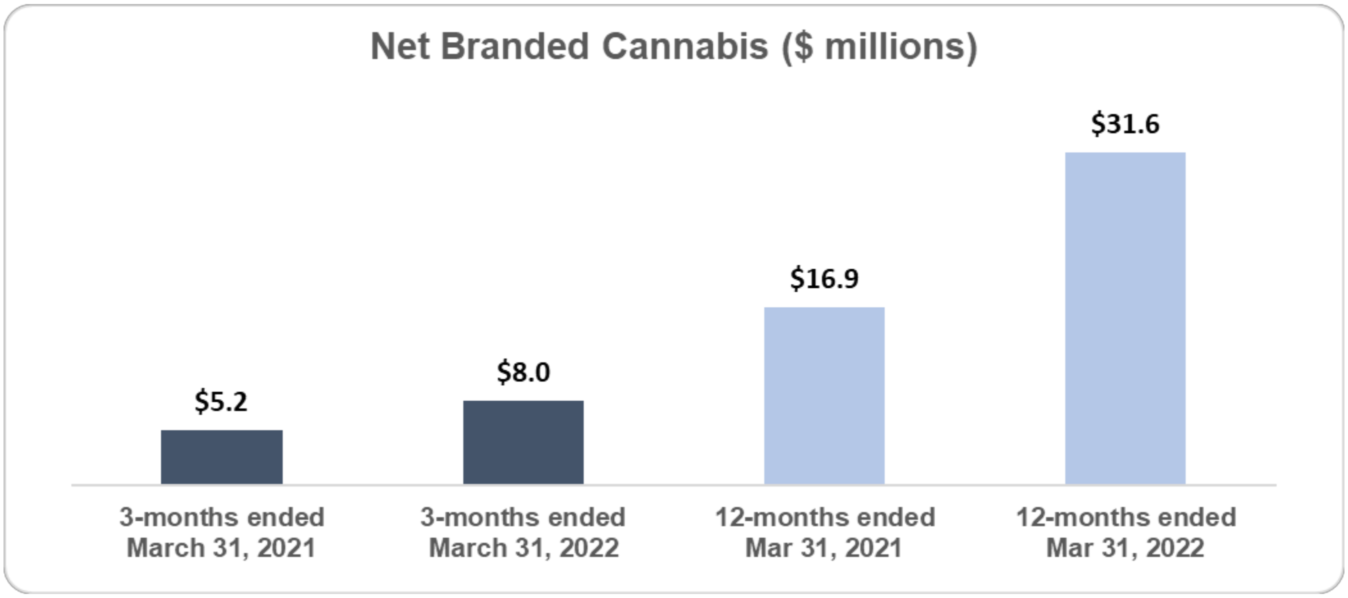
- Portfolio optimization - aligning the company's portfolio with the best-selling products formats that deliver the strongest gross profit margins and enacting moderate strategic price increases
- Cost rationalization strategy - review the cost structure and optimizing talent and resources towards the sales channels which delivered the highest net realizable margin per gram of flower sold

Branded cannabis profit margins before fair value adjustments declined to 35% in the quarter ended March 31, 2022 compared to 41% in the prior year, and to 32% in the twelve months ended March 31, 2022 compared to 34% during the twelve months ended March 31, 2021. This is a result of the shift in branded product sales mix towards adult-use products which delivers on average a lower margin than medical sales.

Bulk Wholesale

Bulk wholesale net revenue declined from 41% of total net revenue in the twelve months ended March 31, 2021 to 12% of total net revenue in the twelve months ended March 31, 2022, as the Company is primarily focused on growing its branded cannabis sales. Total kilograms sold of dried flower declined in the twelve months ended March 31, 2022 to 17,571, compared to 25,698 in the twelve months ended March 31, 2021, due to the Company's focus on higher margin branded cannabis products.

Total gross profit margin before fair value adjustments declined to 13% in the quarter ended March 31, 2022 from 47% in the prior year, and to 12% in the twelve months ended March 31, 2022, compared to 41% in the prior year. This was primarily driven by negative margin realized on nonrecurring bulk wholesale sales.



REVENUE COMPOSITION

($,000s)	Three months ended 31-Mar-22	Three months ended 31-Mar-21	Fifteen months ended 31-Mar-22	Twelve months ended 31-Dec-20	Twelve months ended 31-Mar-22	Twelve months ended 31-Mar-21
Revenue						
Adult-Use	9,001	1,948	31,068	3,714	29,120	4,839
Medical Cannabis	2,693	2,875	14,193	8,590	11,317	9,978
Clinic	48	821	2,198	3,454	1,377	3,405
Medical	2,741	3,696	16,391	12,044	12,694	13,383
Total Branded	11,742	5,644	47,459	15,758	41,814	18,222
Wholesale	(1,008)	1,866	6,354	21,648	4,489	11,861
Total Revenue	10,734	7,510	53,813	37,406	46,303	30,083
Net Revenue						
Adult-Use	5,518	1,722	21,498	3,221	19,777	4,235
Medical Cannabis	2,481	2,657	13,072	7,952	10,413	9,244
Clinic	48	821	2,198	3,454	1,377	3,405
Medica	2,529	3,478	15,270	11,406	11,790	12,649
Total Branded	8,047	5,200	36,768	14,627	31,567	16,884
Wholesale	(1,008)	1,866	6,354	21,648	4,489	11,861
Total Net Revenue	7,039	7,066	43,122	36,275	36,056	28,745

OPERATING EXPENSES

($,000s)	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021	Fifteen and Twelve months ended Mar 31, 2022	Fifteen and Twelve months ended Dec 31, 2020
Selling, general and administrative	4,887	6,896	34,127	24,040
Amortization and depreciation	2,607	1,799	9,468	8,058
Share-based compensation expense	68	579	2,899	2,690
Bad debt expense	179	558	1,868	1,892
Business transaction costs	696	1,454	5,026	4,146
Total	8,437	11,286	53,388	40,826

Total operating expenses for the three months ended March 31, 2022 were $8.4 million, compared to $11.3 million in the comparative prior year quarter. Despite an increase in branded cannabis net revenue over the same period, the decline is primarily driven by a decrease in selling, general and administrative ("**SG&A**") expenses from $6.9 million to $3.7 million. The prior year quarter benefited from $0.4 million in Canada Emergency Wage Subsidy ("**CEWS**") which reduced wages and benefits expense by the same amount. The Company has realized a significant reduction in operating expenses, through ongoing cost optimization and headcount reduction initiatives. The Company's full-time equivalent headcount has decreased by 24% from 276 as at March 31, 2021 to 211 as at March 31, 2022. Total share-based compensation expense declined due to headcount reductions that resulted in reversing the share-based compensation associated with unvested stock options.

Total operating expenses for the fifteen months ended March 31, 2022 were $53.4 million, compared to $40.8 million in the comparative prior year. This increase was driven by certain nonrecurring and one-time costs related to the launch of the Company's house of Brands in Q1 2021 and an increase in bad debts expense which primarily relates to certain non-recurring transactions with two primarily customers in the bulk wholesale sales channel. Additionally, the comparative twelve months ended December 31, 2020 included CEWS of $4.7 million recorded in selling, general and administrative expenses.

OTHER EXPENSES (INCOME)

($,000s)	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021	Fifteen and Twelve months ended Mar 31, 2022	Fifteen and Twelve months ended Dec 31, 2020
Interest expense, net	2,626	2,238	10,787	11,636
Gain on sale of assets	-	-	(12,092)	(1,181)
Fair value through profit and loss	1,120	-	15,505	(943)
Impairment of property, plant and equipment	-	-	28,800	-
Impairment of intangible assets	-	-	53,093	22,116
Impairment of goodwill	-	-	11,314	177,476
Realized gain on LP settlement	-	-	-	(6,344)
Other non-operating expense (income)	263	88	(18)	(481)
Total	**4,009**	**2,326**	**107,389**	**202,279**

Other expenses for the three months ended March 31, 2022 was $4.0 million compared to $2.3 for the three months ended March 31, 2021. The increase is primarily due to a fair value adjustment of marketable securities classified as fair value through profit and loss.

Other expenses for the fifteen months ended March 31, 2022 was $107.4 million compared to $202.3 million in twelve months ended December 31, 2020. The decline is largely due to impairments on long-lived assets and goodwill being greater in the comparative period. The current period is partially offset with a gain on sale of assets of $12.1 million, arising from the asset purchase transaction with Myconic (D.B.A Wellbeing Digital Services Limited), which closed in the second quarter of 2021. In response to indicators of impairment identified during the quarter ended September 30, 2021, the Company performed an impairment analysis on its intangible assets subject to amortization and goodwill for each cash generating unit ("**CGU**"). The recoverable amounts for each CGU were based on its value in use which was determined to be greater than its fair value less costs of disposal. As a result, the Company recognized non-cash impairment charges of $11.3 million related to goodwill and $53.1 million related to its intangible assets subject to amortization. In the quarter ended December 31, 2021, additional impairment indicators were identified and based on appraised values of its equipment and buildings, the Company recorded a non-cash impairment charge of $28.8 million.

ADJUSTED SG&A

Adjusted selling, general and administrative ("**Adjusted SG&A**") is defined as SG&A expenses adjusted to exclude non-recurring costs. These non-recurring items may relate to certain transaction costs, one time subsidies, and severances. Medical clinic supply services amounts are included in SG&A. Adjusted SG&A is not recognized or defined under IFRS, and as a result, it may not be comparable to the data presented by competitors.

($,000s)	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021	Fifteen and Twelve months ended Ma 31, 2022	Fifteen and Twelve months ended Dec 31, 2020	Twelve months ended Mar 31, 2022	Twelve months ended Mar 31, 2021
SG&A	**4,887**	**6,896**	**34,127**	**24,040**	**27,231**	**25,342**
Business transaction costs	696	1,454	5,026	4,146	3,572	5,090
Wage Subsidies, severance	1,142	1,458	860	3,613	(598)	5,097
Medical Clinic Supply Services	557	-	2,059	-	2,059	-
Adjusted SG&A	**7,282**	**9,808**	**42,072**	**31,799**	**32,264**	**35,529**

The Company considers Adjusted SG&A an important key metric to measure the Company's cost structure outside of production and inventory related costs metric as it progresses towards breakeven Adjusted EBITDA profitability. It is generally fixed in nature with some variability depending on sales volume.

The Company has aggressively contained and rationalized its Adjusted SG&A cost profile, resulting in a 26% decline to $7.3 million in the three months ended March 31, 2022, compared to $9.8 million in the prior year. This was achieved despite branded cannabis net revenue increasing 155% over the same period.

ADJUSTED EBITDA

Adjusted EBITDA is widely used by industry participants and analysts to measure company performance. The Company considers Adjusted EBITDA a key metric for measuring operating performance and cash flow, to manage working capital, debt repayments and capital expenditures. 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. Adjusted EBITDA is not recognized or defined under IFRS, and as a result, it may not be comparable to the data presented by competitors.

($,000s)	Three months ended March 31, 2022	March 31, 2021	Fifteen and Twelve months ended March 31, 2022	December 31, 2020	Twelve months ended March 31, 2022	Twelve months ended March 31, 2021
Net loss	**(4,152)**	**(11,248)**	**(169,867)**	**(255,505)**	**(158,619)**	**(254,087)**
Add back:						
Depreciation and amortization[1]	2,149	2,377	12,427	10,166	10,050	7,843
Interest expense, net	2,626	2,238	10,787	11,636	8,549	11,226
Income tax expense (recovery)			(2,854)	(2,540)	(2,854)	(2,040)
EBITDA	623	(6,633)	(149,507)	(236,243)	(142,874)	(237,058)
Inventory write down	-	-	19,648	24,922	19,648	
FV changes in biological assets and changes in inventory sold	906	921	1,453	10,721	532	30,385
Share-based payments	68	579	2,899	2,690	2,320	2,303
Bad debt expense	(8,088)	558	1,868	1,892	1,310	2,346
Business transaction costs	696	1,454	5,026	4,146	3,572	5,090
Gain on sale of assets	-	-	(12,092)	(1,181)	(12,092)	(6,344)
Fair value through profit and loss adjustments	1,120		15,505	(943)	15,505	(1,843)
Impairment of intangible assets	-	-	53,093	22,116	53,093	22,116
Impairment of goodwill	-	-	11,314	177,476	11,314	177,476
Impairment of property, plant & equipment	-	-	28,800	-	28,800	
Non-operating expense (income)	263	88	(18)	(481)	(106)	(352)
Adjusted EBITDA[2]	**(4,412)**	**(3,033)**	**(22,011)**	**5,115**	**(18,978)**	**(5,881)**

1. Includes non-cash depreciation expensed to cost of sales.

Adjusted EBITDA for the three months ended March 31, 2022 was a loss of $4.4 million, compared to a loss of $3.0 million in the prior year comparative quarter. The decrease over the prior year quarter was primarily due to a nonrecurring operational issue at our Grimsby Facility amounting to approximately $2.0 million which has since been rectified and $1.9 million negative margin on bulk wholesale cannabis sales, partially offset by cost containment, and cost rationalization initiatives. There were certain marketing, consultant, brand development and product formulation costs related to the launch of new product formats, most of which are non recurring in nature. In conjunction with the Company's focused cost containment and rationalizations, this has delivered a dramatically improved SG&A expense profile.

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 March 31, 2022 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 and debt financings 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 expected to use the proceeds for general corporate purposes, which may include: (i) working capital; (ii) capital expenditures; and (iii) debt repayments.	$15.4 million of the proceeds was applied towards operating expenses, $2 million to working capital, $2 million to capital expenditures, and $1.6 million to interest on debt. All proceeds were used by June 30, 2021.
August 23, 2021	Secured Credit Agreement	$10 million	The Company expects to use the proceeds for general corporate purposes, which may include: (i) working capital; and (ii) capital expenditures.	$9 million of the proceeds was applied towards operating expenses and working capital and $1 million to capital expenditures,
December 24, 2021	Loan Agreement	$19 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.	A total of $12.5 million was received, pursuant to the agreement of which $0.8 was used to prepay interest and cover transaction costs. $5.4 million was used to repay principal, accrued interest and related fees of the August 2021 secured credit facility. $6.0 million of the proceeds was applied towards operating expenses and working capital and $0.3 million to capital expenditures.

Cash Flow Highlights

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

	Three months ended		Fifteen months ended	Twelve months ended
($,000s)	Mar 31, 2022	Mar 31, 2021	Mar 31, 2022	Dec 31, 2020
Cash balance, beginning of period	11,232	30,529	30,529	41,247
Cash used in operating activities	(3,555)	(8,764)	(36,218)	(7,629)
Cash provided by used in investing activities	(652)	(456)	(4,659)	(16,205)
Cash provided by (used in) financing activities	(5,456)	(3,631)	11,917	13,116
Cash and restricted cash balance, end of period	1,569	17,678	1,569	30,529

Operating Activities

Cash used in operating activities was $36.2 million for the fifteen months ended March 31, 2022 compared to cash used in operating activities of $7.6 million for the twelve months ended December 31, 2020. Excluding working capital, cash used in operating activities was $31.5 million for the fifteen months ended March 31, 2022 compared to $8.3 million for the twelve months ended December 31, 2022. Cash used in operating activities has increased by $23.2 million primarily relating to investments in operations to launch new products and support organic revenue growth. During the fifteen months ended March 31, 2022 changes in working capital reflected a $4.7 million investment compared to a recovery of $0.7 million for the twelve months ended December 31, 2020.

Investing Activities

Cash used in investing activities was $4.7 million for the fifteen months ended March 31, 2022 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 owned production facilities.

Financing Activities

Cash provided by financing activities was $11.9 million for the fifteen months ended March 31, 2022 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 $14.2 million from the issuance of common shares.

Contractual Obligations & Capital Expenditures

As of March 31, 2022, the Company had the following contractual obligations:

($,000s)	Within 1 year	2 years	3 years	4 years	5 years and thereafter
Convertible debenture	39,729	-	-	-	-
Credit facilities	-	17,650	-	-	-
Lease obligations	918	1,028	1,033	171	6
Purchase commitments	129	60	60	-	-
Total	**40,776**	**18,738**	**1,093**	**171**	**6**

The interest on the credit facilities not included in the table above is approximately $2.4 within one year and approximately $1.8 due between one year and two years.

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 $1.47 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, Debentureholders converted $2.9 million debentures to common shares and during 2022 converted $0.3 million debentures to common shares . Accordingly, the remaining principal balance to be paid upon maturity is $37.0 million.

On December 31, 2021, the Company did not make a scheduled interest payment of $1,587 and did not make the payment within the 30-day cure period, thereafter. The accrued interest in the amount of $2,379 is recorded in accounts payable and accrued liabilities on the consolidated statements of financial position.

On February 1, 2022, the Company announced that it had entered into a Forbearance Agreement with Debentureholders representing 58% of the Debentures' aggregate principal amount outstanding. 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 Debentureholders, 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.

See the Key Developments section for further updates on the Convertible Debentures.

December 2021 Credit Facility - Current

On December 24, 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.

During the quarter ended March 31, 2022, the Company breached its financial covenant under the term facility. The Company reached an agreement with the lender to not call an event of default. The amount drawn from the revolving facility as at March 31, 2022 was $0.5 million ($6.5 million undrawn).

Subsequent to March 31, 2022, the Company drew another $1.3 million against the revolving facility and remedied the breach of its covenant. The undrawn balance at the date hereof is $5.2 million.

August 2021 Credit Facility – Non current

On August 23, 2021, the Company entered into a secured Credit Agreement, to receive $10.0 million for working capital, general corporate purposes and capital expenditures. The term of the loan was for one year and it bears simple interest at a rate of 12%, with an effective interest rate of 17.3%. 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 and vest in four tranches of 250,000 quarterly commencing November 20, 2021. The warrants were ascribed a value of $131, using Black Scholes pricing model. The loan was initially secured by first lien mortgages on the Paris, Ontario and Grimsby, Ontario production facilities.

On December 24, 2021, the Company entered into an amendment with its lender to revise certain terms in the credit facility. The mortgages against the Paris, Ontario and Grimsby, Ontario production facilities were subordinated and a first lien mortgage was granted on the Port Perry, Ontario facility. The maturity date was extended by approximately 16 months to December 24, 2023 and the stated interest rate applicable changed to 12.45%.

The Company made a principal repayment of $5.0 million against the credit facility, together with accrued interest and fees on January 7, 2022. The first tranche of the common share purchase warrants of 250,000 vested on November 20, 2021. Due to the early repayment, the second tranche vesting February 20, 2022, was reduced to 190,217 from 250,000. The remaining number of common share purchase warrants of 250,000 will vest equally over the original term of the facility on May 20, 2022 and August 20, 2022.

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 audited 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 parties by an individual. The plaintiff has claimed $10 million in damages. The claim is being contested and the action is proceeding to mediation in the fall. The outcome of this legal matter is subject to negotiations by the officers of the Company and the Company believes it is unlikely to be impacted and accordingly, no amount has been provided for. A separate claim was also initiated by Amos 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. It is also being contested.

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 $5.0 million in punitive damages. Ms. Langevin has not alleged that she ever purchased product from Emblem or Aleafia Health. The case is at its earliest stages. The Company believes it has good defenses to the claim and intends to vigorously defend the claim. Accordingly, at this stage no amount has been provided for in the consolidated statements of financial position in respect of this claim.

Off-balance Sheet Arrangements

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

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 10 of the annual Consolidated Financial Statements, the Company had no transactions with its related parties (as defined under IFRS) during the reporting period.

FIRST QUARTER RESULTS

($,000s) except share and per share amounts	Three months ended Mar 31, 2022	Three months ended Mar 31, 2021
Revenue	10,734	7510
Excise taxes	3,695	444
Net revenue	7,039	7,066
Cost of sales	6,106	3,781
Gross profit before fair value adjustment and Inventory provision	933	3,285
Fair value changes in biological assets and changes in inventory sold	(906)	(921)
Gross profit (loss)	27	2,364
Expenses		
Selling, General and administrative	4,887	6,892
Amortization and depreciation	2,607	1,799
Share-based compensation expense	68	579
Bad debt expense	(8,088)	558
Business transaction costs	696	1,454
	170	11,286
Other expenses (income)		
Interest expense, net	2,626	2,238
Fair value through profit and loss adjustments	1,120	-
Non-operating loss (income)	263	88
	4,009	2,326
Net loss before income taxes	(4,152)	(11,248)
Income tax		
Current income tax recovery	-	-
Deferred income tax recovery	-	-
Net loss and comprehensive loss	**(4,152)**	**(11,248)**
Loss per share, basic and diluted	$(0.01)	$(0.04)
Weighted average common shares outstanding	331,124,351	308,912,989

Net revenue for the three months ended March 31, 2022 remained relatively unchanged compared to the three months ended March 31, 2021, despite a $3.0 million increase in revenue. This is primarily because of the application of cannabis excise duties. During the three months ended March 31, 2021 a greater proportion of revenue was derived through wholesale, in which there are no cannabis excise duties. During the three months ended March 31, 2022, most of the revenue was through the retail channel, which experienced average cannabis excise duties between a range of 35 to 45%.

For the three months ended March 31, 2022 operating expenses were $8.7 million, a $2.6 million decrease from $11.2 million for the three months ended March 31, 2021. The decrease is largely attributable to dedicated and focused cost cutting measures and cost containment to improve profitability.

QUARTERLY HISTORICAL FINANCIAL RESULTS

	Three months ended			
($,000s)	Mar 31, 2022	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021
Net revenue	7,039	8,764	9,581	10,672
SG&A expenses	4,887	6,980	7,005	9,165
Net loss and comprehensive loss	(4,152)	(71,509)	(82,922)	(36)
Basic and diluted earnings (loss) per share	($0.01)	($0.22)	($0.25)	($0.00)

	Three months ended			
($,000s)	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020
Net revenue	7.066	15,203	4,968	9,775
SG&A expenses	6,896	7,085	5,920	6,504
Net loss and comprehensive loss	(11,248)	(217,301)	(19,761)	(4,020)
Basic and diluted earnings (loss) per share	($0.04)	($0.72)	($0.06)	($0.01)

SUMMARY OF OUTSTANDING SHARE DATA

Aleafia Health is authorized to issue an unlimited number of common shares. Subsequent to March 31, 2022, 125,648 common shares were issued under the Company's share-based plans. The total number of common shares issued and outstanding is 331,249,999 as of the date hereof.

The fully diluted number of common shares outstanding as the date hereof is 540,313,320, which includes 402,809,014 common shares, 90,231,190 warrants, 44,729,196 stock options, 513,917 restricted share units and 2,030,003 deferred share units.

FINANCIAL INSTRUMENTS

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

($,000s)	Mar 31, 2022	Dec 31, 2020
Fair value through profit and loss(1)	5,150	37,149
Assets, amortized cost(2)	18,556	9,311
Liabilities, amortized cost(3)	83,530	80,208

1. Cash, restricted cash, investments, and marketable securities.
2. Trade and other receivables.
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	1,356	-	-	1,356
Restricted cash	213	-	-	213
Marketable securities	1,190	-	-	1,190
Investments	-	-	2,391	2,391
Total	**2,759**	-	**2,391**	**5,150**

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 fifteen months ended March 31, 2022 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 assets or liabilities and has few transactions denominated in a currency other than Canadian dollars. The Company is attracting foreign investments. During the fifteen months ended March 31, 2022, there has been no change to the management of this risk.

b) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits, the variable rate of interest applicable to the $12.0 million term facility and the drawn amount of the $7.0 million revolving facility. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term in nature. The interest rate risk on convertible debt is insignificant due to the fixed rate of interest on convertible debt. The Company has not entered into any derivative instruments to manage interest rate fluctuations. The Company monitors interest rate and may enter into derivative instruments to hedge interest rate risk should it deem it economically efficient.

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, trade and other receivables and short-term investments which consist of marketable securities. The risk exposure is limited to their carrying values reflected on the consolidated statements of financial position. To minimize the credit risk the Company places these instruments with a high-quality financial institution. There are no expected credit losses with respect to cash and cash equivalents as the Company does not invest in asset backed investments.

For the fifteen months ended March 31, 2022, the expected credit losses of trade and other accounts receivables was assessed based on the expected loss model in compliance with IFRS 9. Individual receivables that were known to be incurred credit losses are written off by reducing the carrying amount directly, and this is reevaluated and subject to change as the Company reevaluates its credit risk exposure. Pursuant to their collective terms, trade accounts receivable, were aged as follows:

	March 31, 2022	December 31, 2020
	$	$
Current	6,364	1,379
0 – 30 days past due	250	537
31 – 60 days past due	95	145
61 – 90 days past due	69	83
90 + days past due	1041	79
Provision for credit losses	(519)	(762)
Other receivables	3,785	7,850
Total	**11,085**	**9,311**

The standard payment terms applicable to most customers are between 30 – 60 days upon receipt of goods.

The Company has concentration risk, as approximately 76% (December 31, 2020 – 75%) of total revenue came from three (2020 – four) customers and approximately 79% (2020 – 38%) of total trade accounts receivable is due from three (2020 – two) customers.

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 $492.7 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.

As at March 31, 2022, the Company has total current assets of $40.5 million and total current liabilities of $76.6 million. Within its current asset base are cash, restricted cash and marketable securities of $2.8 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 credit facilities;
- 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. In this regard, reference should be had to the section below regarding the Company's going concern assumption.

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 consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated 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 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 $493.2 million (December 31, 2020 – $315.0 million) and a working capital deficiency of $36.2 million. 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 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 the 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 plant.

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 of CGUs and goodwill.

Valuation of intangibles and goodwill

The impairment test for each CGU to which goodwill is allocated based on the value in use of the CGU, is determined in accordance with the expected cash flow approach. The calculation is based on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rates. The Company exercises significant judgement in determining CGUs. The Company has identified two CGUs, Emblem Cannabis Corporation and Aleafia Farms in the current period. During the twelve months ended December 31, 2020, there were four, 1. Aleafia Farms Inc., 2. Emblem Cannabis Corporation, 3. Canabo Medical Corporation (“CMC”) and 4. branded cannabis product development and related retail operations.

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Useful lives of property, plant and equipment and intangible assets

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.

Revenue recognition

Estimates are used when the Company recognizes certain research revenue depending on how frequently patients visit the clinics and what portion of the upfront deposits are considered deferred. Also, significant judgment is exercised to determine if all the specific requirements for the transfer of control under a bill-and- hold arrangement have been met and revenue can be recognized. Significant judgment is exercised to determine when certain conditions have been met for products destined for international markets.

Valuation of share-based payments

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 the Company's stock price and the risk-free interest rate are used. In calculating the fair value of the warrants, the Company includes key assumptions such as the volatility of the Company's stock price, the value of the common share, and the risk-free interest rate.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference. In addition, when the Company incurs losses for income tax purposes, it assesses the probability of taxable income being available in the future based on its budgeted forecasts. These forecasts are adjusted to take into account certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

ACCOUNTING PRONOUNCEMENTS RECENTLY ADOPTED

Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 7, Financial Instruments: Disclosures, IFRS 9, Financial Instruments, IFRS 4, Insurance Contracts, IFRS 16, Leases, and IAS 39, Financial Instruments: Recognition and Measurement): The amendments address the effects of the reform on a company's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The amendments address specific hedge accounting requirements and permit a practical expedient for modifications of financial assets, financial liabilities, and lease liabilities required by the IBOR (interbank offered rate) reform. The amendments also require additional disclosures for users to understand the nature and extent of risks arising from the IBOR reform and how the entity manages those risks. The objective is to support companies in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the reform; and assist companies in providing useful information to users of financial statements. The amendment applies for annual periods beginning on or after January 1, 2020, with earlier application permitted.

The Company adopted the amendment effective January 1, 2020, resulting in no impact on the Company's Financial Statements.

Amendments to IFRS 16, Leases. The amendments to IFRS 16 issued in May 2020 provided lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification, and instead required lessees that applied the exemption to account for COVID-19-related rent concessions as if they were not lease modifications. The amendment extended the applicable payments due on or before June 30, 2022. The amendments are effective for annual reporting periods beginning on or after April 1, 2021 and are to be applied retrospectively.

The Company did not receive rent concessions as a result of COVID-19, resulting in no impact on the Company's Financial Statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

Standards issued but not effective up to the date of issuance of these consolidated financial statements are described below. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded. The Company will adopt these standards as they become effective.

Amendments to IAS 1, *Presentation of Financial Statements*. In January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments clarify the situations that are considered settlement of a liability. The new guidance will be effective for annual periods starting on or after January 1, 2023.

Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The amendments are not expected to have a material impact on the Company.

Amendments to IFRS 9, *Financial Instruments*. The amendments to IFRS 9 clarify which fees an entity includes when it applies the "10 percent test" in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendments are effective for annual periods beginning on or after January 1, 2022 and are to be applied prospectively.

The Company will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The implementation of this amendment is not expected to have a significant impact on the Company.

Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction.* In May 2021, the IASB issued amendments to IAS 12 to reduce diversity in the way that entities account for deferred tax on transactions and events, such as leases and decommissioning obligations, that lead to the initial recognition of both an asset and a liability. The amendment clarifies that the initial recognition exception does not apply to the initial recognition of leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company will apply the amendment as necessary.

Amendments to IAS 16, *Property, Plant and Equipment*. In June 2019, the IASB issued amendments to IAS 16 which prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any sales proceeds earned from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, such sales proceeds must be recognized in profit or loss. The amendment will also require an entity to identify and measure the cost of items produced before an item of PP&E is available for use, applying the existing measurement requirements of IAS 2 Inventories, not require additional specific presentation and disclosure requirements in relation to the sale of items that are part of the entity's ordinary activities, and will require additional disclosures in relation to the sale of items that are not part of an entity's ordinary activities. The amendments are effective for annual periods beginning on or after January 1, 2022, with early adoption permitted. The amendment is not expected to have a material impact on the Company.

Amendments to IFRS 3, Definition of a business The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Company but may impact future periods should the Company enter into any business combinations.

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 March 31, 2022 and based on the material weaknesses identified in Internal Control over Financial Reporting outlined below, concluded that the DCP were not effective as of March 31, 2022.

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 March 31, 2022, and concluded that ICFR were not effective as of March 31, 2022.

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

The Company has implemented measures, including reassigning oversight over the IT function to the Chief Financial Officer, augmenting the finance and accounting team with a new VP of Finance role which will allow for a reassignment of preparation and review activities that currently lack effective segregation of duties and whose key responsibilities include enhancing the internal control environment, engaging a third party independent service provider to assist with enterprise wide IT risk monitoring, implementing enhancements to its accounting system to facilitate more robust data capture and reporting, realigning the entire corporate organizational reporting structure to streamline operations, improve accountability and the segregation of duties, and reviewing and documenting key accounting processes and procedures.

Although remedial measures have been taken, further investment in internal controls measures are necessary, and there can be no assurance that such remedial measures when fully enacted will prove effective or that the Company's internal controls over financial reporting will become sufficient to prevent other material weaknesses in the future.

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 fiscal year 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, ability to procure additional Usable Flower, 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 June 15, 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 and clinic revenue. It excludes wholesale bulk cannabis net revenue.

- Total Branded Cannabis Revenue is calculated as Adult-use cannabis revenue, Medical cannabis revenue and clinic revenue. It excludes wholesale bulk cannabis 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.

- Adjusted gross profit before FV adjustments is the gross profit before fair value adjustments and inventory provision. 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 profit before FV adjustments on branded cannabis net revenue represents gross profit on branded cannabis net revenue. It is calculated by subtracting costs of sales relating to bulk wholesale.
- Adjusted gross profit before FV adjustments on bulk wholesale represents gross profit on bulk wholesale. It is calculated by subtracting costs of sales relating to cannabis net revenue.
- Adjusted gross profit margin before FV adjustments on branded cannabis net revenue represents gross profit on branded cannabis net revenue. It is calculated by subtracting costs of sales relating to bulk wholesale and dividing by total branded cannabis net revenue.
- Adjusted gross profit margin before FV adjustments on bulk wholesale represents gross profit on bulk wholesale. It is calculated by subtracting costs of sales relating to cannabis net revenue and dividing by bulk wholesale revenue.

RISK FACTORS

Due to the nature of the Company's business and the legal and economic climate in which it operates, the Company is subject to significant risks. The risks presented below should not be exhaustive and may not be all of the risks that the Company may face. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair its business and operations. If any of the following or other risks are realized, the Company's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that event the trading price of the Company's shares could decline, and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

REGULATORY AND LEGAL RISKS

Compliance with Laws

The adult-use and medical cannabis industries and markets are subject to a variety of laws in Canada and internationally.

The business and activities of the Company are heavily regulated. The Company's operations are subject to various laws, regulations and guidelines by governmental authorities, particularly Health Canada, relating to the manufacture, marketing, management, transportation, storage, sale and disposal of cannabis, and also including laws and regulations relating to health and safety, healthcare practitioner services, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Company, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products and services.

To the knowledge of management, the Company is currently in compliance under the *Cannabis Act*. Failure to comply with the laws and regulations applicable to its operations may lead to possible sanctions including the revocation or imposition of additional conditions on its Licences, issued in accordance with the *Cannabis Act* and *Cannabis Regulations* ("Licences") to operate the Company's business; the suspension or expulsion from a particular market or jurisdiction or of its key personnel; and, the imposition of fines and censures. To the extent that there are changes to the existing or the enactment of future laws and regulations that affect the sale or offering of the Company's product or services in any way it may have a material adverse effect on the Company's business, financial condition and results of operations. Any amendment to or replacement of the *Cannabis Act* or other applicable rules and regulations governing the Company's activities may cause adverse effects on the Company's business, financial condition and results of operations.

There is also a risk that the Company's interpretation of laws, regulations and guidelines, including, but not limited to the associated regulations and applicable stock exchange rules and regulations, may differ from those of others, including those of governmental authorities, securities regulators and exchanges, and the Company's operations may not be in compliance with such laws, regulations and guidelines.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and, where necessary, obtaining regulatory approvals. The impact of regulatory compliance regimes, and the impact of any delays in obtaining or failures to obtain regulatory approvals required by the Company may significantly delay or impact the development of the Company's business and operations and could have a material adverse effect on the Company's business, financial condition and results of operations.

Further, the Company is subject to ongoing inspections by Health Canada to monitor compliance with licensing requirements. The Company's existing Licences and any new licences that it may obtain in the future in Canada or other jurisdictions may be revoked or restricted at any time in the event that the Company is found not to be in compliance. Should the Company fail to comply with the applicable regulatory requirements or with conditions set out under its Licences or should its Licences be revoked, the Company may not be able to continue producing or distributing cannabis in Canada.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws and regulations may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures or remedial actions. The Company may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Changes in Laws, Regulations and Guidelines

The legislative framework pertaining to the Canadian recreational cannabis market is subject to significant provincial and territorial regulation, which varies across provinces and territories resulting in an asymmetric regulatory and market environment, different competitive pressures and significant additional compliance and other costs and/or limitations on the Company's ability to participate in such markets.

The laws, regulations and guidelines applicable to the cannabis industry domestically and internationally may change in ways currently unforeseen by the Company. The *Cannabis Act* came into effect on October 17, 2018. However, uncertainty exists with respect to the implementation of the *Cannabis Act*, federal regulations thereunder as well as the various provincial and territorial regimes governing the distribution and sale of cannabis for adult-use, recreational purposes.

Since cannabis remains illegal under U.S. federal law (other than the legalization of hemp) any engagement in cannabis-related activities may lead to heightened scrutiny by regulatory bodies and other authorities that could negatively impact the Company and/or its personnel.
The impact of these new laws, regulations and guidelines on the business of the Company, including increased costs of compliance and other potential risks, cannot be fully predicted; accordingly, the Company may experience adverse effects.

Reliance on Licences and Permits

The Company's ability to grow, store and sell cannabis in Canada is dependent on its Licences from Health Canada. Failure to comply with the requirements of the Licences or any failure to maintain its Licences would have a material adverse effect on the business, financial condition and operating results of the Company.

The Port Perry facility Licence will expire on October 9, 2023, the Paris facility Licence will expire on July 26, 2022, the Grimsby facility Licence will expire on March 13, 2023, and the Distribution Centre Licence will expire on February 12, 2024. Although management believes it will meet the requirements of the *Cannabis Act*, for extension of the Licences, there can be no guarantee that Health Canada will extend or renew the Licences or, if it is extended or renewed, that it will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the Licences, or should it renew the Licences on different terms or not provide the amendments as requested for anticipated capacity increases, the business, financial condition and results of the operations of the Company will be materially adversely affected.

The Company is dependent upon its Licences for its ability to grow, store and sell cannabis and other products at its production facilities. The Licences are subject to ongoing compliance, reporting requirements and renewal.

In addition to the Licences, the operations of the Company may require other Licences and permits from various governmental authorities, including, but not limited to, local municipalities. The Company currently has all non-federal permits and Licences that it believes are necessary to carry on its business. The Company may require additional Licences or permits in the future and there can be no assurance that the Company will be able to obtain all such additional Licences and permits. In addition, there can be no assurance that any existing Licences and permits will be renewable if and when required or that such existing Licences and permits will not be revoked.

Regulatory or Agency Proceedings, Investigations and Audits

The Company's businesses require compliance with certain laws and regulations. Failure to comply with applicable laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could lead to damage awards, fines and penalties.

The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require the Company to pay substantial amounts of money, harming its financial condition.

There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operation.

Reliance on Facilities

The Port Perry facility, the Paris facility, the Distribution Centre and the Grimsby facility are integral to the Company's business and adverse changes or developments affecting any of the Port Perry facility, Paris facility, the Distribution Centre or Grimsby facility may impact the Company's business, financial condition and results of operations.

Adverse changes or developments affecting the Port Perry facility, Paris facility, the Distribution Centre or Grimsby facility, including but not limited to a force majeure event or a breach of security, could have a material adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other production facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada, could also have an impact on the Company's ability to continue operating under its existing licence or the prospect of renewing the licence or could result in a revocation of the licence.

GMP Certification

In order to produce and export medical cannabis products directly to the German and broader European Union market, the Company must first receive GMP certification at its Paris facility. As GMP certification requires the highest standards of pharmaceutical grade production and quality controls, the certification process can be lengthy and difficult to obtain. Until such time as the certification is obtained, if at all, the Company will not be able to directly export its cannabis products to the European Union market.

Constraints on Marketing Activities

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities and the potentially broad interpretation of such restrictions imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased sales prices for its products, the Company's sales and operating results could be adversely affected.

Intellectual Property

The Company's success depends in part on its ability to protect its rights to intellectual property and/or to license intellectual property rights on favourable terms. The Company relies upon various forms of intellectual property protection, including copyright and trademarks, as well as contractual provisions, to protect intellectual property rights. Despite precautionary measures, the steps the Company takes may not prevent misappropriation of the Company's intellectual property, and the agreements the Company enters into may not be enforceable. It may also be possible for third parties to obtain and use the Company's intellectual property without authorization. Policing unauthorized use of intellectual property is difficult, time-consuming and costly. Further, some foreign laws do not protect proprietary rights to the same extent as the laws of Canada.

With respect to the trademark applications that the Company has filed, the Company cannot offer any assurances about whether such applications will be granted. Even if trademark applications are successfully approved, third parties may challenge their validity, enforceability, or scope, which may result in such trademarks being narrowed, found unenforceable or invalidated. Even if they are unchallenged, any trademark applications and future trademarks may not adequately protect the Company's intellectual property or provide exclusivity for its products or processes. Any of these outcomes could impair the Company's ability to prevent competition from third parties, which may have an adverse impact on the Company's business.

Trademark protection is an important factor in establishing product recognition. The Company's ability to protect its trademarks from infringement could result in injury to any goodwill which may be developed in those trademarks. Moreover, the Company may be unable to use one or more of its trademarks because of successful third-party claims.

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays, materially disrupt the conduct of business or adversely affect the business, financial condition and results of operations.
In addition, other parties may claim that the Company's products infringe on their proprietary or patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources and legal fees, result in injunctions or temporary restraining orders or require the payment of damages.

The Company also relies on certain trade secrets, technical know-how and proprietary information that are not protected by patents to maintain its competitive position. The Company's trade secrets, technical know-how and proprietary information, which are not protected by patents, may become known to or be independently developed by competitors, which could adversely affect the Company.

OPERATING RISKS

The Cannabis Industry in Canada

As a LP, the Company is operating its business in a relatively new industry and market. In addition to being subject to general business risks, the Company must continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance and compliance with regulations. In addition, there is no assurance that the industry and market will continue to exist and grow as currently estimated or anticipated or function and evolve in the manner consistent with management's expectations and assumptions. Any event or circumstance that adversely affects the cannabis industry, such as the imposition of restrictions on sales and marketing or restrictions on sales in certain areas, could have a material adverse effect on the Company's business, financial conditions and results of operations.

Operating in a New and Evolving Industry

The nature of the new and rapidly evolving industry and developing market for cannabis may result in management having to change focus and strategy and adapt to an evolving and changing market and industry. In addition, the Company will be susceptible to adverse developments in this new market and industry, the sole market in which it operates, such as new developments, changing demographics, changing regulatory regime and other factors.

If the Company is unable to successfully operate as a LP, this could substantially reduce its earnings and its ability to generate stable positive cash flow from its operations and may reduce the value of the common shares and adversely affect the Company's ability to raise additional capital.

Reliance on Third Party Suppliers, Manufacturers and Contractors

The Company's business is dependent on a number of fundamental inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for certain inputs could materially impact the business, financial condition and operating results of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such a source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could result in a material adverse effect on the operations of the Company and materially adversely impact the business, financial condition and operating results of the Company.

Third Party Transportation

In order for customers of the Company to receive products from the Company, the Company must rely on third party mail and courier services. This can cause logistical problems with and delays in customers obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation and/or rising costs associated with these services may adversely affect the Company's financial performance.

Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financial condition and operating results of the Company. Any such breach could impact the Company's ability to continue operating under its Licences or impede the prospect of renewing its Licences.

Reputational Risk to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Supply Shortages and Overages

The Company may not be able to obtain from third parties, or produce, enough cannabis to meet demand. This may result in lower than expected sales and revenues and increased competition for sales and sources of supply.

In the future, LPs in Canada may produce more cannabis than is needed to satisfy the collective demand of the Canadian adult-use and medical markets, and they may be unable to export the oversupply into other markets where cannabis use is also legal. As a result, the available supply of cannabis could exceed demand, resulting in a significant decline in the market price for cannabis. If such supply or price fluctuations occur, the Company's revenue and profitability may fluctuate materially and its business, financial condition, results of operations and prospects may be adversely affected.

In addition, demand for cannabis and cannabis products is dependent on a number of social, political and economic factors that are beyond the Company's control. A material decline in the economic conditions affecting consumers can cause a reduction in disposable income for the average consumer, change consumption patterns and result in a reduction in spending on cannabis products or a switch to other products obtained through illegal channels. There can be no assurance that market demand for cannabis will continue to be sufficient to support the Company's current or future production levels.

Disruption of Supply Chain

Conditions or events including, but not limited to, those listed below could disrupt the Company's supply chains, interrupt operations at its facilities, increase operating expenses, resulting in loss of sales, delayed performance of contractual obligations or require additional expenditures to be incurred:

(i) extraordinary weather conditions or natural disasters such as hurricanes, tornadoes, floods, fires, extreme heat, earthquakes, etc.;

(ii) a local, regional, national or international outbreak of a contagious disease, including the COVID-19 coronavirus, Middle East Respiratory Syndrome, Severe Acute Respiratory Syndrome, H1N1 influenza virus, avian flu, or any other similar illness could result in a general or acute decline in economic activity (see also, "*Public Health Crises, including COVID-19*");

(iii) political instability, social and labour unrest, war or terrorism; or

(iv) interruptions in the availability of basic commercial and social services and infrastructure including power and water shortages, and shipping and freight forwarding services including via air, sea, rail and road.

Public Health Crises, including COVID-19

A local, regional, national or international outbreak of a contagious disease, such as COVID-19, could have an adverse effect on local economies and potentially the global economy, which may adversely impact the price and demand for the Company's products. COVID-19 could affect the Company's ability to conduct operations and may result in temporary shortages of staff, to the extent its workforce is impacted.

Such an outbreak, if uncontrolled, could have a material adverse effect on our business, financial condition, results of operations and cash flows, including a potential reduction in patient visits, recreational and bulk sales, and, as a result, potential lost revenue.

Effectiveness of Quality Control Systems

The quality and safety of the Company's products are critical to the success of its business and operations. As such, it is imperative that the Company's (and its service providers') quality control systems operate effectively and successfully. Quality control systems can be negatively impacted by the design of the quality control systems, the quality training program, and adherence by employees to quality control guidelines. Although the Company strives to ensure that all of its service providers have implemented and adhere to high caliber quality control systems, any significant failure or deterioration of such quality control systems could have a material adverse effect on the business, financial condition and operating results of the Company.

Development of New Products and Technologies

The Company and its competitors are actively seeking to develop new products in order to keep pace with any new market developments and generate revenue growth. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

The technologies, processes and formulations the Company uses may also face competition or become obsolete. Rapidly evolving markets, technology, emerging industry standards and frequent introduction of new products characterize the cannabis business. The introduction of new products and new technologies, including new manufacturing processes or formulations, and the emergence of new industry standards may render the Company's current products obsolete, less competitive or less marketable.

The process of developing new products is complex and requires significant continuing costs, development efforts and third-party commitments. The Company may be unable to anticipate changes in customer requirements that could make its existing technology, processes or formulations obsolete. The Company's success will depend on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. Failure to develop new technologies and products and the obsolescence of existing technologies or processes could adversely affect the Company's business, financial condition, results of operations and prospects.

Reliance on Skilled Workers and Equipment

The ability of the Company to compete and grow cannabis will be dependent on it having access to, at a reasonable cost and in a timely manner, skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company may be significantly greater than anticipated by management, and may be greater than funds available, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the operations and financial results of the Company.

Attraction and Retention of Key Personnel

The Company has a small management team and the loss of a key individual or inability to attract suitably qualified management could have a material adverse effect on the Company's business. While employment and management services agreements are customarily used as a primary method of retaining the services of key personnel, these agreements cannot assure the continued services of such persons.

The Company may also encounter difficulties in obtaining and maintaining suitably qualified staff in certain of the jurisdictions in which it conducts business. In addition, there is a risk that management or key personnel will fail to execute in their roles or falter in judgment in certain circumstances, all of which could have an adverse effect on the operations and financial results of the Company.

FINANCIAL RISKS

Compliance with TSX and OTCQX Requirements

On October 16, 2017, the TSX provided clarity regarding the application of Section 306 (Minimum Listing Requirements), Section 325 (Management) and Part VII (Halting of Trading, Suspension and Delisting of Securities) of the TSX Company Manual (collectively, the "Requirements") to TSX-listed issuers with business activities in the cannabis sector. In TSX Staff Notice 2017-0009, the TSX notes that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the Requirements. The TSX reminded issuers that, among other things, should the TSX find that a listed issuer is engaging in activities contrary to the Requirements, the TSX has the discretion to initiate a delisting review. Failure to comply with the Requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

Following the completion of the Arrangement, on March 19, 2019, the common shares of Aleafia Health ceased trading on the TSXV and commenced trading on the TSX under the symbol "ALEF", which was subsequently changed to "AH" on May 27, 2020.

Aleafia Health is subject to changing rules and regulations promulgated by a number of governmental and self-regulated organizations, including, but not limited to, the Canadian Securities Administrators, the TSX, the OTCQX and the Ontario Securities Commission. These rules and regulations continue to evolve in scope and complexity, creating many new requirements.

On March, 22, 2022, Aleafia Health received notice from the OTCQX that its bid price had closed below US$0.10 for more than 30 consecutive calendar days and no longer met the Standards for Continued Qualification for the OTCQX International tier. Aleafia Health has been given a 180 day cure period for its share price to trade above US$0.10 for ten consecutive days. If, by September 19, 2022, Aleafia Health's bid price has not stayed at or above the US$0.10 minimum for ten consecutive trading days, then its shares will be delisted from the OTCQX. As of the date of filing, Aleafia Health has continued to trade below the US$0.10 minimum on the OTCQX and is at risk of being delisted from the OTCQX. On May 3, 2022, the

TSX approved the application by the Company for an exemption from certain voting requirements relating to the Private Placement and Debenture Amendments on the basis of "financial hardship." As a result, the Company is subject to a remedial delisting review by the TSX which is anticipated to occur in September 2022. It is routine for the TSX to require any issuer utilizing the financial hardship exemption to be the subject of such a review.

Volatile Market Price of the Common Shares

The market price of the common shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control. This volatility may affect the ability of holders of common shares to sell their securities for a profit, or at all. Market price fluctuations in the common shares may be due to the Company's operating results failing to meet expectations of securities analysts (including short-sellers) or investors in any period, downward revision in securities analysts' estimates, adverse changes in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors.

Financial markets have historically at times experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies.

Accordingly, the market price of the common shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the common shares may be materially adversely affected.

Obligations as a Public Company

As a public company, Aleafia Health is subject to corporate governance and public disclosure requirements that may increase Aleafia Health's compliance costs and risk of non-compliance, which could adversely impact the price of the common shares.

Dilution

Aleafia Health's articles permit the issuance of an unlimited number of common shares and shareholders will have no pre-emptive rights in connection with such further issuance. Aleafia Health's may issue additional securities in the future, which may dilute a shareholder's holdings in Aleafia Health.

Cash Flow from Operations

Operating cash flow may decline in certain circumstances, many of which are beyond the Company's control. There is no assurance that sufficient revenues will be generated in the near future. Since the Company expects to continue incurring significant future expenditures for the expansion of its facilities, the Company will continue to experience negative cash flow until it reaches a sufficient level of sales with positive gross margins to cover operating expenses. An inability to generate positive cash flow until the Company reaches a sufficient level of sales with positive gross margins to cover operating expenses or raise additional capital on reasonable terms may adversely affect the Company's viability as an operating business.

Additional Financing and Restrictions

The continued development of the Company may require additional financing. Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The failure to raise additional capital could result in the delay or indefinite postponement of current business objectives or the Company becoming insolvent. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, on terms that are favourable or acceptable to the Company.

In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed in whole or in part, by debt, which may increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may also contain provisions which, if breached, may entitle lenders or their agents to accelerate repayment of loans and/or realize upon security over the assets of the Company, and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing.

Joint Venture Vehicles

The Company currently operates parts of its business through joint ventures with other companies, and it may enter into additional joint ventures and strategic alliances in the future. Joint venture investments may involve risks not otherwise present for investments made solely by the Company, including: control, additional expenditures, conflicting interests and exit strategy, which could have a material adverse effect on the Company, its financial condition and results of operations. In addition, the Company may, in certain circumstances, be liable for the actions of its joint venture partners.

Ability to Achieve or Maintain Profitability

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable.

Impact of the Illicit Supply of Cannabis

Despite the legalization of medical and adult-use cannabis in Canada, illegal operations remain. Illegal dispensaries and market participants may be able to:

(i) offer products with higher concentrations of active ingredients that are either expressly prohibited or impracticable to produce under current Canadian regulations;

(v) use delivery methods, including certain edibles, concentrates and extract vaporizers, that we are currently prohibited from offering to individuals in Canada;

(vi) use marketing and branding strategies that are restricted under the *Cannabis Act* and *Cannabis Regulations*; and

(vii) make claims not permissible under the *Cannabis Act* and other regulatory regimes.

As these illicit market participants do not comply with the regulations governing the medical and adult-use cannabis industry in Canada, their operations may also have significantly lower costs.
As a result of the competition presented by the illicit market for cannabis, any unwillingness by consumers currently utilizing these unlicensed distribution channels to begin purchasing from LPs for any reason or any inability or

unwillingness of law enforcement authorities to enforce laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could:

(i) result in the perpetuation of the illicit market for cannabis;

(viii) adversely affect the Company's market share; and

(ix) adversely impact the public perception of cannabis use and LPs, all of which could have a materially adverse impact on the Company's business, operations and financial condition.

Employee Health and Safety Regulations

The Company's operations are subject to laws and regulations concerning employee health and safety and the Company will incur ongoing costs and obligations related to compliance with such matters. Failure to comply with safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's manufacturing operations. In addition, changes in employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could result in a material adverse effect on the operations of the Company.

ENVIRONMENTAL RISKS

Environmental Regulations and Risks

The Company's operations are subject to environmental regulation federally and in the municipal and provincial jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards. They also set forth limitations on the generation, transportation, storage and disposal of waste. Environmental legislation is evolving in a manner which will require increasingly stricter standards and enforcement, increased fines and penalties for non- compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Risks Inherent in an Agricultural Business

The Company will be subject to the general risks inherent in the ownership and operation of the business of planting, growing, harvesting and marketing cannabis, which, as an agricultural product, is subject to the general risks associated with all agricultural products such as disease, insect pests, changes in raw material costs, the risk and uncertainties of planting, growing and harvesting, environmental matters, considerations relating to product quality, grading and branding, changes in laws and other general economic and market conditions.

Weather conditions and climate, which can vary substantially from year to year, may have a significant impact on the size and quality of the harvest of the crops processed and sold by the Company. Such adverse weather patterns could result in more permanent disruptions in the quality and size of the available crop, which could adversely affect the Company's business.

Like other agricultural products, the quality of cannabis grown outdoors is affected by weather and the environment, which can change the quality or size of the harvest. If a weather event is particularly severe, such as a major drought or hurricane, the affected harvest could be destroyed or damaged to an extent that it would be less desirable to the Company's customers, which could result in a reduction in revenues. If such an event is also widespread, it could affect the Company's ability to acquire the quantity of products required by customers. In addition, other items can affect the marketability of cannabis grown outdoors, including, among other things, the presence of non-cannabis related material, genetically modified organisms and excess residues of pesticides, fungicides and herbicides.

OTHER RISKS

Competition

To date, Health Canada has issued hundreds of Licences to produce, cultivate and/or sell cannabis. As a result, the Company has significant competition from other companies, some of which have longer operating histories and greater financial resources, operating and marketing experience than the Company. Additionally, a large number of companies appear to be applying for production licences, some of which may:

(i) have significantly greater financial, technical, marketing and other resources;

(x) be able to devote greater resources to the development, promotion, sale and support of their products and services; and

(xi) have more extensive customer bases and broader customer relationships.

Should the size of the cannabis market increase as projected the demand for products will increase as well, and in order for the Company to be competitive it will need to invest significantly in research and development, marketing, production expansion, new client identification, and client support. If the Company is not successful in attaining sufficient resources to invest in these areas, the Company's ability to compete in the market may be adversely affected, which could materially and adversely affect the Company's business, its financial conditions and operations.

New Industry and Market

The Company's business as a LP represents a relatively new industry and nascent market. In addition to being subject to general business risks and to risks inherent in the nature of an early stage business, a business involving an agricultural product and a regulated consumer product, the Company will need to build brand awareness in the new industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations, especially against competitors who have already spent some time building their brands. These activities may not promote the Company's brand and products as effectively as intended, or at all.

This new market and industry into which management is entering will have competitive conditions, consumer tastes, patient requirements and unique circumstances, and spending patterns that differ from existing markets. There are no assurances that this new industry and market will exist or grow as estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects this new market and industry may materially and adversely affect the business, financial conditions and results of operations of the Company.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination.

Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention.

Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if the Company is subject to a recall, the reputation of the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by regulatory agencies, requiring further management attention, potential loss of applicable Licences and potential legal fees and other expenses.

Managing Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.
In order to manage growth and changes in strategy effectively, the Company must

(i) maintain adequate systems to meet customer demand;

(xii) expand sales and marketing, distribution capabilities and administrative functions; and

(xiii) attract and retain qualified employees, including in respect of its management team.

While it intends to focus on managing its costs and expenses over the long term, the Company expects to invest to support its growth and may have additional unexpected costs. It may not be able to expand quickly enough to exploit potential market opportunities. The Company could also fail to successfully integrate acquired entities into the business of the Company.

Fraudulent or Illegal Activities by Employees, Contractors or Consultants

The Company's employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct that violates:

(i) government regulations;

(xiv) manufacturing standards;

(xv) federal and provincial healthcare fraud and abuse laws and regulations; or

(xvi) laws that require the true, complete and accurate reporting of financial information or data.

It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Insurance Coverage

The Company has insurance to protect its assets, operations, directors and employees. While the Company believes the insurance coverage addresses all material risks to which it is exposed and is adequate and customary in the current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.
In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, the business, results of operations and financial condition could be materially adversely affected.

Litigation

The Company may become party to litigation from time to time in the ordinary course, which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the value of the common shares and require the Company to devote significant resources to such matters. Even if the Company is involved in litigation and wins, litigation may redirect many of the Company's resources, including the time and attention of management and available working capital. Litigation may also create a negative perception of the Company's brands.

Conflicts of Interest

Certain directors and officers of the Company hold, and may in future hold, interests in other companies involved in the same or similar businesses to the Company and as such may, in certain circumstances, have a conflict of interest, which could be adverse to the Company and, whether the conflict of interest is real or perceived, put the reputation of the Company at risk.

Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the Company's governing corporate law statute which requires a director of a Company who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under applicable law.

Information Technology Systems and Cyber-Attacks

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.